

INTERMEDIATE EXAMINATION

June 2015

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 candidate may make suitable assumption and state the same clearly in the answer.

Working notes should form part of the answer.

All the questions relate to the assessment year 2015-16, unless stated otherwise.

Section A

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

1. (a) Fill up the blanks:

1×10=10

- (i) A company incorporated outside India is said to be resident in India, if control and management is _____ situated in India.
- (ii) A foreign company is liable to surcharge at 5%, if the total income exceeds ₹ _____.
- (iii) A Zero coupon bond is a long-term capital asset, if it is held for more than _____ months before transfer.
- (iv) If statement of deduction of tax at source is not filed within due date, the deductor is liable to a fee of ₹ _____ per day of default or the amount of tax deductible, whichever is less.
- (v) Maximum amount of exemption under section 10(10C) of the Income-tax Act in respect of compensation received for voluntary retirement is ₹ _____.
- (vi) A manufacturing company investing more than ₹ _____ in new plant and machinery in the previous year 2014-2015 is entitled to investment allowance @ 15%.
- (vii) An assessee can contest an order of the Income-tax Appellate Tribunal on any substantial question of law by filing appeal to the jurisdictional High Court within _____ days from the date of receipt of the said order.
- (viii) Royalty payable by Government to a non-resident is liable to be taxed at _____ % on gross amount of royalty.

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- (ix) A farm house located beyond _____ km from any municipal area is not chargeable to wealth tax.
- (x) The value of an asset transferred by Mr. X to Mr. Y under a revocable transfer deed is includible in the net wealth of _____.

(b) Choose the most appropriate alternative:

1×5=5

- (i) Subject to fulfilment of other conditions, remuneration received by a foreign national as an employee of a foreign enterprise for services rendered by him during his stay in India is exempted from income tax, if his stay in India does not exceed a period of
- (A) 30 days
(B) 60 days
(C) 90 days
(D) 120 days
- (ii) Long-term capital gain on off-market sale of shares of a listed company without availing of indexation benefit is taxed at
- (A) 5%
(B) 10%
(C) 15%
(D) 20%
- (iii) If dividend declared by an Indian company on or after 1st October, 2014 amounts to ₹ 50,00,000, then dividend distribution tax (without considering surcharge and education cess) is
- (A) ₹ 5,00,000
(B) ₹ 6,25,000
(C) ₹ 7,50,000
(D) ₹ 8,82,353
- (iv) Deduction under section 80 JJAA in respect of employment of new workmen can be claimed by company for an amount equal to
- (A) 15% of additional wages to new workmen
(B) 20% of additional wages to new workmen
(C) 25% of additional wages to new workmen
(D) 30% of additional wages to new workmen

(v) A return of income for Assessment Year 2014-15 filed within the due date specified in section 139(1) can be revised by the assessee at any time before expiry of

- (A) 31st March, 2015
 (B) 31st March, 2016
 (C) 31st December, 2014
 (D) 31st December, 2015

(c) Attempt all the questions below:

1×5=5

- (i) At what rate of interest on debentures of an Indian public limited company subscribed in foreign exchange by a non-resident Indian taxed?
- (ii) What is the period for which an advance pricing agreement shall remain valid?
- (iii) What is the rate of tax applicable to income of a non-resident sportsman who is a foreign national by way of participation in any sport in India?
- (iv) P. Ltd., a foreign company gave loan to Q. Limited, an Indian company. When shall P. Ltd. be deemed to the associated enterprise of Q. Ltd.?
- (v) What is 'uncontrolled transaction'?

2. (a) Can Mr. Ajit who has long-term capital gain from sale of vacant site in India buy a residential house outside India to claim exemption under section 54F? Assume that he has no residential property in India. 3
- (b) Vijay, a resident individual aged 59, is running a wholesale business in fertilisers, whose turnover for the year ended 31.03.2015 is ₹ 70 lacs. Is he liable to pay advance tax, if he maintains books of accounts and gets his accounts audited under section 44AB of the Income-tax Act, 1961 (business income is ₹ 5.2 lacs)? Will your answer be different if he opts for presumptive taxation? He has no other income. 3
- (c) Name any four businesses which are eligible for deduction under section 35AD of the Income-tax Act, 1961. 4
- (d) How is the unrealized rent dealt with in annual value determination of a house property under the Income-tax Act, 1961? What are the conditions to be satisfied in this regard? 3
3. (a) Sarath Ltd., engaged in manufacturing activity, acquired new plant for ₹ 30 crores in August 2014 which was put to use from 15.09.2014. Compute depreciation, additional depreciation under section 32(1)(ia) and investment allowance under section 32AC of the Income-tax Act, 1961 for the plant. Quantify the written down value of asset as it would be on 31.03.2015. 4

