

INTERMEDIATE EXAMINATION

June, 2014

I-P7(ADT)

Syllabus 2008

Applied Direct Taxation

Time Allowed: 3 Hours

Full Marks: 100

*Wherever required, the candidate may make suitable assumptions and state them clearly in the answers.*

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

*All questions relate to the assessment year 2014-15 and the provisions stated relate to Income-tax Act, 1961, unless stated otherwise in the question.*

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

1. (a) Choose the most appropriate alternative: 1×13=13
- (i) The basic exemption limit for every individual being resident in India, who is of the age of 80 years or more for the Assessment year 2014-15 is ₹
- (A) 2 lakhs  
(B) 2.5 lakhs  
(C) 3 lakhs  
(D) 5 lakhs
- (ii) Commuted pension received by a State Government employee is exempt upto ₹
- (A) 3 lakhs  
(B) 5 lakhs  
(C) 10 lakhs  
(D) Fully exempt
- (iii) Accommodation provided in a hotel will not be a taxable perquisite, if the period of such accommodation does not exceed
- (A) 7 days  
(B) 10 days  
(C) 15 days  
(D) 30 days
- (iv) Computation of business income as per section 44AF of the Income Tax Act, 1961 would be the following % of turnover:
- (A) 1  
(B) 2  
(C) 5  
(D) 8

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- (v) Interest to a partner by a firm will not be disallowed, if the rate of interest is
- (A) 14%
  - (B) 12%
  - (C) 15%
  - (D) 18%
- (vi) The rate of minimum alternate tax is
- (A) 18.5%
  - (B) 15.5%
  - (C) 18%
  - (D) 12%
- (vii) Due date for filing the return of income of a company (not having any international transaction) is
- (A) 31.7.2014
  - (B) 31.8.2014
  - (C) 30.9.2014
  - (D) 31.10.2014
- (viii) If total income of a partnership firm exceeds ₹ one crore, the following surcharge on income tax is payable:
- (A) 1%
  - (B) 10%
  - (C) 5%
  - (D) 7%
- (ix) The investment made in the long term specified asset by an assessee to claim exemption u/s 54EC from capital gain tax cannot exceed ₹ in lakhs
- (A) 10
  - (B) 15
  - (C) 25
  - (D) 50
- (x) The maximum penalty leviable for failure to get accounts audited or to furnish report u/s 44AB is ₹
- (A) 75,000
  - (B) 1,00,000
  - (C) 1,50,000
  - (D) 3,00,000

- (xi) A house shall not be an asset for the purpose of wealth tax, if it is used for residential purpose and allotted by a company to a director who is in whole time employment having a gross amount salary of less than ₹
- (A) 10 lakhs  
(B) 5 lakhs  
(C) 7.5 lakhs  
(D) 12 lakhs
- (xii) Income of minor child includible in the Income of his/her parent is exempt to the extent such income does not exceed the following amount for each minor child ₹
- (A) 500  
(B) 1,000  
(C) 1,500  
(D) 2,000
- (xiii) A trust shall not be considered as charitable trust when the commercial activities in the previous year exceed ₹
- (A) 10 lakhs  
(B) 25 lakhs  
(C) 15 lakhs  
(D) 30 lakhs

(b) Fill up the blanks:

1×12=12

- (i) No deduction shall be allowed in respect of contributions given by companies to political parties by way of \_\_\_\_\_ .
- (ii) No deduction of tax at source shall be made where the total amount of consideration for the transfer of an immovable property (other than agricultural land) is less than ₹ \_\_\_\_\_ .
- (iii) Standard deduction of \_\_\_\_\_ net lettable value of a property shall be allowed to the assessee.
- (iv) Property income of Registered Trade Union \_\_\_\_\_ (is not/is) exempt from income-tax.
- (v) Rate of depreciation for block of intangible assets is \_\_\_\_\_ .
- (vi) Deduction in respect of medical treatment of a senior citizen u/s 80DDB of the Income Tax Act, 1961 is ₹ \_\_\_\_\_ .
- (vii) There are two schools of Hindu Law, one is Mitakshara and the other is \_\_\_\_\_ .
- (viii) Interest u/s 234B of the Income Tax Act, 1961 will not apply if an assessee pays more than \_\_\_\_\_ % of the assessed tax by way of advance tax.

