

**Paper-7: Applied Direct Taxation**

**Time Allowed: 3 hours**

**Full Marks: 100**

All the questions relate to the assessment year 2015-16, 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:**

**[1x13]**

- (i) Under Section 10(10) of the Income tax Act, 1961, in case of non-government employee, the maximum amount of gratuity received which is not chargeable to tax shall be:  
(A) ₹ 3,50,000;  
(B) ₹ 3,00,000;  
(C) ₹ 2,50,000;  
(D) ₹ 10,00,000.
- (ii) Loss from business can be set-off against other income in subsequent assessment year(s) except:  
(A) Income from speculation business;  
(B) Income under the head house property;  
(C) Income under the head other sources;  
(D) Income under the head Salaries.
- (iii) In respect of every domestic company having total income exceeding ₹ 1 crore, but less than ₹ 10 crore, the rate at which surcharge is charged on the income tax payable is:  
(A) 5%;  
(B) 10%;  
(C) 7.5%;  
(D) 2%.
- (iv) Credit of Minimum Alternate Tax (MAT) in respect of excess amount of tax paid under Section 115JB of the Income tax Act, 1961 could be carried forward for-  
(A) 8 Assessment Year;  
(B) 5 Assessment Year;  
(C) 7 Assessment Year;  
(D) 10 Assessment Year.
- (v) A company is said to be a resident in India in previous year, if:  
(A) It is an Indian company;  
(B) The control and management is wholly situated in India;  
(C) Either it is an Indian company or the control and management is wholly situated in India;

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- (D) It is both an Indian Company and the control and management is wholly situated in India.
- (vi) The method of accounting for computing income is the method of accounting regularly employed by the assessee under the head:  
(A) House Property  
(B) Capital Gain  
(C) Salaries  
(D) Profits and gains from Business or profession
- (vii) Income earned and received outside India in 2008-09 but remitted to India in the financial year 2014-15, is taxable in the hands of:  
(A) Resident;  
(B) Resident but not ordinarily resident;  
(C) Non-resident;  
(D) None of the above.
- (viii) Leave encashment at the time of retirement or leaving job in case of a non-government employee is exempt to the extent of maximum of the following:  
(A) ₹ 3,50,000;  
(B) ₹3,00,000;  
(C) ₹ 10,00,000;  
(D) ₹ 2,50,000.
- (ix) Which of the following is covered for deduction under section 80D of the Income Tax Act, 1961:  
(A) Repayment of loan taken for higher education;  
(B) Medical treatment of handicapped dependent;  
(C) Medical insurance premium;  
(D) Reimbursement of medical expenses.
- (x) Any rent or revenue derived from land may be treated as agricultural income if-  
(A) it is derived from land;;  
(B) the land is situated in India;  
(C) the land is used for agricultural purpose;  
(D) all the above conditions are satisfied.
- (xi) To file return of income, the form which is used for individuals and HUFs, not having business / professional income, is:  
(A) ITR-2;  
(B) ITR-4;  
(C) ITR-3;  
(D) ITR-7.
- (xii) For the assessment year 2015-16, the royalty income in the hands of a foreign company is taxable at the rate of:  
(A) 30% plus surcharge, education cess and secondary and higher education cess;  
(B) 25% plus surcharge, education cess and secondary and higher education cess;  
(C) 20% plus surcharge, education cess and secondary and higher education cess;

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(D) 15% plus surcharge, education cess and secondary and higher education cess.

- (xiii) In which of the following cases, the Dearness Allowance / pay (forming part of salary as per the terms of employment or forming part of salary for computing all retirement benefits) is not considered for the meaning of salary:
- (A) Salary for the purpose of house rent allowance;
  - (B) Salary for the purpose of leave encashment;
  - (C) Salary for the purpose of entertainment allowance;
  - (D) Salary for the purpose of rent-free house.

