

**Paper 7 – Direct Taxation (DTX)**

## Paper 7 – Direct Taxation

Time Allowed: 3 Hours

Full Marks: 100

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

### Part-I

1.

(a) Multiple Choice Questions:

10x 1 = 10

- i. Counter insurgency allowance is exempt upto ₹ \_\_\_\_\_ p.m.
  - A. 1,000 p.m
  - B. 1,500 p.m
  - C. 3,900 p.m
  - D. 1,600 p.m
- ii. ICDS are applicable for the purpose of computation of income under which head?
  - A. Profit & Gains from Business and Profession & Capital Gains
  - B. Profit & Gains from Business and Profession & Salary income.
  - C. Profit & Gains from Business and Profession & Other sources
  - D. None of the above
- iii. Deemed notice is covered under section \_\_\_\_\_.
  - A. 145
  - B. 143(1)
  - C. 156
  - D. 144
- iv. ITR\_\_\_\_\_ is used for filing return of income by assessee having presumptive income from Business & Profession.
  - A. ITR 1
  - B. ITR 4 (Sugam)
  - C. ITR 3
  - D. ITR 5
- v. ICDS X is in relation to
  - A. Revenue recognition
  - B. Construction Contract
  - C. Tangible Fixed Assets
  - D. Contingent Assets
- vi. Levy and collection of direct tax is administrated by \_\_\_\_\_.
  - A. CBEC
  - B. CBDT
  - C. Department of Revenue
  - D. Ministry of Finance
- vii. Levy of tax on income other than agricultural income is covered under entry number.
  - A. 92C
  - B. 92D
  - C. 82
  - D. 86
- viii. TDS rate on transfer of certain immovable property other than agricultural land.
  - A. 2%
  - B. 5%
  - C. 1%
  - D. 20%
- ix. TDS rate on payment to compensation on acquisition of certain immovable property.

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- A. 1%
- B. 2%
- C. 3%
- D. 10%

10. Advance tax is required to be paid by all assessee only if estimated advance tax liability is
- A. ₹ 2,000 or more
  - B. ₹ 5,000 or more
  - C. ₹ 8,000 or more
  - D. ₹ 10,000 or more

(b) Match the following.

**5 x 1 = 5**

	Column A		Column B
i	Retrenchment compensation	A	Section 55(2)
ii	Compulsory audit of accounts	B	Maximum ₹ 10,000
iii	Cost of Acquisitions	C	Best Judgment Assessment
iv	Section 144	D	Section 44AB
v	Deduction u/s 80TTA	E	Section 10(10B)

(c) State true or false with reasons:

**5 x 1 = 5**

- i. Residential status of an assessee determines the scope of chargeability of his income.
- ii. In case of conflict between the provision of the Income-tax Act and ICDS, the provision of the Act shall prevail to that extent.
- iii. Any amount paid u/s 211 on or before 31st March of the previous year, shall be treated as advance tax paid during the financial year.
- iv. Jain families are also treated as Hindu undivided family for the purpose of Income-tax Act. However, Muslim undivided family cannot be treated as HUF.
- v. The tax calculated on the total income should be rounded off to the nearest ₹ 100.

(d) Fill in the blanks

**5 x 1 = 5**

- i. The total income so computed will have to be rounded off to the nearest multiple of ₹\_\_\_\_\_.
- ii. Domestic company means an \_\_\_\_\_company.
- iii. ITR \_\_\_\_\_ is for Individual having Income from Salaries.
- iv. Winning from a motor car rally is a return for skill and effort and cannot be treated as \_\_\_\_\_income but taxable as normal income.
- v. An assessee, who receives leave encashment during continuation of his service, can also claim \_\_\_\_\_.

### Part-II

**(Answer any Five Questions out of seven questions to be answered)**

**2(a)** What are the general points to be kept in mind regarding residential status a person? **7 Marks**

**2(b)** Pankaj owns a house property which is self occupied by him till 30.11.2017 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. Pankaj paid ₹ 1,50,000 as municipal taxes during the previous year which relate to past years as well as for current year.

