

Paper 7 – Direct Taxation

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Time Allowed: 3 Hours

Full Marks: 100

Answer Question No. 1 which is compulsory and any FOUR from Question No 2 to 7.

1.

(a) Fill in the blanks:

5 x 1 = 5

- (i) Total Income of Mr Pankaj aged 30 is ₹ 7,26,500. His tax liability would be for assessment year 2017-18 is _____.
- (ii) The obligation to pay advance tax arises in every case where the advance tax payable is ₹ _____ or more.
- (iii) Deduction in respect of interest on loan taken from financial institutions for residential house property, if certain conditions are satisfied is limited to maximum of ₹ _____.
- (iv) The rate of TDS if pan is not provided is _____.
- (v) Dividend in aggregate exceeding ₹ _____ received by certain persons to be taxed at the special rate of 10%.

(b) Choose the most appropriate alternative.

5 x 1 = 5

- (i) Rebate u/s 87A is allowed to an Individual who is resident in India and whose total income does not exceed _____.
 - (a) ₹ 2,50,000
 - (b) ₹ 3,00,000
 - (c) ₹ 5,00,000
 - (d) None of the above
- (ii) The payment under Bhopal Gas Leak Disaster shall be _____.
 - (a) Fully taxable
 - (b) Partially taxable
 - (c) Exempt
 - (d) None of the above
- (iii) Compensatory field area allowance is exempt upto _____.
 - (a) 1,300
 - (b) 1,800
 - (c) 2,500
 - (d) 2,600
- (iv) The time limit for acquisition or construction of self occupied house property for claiming deduction of interest is:
 - (a) 3 years
 - (b) 5 years
 - (c) 8 years
 - (d) 10 years
- (v) Tax to be collected at source in case of motor vehicle value exceeding ₹ _____.
 - (a) ₹ 2,50,000
 - (b) ₹ 5,00,000
 - (c) ₹ 7,50,000
 - (d) ₹ 1,000,000

(c) State true or false with reasons:

5 x 2 = 10

- (i) TDS on commission or brokerage is levied when the amount exceeds ₹ 15,000.
- (ii) Tax to be collected at source in case of sale of any goods (other than bullion and jewellery) or providing of service exceeding ₹ 1,00,000.
- (iii) Circulars and classification are issued by the central government.

MTP_ Inter _Syllabus 2012_ June 2017_Set 1

- (iv) Provision of Section 44AE are not applicable in case the assessee owns more than 10 goods carriage or where he declares lower profits and gains than the profit and gains specified in section 44AE.
- (v) Refund of income tax is not income as it was not allowed as deduction but interest received on refund will be treated as income.

2. a.) Amit earns the following income during the financial year 2016-17: **7 marks**

Particulars	Amount (₹)
Interest from an Indian company received in London.	1,20,000
Pension from former employer in India received in USA.	1,80,000
Profits earned from a business in Paris which is controlled in India, half of the profits being received in India.	2,00,000
Income from agriculture in Bhutan and remitted to India.	1,25,000
Income from property in England received there.	4,00,000
Past foreign income brought to India.	10,000

Compute his income for the assessment year 2017-18 if he is:

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

2. b.) Mrs. Y has the following income during the previous year 2016-17: **8 marks**

Sl/No.	Particulars	Amount (₹)
(i)	Salary	3,10,000
(ii)	Dearness Allowance (forming part of salary for retirement benefits)	72,000
(iii)	Medical Allowance (Actual expenditure ₹ 28,000)	30,000
(iv)	Education Allowance (for three children)	5,200
(v)	Rent free house in Delhi for which X Ltd., the employer, paid ₹ 5,000 per month as rent. The house is equipped with rented furniture. The rent of the furniture is ₹ 3,000 per month.	
(vi)	The employer had provided her a domestic servant, a sweeper and a watchman. The employer paid ₹ 500 per month to each.	
(vii)	The employer spent ₹ 2,500 on her refresher course.	
(viii)	Telephone bills paid by Mrs. Y	22,200
(ix)	Profession tax paid by Mrs. Y	1,200

Compute her taxable income for the AY 2017-18 assuming that she has no other income.

