

**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) Rebate u/s 87A is allowed ₹\_\_\_\_\_ to an Individual who is resident in India and whose income does not exceed ₹ 5,00,000.
- (ii) Tds rate for payment in respect of NSS deposit is \_\_\_\_\_.
- (iii) Employer contribution to the superannuation fund shall be tax free perquisite upto ₹ \_\_\_\_\_.
- (iv) Assessee engaged in business of generation or transmission or distribution of power shall be allowed additional depreciation at the rate of \_\_\_\_\_.
- (v) Standard deduction @ \_\_\_ is allowed from such arrear of rent or unrealised rent.

**(b) Choose the most appropriate alternative.**

**5 x 1 = 5**

- (i) Interest rate on refund as per section 244A (1A)
    - (a) 3%
    - (b) 6%
    - (c) 9%
    - (d) None of the above
  - (ii) Quantum of deduction u/s 80EE is\_\_\_\_\_.
  - (a) 5,000
  - (b) 50,000
  - (c) 75,000
  - (d) None of the above
- (iii) Island duty allowance is exempt upto \_\_\_\_
  - (a) 1,300
  - (b) 1,800
  - (c) 2,500
  - (d) 3,250
- (iv) Threshold limit for person having income from business u/s 44AD is\_\_\_\_\_.
  - (a) 50 Lakh
  - (b) 80 Lakh
  - (c) 1 crore
  - (d) 2 crore
- (v) Tax to be collected at source in case of commission on sale of lottery tickets.
  - (a) 1%
  - (b) 2%
  - (c) 5%
  - (d) 10%

**(c) State true or false with reasons:**

**5 x 2 = 10**

- (i) The Finance Act has amended so as to exclude Deposit Certificates issued under Gold Monetization scheme, 2015 notified by Central Government from the definition of capital assets and thereby has exempted it from capital gain tax.
- (ii) The term hearing as per section 2(23C) excludes communication of data and documents through electronic mode
- (iii) The amount of tax, interest, penalty, fine or any other sum payable, and the amount of refund due, under the provisions of the Income tax Act shall be rounded off to the nearest multiple of ten rupees.
- (iv) Contingent income is not income. Until the contingency has happened it cannot be postulated that income has accrued or has arisen to the assessee.

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- (v) Fair rent is the rent which a similar property can fetch in the same or similar locality, if it is let for a year.

**2. a.)** Mr. Pankaj is Manager of a Textile Company of Jaipur, since 1990. He has submitted the following particulars of his income for the financial year 2016-17. Compute income from salaries for the assessment year 2017-18. Assume the population of Jaipur is 26 lakhs as per 2001 census.

- (i) Basic salary ₹ 2,40,000.
- (ii) Dearness Allowance ₹ 5,000 per month (₹ 200 p.m. enters into retirement benefits).
- (iii) Education allowance for two children at ₹ 150 p.m. per child.
- (iv) Commission on sales 1 % of turnover of ₹ 10,00,000.
- (v) Entertainment allowance ₹ 700 p.m.
- (vi) Travelling Allowance for his official tours ₹ 30,000. The entire amount is spent on the official tour.
- (vii) He was given cloth worth ₹ 1,000 by his employer free of cost.
- (viii) He resides in the flat of the company. Its market rent is ₹ 12,000 p.m. A watchman and a cook have been provided by the company at the bungalow who are paid ₹ 400 per month each.
- (ix) He has been provided with a motor car of 1.8 ltr. engine capacity for his official as well as personal use. The running and maintenance costs are borne by the Company.
- (x) Employer's contribution to R.P.F. is ₹ 40,000 and the interest credited to this fund at 13% rate amounted to ₹ 16,250.
- (xi) Contribution by Pankaj to recognised provident fund ₹ 40,000.
- (xii) Rent of house recovered from Pankaj ₹ 1,500 p.m.
- (xiii) Tax deducted at source from the above payments ₹ 6,000.

**8 Marks**

**2. b.)** Sri Amit is the owner of a business. Following is his P & L A/c for the year ended on 31.3.2017. Compute the Gross Total Income for the AY 2017-18.

**7 marks**

Profit & Loss A/c for the year ending 31.3.2017

| Particulars   | Amount (₹) | Particulars                          | Amount (₹) |
|---|------------|--------------------------------------|------------|
| Establishment charges                                 | 5,110      | Gross profit                         | 50,870     |
| Rent, rates and taxes                                 | 2,900      | Interest on Govt. Securities (Gross) | 5,350      |
| Sundry expenses                                       | 7,050      | Rent from property                   | 5,400      |
| Household expenses                                    | 1,880      |                                      |            |
| Provision for bad debts                               | 1,200      |                                      |            |
| Loss on sale of motor car (used for private purpose)  | 1,800      |                                      |            |
| Insurance premium (including life insurance of ₹1790) | 2,880      |                                      |            |
| Interest on bank loan                                 | 1,380      |                                      |            |
| Provision for Depreciation                            | 6,400      |                                      |            |
| Net profit  | 31,020     |                                      |            |

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|  |        |  |        |
|--|--------|--|--------|
|  | 61,620 |  | 61,620 |
|--|--------|--|--------|

Other Information are as below;

- (i) Bad debts written off during the year — ₹ 650
- (ii) Admissible depreciation as per Income-tax rules — ₹ 1,600
- (iii) The assessee is running his business in a rented property, half of which is used by him for his own residence. Rent of ₹ 2,400 in respect of entire house is included in rent, rates and taxes. The balance of ₹ 500 is on account of municipal tax paid for property respect of entire house is included in rent, rates and taxes. The balance of ₹ 500 is on account of municipal tax paid for property.

