

## Paper-7 – Applied Direct Taxation

Time Allowed: 3 hours

Full Marks: 100

All the questions relate to the assessment year 2014-15, unless stated otherwise.

Working notes should form part of the answers.

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

### Question 1.

#### (a) Choose the most appropriate alternative:

- (i) An individual can avail the benefit of Leave Travel Assistance offered by his employer —
  - (A) twice in a block of two years
  - (B) twice in a block of four years
  - (C) once in a block of four years
  - (D) once in a block of two years
  
- (ii) How many installments of prior period interest of a house property will be allowed as deduction from the year in which the property was acquired or construction was completed?
  - (A) five
  - (B) ten
  - (C) six
  - (D) four
  
- (iii) As per section 80GG of the Income-tax Act, which one of the following is one of the criteria for claiming deduction in respect of rent paid—
  - (A) 50% of Adjusted Total Income
  - (B) 100% of Adjusted Total Income
  - (C) 10% of Adjusted Total Income
  - (D) 25% of Adjusted Total Income
  
- (iv) As per section 139A of the Income-tax Act, Permanent Account Number (PAN) comprises of —
  - (A) 10 alphanumeric characters
  - (B) 12 alphanumeric characters
  - (C) 10 numeric characters
  - (D) 12 numeric characters
  
- (v) As per section 71B of the Income-tax Act, the permissible limit to carry forward and set off Brought forward loss from House Property is —
  - (A) 4 Assessment Years immediately succeeding the Assessment Year for which such loss was computed
  - (B) Any number of year until it is fully set off.
  - (C) 8 Assessment Years immediately succeeding the Assessment Year for which such loss was computed.
  - (D) None of the above

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- (vi) The surcharge (as a percentage of income-tax) payable by a foreign company if the total income upto ₹ 1 crore for the assessment year 2014-15 is:
- (A) 5%
  - (B) 2%
  - (C) Nil
  - (D) 10%
- (vii) The registration of a charitable trust can be cancelled under section 12AA of the Income-tax Act by:
- (A) Assessing officer
  - (B) Commissioner of Income-tax
  - (C) Chief Commissioner of Income-tax
  - (D) Central Board of Direct Taxes.
- (viii) A farm house is asset if it is situated from the local limits of any municipality within:
- (A) 25 kilometres
  - (B) 30 kilometres
  - (C) 5 kilometres
  - (D) 10 kilometres
- (ix) Cash gifts received under section 56(2)(vi) of the Income-tax Act from non-relatives are not taxable upto:
- (A) ₹ 1,00,000
  - (B) ₹ 75,000
  - (C) ₹ 25,000
  - (D) ₹ 50,000
- (x) The return of net wealth is to be filed in form:
- (A) BA
  - (B) ITR-1
  - (C) ITR-2
  - (D) ITR-4
- (xi) The following is not "plant" under section 43(3) of the Income-tax Act, 1961:
- (A) Ships
  - (B) Vehicles
  - (C) Books
  - (D) Livestock
- (xii) An individual is said to be resident in India in a previous year if he is in India in that year for a period or periods amounting in all to:
- (A) 60 days or more
  - (B) 180 days or more
  - (C) 182 days or more
  - (D) 150 days or more

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(xiii) As per section 44AB of the Income-tax Act, a person carrying on business is required to get his accounts audited if his total sales turnover or gross receipts, as the case may be, in business exceeds:

- (A) ₹ 1 crore
- (B) ₹ 25 lakhs
- (C) ₹ 30 lakhs
- (D) ₹ 10 lakhs

[13 × 1]

**(b) Fill up the blanks:**

- (i) Recovery of unrealized rent is chargeable to tax under the head \_\_\_\_\_.
- (ii) Transfer or Maturity of Zero Coupon Bond will \_\_\_\_\_ (be taxable / not be taxable) as Capital Gains.
- (iii) Loss from owing and maintaining race horses can be set off against \_\_\_\_\_.
- (iv) \_\_\_\_\_ payable by a person (other than a company) shall be the amount of tax computed on Adjusted Total Income at a rate of eighteen and one-half per cent.
- (v) A penalty of \_\_\_\_\_ may be imposed under section 271F of the Income-tax Act if belated return is submitted after the end of Assessment Year.
- (vi) Sitting fees paid to directors for attending Board Meeting is not a salary but taxable as \_\_\_\_\_.
- (vii) Leave encashment received by a Government employee on continuation of service is \_\_\_\_\_ (fully taxable / not taxable).
- (viii) The maximum amount of deduction is allowed under section 80C of the Income-tax Act in a previous year is \_\_\_\_\_.
- (ix) The third installments of advance tax of a corporate assessee is payable on or before \_\_\_\_\_ in a relevant previous year.
- (x) A residential property which is let out for a minimum period of \_\_\_\_\_ days in the previous year is not treated as an "asset" under Wealth Tax Act.
- (xi) Payment made on preventive health check-up for self, spouse, dependent children or parents during the previous year by any mode of payment (including cash), to the maximum of \_\_\_\_\_.
- (xii) A motor car used by the assessee in the business of running them on hire \_\_\_\_\_ (is / is not) an asset as per Wealth Tax Act.