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- (ix) Where an assessee incurs any expenditure over ₹ \_\_\_\_\_ towards payment to goods transport agency otherwise than by account payee cheque drawn on a bank or account payee bank draft, 100% thereof will be disallowed in respect of such expenditure.
- (x) Time limit for carry forward and set off of losses from speculation business is \_\_\_\_\_ years.
- (xi) Where there is sale of coffee grown and cured by the seller, \_\_\_\_\_ % will be taken as non-agricultural income as per Rule 7B of Income Tax Rules.
- (xii) Every person who grants a lease or a licence or enters into a contract for Toll Plaza will collect tax at source at the rate of \_\_\_\_\_ %.

2. (a) Mr. Suresh, finance executive in a company received the following emoluments per month for the financial year 2013-14:

	₹
Basic pay	40,000
Dearness allowance	15,000
Commission	10,000
Entertainment allowance	5,000
Medical expenses reimbursed (total for the year)	20,000

Profession tax ₹ 5,000 of which ₹ 2,000 was paid by the employer. He contributed ₹ 5,000 per month towards recognized provident fund. Also, he contributed ₹ 30,000 in Post Office in National Saving Certificate IX issue.

Compute his total income on the assumption that he does not have income from any other head for the year. 9

- (b) State the exceptions to the applicability of clubbing provisions even in the case of revocable transfers. 3

- (c) Raman engaged in business, has total income of ₹ 3,10,000. He paid rent of ₹ 8,000 per month for the residential accommodation occupied by him at Cochin. Compute the amount eligible for deduction under section 80GG. 3

3. (a) In December, 2013, Mr. Dev received ₹ 24 lakhs by way of compensation and ₹ 12 lakhs by way of interest on compulsory acquisition of his agricultural land within city limits of Chennai by National Highway Authority, consequent to a court order. He incurred ₹ 2 lakh towards legal expenses. The acquisition of his agricultural land was in the year 2006 and it was used for cultivation for the past 5 years before acquisition by Mr. Dev. The compensation award was approved by the Central Government.

Determine the amount chargeable to tax.

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- (b) Explain the incentive given to companies for expenditure incurred on skill development project. 3
- (c) Mr. Sanjay running a proprietary business by name "Kannan Departmental Store" wants to convert it into a company. State the conditions to be satisfied by Mr. Sanjay for availing exemption from capital gains tax by treating the transaction not being regarded as "transfer". 3
- (d) What is slump sale? Explain its taxability under the head "Capital gains". 5
4. (a) Smt. Lakshmi owns a house property at Salem. The Municipal rental value of the property is ₹ 6 lakhs, fair rent is ₹ 4,80,000 and Standard rent is ₹ 4,50,000. The property was let out for a rent of ₹ 50,000 per month upto December 2013. Thereafter the tenant vacated the property and was self-occupied by Smt. Lakshmi. Rent for the months of November and December 2013 could not be realized and all the conditions prescribed under Rule 4 are satisfied. She paid municipal tax at 10% during the year. She paid interest of ₹ 35,000 during the year for the amount borrowed for repair of the property.  
Compute her income from house property for the assessment year 2014-15. 6
- (b) Mr. Robert furnishes the following information pertaining to the financial year 2013-14:
- Cash gift of ₹ 20,000 each from his two friends A and B on 05.11.2013 on the occasion of his birthday.
  - Acquired shares of companies from his employer for ₹ 1 lakh. When the market value of the shares were ₹ 5 lakhs.
  - Acquired a vacant site for ₹ 3 lakhs and the stamp duty valuation of the site being ₹ 7,50,000.
  - Gift of a new motor cycle by his friend and the cost of motor cycle was ₹ 61,000.
  - Gift of bullion worth ₹ 2,00,000 on his wedding day from his children.
- Compute income chargeable under the head 'other sources' for the assessment year 2014-15. 6
- (c) State the conditions to be satisfied for writing off bad debts by an assessee. 3
5. (a) Mr. Moore, a British citizen visited India for the first time on 6th April, 2012. He stayed in India throughout the previous year 2013-14. What is his residential status for the assessment year 2014-15? 4
- (b) State with reasons whether the following transactions attract income tax liability in the hands of the recipients: 8
- Royalty of ₹ 6 lakhs paid by X. Ltd., an Indian company to Fusion Ltd., a British company in respect of a secret process used in manufacturing of goods in India.
  - Salary of ₹ 10 lakhs paid by the Government of India to an Indian citizen and resident in Japan for services rendered in Japan.