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

**8 Marks**

**3(a)** Sri Pankaj has been in service of Y & Co. Pvt Ltd , since 1<sup>st</sup> February 1989, Kolkata. During the financial year ending 31.03.2018 Pankaj received from the company salary @ ₹ 90,000 p.m dearness allowance @ ₹ 15,000 p.m city compensatory allowance @ 2,000 p.m entertainment allowance @ 5,000 per month and house rent allowance @ 25,000 p.m. Pankaj resides in the house property owned by his HUF for which he pays a rent of ₹ 30,000 p.m . Pankaj has been in receipt of entertainment allowance from company since February, 1989.

Pankaj Contributes ₹ 10,000 p.m to the recognised provided fund. The company is also contributing an equal amount. Pankaj retires from the service of the company on 31.12.2017 when he was allowed gratuity of ₹9,00,00 and pension of ₹ 40,000 p.m. On 01.02.2018 he got one half of pension commuted and received ₹ 15,00,000 as commuted pension. He also received ₹ 20,00,000 as the accumulated balance of the recognised provident fund.

Compute his income under the head salary for the assessment year 2018-19.

**8 Marks**

**3(b)** List down the instances of agricultural Income.

**7 Marks**

**4(a)** A building was acquired by A in 1994 for ₹ 5,00,000. He spent ₹ 1,40,000 in year 1999 for some additions to that building. He further spends ₹ 2,00,000 for construction of additional room in the year 2004-05. A died in 2012-13 and the same property passed on to his son B under a will. The market value as on that date was ₹ 20,00,000. B spent ₹ 3,00,000 on 05.01.2014 for further addition in that building, On 06.07.2016 the building was converted into stock in trade . Narket value of that building as on that date was ₹ 35,00,000. The above building was sold on 05.01.2018 for ₹ 39,00,000. Compute capital gain and any income which is liable to tax. Market value of building as on 01.04.2001 was ₹ 85,00,00. CII of previous year 2001-05,2012-13,2013-14,2016-17, and 2017-18 is 113, 200, 220, 264, 272 respectively.

**8 Marks**

**4(b)** Pankaj who is an advocate in Delhi furnishes the following particulars for the previous year 2018-19.

**7 Marks**

Particulars	Amount (₹)
Income from Profession	2,32,000
Short term capital gain on sale of gold	18,000
Long term capital gain on sale of land	96,000
Interest on government securities	11,000
Payment of interest on loan taken from a bank for higher studies of his daughter	10,000
Payment made by credit card for Mediclaim policy on his own health and the health of his wife	4,000
Rent paid for a house in Delhi	36,000
Deposit in PPF	60,000

Determine his total income for the assessment year 2018-19.

**5(a)** Mr Pankaj furnishes the following particulars of his income for the assessment year 18-19.

**10 Marks**

Profit and loss Account for the year ending 31.03.2018

Particulars	Amount (₹)	Particulars	Amount (₹)
To office expenses	12,400	By gross profit	6,08,000

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To general expenses	12,000	By sundry expenses	19,000
To Legal expenses	8,000	By customs duties recovered back from govt (earlier not allowed as deduction)	15,300
To depreciation on machinery	11,000	By bad debt recovered (earlier allowed as deduction)	3,000
To staff salary	21,000	By gift from son	40,000
To Bonus to staff	15,000		
To contribution to approved gratuity fund	16,000		
To outstanding liability for excise duties	18,000		
To Audit fees	31,000		
To Net Profit	5,40,900		
	6,85,300		6,85,300

Additional information:

1. Bonus to employee to the payment of bonus act 1965, comes to ₹ 4,200.
2. Depreciation on machinery shown in profit and loss account is calculated according to the income tax provisions.
3. General expenses include payment of ₹ 9,000 to an approved educational institute for the purpose of carrying on scientific research in natural science. The research is, however not related to business of the assessee.
4. During the year Mr Pankaj also made a capital expenditure of ₹ 5,000 for the purpose of carrying on a scientific research related to business. This expenditure is however not recorded in the profit and loss account.
5. Outstanding liability in respect of excise duty amounting to ₹ 10,500 was paid on 10.04.2018; ₹ 1,000 on 10.05.2018; ₹ 2,000 on 30.06.2018; ₹1,000 on 10.07.2018 and ₹ 3,500 is still outstanding. The return is furnished on 30.09.2018 (last date).

