

INTERMEDIATE EXAMINATION

December 2018

P-7(DTX)
Syllabus 2016

Direct Taxation

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Wherever required, the candidate may make suitable assumption(s) and

State the same clearly in the answer.

Workings Notes should form part of the relevant answer.

All sub-divisions of the same question are to be answered serially and not at different places.

All questions relate to income-tax assessment Year 2018-19 and the provisions stated relate to the Income-tax Act, 1961, unless otherwise stated in the question.

Answer Question No.1, which is compulsory and any five from Question Nos.2 to 8.

1. (a) Choose the most appropriate alternative for the following (*Option to be given only in capital letters A, B, C or D; entire answer need NOT be reproduced*): 1×10=10
- (i) Short-term capital gain on sale of listed shares (STT paid) in a recognized stock exchange is chargeable to income-tax @ _____ %.
- (A) 10
(B) 15
(C) 20
(D) 30
- (ii) When the total income of an individual exceeds ₹ 50 lakhs, the surcharge is payable @
- (A) 5%
(B) 7%
(C) 10%
(D) 12%
- (iii) When the amount is withdrawn from National Pension System Trust, it is chargeable to tax to the extent the withdrawal exceeds _____ % of the contribution of the assessee.
- (A) 10
(B) 25
(C) 15
(D) 20

Please Turn Over

- (iv) Ms. Jothi (aged 23) got married and left India to join her husband in the United Kingdom on 10.06.2017. She had never left India earlier. Her residential status for the assessment year 2018-19 is:
- (A) Resident and ordinarily resident
 - (B) Resident but not ordinarily resident
 - (C) Non-resident
 - (D) None of the above
- (v) While computing TDS on salary paid to employees, the losses given below to the applicable extent would be considered by the employer:
- (A) Loss from business
 - (B) Loss from house property
 - (C) Long-term capital loss
 - (D) Short-term capital loss
- (vi) When tax is not deducted at source on annual rent of ₹ 2 lakhs paid to landlord by a company, the amount liable for disallowance under section 40(a) (ia) is
- (A) Nil
 - (B) ₹ 2,00,000
 - (C) ₹ 20,000
 - (D) ₹ 60,000
- (vii) When the assessee has loss from house property, the maximum amount of such loss eligible for set off against other permissible incomes would be
- (A) ₹ 30,000
 - (B) ₹ 1,50,000
 - (C) ₹ 2,00,000
 - (D) No Limit
- (viii) When a capital asset was acquired on 01.04.1980 and sold in June, 2017, the cost of acquisition or the fair market value of the asset as on _____, at the option of the assessee is to be adopted for indexation purpose:
- (A) 01.04.2011
 - (B) 01.04.2001
 - (C) 01.04.1991
 - (D) 01.04.1981

- (ix) When a motor car is sold for ₹ 12 lakhs by a dealer to a buyer holding PAN, the amount of tax collectible as source shall be _____.
- (A) ₹ 12,000 (1%)
 (B) ₹ 24,000 (2%)
 (C) ₹ 1,20,000 (10%)
 (D) NIL
- (x) Cash donation given to a charitable trust (approved under section 80G) is eligible for deduction under that section, when the amount of donation does not exceed ₹ _____.
- (A) 2,000
 (B) 5,000
 (C) 7,000
 (D) 10,000

- (b) Match the following (Sufficient to give the corresponding item in column 3 for column 1; reproducing columns 2 and 4 are not required): 1×5=5

1	2	3	4
(i)	Depreciation on patents	(A)	40%
(ii)	Amount received by an individual as a loan in a reverse mortgage	(B)	Valuation of inventories
(iii)	Interest partner on capital	(C)	25%
(iv)	Depreciation on solar power generating system	(D)	Exempted, since there is no transfer
(v)	ICDS II	(E)	Allowed up to 12% p.a.

- (c) State whether the following statements are *True* or *False*: 1×5=5
- (i) Cost of self-generated goodwill of business is deemed to be Nil.
- (ii) Reimbursement of ordinary medical expenses by the employer is fully exempted.
- (iii) Where capital gain arises to an individual from the transfer of a capital asset, being immovable property under a joint development agreement, the capital gain is chargeable to tax in the previous year in which the certificate of completion for whole or part of the project is issued by the competent authority.

