

**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) The Cost Inflation Index as notified by the Central Government for the previous year 2014-15 is —
- (A) 852;  
(B) 711;  
(C) 939;  
(D) 1024.
- (ii) Advance tax is payable by any person for the assessment year immediately following the previous year when the tax payable is —
- (A) ₹ 10,000 or more;  
(B) Less than ₹ 10,000;  
(C) ₹ 5,000 or more;  
(D) Less than ₹ 5,000.
- (iii) Remuneration received in respect of services rendered on a foreign ship is exempt in the case of:
- (A) A resident;  
(B) A non-resident, who is not a citizen of India;  
(C) Resident, but not ordinarily resident;  
(D) A citizen of India.
- (iv) Rent or revenue derived from land, is treated as an agricultural income, if:
- (A) It is derived from land;  
(B) It is derived from land situated in India;  
(C) It is derived from land situated in India, used for agricultural purposes;  
(D) It is derived from land situated in India, used for agricultural and business purposes.
- (v) Deduction under section 80C of the Income Tax Act, 1961 can be claimed for fixed deposit made in any scheduled bank, if the minimum period of deposit is:

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- (A) 5 years;  
(B) 8 years;  
(C) 10 years;  
(D) 12 years.
- (vi)** The maximum exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty shall be:  
(A) ₹ 600 per month;  
(B) ₹ 700 per month;  
(C) ₹ 800 per month;  
(D) ₹ 900 per month.
- (vii)** The gross annual value of a house property, whose Municipal Value is ₹ 30,000, Actual Rent is ₹ 32,000, Fair Rent is ₹ 36,000 and Standard Rent is ₹ 40,000, shall be:  
(A) ₹ 36,000;  
(B) ₹ 35,000;  
(C) ₹ 30,000;  
(D) ₹ 40,000.
- (viii)** 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.
- (ix)** As per section 44AB of the Income-tax Act, a person carrying on business is required to get his accounts audited if his total sales turnover or gross receipts, as the case may be, in business exceeds:  
(A) ₹ 1 crore;  
(B) ₹ 25 lakhs;  
(C) ₹ 30 lakhs;  
(D) ₹ 10 lakhs.
- (x)** The return of Net Wealth is to be filed in form:  
(A) BA;  
(B) ITR-1;  
(C) ITR-2;  
(D) ITR-4.

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- (xi) Abhinav (aged 40 years), has to file a return of income, if gross total income is in excess of —  
(A) ₹ 2,50,000;  
(B) ₹ 2,00,000;  
(C) ₹ 1,60,000;  
(D) ₹ 1,80,000.
- (xii) An assessee can file a revised return of income at any time before the completion of assessment or before expiry of the following period, whichever is earlier:  
(A) One year from the end of the relevant assessment year;  
(B) Two years from the end of the relevant assessment year;  
(C) Three years from the end of the relevant assessment year;  
(D) Six months from the end of the relevant assessment year.
- (xiii) The exercise carried out by the tax payer to meet his tax obligations in a proper, systematic and orderly manner, availing all permissible exemptions, deductions and reliefs available under the relevant statutes as may be applicable to his case, is called:  
(A) Tax Planning;  
(B) Tax Avoidance;  
(C) Tax Evasion;  
(D) Tax Management.

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

**[1×12]**

- (i) Surcharge at the rate of \_\_\_\_\_ is applicable in case total income of a foreign company exceeds ₹1 crore, but does not exceed ₹10 crore for the Assessment Year 2015-16.
- (ii) Recovery of unrealized rent is chargeable to tax under the head \_\_\_\_\_.
- (iii) Where bonus shares are issued prior to 01.04.81, the cost of acquisition shall be the \_\_\_\_\_ as on \_\_\_\_\_.
- (iv) In case of an individual cash in hand on the last moment of the valuation date in excess of \_\_\_\_\_ is an 'asset' u/s 2(ea) of Wealth Tax Act.
- (v) A company whose gross total income consists mainly of income which is chargeable under the heads 'Income from House Property', 'Capital Gains', and 'Income from other sources', is called \_\_\_\_\_.
- (vi) Section 80GGB of the Income Tax Act, 1961 provides for deduction in respect of contribution given by a/an \_\_\_\_\_, to a political party, or an electoral trust.
- (vii) The maximum amount of deduction is allowed under section 80C of the Income-tax Act in a previous year is \_\_\_\_\_.
- (viii) 15% of Advance Tax should be paid by a corporate assessee on or before \_\_\_\_\_.

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- (ix) Loss in a speculation business can be carried forward to the subsequent year and set off only against the profits of a \_\_\_\_\_ carried on in that year.
- (x) Employer's contribution towards an approved superannuation fund is chargeable to tax in the hands of employees to the extent such contribution exceeds ₹ \_\_\_\_\_ per assessment year.
- (xi) Sitting fees paid to directors for attending Board Meeting is not a salary but taxable as \_\_\_\_\_.