**(b) Fill up the blanks:**

**[1×12]**

- (i) Employers contribution towards an approved superannuation fund will be chargeable to tax in the hands of an employee to the extent it exceeds ₹ \_\_\_\_\_ per annum.
- (ii) Any sum received under a Keyman insurance policy (including bonus) is taxable under the head \_\_\_\_\_.
- (iii) In case of family pension, the amount of standard deduction is ₹ \_\_\_\_\_ or \_\_\_\_\_ per cent of such income, whichever is less.
- (iv) In case where the income of individual includes the income of his or her minor child, such individual shall be entitled to exemption of ₹ \_\_\_\_\_ in respect of each minor child or the actual amount in case of income of minor is less than that amount.
- (v) As per section 80G of the Income-tax Act, the donation to the Indira Gandhi Memorial Trust is eligible for deduction of \_\_\_\_\_ per cent of net qualifying amount.
- (vi) The provisions of Alternate Minimum Tax are applicable in case of an individual, HUF, AOP, BOI, artificial juridical person if adjusted total income exceeds ₹ \_\_\_\_\_.
- (vii) Exemption of capital gains under section 54GA of the Income-tax Act is allowed on transfer of assets in case of shifting of an industrial undertaking from urban area to any \_\_\_\_\_.
- (viii) As per section 35DD of the Income-tax Act, if an Indian company incurs any expenditure for the purpose of amalgamation or demerger, it is allowed as deduction in \_\_\_\_\_ successive years in \_\_\_\_\_ equal installments.
- (ix) In computing income from the house property, interest on borrowed capital is allowable as deduction u/s \_\_\_\_\_ of the Income-tax Act if the capital is borrowed for the purpose of purchase, construction, repair, renewal or reconstruction of the property.
- (x) In case of corporate assessee, the due date of installment in a relevant previous year for payment of 45% of advance tax is on or before \_\_\_\_\_.

**Question No. 2**

(a) The following are the particulars of income of Mr. P for the previous year 2014-15:

Particulars	₹
(a) Rent from a property in Delhi received in USA	80,000
(b) Income from a business in USA controlled from Delhi	1,20,000
(c) Income from a business in Bangalore controlled from USA	1,80,000

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(d) Rent from a property in USA received there but subsequently remitted to India	60,000
(e) Interest from deposits with an Indian company received in USA	20,000
(f) Profits for the year 2013-14 of a business in USA remitted to India during the previous year 2014-15 (Not taxed earlier)	75,000
(g) Gift received from his parents.	45,000

Compute his income for the assessment year 2015 –16 if he is:

- (i) Resident and ordinarily resident in India,
- (ii) Not ordinarily resident in India,
- (iii) Non-resident in India.

**[6]**

**(b)** Tarun is employed with ABC Ltd. on a monthly salary of ₹25,000 per month. The company provides him with the following benefits:

- I. A company owned accommodation is provided to him in Delhi.
- II. The company has given him a housing loan of ₹5,00,000 on which it charges interest @6% per annum. The entire loan is still outstanding. (Assume the interest charged by SBI is 10% p.a.)
- III. The company gave him a gift worth ₹15,900 on his 50th birthday on 21.10.2014.
- IV. He is allowed to use the video camera belonging to the company. The company had purchased this camera for ₹60,000 on 1.5.2010. This camera was sold to him on 1.8.2014 for ₹30,000
- V. The company had purchased a car on 16.7.2011 for ₹2,50,000. This car is sold to Tarun on 14.7.2014 for ₹80,000. The car was not being used by Tarun.
- VI. The company pays the telephone bills of ₹24,000 for the telephone installed at the residence of Tarun.

Compute the Gross income from salary of Tarun for the assessment year 2015-16.

**[7]**

**(c)** Whether the following assets are "asset u/s 2(ea) of the Wealth Tax Act 1957?

- i. In the cash book of an individual/HUF opening balance as on the valuation date is ₹1,85,000 out of which the assessee deposits ₹1,35,000 in his current account with the Citi Bank before the closure of banking hours on the same day (no other inflow and outflow of cash as on the same day).
- ii. Residential house owned by a company and allotted to a part time director whose salary is ₹1,00,000 p.a.

**[2]**

### Question No. 3

**(a)** Sourav owns a house property in Delhi. From the particulars given below compute the income from house property for the assessment year 2015-16.

