

## INTERMEDIATE EXAMINATION

December 2016

P-7(DTX)  
Syllabus 2012

### Direct Taxation

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.  
Wherever required, the candidates may take suitable assumption(s)  
and state the same clearly in the answer.*

*Working notes should form part of the relevant answer.*

*All the questions relate to Assessment Year 2016-17, unless otherwise stated.*

### Section A

Answer Question No.1, which is compulsory and any four from Question Nos.2 to 6.

1. (a) Fill up the blanks:

1×5 = 5

- (i) The maximum amount deductible under section 80 TTA in respect of interest on savings bank account is ₹ \_\_\_\_\_.
- (ii) Monetary limit for exemption in the case of encashment of earned leave on superannuation received by private sector employees is ₹ \_\_\_\_\_.
- (iii) When unrealized rent of ₹ 50,000 in respect of a let-out property is realized subsequently, the amount liable to tax would be ₹ \_\_\_\_\_.
- (iv) Interest on enhanced compensation received by Mr. A, a resident individual is ₹ 4,00,000 of which 75% pertains to earlier financial years. The amount of such interest to be included in the total income under the head 'income from other sources' is ₹ \_\_\_\_\_.
- (v) Medical expenditure of ₹ 40,000 was incurred by Mr. A on his mother (being a senior citizen). The amount eligible for deduction under section 80D would be ₹ \_\_\_\_\_.

(b) Choose the most appropriate alternative:

1×5 = 5

- (i) When a person having agricultural lands sells the seeds taken from such lands in a nursery, which is part of the said lands, the income from such sale is treated as
  - (A) Business income
  - (B) Agricultural income
  - (C) Income from other sources
  - (D) None of the above

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- (ii) An employer has paid medical insurance premium of ₹ 12,000 in respect of a salaried employee drawing annual salary of ₹ 6 lakhs. The amount of perquisite charged in the hands of employee is
- (A) Nil  
(B) ₹ 6,000  
(C) ₹ 12,000  
(D) None of the above
- (iii) The rate of depreciation for a block of assets consisting of buildings used as factory is
- (A) 2.5%  
(B) 5%  
(C) 10%  
(D) None of the above
- (iv) In case of a Hindu Undivided Family, where the return of income cannot be signed by the Karta, the same can be signed by
- (A) the next senior-most male member.  
(B) Karta's wife.  
(C) any male member of the family.  
(D) any adult member of the family.
- (v) In case of an individual or HUF, to determine whether certain TDS provisions are attracted, what has to be seen is whether the person is subject to tax audit under section 44AB in
- (A) the immediately preceding financial year.  
(B) current year.  
(C) last two continuous financial years.  
(D) None of the above
- (c) Match the following: 1×5=5
- |   |   |
|---|---|
| (i) Securities Transaction Tax                                      | (a) Maximum limit ₹ 50 lakhs                            |
| (ii) Contribution of Employer to Pension Fund of Central Government | (b) Includible as Salary income of employee             |
| (iii) Donation in kind  | (c) Not deductible while computing income from property |
| (iv) Ground rent  | (d) Deductible as business expenditure                  |
| (v) Bonds specified in section 54EC                                 | (e) Not eligible for deduction under section 80G        |

(d) Answer the following questions with brief reasons / working:

- (i) Mr. Rao sold a vacant site to Mr. Jain in August, 2014 for ₹ 5 lakhs. The stamp duty valuation of the site at the time of sale was ₹ 8 lakhs. The difference of ₹ 3 lakhs was taxed as income in the hands of Mr. Jain under the head 'other sources'. Now in March, 2016 Mr. Jain sold the vacant site for ₹ 12 lakhs. What is the cost of acquisition of site to be adopted by Mr. Jain?
- (ii) Mr. Ajit is employed with XY Co. Ltd. at Mumbai from 01.04.2015. The company took accommodation on lease basis which cost ₹ 3 lakhs per annum. Mr. Ajit is eligible for salary plus DA of ₹ 1 lakh per month. The employer's annual contribution to the recognized provident fund account of Mr. Ajit is ₹ 1,20,000. What is the perquisite value of accommodation liable to tax in the hands of Mr. Ajit?
- (iii) Balaji Ltd, a textile manufacturing company paid ₹ 15 lakhs as contract payments to M/s. Ramesh Engineers (a partnership firm) for construction of godown building. At what rate the tax is deductible at source on such contract payment? 2+2+1= 5

2. (a) VKS Yoga Charities was formed on 14.04.2015, for the purpose of spreading the yoga culture. The charitable trust has received the following amounts during the year ended 31.03.2016:

Particulars	₹ in lakhs
Voluntary donations (non-corporus donations)	5
Donations received towards corpus	3
Agricultural income	2
Dividend from listed shares	1

Will this trust formed for the above purpose, be regarded as carrying on "charitable purpose" and entitled to registration under section 12AA of the Income-tax Act, 1961?

