

APPLIED DIRECT TAXATION

Full Marks: 100

Time Allowed: 3 hours

*Where ever required, the candidate may make suitable assumptions and state them clearly in the answers.*

*Working notes should for part of the relevant answers.*

*All questions relate to the assessment year 2014-15 and the provisions stated relate to Income Tax Act, 1961 and Wealth Tax Act, 1957 ( as specified).*

*Answer Question No.1 which is compulsory and any five from the rest.*

**Question No.1:(a) Choose the most appropriate alternative: [ 1 × 13 = 13 marks]**

(i) The additional rebate /tax relief of Rs.2,000 u/s 87A of the I.T.Act,1961 is not allowed to an individual who is having a total income of Rs.5 lacs (i.e. gross total income less deduction under chapter VIA):

(A) Non-resident Indian ; (B) Resident and Ordinarily Resident ; (C) Resident but not ordinarily Resident (D) None of them

(ii) Ms. Anisha an Indian national, left India for employment purpose on 31.08.2013 and came back on a holiday on 07.04.2014. For the previous year 2013-14, she will be considered as a :(A) Resident (B) Not Ordinarily Resident (C) Non-resident [1 mark]

(iii) Mr. John, a non-resident for the previous year 2013-14, earned Rs.3,00,000 (in INR equivalent) from a business in South Africa, having its set-up/registered office in India but received 60% of the same in India . The Income chargeable to Tax of such income will be (i) Rs.3,00,000 (ii) NIL (iii) Rs. 1,80,000 (iv) Rs.1,20,000

(iv) Cost of Telecom License Fees Rs.140 lacs, for a period of 7 years. After 4 years, the licence was transferred at Rs.90 lacs. The taxable business income is (A) Rs.80 lacs (B) Rs.90 lacs (C) Rs.10 lacs (D) Rs.50 lacs

(v) Interest u/s 234A is charged @ (A) 12% p.a. (B) 1.5% p.m. (C) 1% p.m. ( D) None of these

(vi) A machinery was purchased on 01.12.2013 for Rs.60 lacs. The depreciation rate is 10% p.a. The amount of depreciation u/s 32 of the Income Tax Act,1961 will be (A) Rs.3 lacs (B) Rs. 6 lacs (C) Rs.2 lacs (D) None of these

(vii) Interest on loan Rs.34,000 paid on loan taken for repairs of self-occupied house property. Amount of deduction u/s 24(b) is (A) Rs.34,000 (B) Rs.23,800 (C) Rs.30,000 (D) None of these

(viii) Amount eligible for deduction u/s 35D for amortization of Preliminary Expenses is Rs.30 lacs. The deduction available per year will be (A) Rs.3 lacs (B) Rs.7.5 lacs (C) Rs.6 lacs (D) Rs.5 lacs

(ix) A company in India is engaged in growing and manufacturing of tea. It has earned Rs.50 lacs from such business. The Agricultural income shall be (A) Rs.20 lacs (B) Rs.50 lacs (C) Rs.30 lacs (D) Nil.

(x) A salaried employee having taxable income shall have to submit return of income for the previous year 2013-14, within (A) 30.06.2014 (B) 31.07.2014 (C) 30.09.2014 (D) 30.11.2014

(xi) An individual deposited Rs.1,05,000 in PPF during the previous year 2013-14. The amount of deduction u/s 80C will be (A) Rs.70,000 (B) Rs.1,00,000 (C) Rs.1,05,000 (D) Rs.75,000

(xii) Municipal Value of a Guest House situated at a distance of 25.5 kms from the limits of a cantonment board is Rs.40 lacs. The value of taxable wealth for the previous year 2013-14 as on valuation date 31.03.2014 would be (A) Rs.40 lacs (B) Rs.30 lacs (C) Rs.10 lacs (D) Rs.20 lacs.

