Paper 7 - Direct Taxation

Section A

(Question No. 1 is compulsory and any four from Question No. 2 to 6)

Question 1

(a) Answer the following sub-divisions briefly in the light of the provisions of the Income-tax Act, 1961: (1×8)

(i) State the manner of determination of residential status of Hindu Undivided Family.

(ii) Explain the taxation of the Limited Liability Partnerships.

(iii) State the conditions to be fulfilled for availing exemption from tax, in respect of remuneration received by foreign individual.

(iv) State the provisions relating to the taxability of the leave salary at the time of retirement of the Central/State Government employees.

(v) State the head(s) of income, under which the income from sub-letting house property is charged to income tax, under the provisions of the Income Tax Act, 1961.

(vi) State the conditions to be fulfilled by the assessee for claiming depreciation on assets, while determining business income.

(vii) State the quantum of deduction available to an Indian company, in respect of expenditure incurred on amalgamation.

(viii) State the circumstances, in which an assessee is not required to pay advance tax.

(b) Choose the correct alternative: (1×5)

(i) Under Section 10(10) of the Income tax Act, 1961, 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 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
(d) It is both an Indian Company and the control and management is wholly situated in India.

Question 2

(a) Mr. Kumar (an Indian citizen), a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2013, due to his transfer to High Commission of New Zealand. He did not visit India any time during the previous year 2013-14. He has received the following income for the financial year 2013-14:

SL. No	Particulars	Amount (₹)
(i)	Salary	6,00,000
(ii)	Foreign Allowance	5,00,000
(iii)	Interest on fixed deposit from a bank in India	2,00,000
(iv)	Income from agriculture in Bangladesh	4,00,000
(v)	Income from house property in Bangladesh	3,50,000

Calculate his gross total income for Assessment Year 2014-15.

(b) Mr. Verma, a non-resident, residing in United States since 1960, came back to India on 01.04.2012 for permanent settlement. What will be his residential status for Assessment Years 2013-14 and 2014-15?

(c) Mr. Arun Kumar is a resident Indian. During the F.Y 2013-14, interest of ₹1,92,000 was credited to his Non-Resident (External) Account with the SBI. ₹20,000 being interest on fixed deposit with SBI was credited to his savings bank account during this period. He also earned ₹4,000 as interest on this savings account. Is Mr. Arun Kumar required to file return of income? Would the answer remain the same, if he owns one shop in Mumbai of area 130 sq. ft?

(d) State the provisions of Section 10(10D), as regards exemption of any sum received under a Life Insurance Policy.

[4+3+3+3]

Question 3

(a) Mr. Malhotra has four minor children consisting of three daughters and one son. The annual incomes of 3 daughters are ₹18,000, ₹9,000 and ₹12,400. The annual income of the son is ₹8,600.

The son of Mr. Malhotra earned this income, as prize money for winning different singing competitions. The daughter, who earns an annual income of ₹9,000, suffers from disability under Section 80U of the Income Tax Act, 1961.

Calculate the amount of income earned by minor children to be clubbed in the hands of Mr. Malhotra.

(b) Mr. Singhal having Gross Total Income of ₹7,00,000 for the financial year 2013-14, furnishes you the following information:

(i) Deposited ₹50,000 in tax saver deposit in the name of the major son in a nationalized bank.

(ii) Paid ₹25,000 towards premium on life insurance policy of his married daughter (Sum Assured ₹2,50,000).

(iii) Contributed ₹10,000 to Prime Minister's National Relief fund.

(iv) Donated ₹20,000 to a Government recognized institution for scientific research by a cheque.

(v) Mr. Singhal's Gross Total Income consisted only of income under the heads "Salaries" and "Income from House Property".

Calculate the total income of Mr. Singhal for the A.Y 2014-15.

(c) Mr. Vighnesh is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	₹
Municipal value of the property	1,60,000
Fair rent	1,50,000

Standard rent under the rent control Act **Rent received**	**1,70,000** **15,000 p.m.**

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000.The municipal taxes of ₹5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Vighnesh for the A. Y. 2014-15.