- (iii) Mr. Samuel, a non-resident and lawyer of USA received fee of ₹ 8 lakhs to argue a case in the Supreme Court of India.
- (iv) Fees for technical services amounting to ₹ 12 lakhs paid by Surya Ltd., an Indian company to a company located outside India in respect of business carried on in South Africa.
- (c) A charitable trust registered under section 12AA holds shares in a public sector company. Does it have any adverse effect from income-taxation point of view? 3
6. (a) A partnership firm consisting of three partners P, Q and R is engaged in the business of selling fast foods in a mall.
- The turnover of the business for the previous year 2013-14 amounts to ₹ 90 lakhs. Expenses include purchase of ₹ 30,000 for which payment was made in cash on a single day. As authorised by the partnership deed the partners are entitled to interest at 13% per annum on their capital accounts and the aggregate amount of such interest is ₹ 1.30 lakhs.
- The firm did not opt for presumptive taxation under section 44AD for Assessment Year 2013-14. It had business loss of ₹ 70,000 and unabsorbed depreciation of ₹ 80,000 carried forward from Assessment Year 2013-14.
- The firm opts for presumptive taxation under section 44AD for Assessment Year 2014-15.
- (i) Compute business income of the firm for Assessment Year 2014-15.
- (ii) Is the firm liable to advance tax in respect of Assessment Year 2014-15? 7
- (b) Dev is engaged in the business of real estate. During the previous year 2013-14, he sold a flat forming part of his stock-in-trade to Jeet for ₹ 45 lakhs. The value assessed by the Stamp Valuation Authority for stamp duty purpose is ₹ 55 lakhs. Jeet holds the flat as capital asset.
- State with reasons the implications of the above transaction on taxable income of Dev and Jeet for the Assessment Year 2014-15. 6
- (c) An assessee has filed his return of income without paying self-assessment tax due under section 140A. How should the return be treated by the Assessing Officer? 2
7. (a) State the amount of penalty payable by the assessee in case of following defaults: 6
- (i) Furnishing inaccurate particulars of income.
- (ii) Failure to file tax audit report under section 44AB within the due date prescribed.
- (iii) Failure to keep and maintain deduct tax at source as per Chapter XVII-B
- (b) A company filed a return for Assessment Year 2014-15 on 1st December, 2014. The company has not entered into any specified domestic transactions and it has no associated enterprise outside India. The return shows the following losses and allowances:
- Loss from house property;
- Loss from transfer of short-term capital asset;

Business loss;

Unabsorbed depreciation.

State whether above losses and unabsorbed depreciation shall be allowed to be carried forward. 5

- (c) Rishi aged 12 years earned ₹ 10 lakhs during previous year 2013-14 for acting in feature films. The said sum was kept in fixed deposit in his name. Interest earned on fixed deposit amounted to ₹ 50,000.

In whose hands shall the above two incomes be included? Give reasons for your answer. 4

8. (a) State, with reasons, whether the following constitute assets chargeable to wealth tax on the valuation date 31.3.2014:

(i) A house property owned by Rama was transferred without consideration to Miss Mrinal on 10.7.2013. Subsequently, Miss Mrinal got married to Rama's son on 21.02.2014. The value of the house on 31.3.2014 is ₹ 89 lakhs. 2

(ii) The cash in hand on 31.3.2014 with the cashier of Agni Pvt. Ltd. was ₹ 1,55,000. The balance as per cash book on that day was ₹ 1,25,000. 1

(iii) Office building at Chennai purchased by a builder on 14.04.2010 for resale. 1

(iv) A farm house situated at 28 kilometres from the local limits of Salem Municipal Corporation and also has a guest house at a distance of 30 kilometres from the local limits of Pune Municipal Corporation. 2

(v) Lands owned by Narmada Textiles Pvt. Ltd., none of which have been classified as an "agricultural land" in the revenue records of the Government: 4

Land	Aerial distance from the local limits of a municipality or cantonment board	Population according to the last preceding census of which the relevant figures were published before 1-4-2013
I	2 kms	10,900
II	3 kms	92,000
III	5 kms	3,10,000
IV	9 kms	12,10,00,000

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- (b) During the course of assessment, the Assessing Officer found that the assessee had paid rent in respect of its business premises amounting to ₹ 90,000, which was not debited in the books of account for the year ending 31.03.2014. The assessee did not explain the source for the said payment of rent. The A.O. proposes to make an addition of ₹ 90,000 in the hands of the assessee for the AY 2014-15.

The assessee claims that even if the addition is made, the sum should be allowed as deduction while computing its business income, since it has been expended for purposes of its business.

Is the claim of the assessee justified in law?

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