### **Question No. 2**

(a) 'U' was born in 1977 in India. His parents were also born in India in 1948. His grandparents were, however, born in England. 'U' was residing in India till 15.3.2012. Thereafter, he migrated to England and took the citizenship of that country on 15.3.2014. He visits India during 2014-15 for 90 days. Determine the residential status of 'U' for assessment year 2015-16. **[7]**

(b) A sole proprietary concern, whose written down value of the block of assets as on 1.04.2014 carrying 15% rate of depreciation was ₹5,00,000, purchased another asset of the same block on 1.04.2014 for ₹2,00,000. The said concern was succeeded by the company on 1.09.2014. After the succession, the company purchased another asset of the same block on 1.1.2015 for ₹1,60,000. Compute the depreciation available to the proprietary concern and the company for the assessment year 2015-16. **[8]**

### **Question No. 3**

(a) ABC Ltd an Indian company has received the following dividend from its subsidiary companies:

1. ₹ 10,00,000 on 5.08.2014 from S Ltd. a subsidiary company in India.
2. ₹20,00,000 on 09.07.2014 from T Ltd., a specified company in Germany in which ABC Ltd. holds 60% shares.

ABC Ltd. wishes to declare dividend of ₹1 crore to its shareholders.

Determine the amount of dividend distribution tax payable by ABC Ltd.

Also determine the tax payable on dividend received from T Ltd. assuming the total income of ABC Ltd. including the above dividend is ₹80,00,000.

What shall be your answer if ABC Ltd. holds 36% shares in T Ltd. **[10]**

(b) X is a 50% partner in XY and Co., a partnership firm, from which his wife Mrs. X is getting salary of ₹ 1,20,000 p.a. The Total Income of X (before clubbing) is ₹3,60,000 while the Total Income of Mrs. X (exclusive of such salary), is ₹4,50,000. Compute the total income of Mr & Mrs. X. **[5]**

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### Question No. 4

Determine the Gross Total Income of X and his wife from the following particulars for the year ending 31.3.2015:

- (i) X and his wife are partners in a firm carrying on cloth business, their respective shares of profit being ₹78,000 and ₹60,000.
- (ii) Their 16 years old son has been admitted to the benefits of another firm, from which he received ₹80,000 as his share of profit in the firm and ₹90,000 as interest on capital. The capital was invested out of the minor's own funds amounting to ₹9,00,000.
- (iii) A house property in the name of X was transferred to his wife on 1.12.2014 for adequate consideration. The property has been let at a rent of ₹30,000 p.m
- (iv) Debentures of a company of ₹1,40,000 and ₹1,12,000 purchased two years ago are in the names of X and his wife respectively, on which interest is receivable at 10% p.a. His wife had in the past transferred ₹70,000 out of her income to X for the purchase of the debentures in X's name.
- (v) X had transferred ₹50,000 to his wife in the year 2010 without any consideration which was given as a loan by her to Y. She earned ₹20,000 as interest during the earlier previous years which was also given on loan to Y. During the financial year 2014-15, she received interest at 10% p.a. on ₹70,000.
- (vi) X transferred ₹75,000 to a trust, the income accruing from its investment as interest amounted to ₹7,500, out of which ₹5,000 shall be utilised for the benefit of his son's wife and ₹2,500 for the benefit of his son's minor child.

**[15]**

### Question No. 5

**(a)** Anu purchased 5,000 shares of S Ltd. @ ₹200 per share on 5.7.2014. S Ltd. declares a dividend of ₹10 per share. The record date is fixed as 4.9.2014. Anu received the dividend immediately after the record date. The above shares were sold by Anu on 5.11.2014 for:

- (a) ₹175 per share
- (b) ₹192 per share
- (c) ₹205 per share

Compute the income/loss in each case.

**[10]**

**(b)** Q, a resident of India, aged 81 years, submits the following information for the previous year 2014-15:

|     |   | ₹        |
|-----|---|----------|
| (1) | Income from salary  | 4,86,000 |
| (2) | Interest on Fixed Deposits with Banks (gross)                             | 49,000   |
| (3) | Long-term capital gains   | 1,10,000 |
| (4) | Short-term capital gains on the sale of equity shares on which securities | 10,000   |

He pays ₹5,000 as Life Insurance Premium on a policy of ₹40,000 and deposits ₹22,000 in Public Provident Fund account.

Compute the tax payable by Q for the assessment year 2015-16.

