

INTERMEDIATE EXAMINATION

June 2019

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.

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

*Wherever necessary, you may make suitable assumptions
and state them clearly in your answer.*

Working notes should form part of the answer.

*All questions relate to the Income-tax Act, 1961
and pertain to the AY-2019-20, unless stated otherwise.*

1. (a) Choose the most appropriate alternative for the following (option to be given only in capital letter A, B, C or D; entire answer need not be reproduced): $1 \times 10 = 10$
- (i) In the case of a domestic company (turnover/gross receipts ₹ 70 crores), the basic rate of income-tax applicable for computing as per normal provisions would be _____, when the turnover of the company has been ₹ 45 crores in the previous year relevant to the assessment year 2017-18. (Note: Ignore surcharge, education cess, etc.)
- (A) 30%
- (B) 29%
- (C) 25%
- (D) 35%
- (ii) The maximum marginal rate of tax applicable for individual taxpayer having total income of ₹ 1.5 crore (including surcharge and health & education cess) is _____.
- (A) 34.32%
- (B) 35.88%
- (C) 34.944%
- (D) 29.12%

- (iii) When a charitable trust registered u/s 12AA pays ₹ 50,000 towards rent to a resident for the premises occupied by it without deduction of tax at source for the entire previous year 2018-19, the amount of rental expenditure liable for disallowance would be _____.
- (A) Nil
(B) ₹ 6,00,000
(C) ₹ 4,20,000
(D) ₹ 1,80,000
- (iv) The lock-in-period for capital gain bonds issued by National Highway Authority of India for the purpose of deduction under section 54EC is _____.
- (A) 5 years
(B) 3 years
(C) 7 years
(D) 1 year
- (v) The TDS rate for payments made to a non-resident sportsman is _____%.
- (A) 20
(B) 20.8
(C) 30
(D) Nil
- (vi) Where a partner of a firm transfers any capital asset to the firm by way of capital contribution, for the purpose of computing capital gain in the hands of the partner, the amount of deemed consideration is
- (A) cost to the partner.
(B) fair market value of the asset on the date of transfer.
(C) the amount recorded in the books of the firm.
(D) value as determined by the Stamp valuation authority.

- (vii) When the gross receipts from profession exceed ₹ _____ lakhs, it is liable for audit under section 44AB and the provisions of section 44ADA will not apply.
- (A) 50
(B) 25
(C) 100
(D) 20
- (viii) Medical insurance premium incurred for senior citizen is eligible for deduction up to ₹ _____ under section 80D.
- (A) 30,000
(B) 50,000
(C) 1,00,000
(D) 60,000
- (ix) When a resident senior citizen having gross total income of ₹ 5,56,000, has derived interest from savings account in a nationalized bank of ₹ 8,200 and fixed deposit interest of ₹ 47,000 from such bank, he is eligible for deduction of ₹ _____ from the gross total income.
- (A) 55,200
(B) 8,200
(C) 47,000
(D) 50,000
- (x) Seshan, a retired civil servant received monthly pension of ₹ 60,000 during the previous year 2018-19. The amount of pension liable to tax after standard deduction would be ₹ _____.
- (A) 7,10,000
(B) 7,00,000
(C) 6,80,000
(D) 6,30,000

- (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)	ICDS IX	A	Quoting of Aadhaar number
(ii)	Section 139AA	B	₹ 1500 per child u/s 10(32)
(iii)	Minor son/daughter clubbing	C	Borrowing cost
(iv)	Sec 45(2)	D	Exempted from tax u/s 10(17)
(v)	Any allowance received by MP/MLA	E	Conversion of Capital asset into Stock in trade

- (c) State whether the following are *True* or *False*: 1×5=5

- (i) In applicable situations of TDS, such TDS is to be deducted on amount including GST component.
- (ii) Contribution made to political party by way of cash to the extent of ₹ 10,000 is allowed as business expenditure.
- (iii) Unabsorbed depreciation can be carried forward for any number of years.
- (iv) Interest on normal compensation/enhanced compensation is fully chargeable to tax in the year of receipt.
- (v) Long-term capital gain arising from sale of listed shares (STT paid) is not fully exempted from tax.

- (d) Fill up the blanks: 1×5=5

- (i) Payment of royalty to a person resident in India requires deduction of tax at source at the rate of _____.
- (ii) The amount of wages paid to eligible new workmen by an assessee engaged in non-seasonal manufacturing activity is deductible u/s 80JJAA @ _____ % of the wages so paid.

- (iii) An expenditure, for which cash payment is made for a sum exceeding ₹ _____ on a single day is disallowed.
- (iv) If a return of income is not furnished within the due date prescribed in section 139(1), such return can be filed on or before _____, provided the assessment is not completed.
- (v) Maximum amount of exemption under section 10(10C) in respect of compensation received for voluntary retirement is ₹ _____.