Assuming that no accumulation is planned, what is the minimum amount to be applied for charitable purposes for availing the benefit of exemption as per section 11? 4

- (b) Mr. Ashok owns two buildings which are let out during the financial year 2015-16. The relevant details are as under:

Particulars	House-I	House-II
	Residential	Commercial
	₹	₹
Municipal valuation	1,80,000	3,60,000
Standard rent	1,50,000	3,00,000
Actual rent	2,40,000	6,00,000
Municipal taxes – paid	20,000	30,000
Municipal taxes – outstanding	10,000	15,000
Interest on moneys borrowed – paid	60,000	20,000
Interest on moneys borrowed – outstanding	1,00,000	60,000
Housing loan principal repaid to bank	50,000	30,000

You are requested to compute income of Mr. Ashok under the head "Income from House property" for the assessment year 2016-17. 9

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- (c) An employee has been given a laptop purchased on 01.04.2015 for ₹ 40,000, which he is allowed to take home and use. What is the value to be treated as perquisite while computing income under the head 'salaries'? 2

3. (a) Mr. Nitin is the marketing manager of M&M Ltd., Mumbai. From the following details compute the salary income of Mr. Nitin for the assessment year 2016-17: 8

- (i) Basic salary (per month) ₹ 60,000  
(ii) Dearness allowance = 50% of basic salary  
(iii) Motor car owned by employer given to employee. Entire running expenses are met by the employer and the car is used for both official and personal purpose by the employee. The engine cubic capacity is above 1.6 litres.  
(iv) Provident fund contribution of both employer and employee at 15% of basic salary.  
(v) Accommodation owned by the employer is given to the employee. A sum of ₹ 5,000 per month is deducted towards accommodation from the salary of employee.  
(vi) Life insurance premium on policy taken by employee paid by the employer during the year ₹ 45,000.  
(vii) The employer provides free education facility for Mr. Nitin's daughter in a school maintained by the employer. Cost of education in similar school is ₹ 800 per month.  
(viii) Cost of lunch provided by the employer during office hours ₹ 18,000.

- (b) Mrs. Kiruthika sold a residential house at Mumbai for a consideration of ₹ 70,00,000 on 14.02.2016. She had bought land in May, 2005 for ₹ 8,00,000. Registration and other expenses incurred were 10% of the same. The construction of the house was completed in November, 2007 at a cost of ₹ 10,00,000.

The sale was made to a stranger. She had taken an advance of ₹ 2,00,000 in cash on 10.04.2015, for which clear evidence is available. At that time stamp duty valuation was ₹ 70,00,000. At the time of registration in February, 2016, there was 10% increase in stamp duty valuation. She received the balance consideration of ₹ 68,00,000 in February, 2016 by cheque. Brokerage paid for sale was 1% on sale consideration received.

She purchased the following residential houses in March, 2016:

- (i) House at Delhi for ₹ 11,00,000  
(ii) House at London for ₹ 19,00,000

He also purchased bonds of National Highway Authority of India approved for the purpose of section 54EC on the following dates:

29/03/2016	₹ 4,50,000
22/05/2016	₹ 5,00,000

Compute income chargeable under the head 'Capital Gains' in the hands of Mrs. Kiruthika for Assessment Year 2016-17.

Cost Inflation Indices (CII) are as under:

Financial Year	CII
2005-06	497
2007-08	551
2015-16	1087

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4. (a) Discuss, with brief reasons, the taxability or otherwise of the following under the Income-tax Act: 2×3=6
- Agricultural income of ₹ 1,50,000 earned from land situated in Bihar by Mrs. Bhagyashree, a non-resident.
  - Mr. Ram kumar, a citizen of India employed by the Government of India, left India for the first time on 10.02.2015 to USA for foreign assignment. He did not visit India during previous year 2015-16. He has been paid ₹ 5,00,000 towards allowances in USA.
  - An amount of ₹ 4,00,000 withdrawn by Mr. Prakash, a resident individual from Public Provident Fund as per relevant rule.
- (b) Mr. Praveen Kumar (aged 59 years) having gross total income of ₹ 27,50,000 during previous year 2015-16 incurred expenditure of ₹ 1,30,000 during the said year on medical treatment of his dependant father (aged 80 years) who is suffering from chronic disease specified in section 80DDB of the Income-tax Act and also paid medical insurance premium of ₹ 26,000. Determine total income of Mr. Praveen Kumar for Assessment Year 2016-17. 4
- (c) State, with reasons, whether the following items are allowable as deduction in computation of income of Tyagi Aluminium Limited under the head 'profits and gains from business or profession' or otherwise: 1×5=5
- Contribution of ₹ 1,20,000 to political party on the occasion of its silver jubilee.
  - Interest of ₹ 80,000 paid to bank on loan taken and utilised for payment of dividend.
  - Fees of ₹ 75,000 paid to independent director for attending board meetings without deduction of tax at source under section 194J.
  - Interest of ₹ 40,000 on bank overdraft utilised for payment of dividend.
  - Few customers are irregular in payment of dues against sale proceeds, for which provision for bad and doubtful debts has been created by debiting Statement of Profit & Loss.
5. (a) Under section 43B of the Income-tax Act, certain items are allowed only on actual payment basis, regardless of the method of accounting followed by the assessee. Name four such items and the due date by which they can be paid to claim deduction in the current year itself. 5
- (b) What is the rate of tax and the amount of tax to be deducted at source from the following payments? 5
- Discount of ₹ 50,000 allowed to a customer
  - Sales commission of ₹ 12,000
  - House worth ₹ 60 lakhs given as prize in a TV show to a resident individual
  - Purchase of rural agricultural land for ₹ 90 lakhs