**[5]**

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### Question No. 6

R, S, G are three members of an AOP sharing profit and losses in the ratio of 2:2:1. The profit and loss account of the AOP for year ending 31.3.2015 is as follows:

|                           | ₹         |                        | ₹         |
|---------------------------|-----------|------------------------|-----------|
| Cost of good sold         | 52,00,000 | Sales                  | 63,00,000 |
| Interest to members @ 24% |           | Long-term capital gain | 1,60,000  |
| R                         | 48,000    |                        |           |
| S                         | 72,000    |                        |           |
| G                         | 24,000    |                        |           |
| Salary to members         |           |                        |           |
| R                         | 90,000    |                        |           |
| G                         | 40,000    |                        |           |
| Other expenses            | 3,80,000  |                        |           |
| Net Profit                | 6,06,000  |                        |           |
|                           | 64,60,000 |                        | 64,60,000 |

Other Information:

- The AOP gives a donation of ₹40,000 to a public charitable trust (not debited to P/L A/c) which is eligible u/s 80G.
  - Out of other expenses ₹20,000 are not deductible by virtue of section 43B.
- Other incomes and particulars of the members are given below.

|   | Amount<br>₹ | Nature of Income             | Deduction u/s 80D                | PPF contribution<br>₹ |
|---|-------------|------------------------------|----------------------------------|-----------------------|
| R | 1,22,000    | Saving bank Interest         | ₹3,000 medical                   | 12,000                |
| S | 1,16,000    | Saving bank Interest         |                                  | 4,000                 |
|   | 10,000      | Dividend from U.T.I          |                                  |                       |
| G | 1,10,000    | Interest on company Deposits | ₹4,000 medical insurance premium | 5,000                 |

Find out the liability of the AOP and members for the assessment year 2015 –16.

**[15]**

### Question No. 7

(a) A, B and C are three partners in a firm of lawyers having an equal share in profits. For the assessment year 2015-16 income of the firm from profession is ₹40,000 after paying salary of ₹72,000 to A and ₹48,000 to B. The interest income of the firm is ₹60,000. The personal incomes of A, B, and C are ₹ 1,98,000; ₹ 1,96,000 and ₹ 1,95,000 respectively. They have deposited a sum of ₹10,000 each in Public Provident Fund Account. Determine the taxable income of the firm and its partners.

**[8]**

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(b) S. Kumar has the following assets on 31<sup>st</sup> March, 2015:

| Asset   | Market Value<br>(₹) | Loan<br>Outstanding<br>(₹) |
|---|---------------------|----------------------------|
| Gold  | 87,00,000           | 10,00,000                  |
| Residential House at Pune                                 | 45,00,000           | 2,00,000                   |
| Residential House at Andheri                              | 90,00,000           | 27,00,000                  |
| Residential House at Mahape (Let out though out the year) | 65,00,000           | 11,00,000                  |
| Commercial House at Thane used for his own business       | 1,15,00,000         | 50,00,000                  |
| Shares  | 25,00,000           | 5,00,000                   |
| Boat  | 1,50,000            | 2,50,000                   |
| Motor Car   | 9,00,000            | 3,00,000                   |
| Bank deposit  | 58,00,000           | Nil                        |
| Commercial complex at Andheri having 25 offices           | 2,50,00,000         | 1,55,00,000                |

Besides above mentioned loans, S. Kumar took a loan of ₹1,00,000 from his bank for his brother's marriage. Moreover, out of loan of ₹2,50,000 taken for boat, he utilized ₹50,000 for financing expenses on his foreign visit.

Determine his Net Wealth.

[7]

### Question No. 8

(a) Alok owns a residential house property. It is given by him as rent free house to his general manager Jitendra who looks after the business of Alok. Annual salary of Jitendra is ₹4,80,000. Alok claims that since the house is used for business purposes, it comes in section 2(ea)(i) and it is not an asset. Is the claim tenable in law? Justify.

[5]

(b) Akhtar owns three cars and silver furniture (value of cars being ₹25,00,000 and of silver furniture being ₹35,00,000 of 31.03.2015). He take loan of ₹4,70,000 by pledging there to invest in shares. You are requested by Akhtar to calculate amount of wealth tax payable by him for the assessment year 2014-15.

[5]

(c) Essol LLP of France and Sushma Ltd. of India are associated enterprises. Sushma Ltd. imports 3,000 compressors for Air Conditioners from Essol at ₹7,500 per unit and these are sold to Paharpur Cooling Solutions Ltd. at a price of ₹11,000 per unit. Sushma Ltd. had also imported similar products from Cold Ltd and sold outside at a Gross Profit of 20% on Sales. Essol offered a quantity discount of ₹1,500 per unit. Cold could offer only ₹500 per unit as Quantity Discount. The freight and customs duty paid for imports from France had cost Sushma Ltd. ₹1,200 per piece. In respect of purchase from Cold Ltd, Sushma Ltd. had to pay ₹200 only as freight charges. Determine the Arm's Length Price and the amount of increase in Total Income of Sushma Ltd.

[5]