[4+4+5]

Question 4

(a) On 21-03-2013, Mr. Haridas gifted to his wife Mrs. Priya 300 listed shares, which had been bought by him on 19-04-2012 at ₹ 3,000 per share. On 01-06-2013, bonus shares were allotted in the ratio of 1:1. All these shares were sold by Mrs. Priyaas under:

Date of sale	Manner of sale	No. of shares	Net sales value (₹)
21.05.2013	Sold in recognized stock exchange, STT paid	150	3,20,000
21.07.2013	Private sale to an outsider	All bonus shares	2,00,000
28.02.2014	Private sale to her friend Mrs. Sunita (Market value on this date was ₹2,10,000)	150	1,80,000

State the income-tax consequences in respect of the sale of the shares by Mrs. Priya, showing clearly the person in whose hands the same is chargeable, the quantum and the head of income in respect of the above transactions. Detailed computation of total income is NOT required.

Net sales value represents the amount credited after all taxes, levies, brokerage, etc., and the same may be adopted for computing the capital gains.

Cost inflation index for the FY 2013-14 is 939 and for the FY 2012-13 is 852.

(b) Mr.Naresh, aged 54 years, is the Production Manager of Great Works Ltd. From the following details, compute the taxable income for the assessment year 2014-15.

Basic salary	₹ 50,000 per month
Dearness allowance	40% of basic salary
Transport allowance (for commuting between place of residence and office)	₹3,000 per month
Motor car running and maintenance charges fully paid by employer (The motor car is owned by the company and driven by the employee, The engine cubic capacity is above 1.60 litres. The motor car is used for both official and personal purpose by the employee.)	₹60,000

Expenditure on accommodation in hotels while touring on official duties met by the employer	₹80,000
Loan from recognized provident fund (maintained by the employer)	₹60,000
Lunch provided by the employer during of office hours.	₹24,000
Cost to the employer Computer (cost ₹ 35,000) kept by the employer in the residence of Mr. Naresh from 01.06.2013	
Mr. Naresh made the following payments: Medical insurance premium: Paid in Cash Paid by account payee crossed cheque	₹4,800 ₹ 15,200

[6+7]

Question 5

(a) Jayesh Ltd. has a block of assets carrying 15% rate of depreciation. The written down value of such block, on 01.04.2013 was ₹60 Lakhs. It purchased another asset (second-hand plant and machinery) of the same block on 01.11.2013 for ₹16 Lakhs, and put to use on the same day. Jayesh Ltd. was amalgamated with Ganapati Ltd. with effect from 01.01.2014.

You are required to compute the depreciation allowable to Jayesh Ltd. and Ganapati Ltd. for the previous year ended on 31.03.2014, assuming that the assets were transferred to Ganapati Ltd at ₹80 Lakhs.

(b) Maxwell Industries Ltd. furnishes you the following information:

BLOCK OF ASSETS	RATE OF DEPRECIATION	WRITTEN DOWN VALUE AMOUNT (₹)
Block I: Plant and Machinery (10 Looms)	15%	5,00,000
Block II: Buildings (3 buildings)	10%	12,50,000

BLOCK OF ASSETS	DATE OF ACQUISITION/ SALE	WRITTEN DOWN VALUE AMOUNT (₹)
Block I: Plant and Machinery		
Acquired 5 Looms	05.07.2013	4,00,000
Sold 15 Looms	07.12.2013	10,00,000
Acquired 2 Looms	10.01.2014	3,00,000

Compute depreciation claim for the A.Y. 2014-15.

(c) Excel Networks Ltd. which follows mercantile system of accounting, obtained licence on 01.06.2012 from the Department of telecommunication for a period of 10 years. The total licence fee payable is ₹20,00,000. The relevant details are:

Year ended	License fee payable for the	Payments Made

31st March	year (₹)	Date	Amount (₹)
2013	12,00,000	30.03.2013 15.05.2013	4,00,000 8,00,000
2014	8,00,000	28.02.2014	5,50,000

Balance of ₹ 2,50,000 is pending as on 31.03.2014.

