

APPLIED DIRECT TAXATION

OVERVIEW OF DIRECT TAX LAWS

Objective -Type Questions :

Q1. The following assessee is charged to income-tax in the assessment year following the previous year :

- (1) A non-resident business firm which shipped goods on 1.5.08 at Visakhapatnam Port in Andhra Pradesh;
- (2) An employee left India to USA on 1.8.08 with no intention of returning;
- (3) ABC firm which discontinued its business on 1.9.2008;
- (4) An employee-assessee of a University who worked during 1.4.07 to 30.03.08.

[Ref: Q1. (a)(i), Dec '08 / Paper-7] 1

Q2. The following is capital receipt :

- (1) Dividend from investments;
- (2) Bonus shares;
- (3) Sale of technological know-how;
- (4) Compensation received for compulsory evacuation of place of business.

[Ref: Q1. (c)(ii), June '09 / Paper-7] 1

Q3. Fill up the blanks :

- (i) A _____ means a company which is not a domestic company.
[Ref: Q1. (a)(iii), Dec. '09 / Paper-7] 1
- (ii) _____ is a non recurring expenditure whereas * is normally a recurring one.
[Ref: Q1. (a)(v), Dec. '09 / Paper-7] 1

Descriptive & Practical Questions :

Q1. Kamallesh was working as a crew member on an Indian ship plying in foreign waters. During the year ended 31.03.2008, the ship did not touch the Indian coast, except for 180 days. State the residential status for the assessment and taxability of his salary.

[Ref: Q5. (a), Dec '08 / Paper-7] 2

Q2. Briefly explain marginal relief allowable while computing tax payable by certain assesseees.

[Ref: Q4. (b), June '10 / Paper-7] 3

Q3. State the Elements/Sources of Income Tax Law.

[Ref: Q8. (b), June '10 / Paper-7] 3

Q4. X got an employment in Singapore during the previous year 2008-09. He left for Singapore on August 9, 2008. He is an Indian Citizen. Determine the residential status for the Assessment Year 2009-10.

[Ref: Q6. (d), Dec. '09 / Paper-7] 2

- Q5. Briefly explain marginal relief allowable while computing tax payable by certain assesseees.
[Ref: Q4. (b), June '10 / Paper-7] 3
- Q6. State the Elements/Sources of Income Tax Law. [Ref: Q8. (b), June '10 / Paper-7] 3
- Q7. Following are the details of income of Mr. Subramani for the financial year 2009-2010 :
- | | |
|---|--------------|
| Income from property in Sri Lanka remitted by the tenant to the assessee | |
| In India through SBI | Rs. 2,10,000 |
| Profit from business in India | Rs. 1,00,000 |
| Loss from business in Sri Lanka (whose control and management of business wholly remained in India) | Rs. 80,000 |
| Dividend from shares in foreign companies received outside India | Rs. 60,000 |
| Interest on deposits in India companies | Rs. 1,20,000 |
- Determine the total income in terms of the Income-tax Act, 1961 in the following situations :
- Resident and ordinarily resident of India;
 - Resident but not ordinarily resident of India;
 - Non-resident.
- [Ref: Q4. (a), Dec. '10 / Paper-7] 9

INCOME FROM SALARIES

Objective -Type Questions :

- Q1. What is the tax incidence of contribution made by an employer to the pension scheme of Central Government?
[Ref: Q1. (c)(i), Dec '08 / Paper-7] 2
- Q2. What is the cost of acquisition of sweat equity shares in the hands of the employee?
[Ref: Q1. (c)(ii), Dec '08 / Paper-7] 2
- Q3. State with reasons, whether the following statements are True or False.
X is employed in complex Ltd. as Chartered Accountant. The annual membership fee of X paid by complex Ltd. is not a perquisite and hence not chargeable to tax.
[Ref: Q1. (b)(ii), Dec '09 / Paper-7] 1

Descriptive & Practical Questions :

- Q1. Gratuity of Rs. 1,20,000 is received in August, 2007 by Mr. M, a legal heir of Mr. R aged 45 years who died on June 28, 2007. Is it taxable?
[Ref: Q2. (a)(i), Dec '08 / Paper-7] 2
- Q2. Fill up the blanks :
_____ salary is taxable, while _____ against salary is not taxable.
[Ref: Q1. (a)(vii), June '10 / Paper-7] 1

- Q3. Mrs. Hemalatha, working in a public sector company, opted for voluntary retirement scheme and received Rs. 7 lakh as VRS compensation. She claimed Rs. 5 lakhs as exemption under section 10(10C) and in respect of the balance amount of Rs. 2 lakh, she claimed relief under section 89(1). Advise Mrs. Hemalatha as to the correctness of the aforesaid tax treatment.
[Ref: Q6. (b), June '10 / Paper-7] 7
- Q4. Amount received from superannuation fund on resignation before specified age is exempt from income tax. Comment.
[Ref: Q7. (b), Dec '09 / Paper-7] 2
- Q5. Distinguish between forgoing of salary and surrender of salary.
[Ref: Q8. (b), Dec '09 / Paper-7] 4
- Q6. Parvez (P) Ltd. confers of electricity benefit to its employee Mr. Ashwin. Annual consumption as per meter reading was 3200 units. Determine the value of perquisite in the following cases :
- (i) Electricity meter is in the name of Mr. Ashwin and the rate of electricity is Rs. 5 per unit paid by Parvez (P) Ltd. to the State Electricity Board (Give brief reasons).
 - (ii) Electricity meter is in the name of Parvez (P) Ltd. and the rate of electricity charged by the State Electricity Board is Rs. 5 per unit. Is this chargeable in all situations?
 - (iii) Parvez (P) Ltd. is a power generative company. The manufacturing cost is Rs. 1.90 per unit but supplied to public @ Rs. 5 per unit. However, it charges Re. 1 per unit from its employees.
[Ref: Q2. (b), Dec '10 / Paper-7] 2+2+1
- Q7. The question whether a particular income is income from salary or is income from business depends upon whether the contract is a *contract of service* or is a *contract for service*. Discuss. Also explain with the help of one example.
[Ref: Q4. (b), Dec '10 / Paper-7] 6
- Q8. Mrs. Vasudha retires on 15th Feb., 2011, after serving for 30 years and 5 months. She gets Rs. 10,70,000 as gratuity. Her salary details are as under :
- FY 2010-11 Salary Rs. 1,00,000 p.m. D.A. 50% of salary. 50% thereof taken for retirement benefits.
FY 2009-10 Salary Rs. 90,000 p.m. D.A. 50% of salary. 50% thereof forms part of retirement benefits.
- Compute the taxable amount of gratuity in her hands in the following situations :
- (i) She retires from Government service;
 - (ii) She retires from seasonal factory in a private sector, covered under Payment of Gratuity Act, 1972.
[Ref: Q3. (a), June '11 / Paper-7] 6
- Q9. State the treatment of the following perquisites for income tax purpose in the hands of the employee :
- (i) Firm (employer) offers special discount on its product sales to employees.
 - (ii) Employee is allowed to use the laptop of the employer, at his residence..
 - (iii) Reimbursement of air travel expense to an employee's wife.
 - (iv) Assessee is given interest-free loan for purchase of car.
[Ref: Q3. (b), June '11 / Paper-7] 1×4=4

Q10. Johnson is provided 2 cars by his company ABC Ltd. Other pertinent details are as under :

Particulars	Car 1	Car 2
Cost of the Car (Rs.)	6,00,000	4,00,000
Cubic capacity of engine	Above 1.6 litres	Less than 1.6 litres
Running & repairs/maintenance (borne by the company)	72,000	45,000
Drives salary (borne by the company)	39,000	33,000

Compute the perquisite value of car on the assumption that Car 1 is meant for both official and personal use and that Car 2 is meant for exclusive personal use.

[Ref: Q6. (b), June '11 / Paper-7] 5

INCOME FROM HOUSE PROPERTY

Objective -Type Questions :

Q1. In a house belonging to Janak, his cousin is living without paying any rent. Janak says that since his relative is residing there without paying any rent, there is no rental income chargeable to income-tax. Is he correct? [Ref: Q1. (c)(iii), Dec '08 / Paper-7] 2

Q2. An assessee, after sale of house property, receiving arrears of rent _____ (is/is not) chargeable to tax; the same computed in the stipulated manner, is chargeable to tax as _____ (income from other sources/income from house property). [Ref: Q1. (b)(iv), June '09 / Paper-7] 1

Q3. Fill up the blank :
The basis of chargeability under the head 'income from house property' is _____ . [Ref: Q1. (a)(vi), June '10 / Paper-7] 1

Descriptive & Practical Questions :

Q1. RR Ltd., engaged in manufacture of paper, has taken a building on lease, sub-leased apportion of it along with furniture and fixtures from 1.4.2006. It received rent Rs. 1,20,000 and non-refundable deposit of Rs. 10,000 for the financial year 2007-08. It also received an amount of Rs. 70,000 as arrears of rent. What are the heads of income under which the various receipts will be taxed, if found exigible to tax? [Ref: Q2. (a)(iii), Dec '08 / Paper-7] 2

Q2. Amallesh owns a house property which is let-out for Rs. 6,500 per month. The fair rent of the property is Rs. 90,000. Municipal taxes paid during the year for each half year is Rs. 3,200. The tenant has spent Rs. 10,000 towards repairs of the property during the year. Compute the income from house property for the assessment year 2008-09. [Ref: Q5. (b), Dec. '08 / Paper-7] 2

Q3. How will you treat unrealized rent allowed as a deduction in the past and realized in a subsequent year when the assessee is no more the owner of the property. [Ref: Q7. (b), Dec. '08 / Paper-7] 3

Q4. Is it possible for the net annual value of a house property to be negative? What will be tax treatment if income under the head "Income from house property" is negative?
[Ref: Q8. (e), June '09 / Paper-7] 2+2

Q5. If two or more persons jointly own a property and if their shares are definite and ascertainable, can the income from such property be taxed as income of an association of persons?
[Ref: Q3. (c) (i), June '10 / Paper-7] 2

Q6. In the following cases, state the head of income under which the relevant receipt is to be assessed, along with reasons:
(i) Vibhisana let out his property to Bharath. Bharath sublets it. How is subletting receipt to be assessed in the hands of Bharath?
(ii) Ashok has constructed a house on a leasehold land. He has let-out the said property and has treated the rent from such property under the head "Income from other sources" and deducted expenses on repairs, security charges, insurance and collection charges in all amounting to 35% of receipts.
[Ref: Q6. (c), June '10 / Paper-7] 2+2

Q7. X and Y are co-owners of two houses with equal share of both the houses. While the first house is used by them for their residence, the second house is let to a tenant at a monthly rent of Rs. 2,500. The other relevant particulars of the houses for the year 2008-09 are as follows :

	First House	Second House
Construction completed on	30.06.91	31.03.94
Municipal Tax	Rs. 2,000	Rs. 2,500
Insurance Premium	Rs. 2,500	Rs. 2,500
Interest Loan	Rs. 10,000	Rs. 9,000

Compute income from house property of X and Y for the relevant assessment year.
[Ref: Q8. (d), Dec. '09 / Paper-7] 4

Q8. In the following cases, state the head of income under which the relevant receipt is to be assessed, along with reasons :
Ashok has constructed a house on a leasehold land. He has let-out the said property and has treated the rent from such property under the head "Income from other sources" and deducted expenses on repairs, security charges, insurance and collection charges in all amounting to 35% of receipts.
[Ref: Q6. (c)(ii), June '10 / Paper-7] 2

Q9. Ramesh owns a house at Hyderabad. Its municipal valuation is Rs. 24,000. He incurred the following expenditure in respect of the house property :
(i) Municipal Tax at 20%;
(ii) Fire insurance premium Rs. 2,000; and
(iii) Land revenue Rs. 2,400.

