

DIRECT TAXATION

Full Marks: 100

Time Allowed: 3 hours

This paper contains 4 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Question No.1: Answer all the sub-questions. [Total = 20 marks]

- (a) Mr. Upendra aged 59 years, is a Resident but not ordinarily resident for the previous year 2013-14. His Gross Total Income is Rs.5,70,000 and is eligible for a deduction of Rs.70,000 under Chapter VIA. He claims a rebate of Rs.2,000 in the forms of tax relief. What is his tax liability for the assessment year 2014-15 ? [2 marks]
- (b) Mr. Hero, an employee in Optimists Ltd. an Indian company. Company provided him free lunch amounting to Rs.100 per meal of his attending office and also provided tea and snacks amounting to Rs.25 per serve. He attended office for 283 days during the previous year. Is there any impact on taxable income? [2 marks]
- (c) Ms. Ravina won Rs.70,000 (net of tax) from a game of crossword puzzle. What is her Gross Income from the game? [1 mark]
- (d) Ms. Fiona, a resident Indian, received a gift of Rs.60,000 from the daughter of her elder sister on the occasion of her birthday. Does it have any impact on her taxable income? [1 mark]
- (e) Calculate the tax payable for an individual aged 49 years, who is having a total income of Rs.5 lacs (i.e. gross total income less deduction under chapter VIA). [2 marks]
- (f) An assessee (individual) is in the business of growing and manufacturing of rubber. He earns Rs.4 lacs from such business. What is the non-agricultural income for the previous year 2013-14 ? [1 mark]
- (g) Mr. Shom purchased twenty Deep Discount Bonds of Rs.11,000 each @ Rs.5000 per bond. After a year he sold the bonds for Rs.7,300 each to Mr. Nandy. After 3 years, Mr. Nandy is eligible to get the bonds redeemed on maturity at par . Income offered to tax during the holding period by the bondholders is Rs.1,800. What is the Interest Income for the bondholder ? [1 mark]
- (h) A renowned author of a text book on finance, received a lump sum amount of Rs.2,90,000 during the previous year 2013-14. What is the deduction available to the author? [1 mark]
- (i) Mr.C, Karta of a HUF, was appointed as the treasurer of a private sector bank on his furnishing security of the family valued at Rs. 4 lacs, as required by the Service Rules of the Bank. Mr.C does not own any self-occupied property. What is the basis for assessment of remuneration of Mr.C ? [1 mark]
- (j) Income from property held under trust Rs.10 lacs. Income applied for charitable purposes during the year 2013-14 is Rs.7 lacs. What is the taxable income of the Trust for the previous year? [1 mark]
- (k) Mr. Brahma, a non-resident Indian permanently returned to India from UK during the previous year 2004-05. On the date of his return, he had a credit balance of Rs. 3 crores in his NRE Account with State Bank of India, besides other assets. Out of such account, he acquired a house property utilizing an amount of Rs.2.5 crores during 2013-14. Is there any wealth tax liability for the previous year 2013-14? [2 marks]

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(l) State the features of Comparable Uncontrolled Price (CUP) Method used for computing Arm's Length Price. [2 marks]

(m) What is FAR Analysis? [1 mark]

(n) Define Tested Party in the light of International Transactions [2 marks]

Question No.2: Answer any four questions [4 x 13 marks = 52 marks] [This section represents Income Tax Act only]

2(a)(i) Mr. X owns a House Property in Delhi. Gross Municipal Value Rs.15 lacs. The property is partly (60% area occupied) used as self-occupied and remaining 40% is let-out for residential purpose for 8 months during the previous year 2013-14 @ Rs.40,000 per month. Municipal Tax paid @ 25%, of which 60% is paid by tenant and 25% is paid by landlord (i.e. Mr.X) and the remaining is due but not paid during the previous year. Loan taken for construction of the house property Rs.12 lacs, on which Interest payable Rs.60,000 for the year. Compute Income from House Property. [6 marks]

2(a)(ii) Mr. Shahrukh Khan was invited by Mr. Amitabh Bachan to KBC (Kaun Banega Crorepati) Program and participate in the game. Mr. Khan accepting the invitation, declared that all his earnings from winnings in this game would be donated in favour of a Charitable Trust. He ultimately won Rs.1 crore during the game. What is the tax liability of this income earned and donation offered? What if he decided to donate only after winning the game? [3 marks]

2(a)(iii) Explain Marginal Relief. [2 marks]

2(a)(iv) Mr. Harishchandra, aged 61 years, got his daughter married and spent Rs.29 lacs, which was identified by Assessing Officer during the course of scrutiny assessment. It was further evidenced that he had recorded the expenditure only to the tune of Rs.17 lacs. The explanation stated/furnished by the assessee was not satisfactory. Is there any tax consequence? [2 marks]