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(xii) X Ltd. is to pay Professional Fees of Rs.2 lacs to one Mr.B for his services. But, Mr. B has no PAN. The rate of TDS to be charged by X Ltd for releasing this payment would be (A) 10% (B) 20% (C) 5% (D) 2%

(xiii) Mr. Aman owns 11 trucks (heavy goods vehicles) during the whole of previous year 2012-13. The presumptive income per vehicle u/s 44AE would be (A) Rs.5,000 per month (B) Rs.4,500 per month (C) Rs.7,500 per month (D) None of these

**Question No.1(b) Fill in the blanks :**

**[ 1 × 12 = 12 marks]**

(i) Mr. Rastogi transferred a House Property by way of gift to his wife on their wedding anniversary. The house is having a Municipal Value of Rs.30 lacs. It is let-out at a rent of Rs.20,000 per month. Taxable Income in the hands of Mrs. Rastogi (i.e. spouse of Mr. Rastogi) for the previous year 2013-14 would be Rs.....

(ii) B Ltd. deposited in cash Rs. 5 lacs as Excise Duty. The amount of disallowance for payment made in cash u/s 40A(3) in excess of Rs.20,000 would be Rs.....

(iii) Prior-period expenses relating to salary for staff engaged in scientific research amounting to Rs.3 lacs would be allowed as deduction u/s 35 of the Income Tax Act,1961 @ .....%

(iv) The Income on transfer of a Zero Coupon Bonds shall be treated as a .....

(v) Period of availing deduction for interest paid on educational loan is spread over ..... assessment years.

(vi) Gross Total Income of an Assessee is Rs.5,97,000 including Long Term Capital Gains of Rs.1,83,000. Deductions available under Chapter VIA is Rs.89,000 before charging deduction u/s 80GG. Adjusted Total Income for Sec.80GG would be Rs.....

(vii) Natural Flavors Ltd. is engaged in the business of growing and manufacturing tea in India. The company deposited Rs.5 lacs in a Deposit Account framed by Tea Board. Profit for the previous year 2013-14 is Rs.10 lacs. The amount of deduction available u/s 33AB is Rs.....

(viii) A partnership firm paid interest @ 18% p.a. to partners amounting to Rs.2,70,000. The amount of deduction on account of interest paid to partners for the previous year 2013-14 would be Rs.....

(ix) Tax on Total Income Rs.5 lacs. Tax on Book Profits Rs. 5,73,000. The amount of MAT Credit would be Rs.....

(x) An assessee has an unabsorbed loss from a speculation business of Rs.97,000 during the previous year 2013-14. This loss shall be allowed to carried forward for adjustment within the maximum time period by the assessment year .....

(xi) Car (1.45 litres) owned by employer is provided to employee for both personal and official purpose. Taxable value of perquisite for the car provided without chauffeur would be Rs..... per month.

(xii) Deduction u/s 54F would be available against LTCG from transfer of asset (other than House Property) for purchase/construction of a .....

**Question No. 2**

**2(a):** Mr. X owns a House Property in Gurgaon. Gross Municipal Value Rs.10 lacs. The property is used partly as self-occupied for 7 months, vacant for one month and let-out for residential purpose for 4 months during the previous year 2013-14 @ Rs.95,000 per month. Municipal Tax paid @ 15%. Compute Income from House Property. Would your answer differ if the property was located in Delhi? [ 5 marks]

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- 2(b)** Mr. Hari (aged 82 years) transferred a House Property ( by a gift will) on the occasion of their 50th wedding anniversary. The Municipal Value of the property is Rs.30 lacs. His wife in turn has partially let out the property at a monthly rent of Rs.60,000 for a period of 3 months during the previous year 2013-14. Income earned by Mr. Hari out of Interest on Fixed Deposits Rs.3,10,000; Interest on Savings Bank Account Deposits Rs.80,000 and Dividend from Indian Companies Rs.1,50,000. What is the Total Income of Mr. Hari and Mrs. Hari for the previous year 2013-14 ? [ 7 marks]
- 2(c)** List the situations when Income of any previous year is taxed in the same year. [ 3 marks]

### Question No. 3

**3(a)** X Ltd. purchased an asset for Rs.3 lacs during 2011-12 which was exclusively used for scientific research purpose, which was sold in 2013-14 for Rs.50,000. Another asset was purchased for Rs.5 lacs on 11.07.2013, having a rate of depreciation @ 10% p.a. The same was also sold on 10.12.13 for Rs.4,50,000. Discuss the tax liability, if any, which may arise of these transactions? [5 marks]

**3 (b)** Furnished the Profit & Loss Account for the newly commenced business in India, owned by Mr. B (non-resident Indian) for the year ended 31.03.2014 : [ 10 marks]