2. (a) Mohit left India on 07.04.2018 to United Kingdom for employment. He returned to India on 07.11.2018, after resigning his job. 9

He commenced a business on 01.12.2018 and his turnover was ₹ 32 lakhs up to 31.03.2019. All payments for the sales were received through crossed account payee cheques. He wants to declare income under section 44AD.

His salary income in the United Kingdom was ₹ 6,56,000. When he remained outside India, he invested in equity shares of Vodafone UK Inc. He earned dividend from Vodafone UK Inc. (foreign company) ₹ 60,000 during the previous year 2018-19. He borrowed ₹ 2,00,000 from Mr. Narain of Chennai to invest in the shares of the foreign company and paid interest of ₹ 20,000 for the year ended 31.03.2019.

Determine his residential status for the assessment year 2019-20 and compute his total income.

(b) Tarun, employed in a private company, commenced construction of a commercial complex in July, 2017. He borrowed ₹ 50 lakhs from a bank @ 9% per annum. Interest up to 31.03.2018 was ₹ 2,20,000 and for the period from 01.04.2018 to 31.12.2018 ₹ 2,30,000. ₹ 1,40,000 towards interest for the balance three months remained unpaid. 6

The construction of the building was completed on 31st December, 2018. The building was let out w.e.f. 01.01.2019 for a monthly rent of ₹ 90,000. Municipal tax of ₹ 1,20,000 was paid by cash on 10.01.2019. He repaid ₹ 1,90,000 towards principal during the previous year 2018-19, of which he paid ₹ 1,20,000 up to 31.12.2018.

The municipal value of the property is ₹ 9,00,000.

Compute the income from house property of Tarun for the assessment year 2019-20.

3. (a) Ms. Poorvisha is the HR Manager in Poorni Textiles Ltd. She gives you the following particulars for the year ended 31-03-2019: 10

- Basic Salary ₹ 1,00,000 p.m.
- Dearness Allowance ₹ 24,000 p.m. (30% of which forms part of retirement benefits).
- Bonus ₹ 21,000 p.m.
- Her employer-company has provided her with an accommodation on 1st April, 2018 at a concessional rent. The house was taken on lease by the company for ₹ 12,000 p.m. Ms. Poorvisha occupied the house from 1st November 2018, ₹ 4,800 p.m is recovered from the salary of Ms. Poorvisha.
- The employer gave her a gift voucher of ₹ 10,000 on her birthday.
- She contributes 18% of her salary (Basic Pay plus DA) towards recognised provident fund and the company contributes the same amount.
- Uniform allowance ₹ 24,000.

The company pays medical insurance premium to effect insurance on the health of Ms. Poorvisha ₹ 20,000.

Motor car owned by the employer (Cubic capacity of engine exceeds 1.6 liters) provided to Ms. Poorvisha from 1st November, 2018 which is used for both official and personal purposes. Repair and running expenses of ₹ 70,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Poorvisha. *Brief note on treatment of each item is required.*

- (b) Ashok, Surat furnishes you the following information for the previous year 2018-19: 5

	₹
(i) Income from coffee grown and cured in Coorg, Karnataka	3,00,000
(ii) Income from tea grown and manufactured in Jorhat, Assam	2,50,000
(iii) Income from Rubber estates in Kerala by sale of field latex obtained from rubber plants grown there.	4,00,000
(iv) Income from nursery by name 'Soundarya Nursery', Chennai	2,00,000
(v) Rent from a dwelling house in agricultural land in Coorg, Karnataka (It is occupied by the coffee estate labourers).	90,000

Compute the agricultural income of Ashok.

4. (a) Vipul held a plot of land in Haryana as capital asset till 31st March, 2017. The land was acquired by him in the previous year 2013-14 for ₹ 20,00,000. It was converted into stock-in-trade on 1st April, 2017 of real estate business carried on by him. The fair market value of the land on the said date was ₹ 35,00,000. 10

Vipul sold the land to Vinod for ₹ 45,00,000 on 31st January, 2019. The stamp duty assessed on the said date in respect of the land amounted to ₹ 50,00,000.

Vipul purchased a flat for ₹ 15,00,000 on 31st March, 2019 for his residential purpose. He has no other residential property.

- (i) Compute the income arising from the above transactions under appropriate heads of income in the hands of Vipul.

- (ii) What is the effect on assessment of Vinod, if Vinod had bought the land for constructing a residential property?