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- (b) Vivitha Pipes Ltd., set up a new unit for extension of its manufacturing activity. It incurred ₹ 45 lakhs towards preliminary expenses. The cost of the project is ₹ 600 lakhs and the amount of capital employed is ₹ 700 lakhs.

Determine the amount eligible for amortization under section 35D and the period of amortization. 6

- (c) When does advance money received for transfer of capital asset become chargeable to tax? Under what head of income is it chargeable? 3

4. (a) Mr. Ashwin finance manager in Beta Ltd. gives you the following information:

(i) A rent-free accommodation is provided by the employer at Bangalore by taking the accommodation on lease basis whose rent was ₹ 20,000 per month.

(ii) He is provided with a motor car (cubic capacity of engine more than 1.6 litres) both for official and personal use. The expenses on running and maintenance are met by the employee.

Assume annual salary for the purpose of perquisite valuation as ₹ 6,00,000.

You are requested to compute the perquisite value in the hands of Mr. Ashwin. 4

- (b) When are the books of account of a person engaged in notified profession liable for audit under section 44AB? What is the penalty is leviable for failure to get the accounts audited? 2

- (c) State the conditions to be satisfied when a sole proprietary concern is succeeded by a company, to avail tax exemption in respect of capital gains. 4

- (d) Mr. Bharat, an engineering graduate, born and brought up in India, got employment in USA in August 2014. By what date he should leave India, in order to become a non-resident? By that, what tax advantage he will get? 3

5. (a) Mr. Dhoni sold a residential building at Cochin for ₹ 65 lakhs in December 2014. The stamp valuation authority determined the value at ₹ 80 lakhs which was not contested by Mr. Dhoni. The property was acquired in April, 2004 for ₹ 6 lakhs. He acquired a residential flat at Ranchi for ₹ 55 lakhs and an other residential house at Cuttack for ₹ 25 lakhs before March, 2015. Compute the capital gain of Mr. Dhoni for the assessment year 2015-16.

Note:

<i>Financial Year</i>	<i>Cost inflation index</i>
2004-05	480
2014-15	1024

You are required to plan in such a way that the incidence of tax is the least. 5

(b) Explain the provisions relating to carry forward and set off of losses by closely held companies. 3

(c) Mohit Sharma gives you the following information for the year ended 31.03.2015:

Owns 3 goods carriages throughout the financial year 2014-15

Retail trade turnover ₹ 36,00,000

Has eligible brought forward depreciation of the assessment year 2012-13

₹ 60,000 relating to retail trade.

Deposited ₹ 80,000 in PPF account and ₹ 90,000 in tax saver deposit.

Assume that he wants to offer income by opting for sections 44AD and 44AE.

Compute his total income for the assessment year 2015-16. 5

6. (a) Vimala Pharma Ltd. informs that it has net profit of ₹ 60 lakhs for the year ended 31st March, 2015. It gives you the following further information:

(i) Depreciation as per books ₹ 3,50,000.

(ii) Bad debts written off in the books ₹ 5,00,000, which includes ₹ 1 lakh due from one customer who has disputed the liability to pay but continues to have business relationship with the company.

(iii) Proposed dividend debited to Profit and Loss Account ₹ 6 lakhs.

(iv) One machinery which has become useless has been written off in P & L Account, the amount debited being ₹ 90,000.

(v) Provident Fund collections from employees for the year ₹ 1,50,000 and company's own contribution of ₹ 1,10,000 for the year have not been remitted. These amounts are shown as Sundry Liability in the books. Assume it will be remitted after 31st December, 2015.

(vi) Income from agricultural lands surrounding the factory ₹ 50,000 credited to Profit and Loss Account.