Compute the taxable income of Mr Pankaj for the assessment year 2018-19 assuming he is annually deposit ₹ 10,000 in a Public Provided Fund Account.

**5(b)** Mrs Yadav received the following amounts during financial year 2017-18

**5 Marks**

Particulars	Amount (₹)
Gross salary	5,20,000
Family Pension (₹ 10,000 x 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 yadav and tax liability for the assessment year 2018-19.

**6(a)** Mr Pankaj is a lawyer of Kolkata high court. He keeps his account on cash basis. His receipt and payments A/c for the year ending 31.3.2018 is given below;

**10 Marks**

Receipt and Payment Account for the year ending 31.03.2018

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)
Balance b/d		3,820	Subscription and	4,500

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			membership	
Legal Fees			Purchase of legal books	7,500
2017-18	53,45,000		Rent	47,500
2016-17	<u>1,00,000</u>	54,45,000	Car expenses	14,000
Special Commission fees		5,500	Office Expenses	8,500
Salary from Law College as part time lecture		87,000	Electricity expenses	4,000
Exam Remuneration		1,480	Income Tax	8,000
Interest on saving bank deposit		3,500	Gift to daughter	12,000
Sale proceeds of residential property		2,92,000	Domestic Expenses	35,000
Dividend from cooperative society		1,000	Donation to Institutions approved u/s 80G	2,000
Dividend received from the unit of UTI		2,000	Car purchased	5,20,000
Rent from house property		15,000	Life insurance premium	60,000
Agricultural Income		64,000	Salary to staff	15,00,000
			Balance c/d	36,97,300
		59,20,300		59,20,300

### Additional Information:

- The rent and electric expenses are related to a house, of which half portion is used for self residence and remaining half portion is used for office.
- Car is used only for professional purpose.
- Outstanding legal fees ₹ 10,000.
- Rent has been paid for 10 months only.
- Car was purchased on 25.09.2017. Law books purchased are annual publications out of which books of ₹ 2,000 were purchased on 06.04.2017 and balance on 31.10.2017.
- The house was purchased in January 2004 for ₹ 1,16,000 and sold on 01.07.2017.
- Rent of the property which has been sold was ₹ 5,000 p.m. The property was vacated by the tenant on 30.06.2017.

Compute his total income for the assessment year 2018-19.

**6(b)** X and Y, being members of an AOP with equal ratio, furnishes the following details, compute tax liability of AOP and members:

### Profit and loss account for the year ended 31-3-2018

Particulars	Amount	Particulars	Amount
Bonus to employee	5,000	Gross Profit	60,000
Other Expenses	14,000	Short term capital gain	6,000
Salary to -			
X	5,000		
Y	5,000		
Interest on capital @ 15%			
X	5,000		
Y	7,000		
Depreciation u/s 32	10,000		

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Net profit	15,000		
	66,000		66,000

Additional information

1. Other expenses include expenditure of ₹ 4000, which is disallowed u/s 37.
2. Other personal income of X & Y -

	X	Y
Dividend received	₹ 5,000	₹ 20,000
Interest on loan	₹ 25,000	₹ 2,49,000
Brought forward loss from house property	₹ 25,000	₹ 10,000

**7(a)** Mr Pankaj took a loan ₹ 1,00,000 from a company in which the public company is not substantially interested. The company also paid an insurance premium of ₹ 5,000 on his behalf. He holds 25% equity shares of the company.

On the date of loan and paying the premium, the accumulated profits of the company were ₹ 80,000. Subsequently in the same year, the company declared dividends. On his shareholding Mr Pankaj was entitled to a dividend amounting to ₹ 15,000 which was set off against the amount of loan, etc.

Compute the amount that should be included in the income of Mr Pankaj.

**8 Marks**

**7(b)** Discuss the due date of payment of advance tax.

**7 Marks**

**8. Short Notes (Answer any three questions out of four)**

**(5 x 3=15 Marks)**

- A. Quoting of Aadhaar number.
- B. Relief u/s 89.
- C. ICDS III on "Construction Contract".
- D. Scrutiny Assessment u/s 143(3).