**3. a.)** Rajat owns a house property which is self-occupied by him till 30.11.2016 and thereafter let out for ₹ 10,000 p.m. The municipal value of house property is ₹ 1,00,000 and the fair rent is ₹ 1,20,000. Rajat paid ₹ 1,50,000 as municipal taxes during the previous year which relate to past years as well as for current year.

Determine the income from house property assuming the insurance premium and interest paid during the year were ₹ 3,000 & ₹ 25,000 respectively. **8 marks**

**3. b.)** From the following information, compute the tax payable by Ram for the A.Y 2017-18.

Listed shares purchased on 31.8.1992 for ₹ 40,000 sold for ₹ 2,00,000 on 1.11.2016 through a recognized stock exchange. Gold ornaments purchased for ₹ 2,00,000 on 1.9.1993 sold for ₹ 8,80,000 on 1.12.2016. His gross salary for the previous year ending 31.3.2017 was ₹2,60,000.

**7 marks**

**4. a.)** Ranjit submits you the following particulars of his income for the assessment year 2017-18.

**7 marks**

| Particulars                          | Amount (₹) |
|--------------------------------------|------------|
| Income under the head Salary         | 6,00,000   |
| Income under the head house property | 3,00,000   |
| Dividends from domestic company      | 14,00,000  |
| Compute tax payable by him           |            |

**4. b.)** The estimated gross total income of Mr. Pankaj is ₹ 7,45,000 which includes ₹ 1,00,000 on account of LTCG earned on 16<sup>th</sup> September 2016. Compute the advance tax payable by Mr Pankaj, assuming ₹ 11,000 have been deducted at source during the financial year 2016-17. **8 marks**

**5. a.)** Mr Prabir submits the following information for previous year 2016-17 relevant to the assessment year 2017-18:

| Particulars  | Amount (₹) |
|--|------------|
| Profit from Business A situated in Delhi   | 1,50,000   |
| Profit from Business B situated in Mumbai  | 1,00,000   |
| Loss from Business C carried in New York (the business is controlled from India but profits are not received in India) | 60,000     |
| Unabsorbed depreciation of business C  | 35,000     |
| Income from house property situated in India   | 10,000     |
| Income from house property situated in London (rent received in London)  | 20,000     |

Find out GTI of Mr. Prabir for the A.Y 17-18 as if he is

- (a) Resident in India
- (b) Not ordinary resident in India

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(c) Nonresident in India

**8 marks**

**5. b.)** Mrs. banerjee who is resident in India provides the following information. Compute her taxable income for the A.Y 17-18 and tax thereon.

**7 marks**

| Particulars  | Amount   |
|--|----------|
| Gross salary   | 3,30,000 |
| Rent of house property                                     | 1,20,000 |
| Interest on fixed deposits with bank (gross)               | 14,000   |
| Deposit in PPF   | 80,000   |
| Tuition fee paid for 3 children @ 15,000 p.a. per child    | 45,000   |
| LIP on her life taken on 1-5-2013 (sum assured ` 2,00,000) | 25,000   |

**6. a.)** "Is it mandatory to file return before due date if certain losses are to be carried forward". Comment.

**7 Marks**

**6. b.)** State the power of principal commissioner or commissioners to grant immunity for prosecution.

**8 Marks**

**7.** Write a short note on the followings:

**5 x 3=15 Marks**

- Authority for advance ruling.
- Remedy available against the order of the Commissioner appeal.
- Power to tender immunity from prosecution.

### 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]**

- Foreign income is taxable in India on the basis of \_\_\_\_\_.
- If one enterprise holds at least 26% of the voting rights of another enterprise, they are said to be \_\_\_\_\_ enterprises.
- The determination of Arm's Length price u/s 92C or section 92CA shall be subject to \_\_\_\_\_ rules.
- Where any amendment is made by the transfer pricing officer u/s 92CA (5), he shall send a copy of his order to the \_\_\_\_\_ who shall thereafter proceed to amend the order of assessment in conformity with such order of the TPO.

**8. b) Select the suitable answer:**

**[4 x 1=4 Marks]**

- a. For the purpose of Section 92CA, TPO means
- Joint commissioner or,
  - Deputy Commissioner or,
  - Assistant Commissioner or,
  - All of the above

- b. Arm's length price is to be determined by applying\_\_\_\_\_.
- A. resale price method
  - B. Fair market value method
  - C. Stamp duty value method
  - D. Indexed cost of acquisition method
- c. The computation of Arm's length price is covered u/s.
- A. 92
  - B. 92C
  - C. 80C
  - D. 90
- d. Relief in case of specified associations in India which enters into an agreement with any specified associations in a specified territory outside India is given under section.
- A. 92
  - B. 90
  - C. 90A
  - D. 92C

**9. a.** Discuss in brief Profit split Method (TNMM)

**6 Marks**

**9. b.** List down the different types of filters?

**6 Marks**

**10. a.** Satyam Ltd is an Indian company engaged in the business of developing and manufacturing industrial components. Its subsidiary Max Inc supplies technical information and offers technical support to Satyam for manufacturing goods, for a consideration of Euro 1,00,000 per year. Income of Satyam Ltd is ₹ 90 lakh. Determine the taxable income of Satyam Ltd if Max charges Euro 1,30,000 per year to other entities in India. What will be the answer if Max charges Euro 60,000 per year to other entities. (Rate per Euro may be taken as ₹ 55).

**6 Marks**

**10. b.** What are the methods recognised for determining Arm's Length Price as per section 92C of the Income-tax Act?.

**6 Marks**