2(b) (i) Phosphates Ltd. imported machinery from Germany on 27.08.2013 at a cost of Rs.29 crores. Customs duty paid @ 20%. Government granted a subsidy of Rs.13 crores. The entire logistics was supported by E-gen Logistics LLC, an Indian LLC. Total Service Charges paid to them Rs.17 lacs (including service tax of Rs.2.04 lacs). Compute Actual Cost for the purpose of charging depreciation, if the assessee avails CENVAT Credit Adjustment. [4 marks]

2(b)(ii) As a businessman, you have incurred an expenditure of Rs.3 lacs on an Agricultural Extension Project, as notified by CBDT, satisfying the prescribed guidelines. Is there any tax advantage for the assessee? [2 marks]

2(b) (iii) You are an Indian national, resident but not ordinarily resident for the previous year 2013-14. You have set up a new Hospital in Bangalore on 14.09.2011 which has 125 beds for patients at a capital cost of Rs.20 crores (including cost of land Rs.3 crores). The entire amount was capitalized during the previous year 2011-12. During 2013-14 you have incurred an expenditure of Rs.4 crores for the Hospital. Discuss the tax advantage for the previous year 2013-14. [3 marks]

2(b)(iv) Naveen & Associates, a partnership firm, was dissolved on 31.03.2013. The dues of the firm were received by its erstwhile partners during the period May 2013 to November 2014. Can the same be taxed in the hands of the firm for the assessment year 2014-15? Discuss the tax implications. [4 marks]

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2(c)(i) Explain 'Partition of HUF' . [2 marks]

2(c)(ii) An Assessee, resident Individual, is engaged in retail business recorded a turnover of Rs.97 lacs. Also earned Rs.2,50,000 as dividend from Indian Companies. Discuss the basis of charging his income to tax. [2 marks]

2(c) (iii) Net Profit of a firm after charging depreciation Rs.6,00,000, interest paid to partners Rs.90,000 (on total capital of Rs.7,00,000) and partners salary (as per partnership deed) Rs.15,000 per month for two partners paid for the whole year. Compute Profits and Gains from Business of the firm for the previous year 2013-14 after considering all the eligible benefits as per the I.T.Act,1961 [6 marks]

2(c)(iv) Curiosity LLC, in India, is engaged in development of software and providing IT enabled services through its two units, one of which is located in a notified SEZ in Chennai. For the SEZ unit, Export Turnover Rs.300 lacs, Total turnover Rs.450 lacs, Profit from SEZ unit Rs.60 lacs, profit from other unit Rs.50 lacs (whose export turnover is Rs.90 lacs and total turnover is Rs.105 lacs). Calculate the amount of exemption available for the SEZ unit u/s 10AA. [3 marks]

2(d) (i) Opening Balance (as on 01.04.13) of MAT (Minimum Alternate Tax) Credit available to P Ltd. Rs.3,53,900. Book Profits for the year Rs.24,00,000. Tax on Total Income Rs.4,89,000. What is the net tax payable for the previous year 2013-14 and what is the amount of MAT credit to be carried forward? [3 marks]

2(d) (ii) Tabulate the differences between Public Trusts and Private Trusts. [2 marks]

2(d) (iii) You as an individual assessee have spent Rs.90,000 for medical treatment and rehabilitation of dependent being a person with disability. Can you avail any tax benefit for the previous year 2013-14? [2 marks]

2(d)(iv) Ms. Priyanka (aged 30 years), an employee of Fortunate LLC. furnishes information relating to her Income for the financial year 2013-14, where she joined about a year and seven months ago:

Basic Pay Rs.40,000 pm; Dearness Allowance Rs. 30,000 pm (60% not 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.3 lacs. Hire charges @ Rs.3,000 per month is paid on furniture provided to her. She is also provided with a 12 H.P. Motor car including chauffeur for which expenses are borne by employer but used for official purpose only. On 16.08.2013, Ms. Priyanka purchased an old Car (WDV on date of transfer Rs.1,10,000) which was owned by the company on 18.09.2011, transferred at Rs.68,000. She paid Rs.96,000 as Tuition Fees for her three children(Rs.40,000; Rs.37,000 and Rs.19,000 respectively). Compute Total Income of Ms. Priyanka for the assessment year 2014-15. [6 marks]

