

Paper-7 – Applied Direct Taxation

Time Allowed: 3 hours

Full Marks: 100

All the questions relate to the assessment year 2014-15, unless stated otherwise.

Working notes should form part of the answers.

Answer **Question No. 1** which is compulsory and **any five** from the rest

Question 1.

(a) Choose the most appropriate alternative:

- (i) An individual can avail the benefit of Leave Travel Assistance offered by his employer —
 - (A) twice in a block of two years
 - (B) twice in a block of four years
 - (C) once in a block of four years
 - (D) once in a block of two years

- (ii) How many installments of prior period interest of a house property will be allowed as deduction from the year in which the property was acquired or construction was completed?
 - (A) five
 - (B) ten
 - (C) six
 - (D) four

- (iii) As per section 80GG of the Income-tax Act, which one of the following is one of the criteria for claiming deduction in respect of rent paid—
 - (A) 50% of Adjusted Total Income
 - (B) 100% of Adjusted Total Income
 - (C) 10% of Adjusted Total Income
 - (D) 25% of Adjusted Total Income

- (iv) As per section 139A of the Income-tax Act, Permanent Account Number (PAN) comprises of —
 - (A) 10 alphanumeric characters
 - (B) 12 alphanumeric characters
 - (C) 10 numeric characters
 - (D) 12 numeric characters

- (v) As per section 71B of the Income-tax Act, the permissible limit to carry forward and set off Brought forward loss from House Property is —
 - (A) 4 Assessment Years immediately succeeding the Assessment Year for which such loss was computed
 - (B) Any number of year until it is fully set off.
 - (C) 8 Assessment Years immediately succeeding the Assessment Year for which such loss was computed.
 - (D) None of the above

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- (vi) The surcharge (as a percentage of income-tax) payable by a foreign company if the total income upto ₹ 1 crore for the assessment year 2014-15 is:
- (A) 5%
 - (B) 2%
 - (C) Nil
 - (D) 10%
- (vii) The registration of a charitable trust can be cancelled under section 12AA of the Income-tax Act by:
- (A) Assessing officer
 - (B) Commissioner of Income-tax
 - (C) Chief Commissioner of Income-tax
 - (D) Central Board of Direct Taxes.
- (viii) A farm house is asset if it is situated from the local limits of any municipality within:
- (A) 25 kilometres
 - (B) 30 kilometres
 - (C) 5 kilometres
 - (D) 10 kilometres
- (ix) Under Section 24(b) of the Income Tax Act, 1961, interest on borrowed capital accrued up to the end of the previous year, prior to the year of completion of construction of house property is allowed:
- (a) As a deduction in the year of completion of construction.
 - (b) In 5 equal annual installments commencing from the year of completion of construction.
 - (c) In the respective year in which the interest accrues.
 - (d) In the year in which the capital was borrowed.
- (x) Vinod Mehta, an Indian resident, is provided with furnished accommodation from February, 2014, by his employer. The value of furniture amounts to ₹95,000. The actual hire charges paid by his employer, for the furniture is ₹6,000 p.a. The value of furniture to be included along with value of unfurnished house for A.Y 2014-15 is:
- (a) ₹6,000
 - (b) ₹9,500
 - (c) ₹19,000
 - (d) ₹1,000
- (xi) Ace Enterprises Ltd. has unabsorbed depreciation of ₹4,50,000 for the Previous Year 2013-14. This can be carried forward:
- (a) For a maximum period of 8 years and set-off against business income.
 - (b) Indefinitely and set-off against business income.
 - (c) Indefinitely and set-off against any head of income, except income under the head "Salaries".
 - (d) Indefinitely and set-off against any head of income.

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- (xii) Somlata, an Indian resident, received ₹1,00,000 in December 2013 towards recovery of unrealized rent, which was deducted from actual rent during previous year 2012-13. The amount taxable under Section 25AA of the Income Tax Act, 1961 would be:
- (a) ₹1,00,000
 - (b) ₹70,000
 - (c) ₹60,000
 - (d) ₹90,000
- (xiii) The W.D.V of a block (plant and machinery, rate of depreciation 15%) as on 01.04.2013 is ₹6,40,000. A machinery costing ₹1,00,000 was acquired on 10.08.2013, but put to use on 10.11.2013. During February 2014, part of this block was sold for ₹4,00,000. The depreciation for A.Y 2014-15 would be-
- (a) ₹51,000
 - (b) ₹42,250
 - (c) ₹43,500
 - (d) ₹1,11,000

[13 × 1]

