

INTERMEDIATE EXAMINATION

June 2016

P-7(DTX)
Syllabus 2012

Direct Taxation

Full Marks: 100

Time Allowed: 3 Hours

*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.*

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) Assessee's own contribution to the National Pension Scheme is eligible for a maximum deduction of ₹ _____.
- (ii) Any payment received from an account opened under Sukanya Samriddhi Account Rules, 2014 is _____.
- (iii) A charitable trust in order to be eligible for exemption under section 11 must not have more than _____ % of aggregate receipts from any activity in the nature of trade, commerce or business.
- (iv) The amount of deduction towards health insurance premium paid by an individual (not being a senior citizen) is limited to ₹ _____.
- (v) Fee under section 234E for delay in filing of quarterly TDS / TCS return is ₹ _____ per day.
- (b) Choose the most appropriate alternative: 1×5 = 5
- (i) A senior citizen having total income consisting of pension and let out property income aggregating to ₹ 6 lakhs must have paid advance tax during the financial year 2015-16 of
- (A) NIL
- (B) 90% of ₹ 28,840
- (C) 90% of ₹ 44,290
- (D) 90% of ₹ 39,140

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- (ii) Mr. Ramji is employed in ABC Ltd who maintained a hospital for treatment of employees. During the financial year 2015-16, the value of medical benefit availed by Ramji's family from the hospital was ₹ 2,10,000. The amount of medical perquisite chargeable to income tax would be
- (A) ₹ 2,10,000
(B) ₹ 1,05,000
(C) ₹ 21,000
(D) NIL
- (iii) Mr. Laxman occupied his apartment till December 2015 and thereafter occupied the quarters provided by the employer. The apartment of Mr. Laxman was let out at ₹ 20,000 per month from 1st January, 2016. The annual value of the property would be
- (A) ₹ 60,000
(B) ₹ 2,40,000
(C) ₹ 1,80,000
(D) Nil
- (iv) When a company paid ₹ 5 lakhs to Indian Institute of Technology to carry on research in a field unrelated to the activity of the company, the amount eligible for deduction paid by way of donation would be
- (A) ₹ 5,00,000 (100%)
(B) ₹ 6,25,000 (125%)
(C) ₹ 10,50,000 (175%)
(D) ₹ 10,00,000 (200%)
- (v) Mr. A has loss from regular business of ₹ 8 lakhs and income from speculation business of ₹ 11 lakhs. His total income chargeable to tax would be
- (A) ₹ 3,00,000
(B) ₹ 11,00,000
(C) ₹ 7,00,000
(D) ₹ 2,50,000

- (c) State *without indicating reason* whether the following statements are true or false: 1×5=5
- (i) Share of a private limited company held for 15 months before its sale is a long-term capital asset.
 - (ii) A return of income filed without payment of self-assessment tax is a defective return.
 - (iii) Profit from growing and manufacturing tea in India is fully exempted from income tax under section 10 (1) of the Income-tax Act.
 - (iv) Tax is required to be deducted at source from salary at the time of payment and not at the time of crediting salary to the account of the employee.
 - (v) Capital gain arising from compulsory acquisition of a property under law is taxable in the year of receipt of compensation or part thereof.

- (d) Answer the following questions with brief reasons / working: 2+2+1= 5
- (i) Rajesh has earned an income of ₹ 45,000 from letting out his rural agricultural lands for a movie shooting. Will this income be regarded as agricultural income and hence exempt?
 - (ii) A charitable trust registered under section 12AA has earned income of ₹ 15,000 as dividends from Indian companies (DDT paid), agricultural income of ₹ 50,000 from lands in India and other income of ₹ 4,85,000. To enjoy complete exemption under section 11, what is the minimum amount to be applied for charitable purposes?
 - (iii) Every return of income filed by the assessee cannot be revised. Is the statement correct?

2. (a) State the situations in which the income of the assessee can be assessed in the previous year itself, instead of in the assessment year. 5
- (b) Ms. Sanvitha sold a residential house at Salem for a consideration of ₹ 9.5 crores on 10-01-2016. The buyer is an unrelated person. The stamp duty valuation of the house is ₹ 10.20 crores. Brokerage on sale paid at 2%.