2(e)(i) Mr. Sameul retired on 31.01.2014 from B Ltd. after 16 years of continuous service. He received Rs.17 lacs as Gratuity, Leave Salary encashment Rs.18,95,000 lacs on account of balance of accumulated leave. He is entitled to a leave of 48 days per annum and availed a leave of 389 days. Average monthly salary for purpose of Leave encashment is Rs.1,02,000. Compute Taxable amount of leave encashment of Mr. Samuel for the assessment year 2014-15. [4 marks]

2(e)(ii) A company is having 5 homogenous assets in a block having WDV Rs.37 lacs. Of these, 4 assets were sold for Rs.39 lacs. What is the tax implication? [2 marks]

2(e)(iii) Mr. Amit purchased a house in 2001-02 in Kolkata for Rs.12 lacs. He desired to sell this house in 2008-09 and received an

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advance of Rs.1 lac from the prospective customer. As per agreement, the customer failed to pay the remaining consideration, for which the advance money was forfeited by Mr. Amit. During the previous year 2013-14, Mr. Amit sold the House Property for Rs.38 lacs and purchased another house property within the year for Rs.28 lacs. What is the tax consequence? [6 marks]

2(e)(iv) An Indian Company donated Rs.8 lacs to a Political Party during the previous year 2013-14. Is there any tax benefit available to the assessee? [1 mark]

2(e)(v) Mr. B is having Gross Total Income of Rs.7 lacs and his spouse Mrs. B is having a Gross Total Income of Rs.8 lacs for the previous year 2013-14. Their ward, who is a minor has also earned Rs.90,000 from an interest on investments of Rs.15 lacs. This investment was actually gifted by the father-in-law of Mr.B in the name of his grand-son. What is the impact on total income for Mr.B and Mrs.B for the previous year 2013-14? [2 marks]

2(e)(vi) Explain Best Judgement Assessment. [2 marks]

Question No.3: Answer any one question [1 × 8 marks = 8 marks] [This question represents Wealth Tax Act only]

3 (a) Compute the value of the Building as on valuation date 31.03.2014, located in Chennai, from the following information: Annual rent as per municipal valuation Rs.2,00,000; Rent received from tenant (property was vacant for 4 months during the previous year) Rs.1,44,000. Municipal tax paid by tenant Rs.20,000; Repairs on property borne by tenant Rs.25,000; Refundable deposit collected from tenant as security deposit which does not carry any interest Rs.90,000. The difference between unbuilt area and specified area over aggregate area is 12%. [8 marks]

3(b) Compute Taxable Wealth of Mr. Bibhuti for the Assessment Year 2014-15: [8 marks]

- (i) He gifted a House Property valued at Rs.50 lacs to his wife on 01.04.2014 in an agreement to live apart. In whose hands the said property will be assessed to Wealth Tax in the Assessment Year 2014-15?
- (ii) Cash balance of Rs.65,000 recorded in the Books of Accounts of the assessee;
- (iii) Fixed Deposits of Rs.25 lacs;
- (iv) Guest house situated at a distance of 35 kms from the local limits of municipal board, valued at Rs.45 lacs.
- (v) Asset transferred to son's wife for immediate or deferred benefit of his daughter-in-law, valued at Rs.10 lacs.
- (vi) Self-occupied property for residential purpose valued at Rs.23 lacs.

Question No.4: Answer any two questions [2 × 10 marks = 20 marks] [On International Taxation Chapters only]

4(a)(i) Discuss the principle of Arm's Length Pricing? [2 marks]

4(a)(ii) Discuss marketing intangibles. [2 marks]

4(a)(iii) Define Associate Enterprise in the content of International Transaction. [2 marks]

4(a)(iv) List the steps followed in the process of computing Arm's Length Price during Transfer Pricing (TP) Study [4 marks]

4(b)(i) Discuss the use of Profit Level Indicators (PLI) in Transfer Pricing. [3 marks]

4(b)(ii) Discuss Berry Ratio [3 marks]

4(b)(iii) Value of International Transaction Rs.98,000. Arm's length price Rs.87,000. Arm's length price applying the provisions of Sec.92(C)(2) Rs.91,800. What is the quantum of adjustment required? [4 marks]

4(c) (i) Net Sales Rs.5,90,000; Cost of Goods Sold Rs.3,75,000; Operating Costs (including royalty of Rs.30,000) is Rs.1,98,000. Calculate the Operating Margin. [3 marks]

4(c) (ii) List the "Form" under which it is mandatory to furnish Report of Auditor on Transfer Pricing. [2 marks]

4(c)(iii) Normal gross profit margin is 34%. Cost escalations identified affecting reduction in profit by 4.39%. If the Cost of services provided is Rs.30 lacs and Billed amount is Rs.43 lacs, what is the adjustment required in Total Income? [5 marks]