(b) Fill up the blanks:

- (i) Sitting fees paid to directors for attending Board Meeting is not a salary but taxable as _____.
- (ii) Leave encashment received by a Government employee on continuation of service is _____ (fully taxable / not taxable).
- (iii) The maximum amount of deduction is allowed under section 80C of the Income-tax Act in a previous year is _____.
- (iv) The third installments of advance tax of a corporate assessee is payable on or before _____ in a relevant previous year.
- (v) A residential property which is let out for a minimum period of _____ days in the previous year is not treated as an "asset" under Wealth Tax Act.
- (vi) Payment made on preventive health check-up for self, spouse, dependent children or parents during the previous year by any mode of payment (including cash), to the maximum of _____.
- (vii) A motor car used by the assessee in the business of running them on hire _____ (is / is not) an asset as per Wealth Tax Act.
- (viii) Proviso to Section 36(1)(iii) of the Income Tax Act, 1961 provides that interest on borrowed funds utilized for acquisition of an asset as part of the extension of business, for the period commencing from the date of borrowing till the date on which such asset was first put to use, _____ be allowed as deduction under Section 36(1)(iii) of the Income Tax Act, 1961.
- (ix) Under the provisions of Section 140 of the Income Tax Act, 1961, the return of income has to be signed by the _____, and in his absence, by one of the _____, in the case of a company.
- (x) Under Section 2(ea)(iii) of the Wealth Tax Act, 1957, jewellery, bullion and utensils made of precious metals are treated as 'assets', provided these are not held as _____, by the assessee.
- (xi) By virtue of Section 45 of the Wealth Tax Act, 1957, wealth tax _____ chargeable on the net wealth of a Mutual Fund specified under Section 10(23D) of the Income Tax Act, 1961.

[12×1= 12]

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Question 2.

(a) Calculation of Income Tax in the case of an employee below the age of sixty years having a handicapped dependent (With valid PAN furnished to employer), for A.Y. 2014-2015:

S. No.	Particulars	₹
1	Gross Salary	3,20,000
2	Amount spent on treatment of a dependant, being person with disability (but not severe disability)	7,000
3	Amount paid to LIC with regard to annuity for the maintenance of a dependant, being person with disability(but not severe disability)	50,000
4	GPF Contribution	25,000
5	LIP Paid	10,000

[5]

(b) Mr. Y submits the following particulars of his income for the assessment year 2014-2015

	(₹)
Income (other than income from business & profession)	4,00,000
Dividend from Indian Company	1,000
Interest on Bank Deposit	2,000
Life Insurance Premium paid	6,000
Donation to Jawahar Lal Nehru Memorial Fund	15,000
Donation to Prime Minister's National Relief Fund	16,000
Donation to a Public Charitable Institution	24,000
Donation to a University for statistical research approved U/s 35(1)(iii)	5,000
Determine the net income and tax liability for the assessment year 2014-2015.	[8]

(c) State the manner of determination of residential status of Hindu Undivided Family. [2]

Question 3.

(a) Explain the taxation of the Limited Liability Partnerships. [2]

(b) Z Ltd. is engaged in the business of manufacture of computer hardware since 2006. During the previous year 2013-14, the following assets acquired put to use:

(₹ 000)

Particulars	Block 1	Block 2	Block 3
	₹	₹	₹
Rate Of Depreciation	15%	30%	60%
No. of assets in the block	10	10	15
Depreciated value of the block on 1.4.13	2,800	3,500	1,500
Addition of plant (during P.Y. 2013-14)			
Plant P	5,700	—	—
Plant Q	—	400	—
Plant R	—	—	1,700
Sale of old plants	500	2,870	5,200

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Plants P, Q and R are aquared during May 2013 and put to use during September 2013. However, plant B is put to use in the last week of March 2014.

Find out the amount of depreciation, addition depreciation and capital Gain. **[8]**

(c) Mr. Jiban, an employee of a mercantile firm, retired on 1st July 2013 at a monthly salary of ₹14,000 after completing 28 years 9 months of service and received ₹1,06,000 as leave encashment. Leave availed by him during his service period was 14 months. His monthly average salary was ₹ 13,500.

Calculate the taxable amount of leave encashment of Mr. Jiban if he is a

(i) a Government employee; (ii) Non-Government employee. **[5]**

Question 4.

(a) Mr. Y is the owner of a building at Kolkata. The building was let out up to 1st Nov. 2013, then it was occupied by him for his own residence. A loan of ^ 5,00,000 was taken for the construction of house. Interest on loan is 10%. The loan is still unpaid.