Calculate the amount of deduction available to the assessee under Section 35ABB of the Income tax act, 1961 for the assessment years 2013-14 and 2014-15. Can any deduction be claimed under Section 32 also?

(d) Explain the provisions relating to deductibility of interest paid on capital borrowed for the purpose of business or profession.

[4+4+3+2]

Question 6

(a) Mr. Mahesh, acquired a residential house in January 2000 for ₹10,00,000 and made some improvements by way of additional construction to the house, incurring expenditure of ₹2,00,000 in October 2004. He sold the house property in October 2013 for ₹75,00,000. The value of property was adopted as ₹80,00,000 by the State Stamp valuation authority for registration purposes. He acquired a residential house in January, 2013 for ₹25,00,000. He deposited ₹20,00,000 in capital gains bond issued by the National Highways Authority of India (NHAI) in June 2014.

Calculate the capital gain chargeable to tax for the A.Y. 2014-15.

What would be the tax consequence and in which assessment year it would be taxable, if the house property acquired in January, 2013 is sold for ₹40,00,000 in March 2015 ?

Cost Inflation Index:
F.Y. 1999-2000 = 389
F.Y 2004-2005 = 480
F.Y. 2013-14 = 939

(b) On 10.10.2013, Mr. Madhav (a bank employee) received ₹5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2008-09.

Out of this interest, ₹1,50,000 relates to the financial year 2010-11; ₹1,65,000 to the financial year 2011-12; and ₹1,85,000 to the financial year 2012-13. He incurred ₹50,000 by way of legal expenses to receive interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the A.Y. 2014-15?

(c) When would the dividend income be taxed in the hands of a shareholder?

(d) ***State the applicability of TDS provisions and amount of tax to be deducted at source in the following cases:***

(i) Rent paid for hire of machinery by Mac. Works Ltd. to Mr. Bhuvan₹2,10,000.
(ii) Fee paid to Dr. Kapoor by Shyam (HUF) ₹35,000 for surgery performed to a member of the family.

[6+3+2+2]

Section-B

Question 7

(a) 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.

(b) 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.

[3+2]

Question 8

Dream House Constructions Ltd. furnishes the following particulars of its wealth for the valuation date as on 31.03.2014:

	Particulars	₹ in lacs
(i)	Land in urban area (held as stock in trade since 1998)	70
(ii)	Motor cars (including one imported car worth ₹35lacs used for hiring)	45
(iii)	125 acres of land acquired at Ghaziabad township on 15.5.2012 for construction of commercial complex	150
(iv)	Two Residential flats of 950 sq feet each provided to 2 employees (salary of one employee exceeds ₹5 lacs per annum)	30
(v)	Farm house of 8 acres at a remote village	7
(vi)	Cash in hand as per cash book	5
Liabilities:		
(i)	Loan for purchase of land at urban area	50
(ii)	Loan for purchase of land at Ghaziabad	100
(iii)	Wealth-tax liability for A.Y. 2014-15	10
(iv)	Loan for construction of residential flats	10

Compute the net wealth of the company for the A. Y. 2014 – 2015. (5)

OR

Ms. Sumitra has a house property at New Delhi, which she has rented out to Ms. Vineeta. The cost of acquisition of the property (acquired in 2003) is ₹40 Lakh. Determine the value of her property as on the valuation date 31.03.2014, from the following particulars:

(i) The annual value of the property as per municipal records is ₹6 Lakhs.

(ii) The monthly rent for the property is ₹45,000.
(iii) Municipal taxes @10% of the municipal value of the property are paid partly by the tenant (40%) and partly by Mrs. Sumitra (60%).
(iv) The cost of the repairs of the house property is entirely borne by the tenant.
(v) The tenant has given an interest-free deposit of ₹2 Lakh to Ms. Sumitra.
(vi) The unexpired period of lease on the valuation date is 20 years.