3. a.) Pankaj has 2 house properties situated in Delhi. Property A is self-occupied for first 6 months i.e. from 1.4.2016 to 30.09.2016 and w.e.f. 1.10.2017, it is let out for ₹ 10,000 per month. Property B is let out w.e.f. 1.4.2016 at rent of ₹ 12,000 p.m and w.e.f from 1.10.2016, it was self-occupied as Pankaj shifted his residence from property A to property B.

The other details of the above two house properties are as under: **7 marks**

Particulars	Amount (₹)	Amount (₹)
Municipal tax paid	30,000	24,000
Insurance premium paid	3,000	4,000
Interest on money borrowed for purchase of house property	35,000	40,000

Compute the income from house property of Mr Pankaj for A.Y 2017-18.

MTP_ Inter _Syllabus 2012_ June 2017_Set 1

3. b.) Mr. Amit furnished the following information relevant for the assessment year 2017-18:

Profit & Loss A/c for the year ending 31.3.2017

8 marks

Particulars	Amount (₹)	Particulars	Amount (₹)
Household expenses	11,200	Gross Profit	2,69,000
Bad debts	600	Commission	5,000
Provision for bad debts	4,800	Sundry receipts	8,000
Fire insurance	1,000	Bad debts recovered (earlier allowed as deduction)	2,000
Salary to Staff	8,000	Interest on Govt. securities	17,000
Salary to Amit	3,000		
Contribution towards Unrecognized Provident fund	32,000		
Interest on overdraft from bank	6,000		
Interest on capital	13,000		
Interest on loan given by Amit's brother	1,000		
Depreciation on building and furniture	13,600		
Advertisement Revenue expenses	3,800		
Expenses on Neon sign board	1,000		
General expenses	4,700		
Net profit	1,97,300		
	3,01,000		3,01,000

Other Information-

1. General expenses include personal expenses of ₹ 1,700.
2. Business income of ₹3,000, accrued during previous year ending 31.3.2017 is not recorded in the Profit and loss A/c.
3. Amit contributes ₹ 14,000 towards public provident fund.
4. Depreciation on building and furniture comes to 3,000 according to the tax provisions.

Determine the tax liability of Mr. Amit for the Assessment Year 2017-18.

4. a.) Prabir, a resident of India, aged 81 years, submits the following information for the previous year 2016-17:

7 Marks

Sl/No.	Particulars	Amount (₹)
1.	Income from salary	4,86,000
2.	Interest on Fixed Deposits with Banks	49,000
3.	Long-term capital gains	1,10,000
4.	Short-term capital gains on the sale of equity shares on which securities transaction tax has been paid	10,000
5.	He pays ₹ 5,000 as life Insurance Premium on a policy of ₹ 40,000 and deposit ₹ 22,000 in Public Provident Fund Account	

Compute the tax payable by Mr Prabir for the A.Y 2017-18.

4. b.) Mrs. Banerjee received the following amounts during financial year 2016-17:

8 Marks

Particulars	Amount (₹)
Gross Salary	5,30,000
Family Pension ₹10,000 x 12	1,20,000
Income of a minor child	49,000

MTP_ Inter _Syllabus 2012_ June 2017_Set 1

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. Banerjee and tax liability for the assessment year 2017-18.

5. a.) Rajat, a business man submits the following particulars for previous year 2016-17. **7 Marks**

Sl/No.	Particulars	Amount (₹)
1.	Income from house property (computed)	1,30,000
2.	Business Income (computed)	40,000
3.	Capital gains (short-term)	20,000
4.	Capital gains (Long-term)	80,000
5.	Income from other sources: Interest from fixed deposit with a bank (gross) 12,000 Winnings from races 3,500	15,500
6.	Deposit from PPF	12,000
7.	He pays ₹3,000 p.m as rent for his residential accommodation in Delhi. Neither he, nor his family, owns any residential accommodation.	

Compute the total income of Mr. Rajat for the A.Y 2017-18.