- (iv) In order to avail carry forward of unabsorbed depreciation, the assessee must furnish the return of income within the due date specified in section 139(1).
- (v) In order to claim exemption under section 54B, the agricultural land, which is transferred, must have been used by the assessee or his parents for at least 3 years prior to the date of transfer.

(d) Fill in the blanks:

1×5=5

- (i) The total income computed will have to be rounded off to the nearest multiple of ₹ _____.
- (ii) Domestic company means a/an _____ company.
- (iii) Additional depreciation on factory building for ₹ 30 lakhs, acquired by a manufacturer on 1st Dec., 2017 is _____.
- (iv) Unabsorbed depreciation can be carried forward for _____ years.
- (v) An assessee, who receives leave encashment during continuation of his service, can also claim _____.

2. (a) Mr. Barun furnishes you the following information for the year ended 31st March, 2018:

Sl. No	Particulars	₹
(i)	Pension received in India from a former employer in United Kingdom (UK)	1,80,000
(ii)	Income from business in Singapore (Controlled from India)	1,00,000
(iii)	Interest on company deposit in Singapore (credited in bank account held there)	80,000
(iv)	Profit from business in Kolkata controlled from UK	2,00,000
(v)	Income from tea cultivation in Sri Lanka	3,00,000
(vi)	Income from property in Singapore but received in Malaysia	2,50,000

Compute the total income of Mr. Barun, where he is (i) an ordinarily resident in India; (ii) a resident but not ordinarily resident in India, and (iii) a non-resident.

- (b) Mr. Chaturvedi, Delhi has 3 house properties in various parts of India. The details are given below:

Location of property	Delhi	Chandigarh	Kolkata
Usage	Self occupied	Let out	Let out
	Amount ₹	Amount ₹	Amount ₹
Rent received	NIL	3,60,000	1,80,000
Fair rent	2,40,000	3,00,000	1,50,000
Municipal value	2,10,000	2,40,000	1,20,000
Standard rent	1,80,000	2,10,000	90,000
Municipal tax-Due	20,000	40,000	30,000
Municipal tax- paid by the assessee	NIL	NIL	20,000
Interest on moneys borrowed	2,80,000	1,40,000	1,50,000

Note : All the properties were acquired/ constructed after 01.04.2010.

You are required to compute the income of Mr. Chaturvedi chargeable under the head "Income from house property" for the assessment year 2018-19.

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3. (a) Mr. Subramani is Senior Manager (Finance) of VKS Steel Ltd. The particulars of his emoluments for the year ended 31.03.2018 are given below:

Basic Salary	₹ 60,000 per month
Dearness Allowance	₹ 40,000 per month (30% is for retirement benefit)
Annual performance Incentive	₹ 1,80,000
House Rent Allowance	₹ 10,000 per month

Mr. Subramani pays rent of ₹ 20,000 per month for a flat occupied from 1st November, 2017 at Erode, Tamil Nadu.

He received gift voucher of ₹ 6,000 from the employer on the occasion of his marriage anniversary.

The employer provided him a motor car (cubic capacity of the engine exceeds 1.6 liters) without chauffeur with effect from 1st December, 2017. Running and maintenance expenses of ₹ 30,000 were fully borne by the employer. The car is used by Mr. Subramani both for official and private purposes.

The employer paid the following premiums for Mr. Subramani:

- Medical insurance premium ₹ 12,000
- Life insurance premium ₹ 15,000
- Accident insurance premium ₹ 10,000

Tax on employment paid to Erode Municipal Corporation by Mr. Subramani ₹ 5,000.