(I) Revenue from Operations in India	Rs.50,00,000
(II) Other Income	
❖ Interest from Investment in Fixed Deposits Rs.3,50,000	
❖ Dividend from Shares in Indian Companies Rs.1,95,000	Rs.5,45,000
(III) Total Revenue (I + II)	Rs.55,45,000
(IV) Expenses	
Cost of Materials Consumed	Rs.23,00,000
Changes in Inventory	(Rs.1,20,000)
Employee Benefit expenses	Rs.15,76,000
Finance Costs	Rs.2,10,000
Depreciation	Rs.1,90,000
Other Expenses	Rs.3,97,000
Total Expenses	Rs.46,53,000
(V) Profit before exceptional and extraordinary items and tax	Rs.8,92,000
(VI) Exceptional items	NIL
(VII) Profit before extraordinary items and tax ( V - VI)	Rs.8,92,000
(VIII) Extra ordinary items	NIL
<b>(IX) Profit before tax ( VII - VIII )</b>	<b>Rs.8,92,000</b>

From the analysis of records, it was identified that:

- (1) Value of Closing Stock was shown at Market Value, while the cost price is Rs.1,05,000;
- (2) Revenue from Operations is inclusive of Service Tax amounting to Rs.4,82,000;
- (3) Employee Benefit Expenses includes salaries paid to an employee (resident and ordinarily resident for the previous year 2013-14) outside India Rs.90,000 without TDS;
- (4) Finance cost includes Rs.90,000 recovered/charged by Mr. B from the business towards interest cost on own capital

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contribution. However, the bank rate of interest on such capital could have been Rs.70,000

(5) Other expenses includes Advertisement expenses paid Rs.20,000 for advertisement published in souvenir of a political party:

(6) Employee Benefit expenses also includes Rs.1,20,000 paid to his brother as salary for working as the Manager of his business. Based on his brother's educational qualification and work experience the salary could have been Rs.1,50,000.

Compute Income from Business for the assessment year 2014-15.

### **Question No.4**

**4(a)** Ms. Karima (aged 47 years), a resident Indian, is physically challenged (56% disability) purchased jewellery worth Rs.5,00,000 during 1997-98. During the year 2006-07 she purchased further jewellery worth Rs.8,00,000. All the jewelleries were sold by her during October 2013 for Rs.32,00,000 and thereafter in January 2014 purchased her second house property for Rs.29,00,000 to be used for residential purposes. Analyse the tax-impact, if any. [7 marks]

**4(b)** Non-Agricultural Income (other than capital gains and income from house property) Rs.1,50,000, Income from Capital Gains Rs.6,50,000. Deductions eligible under Chapter VIA Rs.1,90,000. Municipal Value of House Property in Delhi Rs.40,00,000 (used as self-occupied for residential purpose). Municipal Tax paid @ 15%. Interest on Loan taken for construction of House Property Rs.1,63,000, 40% of such interest stands due as on 31.03.2014. Ascertain the Tax Liability if the Assessee is a Senior Citizen (age 78 years) for the previous year 2013-14. [ 6 marks]

**4(c)** Ms. Priyam earned a long-term capital gain of Rs.3 lacs on 01.12.2013. Compute the amount of advance tax payable, if any for the previous year 2013-14. [ 2 marks]

### **Question No.5**

**5(a)** Ms. Nandana (aged 46 years), an employee of Happy Ltd. furnishes information relating to her Income for the financial year 2013-14, where she joined during the year and served for five months:

Basic Pay Rs.50,000 pm; Dearness Allowance Rs. 35,000 pm (60% forming part of salary for retirement benefits); Accommodation provided by employer in a city having population more than 30 lacs; Cost of furnishings in that accommodation Rs.4 lacs. She is also provided with a 18 H.P. Motor car including chauffeur for which expenses are borne by employer. Ms. Nandana was also sent for an Executive Program on Strategic Management, for which the course fee of Rs.90,000 was paid by the employer. Employer's makes an equal contribution with employee @ 20% to RPF and Interest credited to RPF @ 9% amounting to Rs.9,000. In LIC - on a Single Premium Policy for self, paid Rs.90,000 (on a Policy Value of Rs.4,00,000) . Compute Total Income of Ms. Nandana for the assessment year 2014-15. [ 9 marks]