	₹
Municipal value	2,00,000
Fair rent	2,52,000
Standard rent	2,40,000
Actual rent (per month)	23,000

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Municipal taxes	20% of municipal value
Municipal taxes paid during the year	50% of tax levied
Expenses on repairs	20,000
Insurance premium	5,000

Sourav had borrowed a sum of ₹12,00,000 @10% p.a. on 1.7.2012 and the construction of the property was completed on 28.2.2014. [6]

**(b)** A company makes a slump sale of one of its divisions on 1.8.2014 for ₹20,00,000. The W.D.V. of the block of assets being plant and machinery carrying 15% depreciation was ₹12,00,000. The company has acquired a new machinery X on 5.7.2014 for ₹3,00,000 and sold machinery Y on 30.12.2014 for ₹9,00,000. The plant and machinery which were transferred under the slump sales were acquired at actual cost of ₹14,00,000. The amount of depreciation allowed on such plant and machinery was as under:

Actual depreciation upto assessment year 1988- 89 ₹2,40,000.

Depreciation for assessment years 1989-90 to 2014-15 (assuming that these were the only machines in that block) ₹4,50,000.

Compute the W.D.V. for the purpose of charging current year depreciation. [7]

**(c)** State the power of Transfer Pricing Officer for the purpose determining arm's length price? [2]

### Question No. 4

**(a)** A holds 5,000 shares (10% of total share holding) in X Ltd. which he had purchased on 5.3.1994 for ₹2,00,000. The company went into liquidation on 16.7.2014 and paid a sum of ₹ 50 per share in cash and an asset whose market value as on the date of distribution i.e. 28.9.2014 was ₹6,40,000 to A. The accumulated profits of the company were ₹5,00,000.

(i) Compute the income of A for the assessment year 2015-16 assuming that he has no other income.

(ii) Compute the capital gain chargeable to tax if the asset X is sold by A for ₹7,00,000 on 28.3.2015. [8]

**(b)** X, a German national, came to India for the first time on 1.7.2008. During the period from 1.7.2008 to 31.3.2015, he stayed in India as follows—from 1.7.2008 to 31.10.2008; from 1.5.2009 to 31.10.2010; from 1.11.2010 to 31.12.2010 and from 1.7.2013 to 31.8.2014. During the previous year ended on 31.3.2015, X's income consisted of: (a) business in India: ₹40,000; (b) interest from an Indian company: ₹2,000; (c) dividends from non-Indian companies received in Germany but remitted to India: ₹5,000; (d) business in Germany (controlled from India): ₹25,000; (e) income from house property in Germany: ₹8,000. Determine, giving full reasons, the gross total income of X for the assessment year 2015-16 after ascertaining his 'residence' for the purpose of income-tax. [7]

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### Question No. 5

(a) The income of X, who is totally blind, for the previous year 2014-15, is as under:

		₹
(i)	Income from house property	1,82,000
(ii)	Income from interest on loan	27,000
(iii)	Income from interest on bank deposits under recurring	10,000
(iv)	Long-term capital gains	1,20,000

He is eligible for deduction of ₹10,000 u/s 80C on account of PPF and ₹50,000 under section 80U. Compute his tax liability. [5]

(b) Ms. S who draws a salary of ₹20,000 p.m. received the following gifts during the previous year 2014-15:

- (i) Gift of ₹5,00,000 on 16.4.2014 from a friend.
- (ii) Gift of jewellery fair market value of which is ₹3,00,000 on 17.5.2014 from her fiancée.
- (iii) Gifts of ₹51,000 each received from her 4 friends on the occasion of her marriage on 21.10.2014.
- (iv) Gift of ₹1,00,000 on 22.11.2014 from her mother's sister.
- (v) Gift of ₹60,000 on 25.11.2014 from her father's brother.
- (vi) Gift of ₹50,000 from her husband's friend on 1.12.2014.
- (vii) Gift of ₹21,000 on 15.12.2014 from her mother's friend.
- (viii) Gift of ₹26,000 on 25.12.2014 from her brother's father in law.
- (ix) Gift of ₹1,21,000 from her husband's brother.
- (x) Gift of ₹26,000 from her employer.
- (xi) Scholarship of ₹1,20,000 from a charitable institution registered under section 12AA.
- (xii) He has purchased a immovable property from B who is not his relative from a sum of ₹24,50,000. The stamp duty value of the property is ₹26,00,000.
- (xiii) She purchased bullion for ₹4,40,000 whose fair market value is ₹4,85,000.
- (xiv) Gift of immovable property from her friend whose stamp duty value is ₹5,00,000.