In April, 2004 she had bought land for ₹ 1.20 crores. Registration and other expenses incurred were 10% of the same. The construction of the house was completed in March, 2006 for ₹ 1 crore.

She purchased the following two residential houses in March, 2016:

- (i) House at Chennai for ₹ 1.1 crores
- (ii) House at Mumbai for ₹ 3 crores

She also purchased bonds of National Highway Authority of India on the following dates:

23-02-2016 ₹ 40 lakhs

12-04-2016 ₹ 50 lakhs

Compute income of Ms. Sanvitha under the head "capital gains" for Assessment Year 2016-17. Cost inflation indices are:

FY 2004-05 480;

FY 2005-06 497;

FY 2015-16 1087

- (c) Nathan Gramin Bank, which does not have core banking facility, has paid the following amounts as interest to Mrs. Hemalatha, a resident individual on 31-03-2016:

Particulars	Branch 1 (₹)	Branch 2 (₹)
Interest on fixed deposit	6,000	7,000
Interest on recurring deposit	3,500	2,300
Total	9,500	9,300

What is the tax to be deducted at source?

Will the answer differ, if the bank has core banking facility?

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3. (a) ABC & Co., a partnership firm informs you that its total income for the financial year 2015-16 after deducting interest on capital and working partners' salary is ₹ 10,40,000. It has adjusted the following items while arriving at its total income under normal provisions:
- Aggregate cash payment in excess of ₹ 20,000 paid to suppliers of raw materials ₹ 3,30,000 (not covered by Rule 6DD).
 - Deduction under section 10AA for the unit established in Special Economic Zone ₹ 17,00,000.
 - Interest on term loan to bank relating to the financial year 2014-15 paid during the financial year 2015-16 ₹ 1,20,000.
 - Deduction under section 35AD in respect of a two star hotel operated in Shillong ₹ 14,50,000.
 - Salary paid to partner's son ₹ 3,60,000 of which ₹ 1,00,000 is found to be excessive to the market rate.

Compute the alternate minimum tax under section 115JC for the assessment year 2016-17.

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- (b) From the following particulars compute total income of Mr. Chatterjee for the assessment year 2016-17:
- Basic salary ₹ 50,000 per month.
 - Bonus for the year 2014-15 received in October 2015 ₹ 30,000.
 - Commission for the year 2015-16 but not received till 31.03.2016 ₹ 70,000.
 - Reimbursement of medical expenses on production of bills ₹ 20,000.
 - Education allowance for 2 children paid by the employer ₹ 24,000.
 - Maid servant's salary reimbursed by the employer ₹ 30,000.
 - Income from cultivation and manufacture of rubber in the rubber estate owned in Kerala ₹ 1,00,000.
 - Tax on non-monetary perquisites paid by the employer ₹ 35,000.

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4. (a) Following are the transactions related to Mr. Kiran Kumar, a resident but not ordinarily resident in India during the previous year 2015-16. Compute Gross Total Income of Mr. Kiran Kumar for the assessment year 2016-17. 5

Particulars	₹
Income from agriculture in Sri Lanka (received in Sri Lanka and subsequently remitted to India)	4,00,000
Arrears of salary received in India from a former employer in USA	2,50,000
Rent from house property located outside India and received outside India (₹ 2,00,000 is used in Bahrain for the educational expenses of his son studying there and the balance ₹ 3,00,000 subsequently remitted to India)	5,00,000
Income from business in Japan which is managed and controlled from India (₹ 90,000 received in India and balance ₹ 3,10,000 received outside India)	4,00,000

- (b) Mr. Anjan, an individual, aged 40 years having gross total income of ₹ 5,00,000 (including long-term capital gain from sale of land amounting to ₹ 3,90,000) during previous year 2015-16. He is entitled to get deduction under Chapter VI-A for ₹ 1,79,000 consisting of deductions permissible under sections 80C, 80D and 80DD for ₹ 95,000, ₹ 4,000 and ₹ 80,000 respectively. 5

Compute income tax payable by Mr. Anjan for assessment year 2016-17.

- (c) Mr. Anurag, an individual engaged in the business, having turnover of ₹ 1.50 crores and no international transaction or specified domestic transaction incurred loss from business during the previous year 2014-15. Such business loss could not be set off against any other income during the year. He filed return of loss for Assessment Year 2015-16 on 31st March, 2016.