He had taken bank loan of Rs. 25,000 at 16% per annum on April 1, 2007; the whole amount is still unpaid. The house was completed on April 1, 2009.

Find the income from house property for the assesment year 2010-11 for the following situations :
(i) If the assessee uses house for self-occupation throughout the previous year, and

- (ii) If the house is let out for residential purpose on monthly rent of Rs. 2,500 from April 1, 2009 to December 31, 2009 and self and self occupied for the remaining period.
[Ref: Q3. (a), Dec. '10 / Paper-7] 5

Q10. Mrs. Vimala commenced construction of house meant for residential purpose on 01.11.2008. She raised a loan of Rs. 10 lakhs @ 11% per annum from a bank. Finding that there was over run in the cost of construction, she raised a further loan of Rs. 5 lakhs from her friend at 15% rate of interest per annum on 1.10.2010. The construction was completed by February, 2011.

Compute the amount of interest allowable exemption under section 24 of the income-tax Act, 1961 in the following cases :

- (i) The house was meant for self occupation from 01.03.2011
(ii) The house was to be let out from 01.03.2011

Is there any deduction available u/s. 80C towards principal repayment in respect of above loans?
[Ref: Q4. (a), June '11 / Paper-7] 6

PROFITS AND GAINS OF BUSINESS OR PROFESSION

Objective -Type Questions :

- Q1. The following is not “plant” under section 43(3) of Income-tax Act, 1961 :
- (1) Books;
 - (2) Know-how;
 - (3) Road in the factory building;
 - (4) Electrical fittings. [Ref: Q1. (a)(iii), Dec '08 / Paper-7] 1
- Q2. Under section 44BBB (i) of the Income-tax Act, 1961, the presumptive income is taken as _____% of the eligible receipts in the hands of eligible assessee.
[Ref: Q1. (b)(v), Dec '08 / Paper-7] 1
- Q3. Fill up the blank :
Sec. _____ defines various income which are chargeable to tax under the head “Profits and gains of business or profession”. [Ref: Q1. (a)(iii), June '10 / Paper-7] 1
- Q4. State with reasons whether the following statements are True or False (answers without reasoning will not receive any credit) :
- An assessee owns 11 trucks. One truck is always kept as a spare vehicle and is never plied on the road. Since only 10 vehicles are plied on the road at any given point of time, the provisions of section 44AE of the Income Tax Act, 1961, can be availed by the assessee.
[Ref: Q1. (c)(i), June '10 / Paper-7] 1
- Q5. Fill up the blanks :
- (i) The deduction for amortization of preliminary expenses under section 35D is allowable at _____ of the qualifying expenditure in each of the _____ successive years beginning with the year in which business commences.

- (ii) The term business would include _____ and accordingly the term used in section _____ would also include a professional connection.

[Ref: Q1. (a) (iv), (vi), Dec '09 / Paper-7] 1+1

Q6. State with reasons, whether the following statements are True or False :

- (i) Depreciation is allowed only when it is claimed.
(ii) In the case of a dealer in shares, Income by way of dividend is taxable under the heads "profits and gains of business or profession".

[Ref: Q1. (b)(i), (iii), Dec '09/Paper-7] 1+1

Q7. (i) Income earned by a mutual concern from mutual activities is not taxable. Comment.

- (ii) Whether profit arises on the valuation of closing stock is a source of income? Discuss.

(iii) A company which had its head office in India operated in Pakistan declared dividend subject to remittance from Pakistan. During the previous year relevant to the assessment year the remittance could not be recovered from Pakistan. What is the tax liability in the hands of shareholders? Discuss.

[Ref: Q1. (d)(i)(ii)(iv), Dec '09 / Paper-7] 2+2+2

Descriptive & Practical Questions :

Q1. Vasudha Plastics Ltd., engaged in manufacture of PVC pipes, purchased a machinery on 25.09.2007 for Rs. 2,00,000 and put it to use after two weeks. There is no other asset in the block. What is the WDV of the block as on 31.03.2008? [Ref: Q2. (v), Dec '08 / Paper-7] 3

Q2. State any ten circumstances when payment exceeding Rs. 20,000 relating to an expenditure, made otherwise than by a crossed cheque or by a crossed demand draft, will not be disallowed under section 40A(3) of the Income-tax Act, 1961. [Ref: Q5. (f), Dec '08 / Paper-7] 5

Q3. Vasudevan purchased a motor car in December, 2007, which was used by him for business purposes during rest of the year. However, the relevant transfer in the records of the Regional Transport Office was made only in April, 2008. Can the assessee claim depreciation on motor car for the assessment year 2008-09? [Ref: Q6. (c), Dec '08 / Paper-7] 2

Q4. What are the types of income of a political party exempt from income-tax under section 13A of the Income-tax Act, 1961? Are conditions required to be fulfilled in this regard?

[Ref: Q6. (d), Dec '08 / Paper-7] 3

Q5. Is commodities transaction tax a permissible business expenditure? Explain.

[Ref: Q2. (c), June '09 / Paper-7] 4

Q6. Write short notes on Amendment by the Finance Act, 2008 to "Charitable purpose" as defined in section 2(15) of the Income-tax Act, 1961. [Ref: Q7. (a), June '09 / Paper-7] 3

Q7. Write short notes on Reverse mortgage and its income-tax implications.

[Ref: Q7. (b), June '09 / Paper-7] 3

- Q8. Discuss whether the following payments are permissible as business expenditure :
- For an existing business, on 10.05.2008, an assessee had borrowed Rs. 25 lakhs for acquiring a machinery. Interest paid Rs. 1,10,000/-. The machinery was not put to use during the year ended 31.03.2009.
 - Payment of Rs. 60,000/- was made to a Don for ensuring that the employees will not indulge in strike. The Don had threatened initiating a labour strike.
[Ref: Q8. (c), June '09 / Paper-7] 2+2

- Q9. Undertaking in the context of “DEMARGER COMPANY” indicates any part of undertaking or a unit or division of an undertaking or a business activity taken as a whole including individual assets or liabilities or combination of both.—Comment.
[Ref: Q1. (b)(iv), June '10 / Paper-7] 1

- Q10. Ramesh an individual, is engaged in manufacture of fertilizers. He is following mercantile system of accounting. He borrowed loans from Tamil Nadu Industrial Development Corporation and Indian Bank and has not paid interest as detailed below :

	Rs.
(i) Tamil Nadu Industrial Development Corporation (P.Y. 2008-09 & 2009-10)	15,00,000
(ii) Indian Bank (P.Y. 2009-10)	<u>30,00,000</u>
	<u>45,00,000</u>

Both Tamil Nadu Industrial Development Corporation and Indian Bank, while rephrasing the loan facilities of Ramesh during the year ended 31.3.2010, converted the above outstanding interest due to them from Ramesh as a loan repayable in 30 equal instalments. During the year ended 31.03.2010, Ramesh paid 4 instalments to Tamil Nadu Industrial Development Corporation and 3 instalments to Indian Bank.

Ramesh claimed the entire interest of Rs. 45,00,000 as an expenditure while computing the income from fertilizer business. Discuss whether his claim is valid and if not what amount of interest, if any, allowable, while computing the business income.

[Ref: Q2. (b), June '10 / Paper-7] 6

- Q11. Discuss the allowability of the following expenditure while computing income under the head “Profit and gains of business or profession”:
- Expenses incurred on partly convertible debentures, and
 - Expenditure incurred on MS Office software. [Ref: Q3. (b), June '10 / Paper-7] 2+2

- Q12. Is it correct to say that section 50C can be invoked only in situations in which transfer of land or building or both takes place through a registered deed of conveyance and that the section cannot be invoked where there is no registered deed of conveyance, like in power of attorney transactions and agreements to sell?—Discuss. [Ref: Q5. (b), June '10 / Paper-7] 4

Q13. X, a retail trader of Mumbai gives the following Trading and Profit and Loss Account for the year ended 31st March, 2009.

Trading and Profit and Loss Account for the year ended 31.03.2009.

	Rs.		Rs.
To Opening stock	86,000	By Sales	12,11,500
To Purchases	10,00,000	By Other business receipts	6,500
To Gross Profits	3,06,000	By Income from UTI	2,400
		By Closing stock	1,71,600
	13,92,000		13,92,000
To Salaries	60,000	By Gross Profit b/d	3,06,000
To Rent and rates	40,000		
To Interest on Loan	10,000		
To Depreciation	1,02,000		
To Postage and Telegram	1,640		
To Printing and Stationery	23,200		
To Loss on sale of shares (Short term)	8,100		
To General Expenses	11,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information :-

- (i) Some stocks were found to be not included in both the opening and closing stock, the value of which were : Opening Stock Rs. 12,000. Closing Stock Rs. 21,000.
- (ii) Salary include Rs. 18,000 paid to his brother, which is unreasonable to the extent of Rs. 2000.
- (iii) The whole amount of printing and stationary was paid in cash.
- (iv) Depreciation as per Income Tax rules is Rs. 66,000.
- (v) Rent and Rate includes Sales Tax Liability of Rs. 5,000 paid on April, 4 2009.
- (vi) Other Business Receipts include Rs. 3,000 received as refund of Sales Tax relating to the year, 2007-08.
- (vii) General expenses include Rs. 1,500 paid as donation to a public Charitable Trust.

You are required to advice to deduction allowable under section 57 of the Income Tax Act, 1961 in respect of income from other sources. [Ref: Q4. (a), Dec. '09 / Paper-7] 5

Q14. Simplex Ltd. as company providing telecommunication service, obtain a Telecom License on April 20, 2008 for a period of 10 years which ends on March 31, 2018 (License Fee being Rs. 18 lakhs). Find out the amount of deduction u/s 35ABB if—

- (i) The entire amount is paid on May 6, 2008; or
- (ii) The entire amount is paid on April 1, 2009; or
- (iii) The entire amount is paid in 3 equal installments on April 30, 2008, April 30, 2009 and April 30, 2010. [Ref: Q7. (c), Dec. '09 / Paper-7] 5

Q15. Indicate, with reasons whether the following expenses are deductible in computing income from business for the Assessment Year 2009-10.