(vii) Bank term loan for purchase of machinery waived ₹ 2 lakhs is credited to capital reserve account.

(viii) The opening WDV of plant and machinery was ₹ 15,90,000. One machinery for ₹ 4,10,000 was acquired on 01.06.2014 and was put to use immediately.

(ix) Provisions for taxation debited in the Profit and Loss Account amounts to ₹ 15 lakhs.

You are requested to compute the income of the company under the head 'Profits and gains of business or profession' for the assessment year 2015-16. 9

(b) State whether TDS/TCS provisions are attracted in the following cases: 4

(i) A newspaper paid ₹ 2,00,000 to ex-cricketer of New Zealand for writing series of articles during World Cup Cricket matches.

Please Turn Over

- (ii) Mr. X purchased jewellery from a showroom for ₹ 5,50,000 on 10.10.2014 by cheque.
- (iii) When Mr. Y purchased fly ash from a factory to use the fly ash for manufacture of bricks.
- (iv) A partnership firm having a turnover of ₹ 40 lakhs during the financial year 2013-14 made contract payment of ₹ 35,000 to an individual for a single bill.

Section B

(Wealth Tax Act)

Answer any one question.

7. (a) A property self occupied for 6 months was let out on a monthly rent of ₹ 10,000 from 01.10.2014. The municipal tax on the property amounts to ₹ 20,000 per annum. The tenant has deposited ₹ 2 lakhs. The municipal annual value for the property is ₹ 1,40,000. Compute the capitalized value of the property. The property has been constructed utilising the permissible extent (200 sq.ft.) of total available land of area 3,000 sq.ft. 4
- (b) How is the interest of a partner in the assets owned by the firm computed and charged to wealth tax? 4
8. (a) State whether the following are assets under the Wealth Tax Act: 4
- (i) Farm house situated in a village 20 kms from the municipal limits in Delhi, where the corporate office is located.
 - (ii) Guest house located 30 kms from the municipal limits.
 - (iii) Vacant land held as stock in trade for the past 7 years.
 - (iv) Lands meant for industrial use acquired 18 months before the valuation date.
- (b) Mr. Vasudevan transferred a vacant site in an urban area to Miss Jothi on 1.1.2015, who subsequently got married to his son Vaibhav on 01.03.2015. In whose hands will this vacant urban land be treated as an asset as on 31.03.2015? 4

Section C
(International Taxation, DTTA, etc.)

Answer any two questions.

9. (a) Explain binding nature of advance pricing agreement. 3
- (b) Is it possible to apply advance pricing agreement entered into in a previous year to international transactions entered into in preceding previous years as well? 3
- (c) Ayush is a musician who derived income of ₹ 1,25,000 during the previous year 2014-15 from a concert performed in a country with which India has no double taxation avoidance agreement. Tax of ₹ 31,250 was deducted at source in the said country. His income from profession in India during the previous year 2014-15 amounted to ₹ 3,00,000. Compute tax payable ^{by} Ayush for Assessment Year 2015-16. 4
10. (a) What are the consequences (other than penalty) of adjustment made by the Assessing Officer to arm's length price in international transactions entered into by the assessee resulting in increase in taxable income? 3
- (b) A person resident in India seeks to remit certain amount liable to tax in India to a company incorporated in a notified jurisdictional area. At what rate should the tax be deducted at source from such payment? 3
- (c) P. Ltd., an Indian company, sold steel rods to its holding company, Q. Ltd., USA at US Dollar 200 (FOB) per MT during previous year 2014-15. P. Ltd. also sold identical product to an independent company in USA, R. Ltd. at US Dollar 400 (CIF) per MT. Insurance and freight amounts to ₹ 200 per MT. Determine whether the transaction between P. Ltd. and Q. Ltd. satisfies the arm's length test. 4
11. (a) When shall a transaction entered into with an unrelated person shall be deemed to be an international transaction with an associated enterprise? 4
- (b) Explain the purposes for which the Central Government enters into double taxation avoidance agreement with any foreign country as per section 90 of the Income-tax Act, 1961. 4
- (c) What is residuary method of determination of arm's length price as per Rule 10AB of the Income-tax Rules? 2