5. b.) Please compute the advance tax payable by Mr. Pankaj from the following estimated income for the financial year 2016-17: **8 Marks**

Sl/No.	Particulars	Amount (₹)
1	Income from salary	5,00,000
2	Interest on Government securities	6,000
3	Interest on bank deposit	2,000
4	Rent from house for the year	1,00,000
5	Winning from horse race (gross)	20,000
6	Contribution towards PPF	10,000
7	Agricultural Income	2,00,000
8	TDS by the employer on salary	30,150

6. a.) The following are the particulars of the income of Sh. P, a Government servant for the year ended 31.3.2017 compute his total income and the tax payable.

(a) Salary at ₹ 20,300 p.m.

(b) He contributed @ 10% to his Provident Fund to which the Government contributed an equal amount.

(c) He owns two flats one of which is let out at ₹ 1,200 p.m. and the other is occupied by him for residence, the annual rental value of which is ₹8,000. He has paid ₹ 750 as ground rent and insurance charge in respect of the first flat and ₹850 in respect of the second. The municipal taxes paid by him in respect of the two flats amounted to ₹300 and ₹325 respectively and he spent ₹300 on white washing, petty repairs in respect of both the flats.

(d) He received during the years ₹ 1,02,500 as interest on Government securities and ₹700 as dividend from an Indian company. He has insured his life and pays an annual premium of ₹7,700 on the policies. Ascertain his total income and the tax payable. **8 Marks**

6. b.) State the transactions where quoting of PAN is made compulsory. **7 Marks**

7. Write a short note on the followings:

5 x 3=15 Marks

a. Cost of Improvement.

- b) Belated return
- c) Clubbing of Income of a Minor Child

Section-B (20 Marks)

International Taxation and Transfer Pricing

Answer question No. 8 which is compulsory and any one from Question No.9 and 10

8. a) Fill in the blanks:

[4 x 1=4 Marks]

- a. Section 92BA shall apply where the aggregate of all transactions from specified domestic transaction entered by assessee in the previous year exceeds a sum of ₹ _____.
- b. _____ u/s 91 on foreign income is allowed to a person resident in India.
- c. Arm length price means a price which is applied or proposed to be applied in a transaction between persons other than associated enterprises in _____ conditions.
- d. Any income arising from an international transaction shall be computed having regard to _____.

8. b) Select the suitable answer:

[4 x 1=4 Marks]

- a. _____ approval for advance pricing agreement will be void ab initio if it has been obtained by the person by fraud or misrepresentation of facts.
 - i. CBDT
 - ii. A.O
 - iii. Central Government
 - iv. None of the above
- b. The advance pricing agreement is valid for _____ years.
 - A. 1 yrs
 - B. 2 yrs
 - C. 3 yrs
 - D. 5 yrs
- c. An enterprise is said to be associated enterprise when one hold _____ voting power in other enterprise.
 - A. 21%
 - B. 25%
 - C. 26%
 - D. 51%
- d. The determination of reasonable profit in case of combined profit of the associated enterprise is on the basis of which method.
 - A. Resale price method
 - B. Profit split method
 - C. Transaction net margin method
 - D. Comparable uncontrolled Price method

9. a. Discuss in brief Transaction Net Margin Method (TNMM)

6 Marks

9. b. i. What do you mean by Associated Enterprises?

ii. What do you mean by Cross border Transactions?

6 Marks

10. a. Raj solutions Inc. a USA Company sells Laser printing Cartridge drums to its subsidiary quality printing ltd at \$ 15 per drum. Max Solutions Inc. has other takers India for its Cartridge drums for whom the price is \$ 25 per drum. During the year Raj solutions had supplied 12,000 Cartridge drums to Swapna printing ltd. Determine the Arm's length price and taxable income of Swapna printing ltd

MTP_ Inter _Syllabus 2012_ June 2017_Set 1

if its income after considering the above is ₹ 45 lakh. Compliance with TDS provisions may be assumed and rate per USD is ₹68.

6 Marks

10. b. Why arm length pricing? Discuss the difficulties in applying Arm's Length principle.

6 Marks