(i) Can Mr. Anurag carry forward such loss for set off against income from business of the assessment year 2016-17?

(ii) Is there any difference if Mr. Anurag has unabsorbed depreciation instead of loss from business in the previous year 2014-15 for carry forward to assessment year 2016-17 for set off? 5

5. (a) Mr. Sivasankar carrying on trading business could not recover ₹ 1,00,000 due from a customer. He deems that the amount is not recoverable and hence has to be written off as bad debt. State the conditions that are to be satisfied for allowance of bad debt claim. 3

- (b) Mr. Ghosh established an undertaking in a notified backward area in the State of West Bengal. He invested ₹ 150 lakhs in June, 2015 towards acquisition of plant and machinery and was engaged in manufacturing activity. The regular rate of depreciation on such machineries is 15%. Advise the maximum amount of deduction that Mr. Ghosh could avail by way of depreciation, additional depreciation and deduction under section 32AD of the Income-tax Act, 1961. State the closing WDV of the plant and machinery after such claim. 4

- (c) Mr. Kamal Hasan has two independent residential flats in an apartment, both of them being of identical size. First flat is self-occupied and the second flat is occupied by his daughter, from whom he does not receive any rent.

For each flat, the relevant annual rent details are as under:

Particulars	₹
Municipal Value	6,00,000
Fair Rent	5,70,000
Standard Rent	5,16,000
Municipal Tax (fully paid)	11% of municipal valuation
Pre-construction period interest (third year)	1,50,000
Interest on housing loan for current year (25% unpaid)	1,65,000
Fire Insurance Premium	2,500

Compute income of Mr. Kamal Hassan under the head "income from house property" for assessment year 2016-17.

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6. (a) Mr. Manoj gives you the following particulars of his income for the year ended 31st March, 2016:

Serial No.	Particulars	₹
1.	Interest on loan given to a friend (non-relative)	80,000
2.	Interest on public provident fund	21,500
3.	Winning from crossword puzzle (net)	70,000
4.	Directors fee from a company	25,000
5.	Royalty on a book written by him	1,50,000
6.	Expenses for typing the manuscript of the book	15,000
7.	Cash gift from father in law	2,00,000

Compute the income of Mr. Manoj for the assessment year 2016-17.

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- (b) State the procedures to be adopted by the Income-tax Authorities for rectification of mistakes under section 154 of the Income-tax Act and the time limit for such rectification.

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

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

7. Answer the following questions: 1×5=5
- Where a foreign company receives royalty from an Indian company in pursuance of agreement dated 1st July, 2012, what is the rate of tax on such royalty?
 - When a resident-assessee has income from a foreign source, what is the time limit for reopening the assessment?
 - At what rate long-term capital gain arising to foreign institutional investors (FII) is chargeable to tax?
 - What is "uncontrolled transaction"?
 - What is the time limit available to the Dispute Resolution Panel for issue of direction to the Assessing Officer to complete the assessment?
8. (a) Hrikesh Patel, a resident Indian aged 24, earned a sum of ₹ 5,00,000 for playing football match in a nation with which India does not have a double taxation avoidance agreement. In that nation, Income-tax at 15% was levied on such income.
- In India, he has received match fees of ₹ 9,75,000 for playing football matches. He has paid life insurance premium of ₹ 1,60,000 and mediclaim insurance premium of ₹ 28,000.
- Compute his income-tax liability for the assessment year 2016-17. 7
- (b) Mike Hussey, a non-resident and cricket player of Australia came to India in January 2016 and earned following incomes in India till 31.03.2016:
- Income from participation in matches ₹ 7,00,000.
 - Appearance fee for advertisement for a tyre manufacturer ₹ 10,00,000.
 - Income from newspaper for writing articles on T20 world cup ₹ 5,00,000.
 - Income from horse race ₹ 2,00,000.
- Compute his total income and tax liability for the assessment year 2016-17. 8
9. (a) State the requirements of section 92 relating to computation of income from international transactions, having regard to arm's length price. 5
- (b) State any five items covered within the scope of the term "specified domestic transaction" as per section 92BA. 5
- (c) The first step in comparable arm's length price study is selection of comparable companies. Once there is a selection of comparable companies, the next step is to filter these companies with the use of quantitative and qualitative filters. Name any ten filters which are commonly used. 5