

MTP_Intermediate_Syllabus 2012_Dec2013_Set 1

Paper 7 - Direct Taxation

Full Marks – 100

Time – 3 Hours

Section A

(Question No. 1 is COMPULSORY and any FOUR from Question Nos. – 2 to 6]

1.

- (a) Can the Authority giving approval under the Act withdraw even though no such power is specifically vested with him under the Act?
- (b) A Plantation company, holding several acres of land, sold trees of spontaneous growth. The Assessing Officer is of the opinion that there arise capital gains. Discuss.
- (c) What will be the residential status of B Ltd. an Indian company managed from Paris?
- (d) X Ltd. incurred expenditure for acquiring know-how on 15th December, 2012. Is the deduction u/s 35AB available? Justify.
- (e) W Ltd., carrying on business of a five star hotel, claims that the building in which the business is carried on has been specifically designed and equipped and therefore must be treated as "Plant" for deduction of depreciation u/s 32. Will the claim be admissible? Justify your answer.
- (f) Ali owns a plot of land acquired on 1.7.2007 for a consideration of ₹8 lakhs. He enters into an agreement to sell the property on 23.3.2013 for a consideration of ₹18 lakhs. In part performance of the contract, he handed over the possession of land on 26.3.2013 on which date, he received the full consideration. As on 31.3.2013, the sale was pending registration. Discuss liability of capital gains for the assessment year 2013-14 (no computation is required).
- (g) Mr. Das has incurred long term capital loss of ₹50,000 during the previous year 2012-13. During the same year shares held in trust for minor son of Mr. Das sold earning a long term capital gain of ₹2,50,000 which is not exempt. Can Mr. Das set off the loss incurred by him against the gain on minor's account?
- (h) The Income-tax Act, 1961 provides for taxation of a certain income earned by Anil. The Double Taxation Avoidance Agreement, which applies to Anil, excludes the income earned by Anil from the purview of tax. Is Anil liable to pay tax on the income earned by him? Discuss.
- (i) State whether air conditioner, not used as stock in trade, is a capital asset.
- (j) What will be the GAV, if the reasonable lettable value a house property is ₹72,000 but the actual rent of the property is ₹5,000 per month?
- (k) During the previous year 2012-13, Nirmal earned ₹2,01,000 which includes ₹1,000 received by his son (aged 12 years) as an interest on 31.12.2012. Calculate the taxable income of Nirmal.
- (l) R Ltd. incurred ₹5,00,000 for Agricultural Extension Project during the previous year 2012-13. State the allowability of that expenditure.
- (m) Interest of ₹25,000 on Bank Fixed Deposits, received by minor son of Mrs. Sinha. These Fixed Deposits were made by Mrs. Sinha, out of his son's earnings from stage acting. Discuss the tax treatment in this case.

[13×1]

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2.

- (a) Mrs. Sen is the owner of the business units A and B. A unit has been started with capital contribution from Mr. Sen and B unit has been started out of capital contribution from Mrs. Sen. The particulars of their income for the previous year 2012-13 are as follows:

Particulars	Amount (₹)
(i) Income from A unit	(-) 7,00,000
(ii) Income from B unit	5,00,000
(iii) Income from House Property (the house is owned by Mr. Sen)	2,00,000

How would you assess them for the Assessment Year 2013-14?

- (b) Ravi avails the benefit of LTC and travelled by air (economy class) on a holiday in India on 25th December, 2012 along with his wife and three children consisting of daughter aged 5 years and twin sons of 2 years age. Total cost of tickets reimbursed by his employer was ₹80,000 (₹50,000 for two adults and ₹30,000 for three children). State with reason the amount which can be claimed by Ravi out of reimbursement as not subject to tax? Will your answer be different where among his three children the twins are of 5 years of age and the age of the daughter was of 2 years old?
- (c) From the details given below find out the taxable amount of recovery of unrealized as per the provision of Sec. 25AA.

Unrealised rent recovered during the P.Y. 2012-2013 relating to P.Y. 2007-2008	(Actual rent receivable – Unrealised rent) of P.Y. 2007-2008	GAV of P.Y. 2007-2008
40,000	1,80,000	1,80,000
30,000	1,50,000	1,60,000
50,000	1,50,000	2,40,000

- (d) Mr. Shinde, an Indian citizen, is posted in the Indian High Commission at Nairobi during the previous year 2012-13. His emoluments consist of Basic Pay of ₹21,60,000 per month and overseas allowance of ₹8,65,000 per month. Besides, he is entitled to & fro journey to India and also use Government's car at Nairobi. He has no taxable income except salary income stated above.
Compute the total income, if any, taxable in India, if he is a non-resident during the previous year 2012-13.

[4+4+3+2]

3.