- (i) Rs. 10,000 paid to a lawyer to examine the Title Deed which the assessee intends to purchase.
- (ii) Compensation of Rs. 20,000 paid to an employee who has been retrenched for continuously committing some fraudulent Acts.
- (iii) Rs. 5,000 paid for shifting the factory from one place to another for easier supply of raw materials.
- (iv) Penalty of Rs. 10,000 paid to West Bengal Government for the non-fulfillment of the contract entered into with the said Government. [Ref: Q8. (a), Dec. '09 / Paper-7] 4

Q16. Ramesh an individual, is engaged in manufacture of fertilizers. He is following mercantile system of accounting. He borrowed loans from Tamil Nadu Industrial Development Corporation and Indian Bank and has not paid interest as detailed below :

	Rs.
(i) Tamil Nadu Industrial Development Corporation (P.Y. 2008-09 & 2009-10)	15,00,000
(ii) Indian Bank (P. Y. 2009-10)	<u>30,00,000</u>
	<u>45,00,000</u>

Both Tamil Nadu Industrial Development Corporation and Indian Bank, while rephrasing the loan facilities of Ramesh during the year ended 31.3.2010, converted the above outstanding interest due to them from Ramesh as a loan repayable in 30 equal instalments. During the year ended 31.3.2010, Ramesh paid 4 instalments to Tamil Nadu Industrial Development Corporation and 3 instalments to Indian Bank.

Ramesh claimed the entire interest of Rs. 45,00,000 as an expenditure while computing the income from fertilizer business. Discuss whether his claim is valid and if not what amount of interest, if any, allowable, while computing the business income.

[Ref: Q2. (b), June '10 / Paper-7] 6

Q17. Discuss the allowability of the following expenditure while computing income under the head "Profit and gains of business or profession".

- (i) Expenses incurred on party convertible debentures, and
- (ii) Expenditure incurred on MS Office software. [Ref: Q3. (b), June '10 / Paper-7] 2+2

Q18. Discuss the conditions to be fulfilled for the applicability of section 35AD of the Income-tax Act, 1961. [Ref: Q2. (c), Dec. '10 / Paper-7] 5

Q19. What is the income-tax treatment of consequence of repurchase or buy back of shares or specified securities by a company? [Ref: Q3. (c), Dec. '10 / Paper-7] 5

Q20. One of the exceptions to the rule that the income of the previous year shall be assessed in the subsequent assessment year is the shipping business of non-resident. Discuss briefly the assessment aspect of such income from shipping business. [Ref: Q5. (b), Dec. '10 / Paper-7] 5

Q21. Narang Textiles Ltd. purchased a machinery from Germany for Euro 1,00,000 on 3.9.2009 through a term loan from Fortune Bank Ltd. The exchange rate on the date of acquisition was Rs.65. The assessee took a forward exchange rate on 05.10.2009 when the rate specified in the

contracts was Rs. 67 per USD. Compute depreciation for the assessment years 2009-10 and 2010-11. Ignore additional depreciation. [Ref: Q8. (d), Dec. '10 / Paper-7] 3

Q22. Mrs. Sneha, aged 64, has carried on business during the year ended March 31, 2011. The particulars of Profit and Loss Account are given below :

Profit and Loss Account for the year ended 31-3-2011			
	Rs.		Rs.
To Office salaries	22,000	By Gross profit	3,78,150
To Proprietor's salary	12,000	By Profit on sale of residence	33,500
To General expenses	8,500	By Disallowed bad debts recovered	62,000
To Bad debts	7,500	By Interest from Govt. securities (net)	12,600
To Fire insurance premium	5,500	By Dividend from JB Agro Ltd.	4,000
To Depreciation	2,500	By Income from Horse race (gross)	16,000
To Motor car expenses	7,500	By Sundry receipts	1,500
To Donation to Goa University	60,000		
To Income tax 2010-11	8,000		
To Life Insurance premium	10,000		
To Reserve for future loss	2,000		
To Advertisement	6,000		
To Net profit	3,56,250		
	5,07,750		5,07,750

Additional information :

- (i) General expenses include Rs. 1500 paid as compensation to an old employee whose services were terminated. His service was considered detrimental to business interest. A sum of Rs. 6000 being cost of small machine is also included in general expenses.
- (ii) One-third of motor car expenses is for personal use.
- (iii) Reserve for future loss represents a demand of sales tax under dispute.
- (iv) Depreciation is found to be in excess by Rs. 500 as per Income-tax Rules.
- (v) Actual income tax for 2010-11 Rs. 12,000.
- (vi) Profit on sale of residence represents long-term capital gains computed in the prescribed manner.
- (vii) Tax has been deducted at source from the Govt. Securities at 10%.
- (viii) JB Agro Ltd. is a listed Indian company.
- (ix) She received interest of Rs. 4,000 on moneys lent to her friends, which has not been reflected in her books.

Compute her total income and tax liability.

[Ref: Q2. (a), June '11 / Paper-7] 4

Q23. Miss Vivitha, who carried on wholesale cum retail trade during the year 2010-11, reports a turnover of Rs. 52,50,000.

WDV of plant as on 01.04.2010 was Rs. 3,10,000.

On 01.12.2010, she acquired a plant for Rs. 50,000.

Net profit as per profit and loss account (before depreciation) was Rs. 4,35,000.

Compute business income both under regular provisions and applicable presumptive provisions of the Act.

State what would be the income chargeable to tax with the conditions to be complied with in this regard. [Ref: Q5. (a), June '11 / Paper-7] 6

Q24. X held 18% shares in a private limited company. He gifted all the shares to his wife Y on 1st Nov., 2010. Y obtained a loan of Rs. 8,00,000 from the company when the company's accumulated profit was Rs. 6,00,000. What are the tax implications of the above transaction? [Ref: Q8. (a), June '11 / Paper-7] 2

CAPITAL GAINS

Objective -Type Questions :

Q1. Short-term capital gains arising from sale of listed shares through a recognized stock exchange, for which security transaction tax has been paid, will be charged to tax at a concessional rate of 10%. [Ref: Q1. (a)(iv), June '09 / Paper-7] 2

Descriptive & Practical Questions :

Q1. State briefly the requisities of a charge income-tax of capital gains under section 45(1) of the Income-tax Act, 1961. [Ref: Q6. (a), Dec '08 / Paper-7] 3

Q2. The urban lands of Mr. A were required by the State Government 10 years back and compensation of Rs. 10 lakhs was awarded by the Court in February, 2008 and the same was received in May, 2008.

State the consequences under the Income-tax Act, 1961, showing clearly the year of taxability. What will happen if Mr. A dies and Mr. L, his legal heir receives the enhanced compensation?

[Ref: Q3. (c), June '09 / Paper-7] 4

Q3. Mr. Y submits the following particulars for the year ended 31.03.2009 :

(i) On 30.04.2008, when he attained the age of 60, his friends gave him a new flat at Surat, each contributing Rs. 40,000 in cash. The cost of the flat was Rs. 6.4 lakhs.

(ii) Another friend sent cash gift of Rs. 75,000 for the occasion.

(iii) Mr. Y sold the flat on 30.01.2009 for Rs. 8.9 lakhs. The Registrar's valuation for stamp duty purposes was Rs. 9.2 lakhs. Neither the buyer, nor Mr. Y questioned this value.

(iv) He had purchased equity shares in X Ltd. on 05.02.2008 for Rs. 3.5 lakhs. These were sold on 15.03.2009 for Rs. 2.8 lakhs.

- (v) He has paid life insurance premium of Rs. 90,000 for his major son who is not dependent on him.
You are required to calculate the total income of Mr. Y for the assessment year 2009-10. Cost inflation indices are 551 for financial year 2007-08 and 582 for financial year 2008-09.
[Ref: Q5. (a), June '09 / Paper-7] 7
- Q4. Mr. A, is engaged in retail trade and is a distribution for the products of Mr. X. In appreciation of high turnover effected by Mr. A, Mr. X presented him a new car worth Rs. 4 lakhs. Discuss the exigibility to tax of the above receipt in the hands of Mr. A. [Ref: Q5. (c), June '09 / Paper-7] 2
- Q5. "Capital Gains arises on sale of Capital Assets" .—Comment.
[Ref: Q1. (b)(i), June '10 / Paper-7] 2
- Q6. State with reasons whether the following statements are True or False (answers without reasoning will not receive any credit) :
Mr. Saravanan follows mercantile system of accounting. On 13.3.2010, he has received from the State Government, in respect of lands acquired, interest on enhanced compensation of Rs. 1,50,000 which includes a sum of Rs. 20,000 relatable to this year. The amount assessable is Rs. 20,000.
[Ref: Q1. (c)(iii), June '10 / Paper-7] 2
- Q7. Discuss whether the expenditure incurred by an assessee to remove an encumbrance be claimed as a deduction under section 48, while computing the capital gains, in the following cases :
(i) Where the mortgage was created by the assessee himself;
(ii) Where the mortgage was created by the previous owner.
[Ref: Q2. (a), June '10 / Paper-7] 5
- Q8. Where an urban agricultural land owned by an individual, continuously used by him for agricultural purposes for a period of two years prior to the date of transfer, is compulsorily acquired under law and the compensation is fixed by the State Government, is the resultant capital gain chargeable to tax?
[Ref: Q3. (c)(ii), June '10 / Paper-7] 2
- Q9. Write short note of the following :
Capital gains on buy back of shares [Ref: Q7. (a), June '10 / Paper-7] 3
- Q10. Miss. Rama sells a residential building at Jodhpur for Rs. 15,00,000 on July 1, 2008. The building was acquired for Rs. 1,50,000 on June 1, 2001.
She pays brokerage @ 2% at the time of sale of the building. She invests Rs. 7 lakhs in purchase of a residential building on December, 2008 and deposits Rs. 2 lakhs under section 54EC in bonds of NHAI (Redeemable after 3 years) on March, 2009.
Compute the capital gain chargeable to tax for the assessment year 2009-10.
[Ref: Q2. (b), Dec. '09 / Paper-7] 3
- Q11. Discuss whether the expenditure incurred by an assessee to remove an encumbrance be claimed as a deduction under section 48, while computing the capital gains, in the following cases :
(i) Where the mortgage was created by the assessee himself;
(ii) Where the mortgage was created by the previous owner.
[Ref: Q2. (a), June '10 / Paper-7] 5