Compute the income chargeable to tax under the head "Salaries" in the hands of Mr. Subramani for Assessment Year 2018-19. 9

(b) Mr. Manish, a resident in India, has the following incomes for the year ended 31st March, 2018:

	₹
Income from sale of tea grown and manufactured in India	4,00,000
Income from growing and manufacturing rubber in India	5,00,000
Income from agricultural operations in Sri Lanka (cultivated paddy)	1,00,000
Income derived from sale of coffee grown, cured, roasted and grinded in India	2,00,000

Determine the quantum of income which is regarded as agricultural income and non-agricultural income in the hands of Mr. Manish for the assessment year 2018-19. 6

4. (a) The summarised financial position of Purva India (P) Ltd. as on 31/12/2017 is as under:

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital of ₹ 10 each	8,00,000	Land	6,00,000
Preference share capital	1,00,000	Building (WDV as per Income tax Act)	3,00,000
Reserves	2,00,000	Machinery (WDV as per Income tax Act)	4,00,000
Loan Creditors	6,00,000	Current Assets	10,40,715
Creditors	6,00,000		
Provision of Dividend Distribution Tax	40,715		
	23,40,715		23,40,715

Additional Information:

The Company went into liquidation on the balance sheet date; all current assets and building realized at book value. The realized money was applied towards payment of outside liabilities including Dividend Distribution Tax, and there after the preference shareholders.

Mr. Utkarsh is a holder of 10% equity shares and 20% preference shares of the company. Equity shares were originally acquired by him 16.08.2002 at face value. However, he had subscribed to preference shares on 01.04.2017, which were issued at par. He received a part of land (MV ₹ 5,00,000) and cash (for preference share) ₹ 20,000.

Compute the capital gain in hands of the company and Mr. Utkarsh.

(b) Ms. Pinky submits the following particulars for the year ended 31st March, 2018:

Sl. No.	Particulars	₹
(i)	Loss from let out residential building—computed	3,00,000
(ii)	Arrear rent from a commercial building received during the year (commercial property had been sold in June, 2015)	40,000
(iii)	Textile business discontinued from 31st October 2016— Brought forward business loss of Asst. Year 2014-15	60,000
(iv)	Profit from chemical business of current year (computed)	5,50,000
(v)	Bad debt written off in the Assessment Year 2013-14 relating to textile business recovered during the year consequent to Court decree	1,00,000
(vi)	Long-term capital gain on sale of shares (STT paid) in recognized stock exchange on 23.05.2017	90,000
(vii)	Speculation business in oil seeds— profit	3,00,000
(viii)	Winning from lottery (Gross)	11,00,000
(ix)	Loss from the activity of owning and maintaining race horses	2,10,000

You are required to compute the total income of Ms. Pinky and also ascertain the amount of losses that can be carried forward.

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5. (a) Mr. Bhushan, engaged in manufacture of chemicals, furnishes his Manufacturing, Trading and Profit & Loss Account for the year ended 31st March, 2018 as under:

Particulars	₹	Particulars	₹
To Opening stock	3,40,000	By Sales	1,14,00,000
To Purchases	1,00,20,000	By Closing stock	19,00,000
To Manufacturing Expenses	10,40,000		
To Gross Profit	19,00,000		
	1,33,00,000		1,33,00,000
To Salary	4,30,000	By Gross Profit	19,00,000
To Bonus	80,000	By Discount	25,000
To Bank term loan interest	90,000	By Agricultural Income	1,50,000
To Factory rent	1,20,000	By Dividend from Indian Companies	75,000
To Office rent	2,10,000		
To Administration Expenses	3,30,000		
To Net Profit	8,90,000		
	21,50,000		21,50,000

Additional Information:

- (i) The total turnover of Mr. Bhushan for the Financial Year 2016-17 was ₹ 132 lakhs.
- (ii) Salary includes ₹ 1,80,000 paid to his daughter. The excess payment considering her qualification and experience is ascertained as ₹ 40,000.
- (iii) Factory rent was paid to his brother. Similar portions are let out to others by him for a rent of ₹ 96,000 per annum.
- (iv) No tax was deducted at source from the office rent paid during the year.
- (v) Purchases include ₹ 70,000 paid by cash to an agriculturist for purchase of grains (being raw material).
- (vi) Depreciation allowable under section 32 of the Income-tax Act, 1961 amounts to ₹ 45,000 for assets held as on 01.04.2017. During the year, a machinery costing ₹ 5,00,000 was acquired on 01.07.2017 and was put to use from 15.10.2017.
- (vii) Administration expenses include commission paid to a purchase agent of ₹ 12,000 for which no tax was deducted at source.
- (viii) The following expenses debited above were not paid till 31.03.2018 and up to the 'due date' for filling the return specified in section 139(1):
 - (I) Term loan interest of ₹ 35,000;
 - (II) Demurrages to Indian Railways for using their clearing yard beyond stipulated hours (disputed by the assessee), forming part of manufacturing expenses ₹ 30,000.