- (a) AB Ltd., a company providing telecommunication service, obtains a telecom licence on 15th April, 2012 for a period of 10 years. Total licence fee is ₹20,00,000. You are required to calculate the amount of deduction u/s 35ABB if –
- (i) The entire amount paid on 10th May, 2012
 - (ii) The entire amount paid on 1st May, 2013
 - (iii) The entire amount is paid in two equal installments on 1st May, 2012 and 1st May, 2013.
- (b) Mr. Khan provides the following information regarding his income of previous year 2012-13. Compute income liable to be charged in India in the following cases:
- I. He is an ordinarily resident.
 - II. He is a resident but not ordinarily resident.
 - III. He is a non-resident.

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Particulars	Amount (₹)
Business income earned in India received in Dubai	50,000
Salary received from R Ltd., a foreign company, situated in India	1,08,000
Interest on Pakistan Development Bond (1/3 rd received in India)	36,000
Income from agriculture in Nepal received there on 24 th November, 2012 but remitted to India on 27 th February, 2013	55,000
Income from property in Berlin received outside India	2,50,000
Income earned from business in USA which is controlled from Mumbai (2/5 th received in India)	1,75,000
Profit from a business in Chennai which is managed from Sri Lanka	82,000
Profit on a sale of a property in India but received in Pakistan	70,000

- (c) Discuss whether Mr. Das, an individual, can become a partner in dual capacity, that is, one representing HUF as Karta and the other as representing himself. Is a firm constituted by partners, including a partner in dual capacity, entitled to get the deduction of salary and interest paid to its partner?

[5+6+2]

4.

- (a) Specify with reason whether following acts can be considered as (I) Tax Management; or (II) Tax Planning; or (III) Tax Evasion; or (IV) Tax Avoidance:

- (i) X deposits ₹70,000 in PPF Account so as to reduce Total Income from ₹3,70,000 to ₹3,00,000.
- (ii) R Ltd. installed an air conditioner costing ₹80,000 at the residence of a director as per terms of his appointment; but treats it as fitted in quality control section in the factory. This is done with the objective to treat it as plant for the purpose of computing depreciation.
- (iii) J Ltd. issues a credit note for ₹50,000 for brokerage payable to H, who is son of J, managing director of the company. The purpose is to increase his income from ₹1,50,000 to ₹2,00,000 and reduce its income correspondingly.
- (iv) G Ltd. maintains register of Tax Deduction at Source affected by it to enable timely compliance.

- (b) The following details have been supplied by the Karta, of an HUF aged 50 years. You are required to compute its total income and tax liability for the Assessment Year 2013-2014.

Particulars	₹
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(i) Profits from business (after charging ₹1,00,000 salary to Karta for managing the business)	15,00,000
(ii) Salary received by the member of a family	60,000
(iii) Director's fee received by Karta from B Ltd where HUF holds 20% shares but he became director because of his qualifications,	40,000
(iv) Rental income from house property (after deduction of municipal taxes ₹12,000)	78,000
(v) Dividends (gross) from Indian companies	15,000
(vi) Long-term Capital Gain	80,000
(vii) Short-term Capital Gain	30,000
(viii) Donation to a school, which is an approved institution	1,00,000
(ix) Deposits in Public Provident Fund	20,000
(x) NSC-VIII issues purchased	40,000

[6+7]

5.

(a) T & Co. Ltd. started two separate industrial undertakings – Unit I and Unit II. Unit I prima facie is eligible for deduction u/s 80IB. For the year ending 31.03.2013, the profit of Unit I was ₹8 Lakhs while Unit II suffered a loss of ₹2 Lakhs.

The Assessing Officer has allowed the deduction u/s 80IB on the net profit of ₹6 Lakhs. Discuss the validity of the order of the Assessing Officer.

(b) Mr. Singh is engaged in the business of plying goods carriages. On 1st April, 2012, he owns 10 trucks (out of which 5 are heavy goods vehicles). On 4th May, 2012, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 7th May, 2012. This new vehicle could however be put to use only on 15th June, 2012.

Compute the total income of Mr. Singh for the assessment year 2013-14, taking note of the following information:

	₹	₹
Freight Charges Received		9,00,000
Less: Operational Expenses	5,60,000	
Depreciation as per Section 32	1,80,000	
Other Office Expenses	60,000	8,00,000
Net Profit		1,00,000
Other business and non-business income		1,20,000

(c) The Accounts of a Firm are subject to Tax Audit u/s 44AB. Sashi, a working partner of the firm, is entitled to receive a fixed remuneration of ₹15,000 per month. He files his return of income on 28.09.2013 for the assessment year 2013-14. The Assessing Officer charges interest u/s 234A for delay in the filing of return. Discuss the validity of the order of the Assessing Office.

(d) Amit borrowed ₹5,00,000 for a post graduate course at USA of his younger son for LIC in 2004, repayable in 10 equal installments of ₹75,000 (₹50,000 as principal and ₹25,000 as interest) starting from previous year 2007-08. Find for what period, assessee can claim deduction u/s 80E if he regularly pays such amount.

[3+7+2+1]

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6.