- Q12. Where an urban agricultural land owned by an individual, continuously used by him for agricultural purposes for a period of two years prior to the date of transfer, is compulsorily acquired under law and the compensation is fixed by the State Government, is the resultant capital gain chargeable to tax? [Ref: Q3. (c)(ii), June '10 / Paper-7] 2
- Q13. Is it correct to say that section 50C can be invoked only in situations in which transfer of land or building or both takes place through a registered deed of conveyance and that section cannot be invoked where there is no registered deed of conveyance, like in power of attorney transactions and agreements to sell? — Discuss. [Ref: Q5. (b), June '10 / Paper-7] 4
- Q14. Capital gains on buy back of shares. [Ref: Q7. (a), June '10 / Paper-7] 3
- Q15. Manish owned a land located in Chennai-Bangalore highway in Thambaram Municipal Corporation limits, which was acquired by NHAI in the financial year 2009-10 for Rs. 10,00,000. The land had been purchased by Manish on 2-4-1980 for Rs. 10,000. The fair market value of the land as on 1-4-1981 was Rs. 19,000.
Yet another piece of urban land located in Chennai purchased in April, 2006 for Rs. 25 lakhs was sold by him in February, 2010 for Rs. 35 lakhs, but the sale deed thereof, was not registered till 31.3.2010. The possession was given to the buyer on 31.1.2010 and the sale deed was finally registered on 16-4-2010. The value adopted by the Stamp Valuation Authority was Rs. 38 lakhs. Manish paid 2% of the sale consideration towards brokerage. Manish deposited Rs. 10 lakhs in Capital Gain Deposit Account of SBI on 20-11-2010 in order to avail exemption under section 54E of the Income-tax Act, 1961 subsequently by constructing a residential house. Cost inflation indices are 632 for the FY 2009-10, 519 for the FY 2006-07 and 100 for the FYT 1981-82.
Compute the capital gain chargeable to tax arising as a result of these transactions. [Ref: Q5. (a), Dec. '10 / Paper-7] 10
- Q16. Discuss the tax issues including cost of acquisition and period of holding, in the hands of the shareholder determined after demerger, covering deemed dividend and capital gains. [Ref: Q8. (a), Dec. '10 / Paper-7] 3
- Q17. Scindia furnishes the following particulars for the previous year 2010-11 :
A plot of land was sold on 19-7-2010 for Rs. 35,00,000. He paid brokerage on its sales at one per cent. He had purchased this plot on 20-12-1988 for Rs. 4,20,000. On 1-2-2010, he had purchased a residential house for Rs. 18,00,000. He owns another residential house, purchased on 8-7-2009.
The cost of inflation index for financial year 1988-89 and 2010-11 are 140 and 711 respectively. Find out the amount of capital gains chargeable to income tax.
Suppose Scindia sells the new residential house on 1-1-2013, what will be the taxable amount of capital gains and in which year it will be charged to tax?
If he purchases any other residential house on 1-6-2012, what will be taxable amount of capital gains and in which year it will be charged to tax? Is the same short-term or long-term in nature? [Ref: Q2. (b), June '11 / Paper-7] 6
- Q18. Vasudevan converted jewellery/ornaments owned by him into stock in trade on 1.9.2010, when he commenced a sole proprietary business by name Vaasu Jewellers. The jewellery/ornaments were acquired on 1.4.1975 for Rs. 2,00,000. The FMV on 1.4.1981 was Rs. 4 lakhs. The market value on 1.9.2010 was Rs. 35 lakhs.

He recorded the value at rs. 25 lakhs in his books of account.

Compute taxable capital gain chargeable to tax.

If the entire jewellery stock so converted was sold for Rs. 32 lakhs before 31.03.2011, how much is taxable and under what head it is taxable?

Clearly indicate the assessment years in which the above are taxable. Cost inflation indices for financial years 1981-82 and 2010-11 are 100 and 711 respectively. [Ref: Q6. (c), June '11/Paper-7] 4

INCOME FROM OTHERS SOURCES

Objective -Type Questions :

- Q1. Cash gifts received under section 56(2)(vi) from non-relatives are not taxable upto
- (1) Rs. 1,00,000;
 - (2) Rs. 75,000;
 - (3) Rs. 50,000;
 - (4) Rs. 25,000.
- [Ref: Q1. (c)(iv), June '09 / Paper-7] 1
- Q2. Mr. A has three minor children deriving interest from bank deposits to the tune of Rs. 2,000, Rs. 1,300 and Rs. 1,600 respectively. Exemption available under section 10(32) of the Income-tax Act, 1961 is
- (1) Rs. 4,900;
 - (2) Rs. 4,300;
 - (3) Rs. 4,500;
 - (4) None of the above.
- [Ref: Q1. (c)(v), June '09 / Paper-7] 1
- Q3. Miss Femina, aged 17, is married to Mr. Masculine. Her mother alone is alive. Income by way of interest on loans, of Miss Femina will be
- (1) Assessed to tax in the hands of Mr. Masculine;
 - (2) Assessed to tax in the hands of her mother;
 - (3) Taxable in her own hands;
 - (4) None of the above.
- [Ref: Q1. (c)(vi), June '09 / Paper-7] 1
- Q4. Mr. X gifts Rs. 60,000 to the HUF of which he is member; said amount will be treated as income of
- (1) Mr. X;
 - (2) The HUF;
 - (3) None, as it is exempt;
 - (4) None of the above.
- [Ref: Q1. (c)(vii), June '09 / Paper-7] 1
- Q5. Mr. Janak has received as gift, gold bullion bars worth Rs 70,000 from his friend on his birthday on 15.3.2010. The same is not to be treated as income from other sources.
- [Ref: Q1. (c)(ii), June '10 / Paper-7] 1

Descriptive & Practical Questions :

Q1. State briefly with regard to deduction allowable under section 57 of the Income Tax Act, 1961 in respect of income from other sources. [Ref: Q4. (b), Dec. '09 / Paper-7] 5

Q2. In the following cases, state the head of income under which the relevant receipt is to be assessed, along with reasons :

Ashok has constructed a house on a leasehold land. He has let-out the said property and has treated the rent from such property under the head "Income from other sources" and deducted expenses on repairs, security charges, insurance and collection charges in all amounting to 35% of receipts. [Ref: Q6. (c)(ii), June '10 / Paper-7] 2

Q3. Janak received the following gifts during the financial year 2009-10 :

Cash gift from father-in-law	Rs. 25,000
Cash gift from friends on the occasion of marriage	Rs. 37,000
Gift by way of wrist watch from a friend. Value of the watch	Rs. 12,000
Shares received as gift from wife's friend. Market value as on the date of gift	Rs. 51,000

State the taxability of each item above. Calculation of total amount liable to tax is not required. [Ref: Q2. (a), Dec. '10 / Paper-7] 5

Q4. Mr. Janak receives the following gifts during the previous year 2010-2011 :

Date of gift	Details of gift and donor	Amount of gift (Rs.)
1. 01.07.2010	Gift from Raju, a friend, by cheque	50,000
2. 01.09.2010	Cash gift from sister-in-law	1,00,000
3. 01.12.2010	Gift of diamond ring on his birthday, by his friend living in Dubai	75,000
4. 15.12.2010	Cash gifts of Rs. 31,000 each made by four friends on the occasion of his son's marriage	1,24,000
5. 15.12.2010	Gift of a rosewood cot made by friend on house opening ceremony	51,000

Discuss the taxability of each of the above as income from other sources.

[Ref: Q4. (b), June '11 / Paper-7] 5

CLUBBING OF INCOME**Objective -Type Questions :**

Q1. Assets held by a minor married daughter _____ (will/will not) be clubbed in the hands of the individual. [Ref: Q1. (b)(iii), Dec '08 / Paper-7] 1

Descriptive & Practical Questions :

Q1. Mr. Daga is a trader. Particulars of his income and those of the members of his family are given below (These incomes relate to the year ended 31st March, 2008) :

	Rs.
(i) Income from Mr. Daga's business	90,000
(ii) Salary derived from an educational institution by Mrs. Daga; she is the principal of the institution	50,000
(iii) Interest on company deposits derived by Master Deep Daga (Minor son). These deposits were made in the name of Deep Daga by his father's father about 6 years ago	12,000
(iv) Receipts from sale paintings and drawings made by minor Dipali Daga (Minor Daughter of Mr. and Mrs. Daga and a noted child artiste)	60,000
(v) Income by way of lottery earning by Master Dipendar Daga (Minor son of Mr. and Mrs. Daga)	26,000

Discuss whether the above will form part of the total income of any individual, duly considering applicability of clubbing provisions in each case, and also compute the total income of Mr. Daga. [Ref: Q7. (c), Dec '08 / Paper-7] 7

Q2. Vatsan has the following incomes for the financial year 2007-08 :

	Rs.
Business Income	(-) 40,000
Short-term capital gains	16,000
Long-term capital gains	1,90,000

He deposits Rs. 10,000 in public provident fund account. You are required to find out his tax liability for the assessment year 2008-09. [Ref: Q6. (b), Dec '08 / Paper-7] 4

Q3. The following details of income of Mr. X and his wife, for the assesment year 2009-10 are made available to you :

	Mr. X	Mrs. X
	Rs.	Rs.
Income from own business/profession	1,20,000	90,000
Income from other sources	2,10,000	1,10,000
Interest received from Z & Co.	20,000	4,10,000
Salary received from Z & Co.	96,000	84,000

Mr. X and Mrs. X are partners in Z & Co. each having 10% share in profits. Determine the total income of Mr. X and Mrs. X.

Will your answer be different, (a) If each one of them hold 8% shares in profits of Z & Co.? (b) If Mr. X and Mrs. X both possess professional qualifications.

[Ref: Q6. (a), Dec '08 / Paper-7] 11

- Q4. During the year ended 31.3.2010, Mr. Subramani has following income and the brought forward losses:

Particulars	Rs.
Short-term capital gain on sale of shares	2,60,000
Long-term capital loss of A.Y. 2008-09	90,000
Short-term capital loss of A.Y. 2009-10	80,000
Long-term capital gain	78,000
Income from lotteries	3,10,000
Cost of lottery tickets purchased	2,000
Loss from betting	—1,20,000
Income from card games	80,000

Briefly compute the gross total income and loss eligible for carry forward in the hands of Mr. Subramani for the A.Y. 2010-11.

[Ref: Q3. (a), June '10 / Paper-7] 7

- Q5. C is the minor child of Mr. and Mrs. X has business income of Rs. 2,80,000. Mrs. X has salary income of Rs. 2,20,000. C earns income of Rs. 60,000 from a dancing programme. C also earns interest of Rs. 20,000 from a fixed deposit with a bank. Compute total income of Mr. X, Mrs. X and C.