From the following further information calculate Income from House Property :

- (i) Municipal Tax @ 10% ₹ 9,000
- (ii) Standard rent ₹ 90,000
- (iii) Rent per month ₹ 8,000
- (iv) Repairing charges ₹ 6,000
- (v) Unrealized rent [2011-2012] Rs. 16,000 >
- (vi) Municipal Tax paid for [2011-2012] ₹ 4,000.
- (vii) Cost of special amenities ₹ 4,000 provided to tenant upto 1st Nov 2012. **[5]**

(b) Discuss the admissibility or otherwise of the following items of computation of income under the head 'Profits and Gains from Business or Profession' for the Assessment Year 2014-15:

- (i)** ₹ 400 paid to an Income Tax Advisor for conducting an appeal before the Income Tax Appellate Tribunal.
- (ii)** ₹ 600 paid for raising loan of ₹ 20,000. The loan is repayable after five years.
- (iii)** ₹ 2,000 for shifting the factory from one place to another for easier supply of raw materials.
- (iv)** ₹ 3,000 paid to a trade association representing assessee's business for propaganda against the move for nationalisation of his trade.
- (v)** Legal expenses amounting to ₹ 1,000 paid for defending assessee's title on an asset.
- (vi)** Paid ₹10,000 being cost of machine purchased for scientific research relating to the business.
- (vii)** ₹ 600 paid for legal charges for drafting partnership deed.
- (viii)** ₹700 considered as bad debt. The debtors were declared insolvent having no asset. The amount was, however, not yet written off as irrecoverable in the accounts of the assessee. **[8]**

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- (c) Tarun Ltd. has two units. One of these units is situated in Uttarakhand for which Tarun Ltd. is claiming 100% deduction of profits under section 80-IC. Tarun Ltd. filed the return of income as under:

Business Income	(₹)
Profit from non-eligible business	54,00,000
Profit from business eligible for deduction u/s 80-IC	<u>32,00,000</u>
Gross total income	86,00,000
Less: Deduction u/s 80-IC	<u>32,00,000</u>
	<u>54,00,000</u>

Eligible unit has purchased goods worth ₹6 crores from non-eligible unit whose fair market value as determined by A.O. is ₹6.30 Crores.

Compute the total income of Tarun Ltd.

[2]

Question 5.

- (a) The Net Profit of X Ltd. for the year ended March 31, 2014 amounted to ₹ 7,50,000 after debiting/crediting the following items:

Particulars	₹
Provision for bonus (paid on November 15,2014)	30,000
Provision for commission to employees (paid on December 1,2013)	76,000
Payment of annual installment under an approved agreement to a foreign collaborator for technical knowhow	1,00,000
Legal expenses incurred for issue of capital	30,000
Interest paid on unpaid purchase price of business assets	15,000
Cost of goods purchased from Y Co. Ltd. which was paid by bearer cheque	50,000
Sales include sale of gold not being stock in trade (indexed cost of acquisition ₹ 1,70,000)	2,00,000
Rent received from Staff for the quarters allotted	75,000
Rent received for commercial property rented to a foreign bank	1,50,000
Expenditure on scientific research include cost of land ₹ 30,000 and ₹ 20,000 paid to approved national laboratory. Land revenue in connection with worker's quarters and let-out commercial property (paid on June 15,2013)	12,000

Calculate Taxable Income of the company for the Assessment Year 2014-15. The answer should clearly indicate the basis for treatment of each item. **[10]**

- (b) Shri Choudhury retired on 1st September 2013 after completing 32 years and 9 months of service. At the time of retirement he was drawing a basic salary of ₹ 7,500 p.m. (Annual

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increment of ₹ 150 falls due on 1st January every year) and dearness allowance ₹ 1,500 p.m. He received ₹ 1,50,000 as gratuity on retirement.

Compute the taxable gratuity of Shri Chudhury for the assessment year 2014-15.

[5]

Question 6.