Compute the income of Mr. Bhushan chargeable under the head "Profits and gains of business or profession" for the Assessment Year 2018-19. 10

- (b) Mr. Raghavan, aged 57, is a person with disability. He furnishes you the following information for the year ended 31.03.2018.
 - (i) Income from business (computed) ₹ 7,00,000
 - (ii) Dividend from an Indian company ₹ 10,50,000

(iii) Interest on Savings bank account with a nationalized bank ₹ 17,000

(iv) Medical insurance premium paid by account payee cheque

For self ₹ 20,000

For brother, wholly dependent on him ₹ 15,000

Compute his total income for the Assessment Year 2018-19.

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6. (a) CMA Anup Banerjee is in practice as Cost Accountant. He follows mercantile basis of accounting. His income & expenditure account for the year ended 31st March, 2018 is given below:

Expenditure	₹	Receipts	₹
Salary and stipends	10,50,000	Professional fees	45,00,000
Bonus to staff	1,00,000	Share of profit from a partnership firm	2,00,000
Meeting, Conference and Seminars	2,50,000	Interest on fixed deposit in a bank (Net of TDS)	27,000
Fees to consultants	1,50,000	Honorarium for valuation of answer papers of various institutes (Net of TDS)	54,000
Travelling and conveyance	4,60,000		
Rent for office premises	6,00,000		
Provision for bad debts	40,000		
Depreciation	1,45,000		
Provision for income tax	7,02,000		
Excess of income over expenditure	12,84,000		
	47,79,000		47,79,000

Other information:

- (i) Depreciation as per the Income-tax Act ₹ 2,00,000.
- (ii) Salary and stipends include ₹ 40,000 paid to one trainee for passing CMA final examination with rank.
- (iii) Bonus to staff was paid in November, 2018.
- (iv) In the financial year 2016-17, a sum of ₹ 15,000 was due to a consultant, which was allowed. The said amount was paid on 14th May, 2017 in cash.

Compute the total income of CMA Anup Banerjee for the Assessment Year 2018-19. He has not opted for presumptive taxation scheme under section 44ADA. The due date for furnishing the return of income under section 139(1) may be taken as 31st Oct, 2018. 15

7. (a) Explain with reasons, the taxability of the following transactions under the head "Income from other sources":
- (i) Veena received interest of ₹ 5,00,000 on additional compensation on account of compulsory acquisition of land acquired few years back. Year-wise break up of interest received:
₹ 1,20,000 for the Financial Year 2015-16, ₹ 2,40,000 for the Financial Year 2016-17 and ₹ 1,40,000 for the Financial Year 2017-18. 3
 - (ii) Gopal has shareholding (with voting rights) of 12% in Krishna Pvt. Ltd., a closely held company. He received loan of ₹ 2,50,000 from the company on 1st May, 2017, for which he furnished adequate security to the company. The accumulated profit of the company at that time was ₹ 1,75,000. Gopal repaid the loan on 30th Sept., 2017. 3
 - (iii) Family pension of ₹ 60,000 received by Sreelekha, widow of Late Vikram. 1
 - (iv) Vasant, whose salary income is ₹ 4,00,000 has received a cash gift of ₹ 60,000 from a charitable trust registered under section 12AA for meeting his medical expenses. 1
- (b) State the due dates for payments of advance tax, along with the quantum of amount payable in each instalment. Present your answer in the form of a table. 7

8. Write short notes on *any three* of the following:

5×3=15

- (a) Verification of return of income in the case of an individual, HUF and political party
 - (b) Any five transactions where quoting PAN is mandatory
 - (c) ICDS-I on "Accounting Policies"
 - (d) Best judgment assessment under section 144
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