[12 × 1]

**Question 2.**

(a) P retires on 30<sup>th</sup> June, 2014. He submits the following information –

Basic salary (since January 2014): ₹ 20,000 per month, dearness allowance: ₹ 6,000 per month (1/3 of which is part of salary for retirement benefits), employer's contribution towards provident fund : ₹ 3,000 per month (P makes a matching contribution); interest credited at the rate of 15 per cent on April 30, 2014 : ₹ 7,500; pension after retirement : ₹ 10,000 per month, and payment of provident fund at the time of retirement : ₹ 7,60,000 (out of which employer's contribution: ₹ 3,30,000, interest thereon : ₹ 44,000, P's contributions : ₹ 3,50,000, interest thereon : ₹ 46,000). Salary and pension become due on the last day of each month. P has deposited the entire provident fund payment with a company (rate of interest: 9 per cent per annum).

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Find out the income of P for the assessment year 2015-16 on the assumption that the provident fund is (i) statutory provident fund, (ii) recognized provident fund, or (iii) unrecognized provident fund.

**(b)** During his 195 days' stay in India in the previous year 2014-15, Nikhil, a citizen of U.K. is all the time moving from one place to another. He claims that he is non-resident in India for the assessment year 2016-16 on the following grounds:

1. He had never visited India before April 1, 2014.
2. During 2014-15, though he is in India for 195 days, he could not spend two consecutive nights at any one place.
3. For the assessment year 2015-16, he is resident in U.K. according to the English Income-tax Act. He insists that he cannot be resident of two countries for the same assessment year. Do you agree with him?

**(c)** What is the difference between exemption and deduction?

**[(3+3+3)+4+2]**

### Question 3.

**(a)** The travelling allowance of ₹ 35,000 is given to Mr. A by his employer for official purpose during the previous year 2014-15. The amount actually spent by Mr. A for this purpose is ₹32,000. State the taxability of the said item.

**(b)** Prachi owns a house property which is given on rent. For the previous year 2012-13, she claims a deduction of ₹ 78,000 on account of unrealised rent, out of which the Assessing Officer allows only ₹ 62,000 as deduction. What are the tax consequences if Prachi recovers on June 25, 2014 from the defaulting tenant (i) ₹ 10,000, (ii) ₹ 16,000 or (iii) ₹ 35,000 as full and final payment?

**(c)** Q purchases a house property in 1995. It is compulsorily acquired by the Government on 20<sup>th</sup> April, 2013 (indexed cost of acquisition is ₹ 40,000). Compensation paid by the Government on 6<sup>th</sup> May, 2014: ₹ 6,00,000. The Delhi High Court increases the compensation from ₹ 6,00,000 to ₹ 9,30,000 on the appeal filed by Q (legal expenditure incurred by Q: ₹ 10,000). The Government on 10<sup>th</sup> June, 2015 pays the additional compensation of ₹ 3,30,000. Compute the capital gains.

**(d)** Can an assessee follow different method of accounting for different businesses?

**[2+5+6+2]**

### Question 4.

**(a)** An assessee filed a return of income on 31.8.2015 in respect of Assessment Year 2015-16 disclosing an income of ₹ 6 lakhs from business. It was not accompanied by proof of payment of tax due on self-assessment. Discuss the validity of such a return.

**(b)** Name few of the property incomes which are exempted from tax.

**(c)** Anand, an Indian citizen, was ordinarily residing in Canada. He comes to India every year during August for 3 weeks. He comes to India permanently on July 9, 2014. He owns the following assets:

1. A residential house (not being let out) at Bombay gifted by his father-in-law.

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2. A house at Bangalore purchased out of money remitted from Canada on August 3, 2013.
3. Two kilograms gold brought at the time of transfer of residence on July 9, 2014.
4. Out of money brought into India at the time of return and out of his Non-resident (External) Account, he acquires the following during July-September 2014: two cars, air-conditioners and shares in companies.
5. On December 10, 2014, after selling one kilogram of gold, he purchases a boat.

Discuss the taxability of the above items under the purview of Wealth-tax Act.

- (d)** What is the due date of filing of return of income in case of a non-working partner of a firm whose accounts are not liable to be audited?