(5)

Section C

Question 9

Discuss whether transfer pricing provisions under the Income Tax Act, 1961 are attracted in respect of the following transactions –

(i) Provision of marketing management services by PQR Inc. to its Indian subsidiary PQR Ltd.

(ii) Lease of transportation vehicle by ABC Ltd. from X Inc. X Inc. guarantees 15% of the borrowings of ABC Ltd.

(iii) Sale of industrial design by A Ltd. to LMN Inc., a Dutch company, which holds 29% of the shares of A Ltd.

(iv) Mr. Ganesh, a resident Indian, holds 25% equity share capital in Alpha Ltd, a domestic company. Alpha Ltd. hires trucks owned by Mr. Ganesh's son and pays rent of ₹ 2 lakh.

(v) Beta Ltd., a domestic company, has two units A & B. Unit A, which commenced business two years back, is engaged in the business of developing a toll road. Unit B is carrying on the business of trading in cement. Unit B transfers cement to the value of ₹ 5 lakh to Unit A for ₹3 lakh.

(5)

Question 10

(a) A resident of India has paid tax in a foreign country in respect of his income which accrued in that country. India has no double taxation avoidance agreement with that country. Such income is also taxable in India. Explain whether any relief is available to him in respect of the tax paid by him.

(b) "Under the special provisions of the Income Tax Act, 1961, any income arising from an international transaction shall be computed having regard to the arm's length price."
In this context, explain the circumstances in which the provisions of arm's length price shall be applicable. Discuss the scope of such provisions governing the determination of the arm's length price. Also, state the circumstances in which such provisions shall not apply.

(c) Compute the 'Arm's Length Price' (ALP) in the following cases:

(i) Medicare Angel Ltd. is a 100% Indian subsidiary of a US Company. The parent company sells one of its products to the Indian subsidiary at a price of US$ 100 per unit. The same product is sold to unrelated buyers in India at a price of US$ 125 per unit.

(ii) The US parent company sells the same product to an unrelated company in India @ US$ 80 per unit.

(iii) A sold a machine to B (Associated enterprise) and in turn B sold the same machinery to C (an independent party) at sale margin of 30% for ₹2,10,000, but without making any additional expenses and charge. Here Arm's length price would be calculated as

Sales price to B = ₹2, 10,000
Gross Margin = ₹ 2,10,000 × 30% = ₹63,000
Transfer price = ₹1, 47,000

(d) List out at least seven documents, which ought to be maintained by an associated enterprise which is subject to transfer pricing provisions.

[3+4+6+7]

OR

Question 10

(a) What are the "Tax exemption" available with respect to foreign income under Income-Tax Act, 1961.

(b) Discuss the scope of the provisions the Central Government may make under Section 90A(1) of the Income Tax Act, 1961 in respect of an agreement between specified associations.

(c) A Foreign Company has entered into an agreement with an Indian Company on 1.6.2003 under which industrial equipment belonging to the firm has been leased to the latter on an annual lump sum payment. How will the lease rent be taxed in the hands of the foreign company in the Assessment Year 2014-15?

(d) Magneta Ltd., a foreign company, enters into an agreement with Joy Ltd.., an Indian company. The agreement related to a matter included in the Industrial Policy of the current year and is in accordance with the policy. During the year 2012-13, a royalty of ₹60,00,000 is paid by Joy Ltd.. to Magneta Ltd., Magneta Ltd., has spend ₹15,00,000 on expenses covered under Section 28 to 44.

Compute the tax payable by Magneta Ltd. under the following situations:

(i) Joy Ltd.. pays the Income-tax payable by Magneta Ltd., as per the terms of agreement entered into before 1.6.2002.

(ii) The agreement does not provides that Joy Ltd.., will bear the tax but it is mutually agreed by the parties that royalty of ₹60,00,000 will be paid net of taxes.

[5+5+4+6]