[Ref: Q7. (a), Dec. '09 / Paper-7] 3

- Q6. Mrs. Sukanya is a qualified cost accountant. She is a salaried employee in a firm of cost accountants in which Mr. Ashok (her husband) is a partner. Mr. Ashok's share in the firm is 10%. His younger brother holds 10% share in this firm. Mrs. Sukanya draws a salary of Rs. 18,000 per month from the firm. This is however paid in kind and not in cash. Mr. Ashok's income by way of sitting fees from the various boards of the companies in which he is an independent director is Rs. 3,50,000. Will Mrs. Sukanya's income be clubbed with that of Mr. Ashok under section 64 of the Income-tax Act, 1961?

[Ref: Q8. (c), Dec. '10 / Paper-7] 3

- Q7. Mr. Rajiv commenced business with a capital of Rs. 2 lakhs in the financial year 2004-05. His capital as on 1.4.2009 was Rs. 5 lakhs. His wife gifted Rs. 1 lakh on 10.04.2009, which was also invested in the business.

His Net profit for the year 2009-10 = Rs. 2 lakhs

His Net profit for the year 2010-11 = Rs. 4 lakhs

Compute the income from business to be clubbed in the hands of Mrs. Rajiv and the income from business taxable in the hands of Mr. Rajiv for the assessment year 2011-12.

Mr. Rajiv did not withdraw any money from the business from 01.04.2009 to 31.3.2010.

[Ref: Q6. (a), June '11 / Paper-7] 6

SET OFF/CARRY FORWARD OF LOSSES

Descriptive & Practical Questions :

- Q1. C is the minor child of Mr. and Mrs. X has business income of Rs. 2,80,000. Mrs. X has salary income of Rs. 2,20,000. C earns income of Rs. 60,000 from a dancing programme. C also earns interest of Rs. 20,000 from a fixed deposit with a bank. Compute total income of Mr. X, Mrs. X and C. [Ref: Q3. (a), Dec. '09 / Paper-7] 3
- Q2. **Write short note** : Restriction under section 79 of the Income Tax Act, 1961 for carry forward and set off of losses in case of certain companies. [Ref: Q7. (b), June '10 / Paper-7] 3
- Q3. Distinguish between inter-source adjustment and inter-head adjustment. [Ref: Q3. (d), June '11 / Paper-7] 2

DEDUCTION IN COMPUTING TOTAL INCOME

Objective -Type Questions :

- Q1. From out of his agricultural income, X has paid interest of Rs. 10,000 on education loan taken from nationalized bank last year. Deduction available under section 80E of the Income-tax Act, 1961 is Rs. _____ . [Ref: Q1. (v)(viii), Dec '08 / Paper-7] 1

Descriptive & Practical Questions :

- Q1. ABC Company derived income from two separate industrial units during the year ending March 31, 2008, eligible for deduction under section 80-IB. The profit of one unit was Rs. 4,50,000 while the other unit suffered a loss of Rs. 2,50,000. What is the deduction available under section 80-IB of the Income-tax Act, 1961? [Ref: Q2. (a)(ii), Dec '08 / Paper-7] 2
- Q2. Thilagam has given donation of Rs. 30,000 in cash and cement bags worth Rs. 20,000 to an approved charitable institution. What is the deduction under section 80G of the Income-tax Act, 1961 available to the assessee whose gross total income is Rs. 6,00,000? [Ref: Q3. (a), Dec '08 / Paper-7] 3
- Q3. Write a brief note on deduction available under section 80DD of the Income-tax Act, 1961. [Ref: Q3. (a), June '09 / Paper-7] 6
- Q4. Write short note of the following :
Restriction under section 79 of the Income Tax Act, 1961 for carry forward and set off of losses in case of certain companies. [Ref: Q7. (b), June '10 / Paper-7] 3

- Q5. Mr. Srinivasan, aged 66 years, furnishes the following particulars for the year ending 31.3.2010:
- (i) Life Insurance premium paid Rs. 40,000, actual capital sum of the policy assured for Rs. 1,50,000;
 - (ii) Contribution to Public Provident Fund Rs. 50,000 in the name of father;
 - (iii) Tuition fees payment Rs. 5,000 each for 3 sons pursuing full time graduation course in Mumbai; Tuition fee paid for daughter pursuing Ph.D. in Melbourne University, Australia Rs. 3.50 lakhs;
 - (iv) Housing loan principal repayment Rs. 30,000 to HDFC Bank. This property is under construction at Bangalore as on 31.03.2010;
 - (v) Principal repayment of housing loan taken from a relative Rs. 60,000. The property is self-occupied and situated at Chennai;
 - (vi) Deposit under Senior Citizens Savings Scheme Rs. 15,000;
 - (vii) Five-year deposits in an account under Post Office Time Deposit Scheme Rs. 20,000;
 - (viii) Investment in National Saving Certificate Rs. 25,000;
 - (ix) Subscription to bonds issued by NABARD Rs. 30,000.
- Compute the quantum of eligible deduction under section 80C of the Income Tax Act, 1961 for A.Y. 2010-11. [Ref: Q4. (a), June '10 / Paper-7] 7
- Q6. Write short note of the following :
Deduction under section 80RRB of the Income Tax Act, 1961 towards royalty of a patient. [Ref: Q7. (c), June '10 / Paper-7] 3
- Q7. State briefly the deduction available under Sec. 80E in respect of interest on loan taken for Higher Education. [Ref: Q3. (b), June '10 / Paper-7] 3
- Q8. An employee instructs his employer to pay certain portion of his salary to a charity and claims it as exempt as it is diverted by overriding charge or title. Comment. [Ref: Q5. (b), June '10 / Paper-7] 2
- Q9. Mr. Srinivasan, aged 66 years, furnishes the following particulars for the year ending 31.3.2010 :
- (i) Life Insurance premium paid Rs. 40,000, actual capital sum of the policy assured for Rs. 1,50,000;
 - (ii) Contribution to Public Provident Fund Rs. 50,000 in the name of father;
 - (iii) Tuition fees payment Rs. 5,000 each for 3 sons pursuing full time graduation course in Mumbai; Tuition fee paid for daughter pursuing Ph.D. in Melbourne University, Australia Rs. 3.50 lakhs;
 - (iv) Housing loan principal repayment Rs. 30,000 to HDFC Bank. This property is under construction at Bangalore as on 31.03.2010;
 - (v) Principal repayment of housing loan taken from a relative Rs. 60,000. The property is self-occupied and situated at Chennai;
 - (vi) Deposit under Senior Citizens Savings Scheme Rs. 15,000;
 - (vii) Five-year deposits in an account under Post Office Time Deposit Scheme Rs. 20,000;
 - (viii) Investment in National Saving Certificate Rs. 25,000;
 - (ix) Subscription to bonds issued by NABARD Rs. 30,000.

Compute the quantum of eligible deduction under section 80C of the Income Tax Act, 1961 for A.Y. 2010-11. [Ref: Q4. (a), June '10 / Paper-7] 7

Q10. Mrs. Hemalatha, working in a public sector company, opted for voluntary retirement scheme and received Rs. 7 lakh as VRS compensation. She claimed Rs. 5 lakhs as exemption under section 10(10C) and in respect of the balance amount of Rs. 2 lakh, she claimed relief under section 89(1). Advise Mrs. Hemalatha as to the correctness of the aforesaid tax treatment. [Ref: Q6. (b), June '10 / Paper-7] 7

Q11. **Write short note** : Deduction under section 80RRB of the Income Tax Act, 1961 towards royalty of a patient. [Ref: Q7. (c), June '10 / Paper-7] 3

INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME

Objective -Type Questions :

- Q1. The following is exempt income :
- (1) Travel concession to employee;
 - (2) Remuneration received for valuation of answer scripts;
 - (3) Encashment of leave salary whilst in service;
 - (4) Perquisites in India. [Ref: Q1. (a)(ii), Dec. '08 / Paper-7] 1
- Q2. The following is not a venture capital undertaking for the purposes of section 10(23F), if engaged in business of :
- (1) Generation of power;
 - (2) Telecommunications;
 - (3) Providing infrastructural facility;
 - (4) Dairy farming whose shares are not listed in a recognised stock exchange. [Ref: Q1. (a)(iv), Dec. '08 / Paper-7] 1
- Q3. Income earned by an Association of Trade Unions is not taxable.—Comment. [Ref: Q1. (b)(ii), June. '10 / Paper-7] 1
- Q4. Discuss whether there is any exemption for voluntary contributions received by electoral trusts. Can an assessee giving such donation claim the same as deduction? [Ref: Q4. (c), June. '10 / Paper-7] 7

Descriptive & Practical Questions :

- Q1. Discuss whether there is any exemption for voluntary contributions received by electoral trusts. Can an assessee giving such donation claim the same as deduction. [Ref: Q4. (c), June. '10 / Paper-7] 5
- Q2. State the conditions under which the political party gets tax exemption under section 13A in respect of certain types of income/receipts. [Ref: Q3. (c), June. '11 / Paper-7] 3

COMPUTATION OF TOTAL INCOME

Descriptive & Practical Questions :

Q1. The income and related particulars of Mr. Coorg, aged 56, for the year ended 31.03.2008 are given below :

- (i) Salary Rs. 24,000 per month;
- (ii) He was provided with a rent-free accommodation in Hyderabad for which rent of Rs. 6,000 per month was paid by his employer;
- (iii) His wife was sick and treatment was taken from a private hospital, for which an amount of Rs. 32,000 paid towards medical expenses by his employer in December, 2007;
- (iv) An allowance of Rs. 13,200 was paid by his employer towards his son's education;
- (v) The employer paid DA 10,000 per month (considered for retirement benefits), professional tax of Rs. 2,400 and income-tax liability of Rs. 15,000.
- (vi) He encashed earned leave to his credit to the tune of Rs. 10,000;
- (vii) Loss from speculative business Rs. 20,000;
- (viii) Loss from sale of shares in ABC Pvt. Ltd. Held for ten months Rs. 8,000;
- (ix) Profit on sale of long-term capital assets Rs. 10,000.

Compute the total Income and Tax liability of Mr. Coorg for the assessment year 2008-09.

[Ref: Q4. (a), Dec. '08 / Paper-7] 10

Q2. From the following information compute the total income of Mr. Ramesh for the assessment year 2009-10 :

Income from salary	2,60,000
Income from house property	1,00,000
Business loss	3,20,000
Short term capital loss	1,40,000
Long term capital gain	2,80,000

[Ref: Q3. (c), Dec. '09 / Paper-7] 5

Q3. P. K. retired as General Manager of XYZ Co. Ltd. on November 30, 2008 after rendering service for 20 years and 10 months. He received Rs. 3,20,000 as gratuity from the employer. He is not covered by the payment of Gratuity Act, 1972.

His salary particulars are given below :

Basic pay	Rs. 10,000 p.m. upto June 30, 2008
Basic pay	Rs. 12,000 p.m. from July 1, 2008
Dearness Allowance (Eligible for retirement benefits)	50% of basic pay
Transport Allowance	Rs. 1,500 p.m.

He resides in his own house. Interest on moneys borrowed for the self occupied house is Rs. 20,000 for the year ended March 31, 2009.