Compute her total income for the assessment year 2015-16. [10]

### Question No. 6

(a) Mrs. Satya Yadav received the following amounts during financial year 2014 –15:

	₹
Gross Salary	5,30,000
Family Pension (₹10,000 × 12)	1,20,000
Income of a minor child	49,000
Accumulated balance in PF of her husband after his death	1,00,000
Gratuity received after the death of husband	1,00,000

Calculate taxable income of Mrs. Satya Yadav and tax liability for the assessment year 2015-16. [6]

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(b) M, who was born on 4.01.1950 submits the following information:

Particulars	₹
1. Rent from house (per month)	25,000
2. Municipal taxes paid during the previous year	20,060
3. Long-term capital gains on sale of gold	1,00,000
4. Interest on bank deposits (gross)	44,150
5. Term deposit made during the year in a schedule bank for six years	20,000

Compute the Total Income and tax liability of M for assessment year 2015-16. [7]

(c) Discuss the manner of determination of arm's length price. [2]

### Question No. 7

(a) Dream Company Ltd. has let-out a premise with effect from 1.10.2014 for monthly rent of ₹1.5 lakh. The lease is valid for 10 years and the tenant has made a deposit equivalent to 3 months rent. The tenant has undertaken to pay the municipal taxes of the premises amounting to ₹ 2 lakh. What will be the value of the property under Schedule III of the Wealth Tax Act for assessment to wealth tax? [4]

(b) E, an employee of XYZ Pvt. Ltd. retired from the company on 30.11.2014. At the time of his retirement, he received ₹1,44,000 as leave salary from his employer. The following information is provided by the employee:

(1) Salary at the time of retirement (per month)	₹9,000
(2) Period of Service	20 years & 8 months
(3) Leave encashment	₹1,44,000
(4) Leave availed while in service	14 months
(5) Balance unavailed leave at the time of retirement	16 months
(6) Average salary for the months of February, 2014 to November, 2014	₹8,800
(7) Leave entitlement	1 ½ month for every completed year of service

Compute the amount of taxable leave encashment. [4]

(c) 'X' received a vacant site under his father's will. The value of the site on 31.3.2015 is ₹15 Lakhs. As per terms of the 'Will' in the event 'X' wants to sell the site he should offer it to his brother for sale at ₹10 Lakhs. 'X', therefore, claims that the value of the site should be taken at ₹10 Lakhs as at 31.3.2015. Is the claim correct? [4]

(d) Briefly discuss the tax treatment of Limited Liability Partnership under the Income Tax Act, 1961. [3]

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### Question No. 8

(a) Municipal valuation of a house is ₹3,00,000, its fair rent is ₹4,00,000 whereas its standard rent is ₹3,60,000. This house property is let out for ₹27,500 p.m. It remained vacant for 3 months. Municipal taxes paid ₹60,000.

Compute annual value of the house.

[7]

(b) Mr. X (age 55 years) has following income during the year 2014-15:

	₹
1. Salary	3,65,000
2. Rent received from property in Delhi (per month)	4,000
3. Winnings from lottery (Gross)	15,000
He makes the following deposits/Payments during the year	
1. Contribution towards PPF	10,000
2. Premium paid in cash on Mediclaim policy for his dependant father	8,000
3. Purchase of listed equity shares of notified company as new retail investor	40,000
4. Amount paid in cash for preventive health check of himself and spouse	6,000

He has a son being a person with disability, dependant on him, for whom he incurs expenses for his medical treatment and rehabilitation. He also deposits a sum of ₹25,000 for the benefit of his son under a scheme framed by the UTI for such a purpose.

(a) Compute his Total Income for the assessment year 2015-16.

(b) Compute his tax liability for the assessment year 2015-16.

[8]