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- (c) For the assessment year 2016-17, an individual assessee filed return of income on 30.11.2016. He has unabsorbed depreciation of ₹ 2 lakhs and business loss of ₹ 3 lakhs. Can these items be carried forward to subsequent assessment year? Can this return be revised upon discovery of any error? 5
6. (a) Compute the amounts of advance tax installments payable in the financial year 2015-16 in respect of the following cases: 4
- (i) A domestic company with tax liability of ₹ 3,90,000.
- (iii) A super senior citizen (age above 80) having pension income of ₹ 3 lakhs and property income (computed) ₹ 5 lakhs.
- (b) Determine the total income of Mr. Raman from the following details for the Assessment Year 2016-17: 6

Particulars	₹ In lakhs
Loss from house property	3.20
Income from salary	2.20
Income from non-speculation business	1.60
Loss from speculation business	5.40
Long-term capital gain from sale of land	2.40
Long-term capital gain from sale of listed shares in recognised stock exchange	1.80
Short-term capital loss from sale of listed shares in recognised stock exchange	2.80
Family pension received	2.20
Lottery winnings (net of TDS)	2.10
Lottery tickets purchased	0.30

Show clearly the items to be carried forward and those which cannot be carried forward.

- (c) Express Shipping Inc., a foreign company operating its ships in Indian ports during the previous year 2015-16 had collected the revenue as follows: 5

Freight (including ₹ 40 lakhs collected in US dollar for the cargo booked for Pradeep Port from UK)	₹ 200 lakhs
Demurrages	₹ 40 lakhs
Handling charges	₹ 20 lakhs

The expenses of operating its fleet during the year for the Indian ports were ₹ 110 lakhs which includes an expense of ₹ 0.40 lakhs paid in cash to an agency. Compute income of the company under the head 'Profits and Gains from business or profession' for Assessment Year 2016-17.

**Section B****(International Taxation and Transfer pricing)**

*Answer Question No.7 which is compulsory and any one from Question Nos. 8 and 9.*

7. State whether true or false with reference to the following in the context of transfer pricing provisions: 1×5=5
- (a) In case of an international transaction (not specified domestic transaction), one of the parties should necessarily be non-resident.
  - (b) An advance pricing agreement shall be valid for a period of ten years.
  - (c) All transactions entered into with entities in Notified Jurisdictional Areas (NJA) will be deemed to be international transactions.
  - (d) Whenever an enterprise has entered into international transactions, regardless of the amount, the audit report in the prescribed form should be obtained.
  - (e) "Arm's length price" means a price which is applied or proposed to be applied in a transaction between two associated enterprises.
8. (a) In the context of Advance Pricing Agreements (APA) answer the following: 6
- (i) Assessee who are eligible for applying APA.
  - (ii) Time limit up to which the APA is valid.
  - (iii) Validity of APA where the return is filed before entering into an APA.
  - (iv) Binding force of APA.
  - (v) Validity of APA due to change of law or facts.
  - (vi) Binding nature of APA in respect of completed assessments.
- (b) Examine the validity of the following statements: 4
- (i) A Ltd., an Indian company having branches outside India transferred goods from India and there was inter se transfer of goods between branches outside India. Such transfer of goods would not fall in the category of international transaction.
  - (ii) B Co Ltd., being a branch at Mumbai of a foreign company X Co Ltd. exported and imported goods with its head office at London. Such transfer of goods would fall in the category of international transaction.
- (c) Explain in brief the meaning of the term 'specified domestic transaction'. 5
9. (a) State the requirements of section 92D of the Income-tax Act relating to maintenance and keeping of information and documents by persons entering into an international transaction or specified domestic transaction. 5
- (b) What are the methods recognised for determining Arm's Length Price as per section 92C of the Income-tax Act? 6
- (c) When can a non-resident Indian having income in India be eligible for not filing his return of income in India? 4
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