**5(b)** Mr. Sameul retired on 31.01.2014 after 33 years of service from a Central Government Department. He received Rs.32 lacs as Gratuity, Leave Salary encashment Rs.13 lacs. Mr.Samuel had a last drawn salary (basic pay plus dearness allowance) was Rs.80,000 per month, after an increment of Rs.8,000 per month from 1st September,2013. He is entitled to a pension of Rs.30,000 per month from February 2014. In March, 2014, he commutes 60% of his pension and receives Rs.12,00,000. Compute Income from Salary of Mr. Samuel for the assessment year 2014-15. [ 6 marks]

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### Question No.6

**6(a)** Total Income of MPX Associates ( a partnership ship) for the financial year 2013-14 is Rs.2,00,000 after claiming deductions under Chapter VIA of Rs.14,00,000. Compute the Alternate Minimum Tax Payable for the previous year 2013-14. [ 2 marks]

**6(b)** A company is owning animals, which are being used for their business purpose. Cost of animals Rs.10 lacs. Due to an accident, the animals died and their carcass was sold for Rs.3 lacs. What is the tax implication arising out of this accident? [2 marks]

**6(c)** Total Income of Mr. Q, a resident Indian for the previous year 2013-14 is Rs.9,60,000. This includes income from foreign country amounting to Rs.3,80,000. Tax paid in foreign land @ 20%. Determine his tax liability for the assessment year 2014-15. [5 marks]

**6(d)** Tax on Total Income Rs.3,00,000. Due date for filling return of income 31.07.2014. Actual return filed on 01.10.2014 and tax paid on 30.09.2014 Rs.3,00,000. Calculate interest u/s 234A, 234B and 234C as applicable. [6 marks]

### Question No.7

**7(a)** Compute Total Taxable Wealth based on Residential Status ( RoR, RnoR, NR) of an Assessee on the valuation date 31.03.2014:

(i) Residential building located in India, municipal value Rs.90,00,000. Loan taken against hypothecation of this building for purchase of a residential building in USA Rs.65,00,000;

(ii) Residential building located in USA having a value of Rs.80,00,000 ( in INR equivalent). Loan taken against hypothecation of this building Rs.15,00,000 to procure Motor Car in India.

(iii) Motor Car valued at Rs.20,00,000 which is located in India.

(iv) Another Residential House Property was transferred to spouse ( as gift on birthday) value Rs.35,00,000.

(v) A firm house valued at Rs.37,00,000 situated at an aerial distance of 23 kms from the jurisdiction of a municipal board.

(vi) Motor cars held by him for running them on hire amounting to Rs.39,00,000. Loan against Motor Cars Rs.29,00,000.

(vii) Asset of Rs.12,00,000 transferred to son's wife. [ 10 marks]

**7(b)** State the methods used for calculating arm's length price [3 marks]

**7(c)** X Ltd. has entered into international transactions, which is presently under review by the Transfer Pricing Officer (TPO). Price as per CUP (Comparable Uncontrolled Price) Method is Rs.6,000 per unit . Adjustments made against the CUP Value is Rs.1,000 per unit. Price declared on a sale of the same product to another company outside India is Rs.4,000 per unit. What is the increase in price per unit, which can be adjusted by the TPO? [ 2 marks]

### Question No.8:

**8(a)** State the amount of maximum penalty payable by the assessee in case of the following defaults:

(i) For quoting a wrong PAN

(ii) On undisclosed income determined by the Assessing Officer [ 2+2 = 4 marks]

**8(b)** An employee of a company was sent abroad for medical treatment with an attendant. Gross Total Income of the employee before including reimbursement of foreign travel expenditure of Rs.75,000 is Rs.1,97,000. What is the Gross Total Income of the assessee, after considering the travel expenditure? [ 3 marks]

**8(c)** State the requirements for compulsory maintenance of Books of Account for a Specified Person. [4 marks]

**8(d)** Mr. D gifts Rs.5 lacs to Mrs.D (his spouse) on 1st February 2014. Mrs. D invests the same in the existing crockery business where she has already invested Rs.9 lacs. Mrs.D earns Rs.2,10,000 from the business during the previous year 2013-14. How would you assess the profits? [ 4 marks]