(a) Discuss the admissibility of the following expenditure with reasons:

- (i) Provisions made for gratuity as per actuarial valuation ₹1,50,000.
- (ii) Senior advocate who conducted the Income Tax proceedings before the Income Tax Authorities was paid ₹25,000.
- (iii) Travelling expenses include ₹45,000 incurred by a Director while travelling abroad to negotiate the purchase of plant and machinery.
- (iv) A sum of ₹25,000 was provided towards Sales Tax liability in the accounts for the year ended 31.03.2013.
- (v) A technical consultant was paid consultancy fee of ₹20,000 in cash by the assessee and deduction was claimed towards the expenditure.
- (vi) 1,000 wrist watches costing ₹1,000 each were presented to customers.

(b) B Ltd. owns the following assets:

	Goodwill	Shares (non- listed)	House Property
Cost of acquisition	Self - generated	₹1,37,000	₹1,00,000
Date of acquisition	—	March 20, 2010	March 20, 2010

Goodwill has been recognised since the commencement of business on October 1, 1981. These capital assets (no depreciation is claimed) are transferred by B Ltd. to its wholly-owned Indian subsidiary company L Ltd. on April 1, 2011. On June 17, 2012, these assets are transferred by L Ltd. for consideration of ₹11,81,000 (i.e., goodwill: ₹7,00,000, shares: ₹2,16,000, house property: ₹2,65,000). Compute the capital gain chargeable to tax in the case of L Ltd. for the assessment year 2013-14.

(c) If there were certain disallowances while computing income under normal provisions but the assessment was made on income computed under section 115JB, will the penalty for concealment be leviable?

[6+5+2]

Section B (Answer ALL Questions)

7.

(a) Do you consider motor car, used in hiring business, as an asset u/s 2(ea)?

(b) In case of valuation for wealth tax purposes of immovable property in Srinagar, What do you mean by Specified Area?

[1+1]

8.

(a)

(i) From the following information furnished by Mr. Das, determine the value of house property built on leasehold land as at the valuation date 31.3.2013 :

Particulars	₹
Annual Value as per Municipal Valuation	1,75,000
Rent received from tenant (Property vacant for 2 months during the	1,50,000
Municipal tax paid by tenant	15,000
Repairs on property borne by tenant	7,000
Refundable deposit collected from tenant as security deposit which does not carry any interest	60,000

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The difference between unbuilt area and specified area over aggregate area is 10.5%.

(ii) Who is liable to file wealth tax returns?

[6+2]

or

(b)

(i) Satender is aged 35 years. His father settled a property in trust giving whole life interest therein to Satender. The income from the property for the years 2009-10 to 2012-13 was ₹70,000, ₹84,000, ₹90,000, ₹1,08,000, respectively. The expenses incurred each year were ₹2,000, ₹4,000, ₹5,000 and ₹6,000 respectively. Calculate the value of life interest of Satender in the property so settled on the valuation date 31.3.2013, with the help of the factor of 9.267.

(ii) ABC is a charitable society registered under the Societies Registration Act. On the ground that it was pursuing an objective that involved the carrying of an activity for profit, the Assessing Officer wants to levy wealth tax on it. Is such a society liable to wealth tax?

(iii) Can an individual authorize another person to sign the return of wealth on his or her behalf?

[5+2+1]

Section C (Answer ALL Questions)

9.

(a) A foreign company has established back office in India. Can it be considered as Permanent Establishment?

(b) What is the purpose of Advance Pricing Agreement?

(c) When is Profit Split Method applicable for the purpose of determining the arm's length price of international transactions?

(d) Define Safe Harbour Rules.

(e) "Return on Asset Ratio is one of the profitability ratios" – Explain.

[5×1]

10.

(a)

(i) In Resale Price Method, what are the adjustments to be made from the sale price to an unrelated third party by comparing the transaction to other third party transactions?

(ii) How can GAAR be invoked?

(iii) What are the steps to be followed for determining Arm's Length Price of an international transaction?

[6+5+9]

or

(b)

(i) W Ltd. an Indian company sells computer monitor to its 100% subsidiary Q Ltd. in United States @ \$70 per piece. W Ltd. also sells its computer monitor to another Company Z Ltd.

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in United States @ \$90 per piece. Total income of W Ltd. for the assessment year 2013-14 is ₹15,00,000 which includes sales made for 120 computer monitor @ \$70 to Q Ltd. Compute the arm's length price and taxable income of W Ltd and Q Ltd. The rate of one dollar may be assumed to be equivalent to ₹50 for the sake of simplicity.

(ii) Khazana Ltd. is an Indian Company engaged in the business of developing and manufacturing industrial components. Its Canadian Subsidiary Techpro Inc. supplies technical information and offers technical support to Khazana Ltd. for manufacturing goods, for a consideration of €1,00,000 per year. Income of Khazana Ltd. is ₹90 Lakhs. Determine the Taxable Income of Khazana Ltd. if Techpro charges €1,30,000 per year to other entities in India. What will be the answer if Techpro charges €60,000 per year to other entities. (Rate per Euro may be taken at ₹50)

(iii) When can enterprises be deemed to be "Associated Enterprises"?

(iv) "The Arm's Length Principle, although survives upon the international consensus, does not necessarily mean that it is perfect" – Discuss.

[4+6+6+4]