**[3+4+6+2]**

### **Question 5.**

- (a)** Compute the 'arm length price' (ALP) in the following cases:

- i) Shiv Instruments 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 at a price of US\$ 130 per unit.
- ii) The US parent company sells the same product to an unrelated company in India @ US\$ 80 per unit.

- (b)** On receipt of assessment order for the assessment year 2015-16 of DL Ltd., the chief accountant of that company finds that the following deductions claimed by it in the return of total income have not been allowed:

1. Expenditure of ₹ 17,000 incurred on accommodation maintained, at the place where the factory is located, for the directors and other employees of the company, who visit the factory for the purposes of the company's business.
2. A sum of ₹ 17,500 incurred for lunch at a five-star hotel where seven representatives of a prominent raw material supplier were taken for lunch and the purchase manager of the assessee had accompanied them.
3. Claim for deduction of a sum of ₹ 4,50,000 being the amount of liability for gratuity for the calendar year 1991 calculated on actuarial basis for which no provision was made in the books of account. The company does not maintain any gratuity fund. It maintains its accounts on mercantile basis. So far as gratuity liability is concerned, it has made provision for the same in the book of account for the previous year ended December 31, 1976. Thereafter, it stopped making provision for gratuity liability in the books of account. However, actual payments are debited to the Profit and Loss Account.
4. Expenditure of ₹ 12,000 incurred for drilling a tube-well in the factory. The drilling operations were given up as the water was hard and not suitable for use. The expenditure thus became infructuous.
5. Annual preference dividend liability of ₹ 1,00,000 on the company's 10 per cent cumulative redeemable preference shares which are not entitled to any further rights to participate in profits or surplus assets. These shares are redeemable on December 1, 2014 according to the terms of issue.
6. The Assessing Officer has also added a sum of ₹ 8,000 pertaining to unclaimed wages for the year 1992 which was transferred to the Profit and Loss Account of the year 2014-15

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since the claim has become time barred. The assessee had claimed that the same was not liable to be included in the total income.

The company seeks your advice on the correctness or otherwise of the disallowances.

(c) Which entities are outside the purview of wealth tax?

[4+7+4]

### Question 6.

(a) What is the basis of valuation of assets of business in the context of wealth tax?

(b) Write a short note on return of loss [section 139(3) of the Income-tax Act].

(c) P, a resident individual, submits the following information for the assessment year 2015-16:

	₹
Business A	
Loss of the year 2014-15	(-)48,000
Brought forward loss of the year 2013-14	(-)39,000
Business B	
Profit of year 2014-15	1,56,000
Business C (previous year ends on 31 <sup>st</sup> March, business discontinued on 10 <sup>th</sup> April, 2014)	
Profit of the period from 1 <sup>st</sup> April, 2014 to 10 <sup>th</sup> April, 2014	Nil
Brought forward loss of 2013-14	(-)39,700
Business D (previous year ends on 31 <sup>st</sup> March, business discontinued on 31 <sup>st</sup> March, 2013)	
Brought forward loss of 2014-14	(-)40,000
Income from other sources	
Loss from the activity of owning and maintaining camels for races	(-)9,000
Dividend on units of UTI held as investment	75,000
Interest on debentures held as investments	99,000
Long-term capital loss on sale of shares	(-) 14,900
Income from house property	57,600

Determine the net income of P for the assessment year 2015-16. Also calculate the amount of loss which can be carried forward for being set off in the next assessment year.

[2+6+7]

### Question 7.

(a) Mona International Ltd. incurs an expenditure of ₹ 255 crores for acquiring the right to operate telecommunication services for Assam & Sikkim. The payment was made in November 2012 and the licence to operate the services was valid for 15 years. In December 2013, the company transfers part of the licence, in respect of Assam, to Bony International Ltd. for a sum of ₹ 56 crores and continue to operate the licence in Sikkim. What is the deduction allowable u/s 35ABB of the Income-tax Act to Mona International Ltd. for the Assessment Year 2015-16?

(b) What is the amount of deduction in respect of royalty of authors allowed as per section 80QQB of the Income-tax Act?

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- (c) What are the differences between Nationality and Citizenship in relation to residential status?  
(d) Give some examples of those assets which are not eligible for additional depreciation.

**[4+2+5+4]**

**Question 8.**

- (a) Konkona submits the following particulars:

	Previous years	
	2014-15 ₹	2015-16 ₹
Business profits (before depreciation)	(-) 50,000	45,000
Current depreciation	18,000	20,000
Income from other sources	20,000	72,000

Determine the net income of Konkona for the assessment years 2015-16 and 2016-17.

- (b) Which is meant by "bilateral agreement" in the context of Advance Pricing Agreement?  
(c) Is e-filing of return mandatory? State the assessee's for whom e-filing of returns is mandatory?

**[7+2+6]**