From a fixed deposit with a bank he entered interest income of Rs. 14,000 for the year ended 31.03.09.

Compute taxable income of P. K. for the year ended March 31, 2009.

[Ref: Q5. (a), Dec. '09 / Paper-7] 10

Q4. Compute the total income of Mr. Pankaj Dhimani from the information given below :

Particulars	Rs.
Net income for house property	1,75,000
Income from business (before providing for depreciation)	2,25,000
Short-term capital gain on sale of shares	80,000
Long-term capital loss from sale of property (brought forward A.Y. 2009-10)	(70,000)
Income from integrated activities of growing tea crops and manufacturing tea	1,50,000
Dividends from Indian companies carrying on agricultural operations	70,000
Current year depreciation	35,000
Brought forward business loss (loss incurred six years ago)	(65,000)
Expenditure incurred on medical treatment of dependant with severe disability	1,20,000

[Ref: Q5. (a), June '10 / Paper-7] 7

Q5. Devender, aged 55, resident in India, furnishes the following information for the previous year ended 31-3-2010 :

	Rs.
House property income (Net)	18,500
Business income	5,000
Capital gains (short-term)	22,000
Capital gains (long-term)	2,500
Income from horse race	15,000
Income from card games	16,000
<i>Additional information are as follows :</i>	
Brought forward business loss AY 2002-03	12,000
Unabsorbed depreciation for AY 2008-09	6,000
Long-term capital loss for AY 2007-08	12,000
Loss from horse race suffered in AY 2007-08	8,000
Speculative loss for AY 2006-07	10,000

Devender has taken a life insurance policy for his major son working in software company for a salary of Rs. 5 lacs per annum. He has paid premium of Rs. 60,000 in cash for a capital sum assured of Rs. 2,00,000.

He has paid PPF of Rs. 70,000 by raising a hand loan from his friend.

Calculated total income and tax liability. State the items to be carried forward.

[Ref: Q6. (a), Dec. '10 / Paper-7] 10

Q5. Mrs. Arundhati aged 70 years furnishes, the following details for the assessment year 2011-12 :

	Rs.
Family pension (gross)	1,32,000
Income from house property (computed)	(62,000)
Income from horse racing (gross) (TDS deducted @ 30%)	55,000
Bank deposit interest	17,000
Short term capital loss from shares	(1,00,000)
Agricultural income in India	75,000

Compute total income of Mrs. Arundhati and her tax liability.

[Ref: Q5. (b), June '11 / Paper-7] 6

Q6. Mr. Ramachandran submits details of his income/savings for the previous year 2010-11 as below :

	Rs.
(i) Interest on capital from partnership firm	1,04,000
(ii) Other interest receipts :	
(a) Interest on loan from Y	20,000
(b) Interest from Bank FDR	10,000
(iii) Long term capital gain	46,000
(iv) Contribution of PPF	50,000

Compute the tax liability of Mr. Ramachandran.

[Ref: Q8. (b), June '11 / Paper-7] 7

AGRICULTURAL INCOME AND AGGREGATION OF INCOMES

Objective -Type Questions :

Q1. State with reasons whether the following statements are true or false (No credit will be given for mere conclusions) :

Where a person does basic operations in lands and later sells the saplings grown by him in a nursery owned by him, the same will be agricultural income. If the basic operations are not done by the assessee and the saplings are sold in his nursery, the same will still be regarded as agricultural income. [Ref: Q1. (a) (iii), June '09 / Paper-7] 2

Q2. Fill up the blank :

Receipts from TV serial shooting in Farm house _____ agricultural income.

[Ref: Q1. (a) (ii), June '10 / Paper-7] 1

Q3. Fill up the blank :

Compensation received from an insurer on account of damage to the crops is _____ income. [Ref: Q1. (a) (i), Dec. '09 / Paper-7] 1

Descriptive & Practical Questions :

Q1. Are the profits arising from sales of agricultural lands situated in a village 10 kms. from Vishakhapatnam Corporation limits and another situated in city limits of Vishakhapatnam liable to Income-tax? [Ref: Q3. (a), Dec '08 / Paper-7] 2

Q2. Mrs. Vasudha is running a cotton ginning factory. Raw cotton is grown in the lands owned by her and the same is used for ginning in her factory. The ginned cotton is sold subsequently for Rs. 12,00,000. The following data are also available :

	Rs.
Cost of cultivation	4,00,000
Selling price of raw cotton when sent to the ginning factory	6,00,000
Expenses of ginning factory	3,40,000

You are required to ascertain the agricultural income and business income of Mrs. Vasudha. [Ref: Q3. (b), June '09 / Paper-7] 5

Q3. Can income-tax return be filed through computer readable media? [Ref: Q6. (b), June '09 / Paper-7] 4

Q4. Non-allowing of interest to rectification order is appealable.—Discuss. [Ref: Q1. (b)(iii), June '10 / Paper-7] 2

Q5. The total income of Mrs. Z computed for the assessment year 2009-10 is Rs. 2,00,000 which includes the following :

Long term capital gain	30,000
Winning from lotteries	20,000
Short term capital gains covered by Section IIIA	10,000

Agricultural income earned by her was Rs. 50,000. Compute the tax payable by Mrs. Z. [Ref: Q3. (a), Dec. '09 / Paper-7] 5

ASSESSMENT PROCEDURE**Objective -Type Questions :**

Q1. Electronic furnishing of income-tax return in approved computer readable media can be furnished under sub-section _____ of section 139 of the Income-tax Act, 1961.

[Ref: Q1. (b)(vii), Dec '08 / Paper-7] 1

Q2. Choose the correct answers :

(a) Where the karta is not available, the return of wealth of a HUF can be signed by

- (1) Any adult member of the family;
- (2) Any adult coparcener of the family;
- (3) The male member who is next in seniority to the karta;
- (4) None of the above.

[Ref: Q1. (c)(i), June '09 / Paper-7] 1

Q3. Fill up the blank :

Sec. 139(1) applies to all persons whether they are _____ or _____.
[Ref: Q1. (a)(i), June '10 / Paper-7] 1

Q4. Time limit for filling revised return when assessment has not been completed is _____ from the end of the assessment year.
[Ref: Q1. (a)(ii), Dec '09 / Paper-7] 1

Q5. State with reasons, whether the following statements are True or False :

(i) In case of an artificial judicial person, no surcharge is payable where the total income exceeds Rs. 10,00,000.

(ii) Partnership firm deriving loss need not file return of income.
[Ref: Q1. (b)(iv)(v), Dec '09 / Paper-7] 1+1

Q6. Expand abbreviations : (i) ITAT, (ii) MAT. [Ref: Q1. (b)(iv), Dec '09 / Paper-7] 1

Q7. Is it compulsory to file a claim for refund? Discuss. [Ref: Q1. (d)(i), Dec '09 / Paper-7] 2

Descriptive & Practical Questions :

Q1. Briefly discuss the powers of Commission (Appeals) in disposing of an appeal filed before him under section 251 of the Income-tax Act, 1961. [Ref: Q3. (d), Dec '08 / Paper-7] 5

Q2. Distinguish between Association of persons and Body of Individuals as envisaged in the Income-tax Act, 1961. [Ref: Q8. (d), June '09 / Paper-7] 2

Q3. What are the due dates for filing the return of income as envisaged by section 139(1) of the Income Tax Act, 1961? [Ref: Q2. (c), June '10 / Paper-7] 4

Q4. What are the due dates for payment of advance income tax by corporate assesseees? [Ref: Q5. (c), June '10 / Paper-7] 4

Q5. A single letter of enquiry was issued by the Income Tax Department to X Mumbai. In this letter there was no specific mention of any provision of the Income Tax Act, Can X be treated as an 'Assessee'? [Ref: Q2. (d), Dec. '09 / Paper-7] 2

Q6. A firm filed a return of Income disclosing an income of Rs. 60,000 on June 30, 2009 in respect of Assessment Year 2007-08. The Assessing Officer completed the assessment on September 30, 2009 under Sec. 143(3) on an income of Rs. 90,000. Apart from questioning the merits of the addition made by the Assessing Officer, on what other ground will you challenge the assessment? [Ref: Q6. (b), Dec. '09 / Paper-7] 4

Q7. What are the due dates for filing the return of income as envisaged by section 139(1) of the Income Tax Act, 1961? [Ref: Q2. (c), June '10 / Paper-7] 4

Q8. Is e-filing of income-tax return mandatory for all assesseees? Also state the assesseees for whom the same is mandatory. [Ref: Q7. (b), Dec. '10 / Paper-7] 3

Q9. Can a revised return of income be further revised? [Ref: Q7. (c), Dec. '10 / Paper-7] 2

Q10. Mr. Ramachandran submits details of his income/savings for the previous year 2010-11 as below :

	Rs.
(i) Interest on capital from partnership firm	1,04,000
(ii) Other interest receipts :	
(a) Interest on loan from Y	20,000
(b) Interest from Bank FDR	10,000
(iii) Long term capital gain	46,000
(iv) Contribution to PPF	50,000

Compute the tax liability of Mr. Ramachandran. [Ref: Q8. (b), June '11 / Paper-7] 7

ASSESSMENT OF VARIOUS ENTITIES

Objective -Type Questions :

Q1. Where a charitable trust is created on 01.04.2007, the application for registration u/s. 12A of the Income-tax Act, 1961 should be submitted within _____ from _____ .

[Ref: Q1. (b)(iv), Dec '08 / Paper-7] $\frac{1}{2} + \frac{1}{2}$

Q2. Fill up the blanks :

Any commission due or received by a partner of a firm from the firm shall _____ be regarded as _____ under Sec. _____. [Ref: Q1. (a)(vii), Dec '09 / Paper-7] 1

Descriptive & Practical Questions :

Q1. A, B and C are three partners of a firm; the firm provides the following information :

(i) Total income of the firm is (-) Rs. 1,40,000, out of which unabsorbed depreciation is Rs. 50,000. The return of income of the firm was filed in time.

(ii) On March 31, 2007, C retires from the firm and the other partners continue the same business;

(iii) The firm's income for the assessment year 2008-09 before adjusting the aforesaid loss and depreciation is Rs. 1,08,000;

(iv) A, B and C share Profit and Loss in ratio of 1 : 1 : 2.

Compute firm's total income for the assessment year 2008-09, assuming that salary and interest are not paid to any partner. [Ref: Q3. (c), Dec '08 / Paper-7] 5

Q2. The Hyderabad Co-operative Society has the following sources of income during the financial year 2008-09 :

Income from processing with the aid of power	Rs. 8,000
Income from collective disposal of labour of its members	Rs. 15,000
Interest from another co-operative society	Rs. 25,000
Chargeable income from house property	Rs. 60,000
Income from other business	Rs. 55,000

Find its total income, showing the computation under proper heads of income, and the tax payable, as per the provisions of the Income-tax Act, 1961.