(a) Dr. Mrityunjay Dwivedi, a resident individual, (aged 55 years) is a medical practitioner. The details relating to the previous year 2013-14, as contained in the Receipts and Payments Account, has been furnished as follows:

Receipts and Payments Account

Dr.			Cr.
Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/f	1,00,000	By commercial vehicle A/c [Commercial Vehicle purchased before 01-10-2013]	6,00,000
To sale of medicines A/c	5,00,000	By Drawings A/c	3,00,000
To Consultation Fees A/c	1,00,000	By Surgical equipments A/c [Surgical equipments purchased before 01-10-2013]	1,00,000
To Fees received on visit A/c	4,00,000	By Loan A/c [Installment paid including interest of ₹44,666]	2,42,000
To Honorarium A/c	50,000	By Medical Insurance Premium A/c	32,000
To Family Pension A/c	2,80,000	By Housing loan A/c [Installment paid including principal component of ₹96,000]	2,16,000
To Interest received on Savings Bank Account A/c	10,000	By Advance Tax A/c	40,000
To Lottery Winnings A/c (net after deduction of TDS @ 30%)	50,000	By purchase of medicines A/c	55,000
To Agricultural Income A/c	1,00,000	By payment for medical journal A/c	15,000
To Share of income from HUF A/c	1,50,000	By Vehicle expenses A/c	45,000
To Loan from bank A/c	3,00,000	By Bank Deposit A/c [Bank deposit done in bank for 5 years]	2,00,000
		By Balance c/f	1,95,000
	20,40,000		20,40,000

Other relevant information is as under:

- The self-occupied property of Mr. Dwivedi was constructed in 1998, with a loan from LIC Housing of ₹10,00,000 out of which ₹6,00,000 was still due. The assessee made an arrangement of refinancing from SBI on 01-04-2013 at the rate of 10%. One-fourth of the portion of the house is used for purposes of running clinical establishment.
- She invested in term deposit of ₹2,00,000 in Bank of Baroda on 01-07-2013 for a period of 5 years in the name of his minor daughter at 10% per annum.

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3. The commercial vehicle was purchased on 01-07-2013 for ₹6,00,000, It was partly financed by a loan of ₹3,00,000. One-fourth use of the vehicle is estimated to be for personal purposes.
4. Medical Insurance Premium of ₹16,000 was paid by the assessee for himself and ₹16,000 was paid for the dependent mother, aged 74 years (who is an Indian resident).
5. The share from HUF's income amounted to ₹50,000.

Compute the total income of Mr. Mritunjay Dwivedi, ignoring depreciation on building, for the A.Y 2014-15. [10]

(b) The book profits of Star Heights Ltd., for the previous year 2013-14 computed in accordance with Section 115JB is ₹ 37.50 Lakhs. If the total income computed for the same period as per the provisions of the Income Tax Act, 1961 is ₹ 7.50 Lakhs, compute the tax payable by the company in the Assessment Year 2014-15. Is Star Heights Ltd. eligible for any tax credit? If so, for how many years, shall Star Heights Ltd. avail such tax credit? [5]

Question 7.

(a) State whether wealth tax is chargeable in respect of net wealth of the following persons under the Wealth Tax Act, 1957:

- A. Holder of an impartible estate
- B. Association of Persons
- C. Partnership firms.

[5]

(b) An Association of Persons (AOP), comprising of two members Saroj and Pankaj, owns an urban land valued at ₹60 Lakhs, on the valuation date 31.03.2010. State the tax implications under the Wealth Tax Act, 1957. [3]

(c) State the circumstances in which Rule 3 of Schedule III shall not apply for valuation of immovable property, under the provisions of the Wealth Tax Act, 1957. [2]

(d) Mr. Rakesh Kumar, an Indian resident individual, is employed in a PSU. He furnishes the following particulars for the previous year 2013-14:

Particulars	Amount (₹)
(i) Salary income for the year	17,25,000
(ii) Salary, pertaining to the financial year 2009-10, received during the previous year 2013-14	80,000
(iii) Assessed income for the financial year 2009-10	2,40,000

Compute the relief available to the assessee under Section 89 of the Income Tax Act, 1961 and the tax liability for the assessment year 2014-15.

The rates of income tax for the assessment year 2010-11 are:

	Tax Rate (%)
On first ₹1,60,000	Nil
On ₹1,60,000 - ₹3,00,000	10
On ₹3,00,000 - ₹5,00,000	20
Above ₹5,00,000	30
Education Cess	3

[5]

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Question 8.

(a) Konkona submits the following particulars:

	Previous years	
	2013-14 ₹	2014-15 ₹
Business profits (before depreciation)	(-) 50,000	45,000
Current depreciation	18,000	20,000
Income from other sources	20,000	72,000

Determine the net income of Konkona for the assessment years 2014-15 and 2015-16. **[7]**

(b) Which is meant by "bilateral agreement" in the context of Advance Pricing Agreement?

[2]

(c) Is e-filing of return mandatory? State the assessee's for whom e-filing of returns is mandatory?

[6]