Additional Information:

Financial Year	Cost Inflation Index
2013-14	200
2017-18	254
2018-19	264

- (b) Krishna is employed in XYZ Limited. He gets a basic salary of ₹ 80,000 per month and dearness allowance equal to 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Krishna and XYZ Limited contribute 12% of basic salary to new pension scheme referred to in section 80CCD. 5

Examine the tax treatment of employer's contribution and own contribution in the hands of Krishna

5. (a) Explain with brief reasons, the allowability or taxability of the following expenditure/income in computation of income under the head "Profits and gains of business or profession": 2×5=10

- (i) Compensation of ₹ 30 lakhs received by Mr. Jain, a businessman, under an agreement for not carrying on business of software development.
- (ii) Vikram Ltd., engaged in growing and manufacturing tea in India, deposits ₹ 10 lakhs in NABARD. Profit before considering such deposit is ₹ 15 lakhs.
- (iii) Construction of toilets in a rural area by Sigma Ltd. for ₹ 10 lakhs in compliance with Corporate Social Responsibility (CSR) under the Companies Act, 2013.

- (iv) Plot purchased for ₹ 20 lakhs and construction of a building for ₹ 82 lakhs by Mr. Madhusudan for storing sugar, in the course of business of warehousing of sugar. Expenditure has been capitalized in the books.
- (v) Depreciation on a machine acquired for business purpose by Mr. Anand for ₹ 2,50,000, out of which an amount of ₹ 50,000 was paid in cash.
- (b) Shri Mayur has two minor children named Lakshmi (age 10) and Sarath (age 14). Following details pertain to the minor children for the year ended 31.03.2019: 1×5=5
- (i) Minor Lakshmi won Carnatic music competition in TV channel and was awarded cash prize of ₹ 2,00,000.
- (ii) Minor Lakshmi received cash gifts from friends of Mayur ₹ 43,000. No single gift exceeded ₹ 10,000.
- (iii) Minor Sarath received gift of gold chain whose fair market value was ₹ 80,000 from his maternal uncle on the occasion of his 14th birthday. He also received cash gift of ₹ 12,000 from friends of Mayur on his birthday.
- (iv) Out of accumulated savings of daughter Lakshmi, one vacant land was acquired. The stamp duty value of the land ₹ 3,60,000. The documented value of the land ₹ 3,20,000.

Compute the income of minor children of Mayur which is liable for clubbing.

6. (a) Compute the total income of Mr. Jagan, a resident, from the following details:

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	Particulars	Amount (₹)
(i)	Income under head 'Salaries'	3,50,000
(ii)	Income from owning and maintaining race horses	(3,00,000)
(iii)	Long-term capital gain from sale of house plot	(90,000)

Please Turn Over

	Particulars	Amount ₹
(iv)	Income from house property-X	50,000
(v)	Business Income- Medicines	(5,00,000)
(vi)	Speculative business-A	2,00,000
(vii)	Business Income-Textile	3,50,000
(viii)	Speculative business-B	(1,00,000)
(ix)	Income from horse races	1,50,000
(x)	Income from house property-Y	(3,10,000)
(xi)	Short-term capital gain from sale of immovable property	1,00,000

(b) Brindavan & Co. is a partnership firm consisting of 4 partners viz., Ram, Rahim, Robert and Rakesh. The firm made turnover exceeding ₹ 100 lakhs and the net profit of firm was ₹ 9,50,000 before considering the following items: 6

- (i) Shop rent paid for premises to partner Ram ₹ 17,500 per month. No tax was deducted at source.
- (ii) Depreciation as per Income-tax Rules ₹ 1,50,000.
- (iii) Interest on capital to partners @15% ₹ 1,50,000, as authorized by the deed of partnership.
- (iv) Working partner salary to each partner ₹ 15,000 per month, as per partnership deed.

You are required to compute the income of the firm for the assessment year 2019-20.

7. (a) Ms. Renu has received the following gifts during the previous year 2018-19: 8

- (i) On the occasion of her marriage on 17th January, 2019, she has received ₹ 1,00,000 as gift, out of which ₹ 50,000 are from relatives and balance from friends.

- (ii) On 31st January, 2019, she has received gift of ₹ 55,000 from cousin of her mother.
- (iii) She has received a mobile phone worth ₹ 22,000 from her friend on 16th August, 2018.
- (iv) On 1st December, 2018, she acquired a vacant land from her friend for ₹ 1,50,000. Stamp duty value on that date ₹ 2,10,000.

Compute the taxable income from the aforesaid gifts.

- (b) (i) State the provisions relating to deduction of tax at source from premature withdrawal from Employees Provident Fund. 4
- (ii) State the time of tax deduction at source and the threshold limits of such deduction in case of payment to contractors. 3

8. Write short notes on *any three* out of the following: 5×3=15

- (a) Losses which cannot be carried forward for set off when the return of income is not filed within the 'due date' specified under section 139(1).
- (b) Items to be excluded in determining the cost of inventories under ICDS-II.
- (c) Verification of return of income for company assessee under section 140.
- (d) Scrutiny assessment under section 143(3)
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