[Ref: Q2. (a), June '09 / Paper-7] 6

Q3. M, N and O are partners in the firm Upadhyay & Co., sharing profit and losses in the ratio of 2 : 1 : 1 respectively. The summarized profit and loss account for the year ended 31.03.2009 is given below :

	Rs.		Rs.
Office salaries	5,680	Gross profit	60,570
Interest on loan from M	2,000	Rent received	6,000
Telephone, telegram, etc.	2,000	Interest on securities	4,000
Local taxes (let-out property)	1,000		
Salary to working partner N	3,000		
M	4,000		
N	5,000		
O	<u>6,000</u>		
	15,000		
Collection charges of interest on securities	50		
Provision for bad debts	1,000		
Net profit to partners :			
M	20,420		
N	10,210		
O	<u>10,210</u>		
	40,840		
	<u>70,570</u>		<u>70,570</u>

Compute total income of the firm for the assessment year 2009-10 and tax payable thereon.

[Ref: Q4. (b), June '09 / Paper-7] 10

Q4. P, Q and R are partners in a firm sharing profits and losses in the ratio 1 : 1 : 2. Provide the following information. Find firm's Net Income assuming that salary and interest are not paid to partners.

- Net income of the firm is (-) Rs. 1,20,000 out of which unadjusted depreciation is Rs. 40,000.
- On 31.05.08 R retires from the firm and the other partners carry on the same business.
- The firm's income for the Assessment Year 2009-10 before adjusting the aforesaid loss and depreciation is Rs. 1,20,000.

[Ref: Q6. (a), Dec. '09 / Paper-7] 5

- Q5. If two or more persons jointly own a property and of their shares are definite and ascertainable, can the income from such property be taxed as income of an association of persons?
[Ref: Q3. (c)(i), June '10 / Paper-7] 2
- Q6. Kidwai Club is a private members club which provides entertainment to its members by offering accommodation, library, reading room, etc. The club also earned income by letting out its marriage hall to non-members by making them as temporary members. The club contends that the "doctrine of mutuality" would apply in such a case and hence, its income would not be taxable. Discuss the correctness or otherwise of the contention of the assessee club.
[Ref: Q6. (a), June '10 / Paper-7] 7
- Q7. What is the due date of filling of return of income in case of non-working partner of a firm whose accounts are subject to tax audit? Who is regarded as 'working partner'?
[Ref: Q5. (c), June '11 / Paper-7] 3

INTEREST

Objective -Type Questions :

- Q1. Mr. Suman's assessed tax for the assessment year 2008-09 is Rs. 12,000. Tax on it was Rs. 14,420. The advance tax instalments paid were Rs. 4,000 on 18.10.2007, Rs. 4,000 on 20.01.2008 and Rs. 4,000 on 10.03.2008. Are the payment of advance tax instalments paid proper? If not, is any interest.
[Ref: Q2. (a)(iv), Dec '08 / Paper-7] 2

Descriptive & Practical Questions :

- Q1. Mr. Ramesh, aged 62, paid Rs. 4,800, Rs. 11,000 and Rs. 28,000 on 15-9-2009, 12-12-2009 and 15-3-2010 respectively as advance tax instalments. He filed return of income for the assessment year 2010-11 showing total income of Rs. 5,57,400; he is entitled to tax credit of Rs. 12,003 on account of tax deducted at source. Ascertain the interest, if any, chargeable under section 234C of the Income-tax Act, 1961.
[Ref: Q3. (b), Dec '10 / Paper-7] 5

ADVANCE PAYMENT OF TAX

Objective -Type Questions :

- Q1. In case of assessee other than companies, the following is advance tax rate to be payable on or before of 15th September on the current fringe benefits :
- (1) 15 per cent;
 - (2) 30 per cent;
 - (3) 45 per cent;
 - (4) 60 per cent.
- [Ref: Q1. (c)(iii), June '09 / Paper-7] 1

Descriptive & Practical Questions :

- Q1. Is a representative assessee exempt from liability to pay advance income-tax?
[Ref: Q5. (e), Dec '08 / Paper-7] 2
- Q2. What are the due date for payment of advance income tax by corporate assessee?
[Ref: Q5. (c), June '10 / Paper-7] 4

DEDUCTION AND COLLECTION OF TAX AT SOURCE

Objective -Type Questions :

- Q1. State with reasons whether the following statements are true or false (No credit will be given for mere conclusions) :
- As per section 194-C of the Income-tax Act, 1961, all Association of Persons and Body of Individuals are liable to deduct tax at source from specified payments made to resident contractors.
[Ref: Q1. (a)(ii), June '09 / Paper-7] 2
- Q2. State with reasons whether the following statements are True or False (answers without reasoning will not receive any credit):
- (a) The rate of TDS applicable for payment made on 28.2.2010 to non-individual sub-contractor, as per section 194C, is 2%.
 - (b) Only in the TDS certificate furnished by the deductor, quoting the PAN of deductor is compulsory and not in other correspondences between the deductor and the deductee.
[Ref: Q1. (c) (v)(vi), June '10 / Paper-7] 1+1

Descriptive & Practical Questions :

- Q1. Briefly sketch the responsibilities and liability of a person liable to collect tax at source under the Income-tax Act, 1961. [Ref: Q4. (b), Dec '08 / Paper-7] 5
- Q2. Discuss the consequence of non-compliance of TDS provisions of the Income-tax Act, 1961. [Ref: Q2. (b), June '09 / Paper-7] 5
- Q3. Raja who was born on 1.06.1943 is a retired Government Officer. Approximately he earns Rs. 1,80,000 as interest on Company deposits. Besides, he gets Rs. 1,00,000 pension. He invested Rs. 1,00,000 in securities and other investments qualified for deduction u/s 80C. He also paid Rs. 20,000 as Medical Claim Insurance Premium. Can he submit the declaration in Form No. 15H to the Company which will pay interest on company deposits so that tax is not deducted by the payer company u/s 194A read with section 197 A. [Ref: Q2. (a), Dec. '09 / Paper-7] 3
- Q4. Mr. D. K. is employed with X Ltd. Drawing salary of Rs. 75,000 per month (Eligible deduction u/s 80C Rs. 1,00,000). He furnishes the following particulars of income and losses from other sources as follows :
- | | |
|---|------------|
| Loss from House Property | Rs. 25,400 |
| Bank Interest
(after deduction of tax Rs. 3,090) | Rs. 26,910 |
| Dividend from Reliance Industries | Rs. 30,000 |
- Compute the liability of X Ltd. to deduct Tax at source. [Ref: Q6. (c), Dec. '09 / Paper-7] 4
- Q5. Is there any option for an employer, not to deduct Tax at Source, in respect of perquisites portion of salaries paid to employees? Discuss. [Ref: Q7. (d), Dec. '09 / Paper-7] 5
- Q6. Discuss the provisions of the Income-tax Act, 1961 requiring quoting of PAN mandatory in the context of TDS rates and filing of declarations by the deductees. Also discuss the related TDS areas relating to mandatory quoting of PAN. [Ref: Q6. (b), Dec. '10 / Paper-7] 5
- Q7. Discuss the liability towards deduction of tax at source in the following cases :
- (i) An Indian company pays dividends on preference shares to a shareholder, of an amount of Rs. 10,000 on September 30, 2010.
 - (ii) A foreign enterprise enters into a contract for the fabrication and supply of components for machinery with X & Co. firm in India on December 1, 2007. X & Co. in turn sub-contracts the work to Y & Co. and pays Rs. 20 lakhs on June 16, 2010.
 - (iii) A domestic company pays to a doctor a monthly retainership of Rs. 2,500 for attending an outpatient clinic at its factory premises. [Ref: Q8. (c), June '11 / Paper-7] 3×2

REFUND

Objective -Type Questions :

Q1. Fill up the blanks :

Interest on refund on Income-tax paid in excess is a _____ receipt.

[Ref: Q1. (b)(iii), June '09 / Paper-7] 1

Descriptive & Practical Questions :

Q1. Discuss the provisions of the Income-tax Act, 1961 with regard to interest payable by the Department on refund.

[Ref: Q4. (a), June '09 / Paper-7] 5

MAT

Objective -Type Questions :

Q1. State with reasons whether the following statements are true or false (No credit will be given for mere conclusions) :

For the purposes of computing minimum alternate tax (MAT) under section 115JB(2) of the Income-tax Act, 1961, the book profit need not be increased, by inter alia, the amount of deferred-tax or provision for deferred-tax debited to the profit and loss account.

[Ref: Q1. (a)(v), June '09 / Paper-7] 2

Q2. State with reasons whether the following statements are True or False (answers without reasoning will not receive any credit):

The period for setting off the MAT credit under section 115JB is seven years.

[Ref: Q1. (c)(iv), June '10 / Paper-7] 1

Q4. **Expand abbreviations** : MAT

[Ref: Q1. (c)(ii), Dec. '09 / Paper-7] 5

FRINGE BENEFIT TAX

Objective -Type Questions :

Q1. Fill up the blanks :

The amount of contribution made in excess of Rs. _____ in respect of each employee to approved superannuation fund for employees, is taken as the value of fringe benefit u/s. 115WC(1) of the Income-tax Act, 1961. [Ref: Q1. (b)(vi), June '09 / Paper-7] 1

Descriptive & Practical Questions :

Q1. Who is an “employer” for the purposes of levy of fringe benefit-tax? Who are the persons excluded in this regard? [Ref: Q6. (e), Dec '08 / Paper-7] 3

WEALTH TAX

Objective -Type Questions :

Q1. In valuation of immovable property in Bangalore, the specified area means of the aggregate area, for wealth-tax purposes.

- (1) 60 per cent;
- (2) 65 per cent;
- (3) 70 per cent;
- (4) 75 per cent.

[Ref: Q1. (a)(v), Dec. '08 / Paper-7] 1

Q2. Fill up the blanks :

Under the Wealth-tax Act, “assessment year” means the period of _____ commencing on 1st day of April every year, falling immediately after the _____.

[Ref: Q1. (b)(i), June '09 / Paper-7] 2

Q3. Fill up the blanks :

The term “net wealth” is defined in section _____ of the Wealth-tax Act.

[Ref: Q1. (b)(ii), June '09 / Paper-7] 1

- Q4. It is correct to state that every member of AOP is an “assessee” for the purposes of wealth-tax?
[Ref: Q1. (c)(v), June '09 / Paper-7] 2
- Q5. State with reasons whether the following statements are true or false (No credit will be given for mere conclusions) :
A political party is exempt from paying wealth-tax. [Ref: Q1. (a)(vi), June '09 / Paper-7] 2
- Q6. Fill up the blanks :
As per section 2(ea)(i) the Wealth-tax Act, 1957, “asset” means, inter alia, farmhouse situate within _____ kilometres of only municipality. [Ref: Q1. (b)(i), June '09 / Paper-7] 1
- Q7. Wealth Tax is a Socialistic Tax.—Discuss. [Ref: Q1. (b)(v), June '10 / Paper-7] 1
- Q8. State with reasons whether the following statements are True or False (answers without reasoning will not receive any credit):
(a) An individual himself has to sign the return of wealth and whatever be the contingency, cannot authorize another persons to sign on his behalf.
(b) A company owns a plot of urban land comprising of area of 500 square metres. Exemption is not available in respect of this asset under the provision to section 5(vi) of the Wealth Tax Act, 1957. [Ref: Q1. (c)(vii)(viii), June '10 / Paper-7] 1+1
- Q9. State with reasons, whether the following statements are True or False :
The term ‘individual’ as defined in the wealth tax act, 1957 means only a single human being.
[Ref: Q1. (b)(vi), Dec. '09 / Paper-7] 1
- Q10. The tax liability under the wealth tax act is determined solely on the basis of residential status of an assessee. Comment. [Ref: Q1. (d)(v), June '09 / Paper-7] 2

Descriptive & Practical Questions :

- Q1. Under what circumstances, will urban land be not considered as an “asset” for wealth tax purposes?
[Ref: Q5. (c), Dec '08 / Paper-7] 2
- Q2. State the time limit under Wealth-tax Act, 1957 for completion of
(i) Regular assessment under section 16; and
(ii) Assessment or reassessment under section 17. [Ref: Q5. (d), Dec. '08 / Paper-7] 2

Q3. Ramesh furnishes the following particulars for compilation of his wealth-tax return pertaining to the assessment year 2008-09 :

	Rs.
(i) Flat purchased under instalment payment scheme in 1994 for Rs. 8,50,000 used for self occupation and market value as on 31st March, 2008	15,00,000
(ii) Gift of Jewellery made to wife from time to time amounting to Rs. 5,00,000 and market value as on 31st March, 2008	9,00,000
(iii) Cash in hand	1,25,000
(iv) Bank Balance with HDFC Bank	2,50,000
(v) Urban land transferred to minor handicapped child, market value as on 31st March, 2008	5,00,000
(vi) 2 motor cars (one is held as stock-in-trade in business and other used for personal purposes)	6,00,000 (each)
(vii) Loan against flat being instalment remaining unpaid	70,000
(viii) Wealth-tax liability outstanding	10,000

Compute the net wealth of Ramesh indicating reasons for the treatment under the provisions of the Wealth-tax Act, 1957 and the wealth-tax payable. [Ref: Q7. (a), Dec '08 / Paper-7] 5

Q4. State briefly the exemptions available under section 5 of the Wealth-tax Act, 1957.

[Ref: Q5. (b), June '09 / Paper-7] 6

Q5. Write short notes of the following :

- (a) Wealth escaping assessment;
- (e) Liability of charitable trusts under Wealth Tax Act, 1957.

[Ref: Q7. (d) (e), June '10 / Paper-7] 3+3

Q6. Royal Construction Ltd., engaged in promoting residential houses, flats, etc. furnishes the following particulars of its wealth as on 31st March, 2010:

Particulars	Rs.
Land in rural area (within 7 kms. from the local limits of a municipality) on which construction is permissible	45,00,000
Land in urban area (on which construction is not permitted)	35,00,000
Land in urban area (held as stock-in-trade for 8 years)	35,00,000
Motor cars (including one imported car worth Rs. 5 lakhs)	12,00,000
Gold jewellery	21,00,000
Shares in private limited companies	9,20,000
Cash at bank	2,30,000
Guest house and land appurtenant thereto in rural area	12,00,000
Cash in hand	45,00,000
Residential flats of identical size provided to three employees for their use near factory in rural areas (Salaries of one such employee exceed Rs. 5,00,000 p.a.)	27,00,000

Residence provided to Managing Director (whose salary is Rs. 8,00,000 p.a.)	22,00,000
Flats constructed remaining unsold	40,00,000
The company has taken the following loans:	
For purchase of gold jewellery	10,00,000
For flats constructed remaining unsold	10,00,000

Compute the Company's net wealth as on 31.3.2010. (Brief note on treatment of each item is required). [Ref: Q8. (a), June '10 / Paper-7] 12

- Q7. State the assessee whose net wealth is not chargeable to tax u/s 45.
[Ref: Q2. (c), Dec. '09 / Paper-7] 4
- Q8. What are the assets defined in Section 2(EA) of the Wealth Tax Act.
[Ref: Q2. (e), Dec. '09 / Paper-7] 3
- Q9. Discuss the treatment of the following items for the purpose of Wealth Tax Assessment.
- A three storied residential house at Kolkata-One floor is occupied by the Assessee for his residence and the other floors are let out.
 - A personal motor car of the assessee transferred to Hindu Undivided Family of which he is a member without any adequate consideration.
 - By profession A is an architect and the value of the tools and instruments required by him for his professional use is Rs. 50,000. [Ref: Q5. (c), Dec. '09 / Paper-7] 3
- Q10. Under what circumstances will urban land be not considered as an 'Asset' for Wealth Tax purposes?
[Ref: Q8. (c), Dec. '09 / Paper-7] 3
- Q11. Write short note :
- Wealth escaping assessment.
 - Liability of charitable trusts under Wealth Tax Act, 1957.
[Ref: Q7. (d)(e), June '10 / Paper-7] 3+3
- Q12. Royal Construction Ltd., engaged in promoting residential houses, flats, etc. furnishes the following particulars of its wealth as on 31 st March, 2010 :

Particulars	Rs.
Land in rural area (within 7kms. from the local limits of a municipality) on which construction is permissible	45,00,000
Land in urban area (on which construction is not permitted)	35,00,000
Land in urban area (held as stock-in-trade for 8 years)	35,00,000
Motor cars (including one imported car worth Rs. 5 lakhs)	12,00,000

Particulars	Rs.
Gold jewellery	21,00,000
Shares in private limited companies	9,20,000
Cash at bank	2,30,000
Guest house and land appurtenant thereto in rural area	12,00,000
Cash in hand	45,00,000
Residential flats of identical size provided to three employees for their use near factory in rural areas (Salaries of one such employee exceed Rs. 5,00,000 p.a.)	27,00,000
Residence provided to Managing Director (whose salary is Rs. 8,00,000 p.a.)	22,00,000
Flats constructed remaining unsold	40,00,000
The company has taken the following loans :	
For purchase of gold jewellery	10,00,000
For flats constructed remaining unsold	10,00,000

Compute the Company's net wealth as on 31.3.2010 (Brief note on treatment of each item is required).
[Ref: Q8. (a) , June '10 / Paper-7] 12

Q13. Ravan has furnished the following information as on 31-3-2010 :

- (i) Cash in hand Rs. 75,000;
- (ii) Cash at bank Rs. 10,00,000;
- (iii) Residential house (loan taken to purchase this house Rs. 5,00,000) Rs. 45,00,000;
- (iv) Land in rural area (within 5 kms from Bhopal municipality) Rs. 48,00,000;
- (v) Land in urban area (construction not permitted under the law, loan taken to purchase this land Rs. 3,00,000) Rs. 28,00,000;
- (vi) Motor car for personal use Rs. 14,00,000;
- (vii) Jewellery Rs. 6,00,000;
- (viii) Aircraft for personal use (loan taken to purchase aircraft Rs. 20,00,000) Rs. 1,00,00,000;
- (ix) Farm house situated within 20 kms from local limits of municipal corporation Rs. 24,00,000 and
- (x) One let-out residential house given on rent throughout year (loan taken to construct this house Rs. 2,00,000) Rs. 20,00,000.

Ascertain the net wealth as on 31-3-2010 and the wealth tax payable for the assessment year 2010-11.
[Ref: Q7. (a) , Dec. '10 / Paper-7] 10

Q14. Discuss the wealth tax consequences of (i) Conversion by an individual of his self-acquired property into joint family property, and (ii) Gift by way of book entries.

[Ref: Q8. (e) , Dec. '10 / Paper-7] 3

Q15. Banerjee, a person of Indian origin was working in Australia from 1997. He returned to India for permanent settlement in May, 2009, when he remitted money into India. For the valuation date 31st March, 2001, the following particulars were furnished :

	Rs.
(i) Building owned and let out for 270 days for residence. Net maintainable rent (60,000) and the market value Rs. 20,00,000. (Excess of unbuilt area over specified area is 20% of the aggregate area).	
(ii) Jewellery	
(a) Bought in April '09 out of money remitted to India from Australia	15,00,000
(b) Purchased in April '2010 out of sale proceeds of motor car brought from aboard and sold	14,00,000
(iii) Value of interest in urban land held by a firm in which he is a partner	17,00,000
(iv) Shares held in Indian companies	5,00,000
(v) Vacant house plot of 400 sq. mts. (purchased in December 2005) market value	9,00,000
(vi) Cash in hand	1,80,000
(vii) Urban land purchased in the year 2009 out of withdrawals from NRE a/c	10,00,000

You are required to compute the taxable wealth as on 31-3-2011. The reason for inclusion or exclusion of each item above should be stated. [Ref: Q7. (a), June '10 / Paper-7] 11

TRANSFER PRICING**Objective -Type Questions :**

- Q1. What is the binding nature of the arm's length price determined by the Transfer Pricing Officer upon a reference made to him by the Assessing Officer?
[Ref: Q1. (c)(iv), June '09 / Paper-7] 2
- Q2. What are "International transactions" in the context of transfer pricing provisions?
[Ref: Q2. (a)(vi), June '09 / Paper-7] 4
- Q3. State with reasons whether the following statements are true or false (No credit will be given for mere conclusions) :
For the purposes of transfer pricing provisions, arm's length price is determined by the taxpayer in consultation with qualified accountant. [Ref: Q1. (a)(i), June '09 / Paper-7] 2

Descriptive & Practical Questions :

- Q1. Mr. A, is engaged in retail trade and is a distributor for the products of Mr. X. In appreciation of high turnover effected by Mr. A, Mr. X presented him a new car worth Rs. 4 lakhs. Discuss the exigibility to tax of the above receipt in the hands of Mr. A.
[Ref: Q5. (c), June '09 / Paper-7] 2
- Q2. Janak Ltd., is an associated enterprises of Takoya Inc., Tokyo; the latter has permanent establishment in India. This company rendered service to Janak Ltd., for which tax was deducted at source and remitted. The Arm's Length Price of Takoya Inc. was recomputed during the course of transfer pricing assessment. Janak Ltd. wants to know whether there will be a corresponding re-computation in its hands also. Advice.
[Ref: Q8. (b), June '09 / Paper-7] 2
- Q3. What is meant by "arm's length price" in the context of transfer pricing provisions? Name the six methods used for computing the arm's length price. [Ref: Q8. (b), Dec. '10 / Paper-7] 3