

INTERMEDIATE EXAMINATION

December 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 unless stated otherwise.*

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

1. (a) Choose the most appropriate alternative: 1×12=12
- (i) In the case of foreign company, surcharge at 5% is payable on the income-tax where the total income exceeds
    - (A) ₹ 100 lakhs
    - (B) ₹ 200 lakhs
    - (C) ₹ 500 lakhs
    - (D) ₹ 1000 lakhs
  - (ii) Agricultural income is aggregated for income-tax rate purposes, only when it exceeds
    - (A) ₹ 10,000
    - (B) ₹ 5,000
    - (C) ₹ 25,000
    - (D) ₹ 50,000
  - (iii) Investment allowance under section 32AC of the Income-tax Act, 1961, is applicable where the investment in new plant and machinery exceeds
    - (A) ₹ 25 crores
    - (B) ₹ 50 crores
    - (C) ₹ 100 crores
    - (D) ₹ 40 crores
  - (iv) The quantum of deduction under section 80JJAA of the Income-tax Act, 1961, in respect of additional wages paid to new regular workmen is
    - (A) 30% of additional wages
    - (B) 20% of additional wages
    - (C) 10% of additional wages
    - (D) 100% of additional wages
  - (v) Basic rate of tax applicable to domestic company on distributed income in the case of buyback of shares not listed in stock exchange is
    - (A) 15% on the distributed income
    - (B) 20% on the distributed income
    - (C) 30% on the distributed income
    - (D) Nil

- (vi) Penalty leviable per day for failure to furnish annual information return (AIR) under section 271FA of the Income-tax Act, 1961 is
- ₹ 10
  - ₹ 50
  - ₹ 100
  - ₹ 500
- (vii) Return of income filed without payment of self-assessment income-tax will be treated as
- Delayed return
  - Non-est* return
  - Belated return
  - Defective return
- (viii) The status of limited liability partnership constituted under the Limited Liability Partnership Act, 2008 for the purpose of income-tax is
- AOP
  - Partnership firm
  - Trust
  - Domestic company
- (ix) Children education allowance received by a salaried employee is exempt upto a maximum of two children of
- ₹ 100 per month per child
  - ₹ 300 per month per child
  - ₹ 500 per month per child
  - Fully exempt without limit
- (x) In order to avail exemption u/s 54EC of the Income-tax Act, 1961, the time limit for making investment in specified bonds from the date of transfer of long-term capital asset is
- 12 months
  - 36 months
  - 60 months
  - 6 months
- (xi) On a book profit of ₹ 110 lakhs for a domestic company, the tax payable under section 115JB of the Income-tax Act, 1961 is
- 15% + cess @ 3% = ₹ 16.995 lakhs
  - 18% + cess @ 3% = ₹ 20.394 lakhs
  - 18.5% + surcharge @ 5% + cess @ 3% = ₹ 22.00852 lakhs
  - 18.5% + surcharge @ 2.5% + cess @ 3% = ₹ 21.48451 lakhs
- (xii) Tax deduction at source would apply where the consideration for the acquisition of specified immovable property exceeds
- ₹ 30 lakhs
  - ₹ 5 lakhs
  - ₹ 25 lakhs
  - ₹ 50 lakhs

1×13=13

(b) Fill up the blanks:

- (i) While computing business income, subsidy received after commencement of business for purchase of machinery is \_\_\_\_\_ .
- (ii) The maximum marginal rate of tax for non-corporate taxpayers is \_\_\_\_\_ per cent.
- (iii) To avail applicable exemption under the Income-tax Act, 1961, a charitable trust must apply a minimum of \_\_\_\_\_ per cent towards pursuing its objects.
- (iv) The maximum amount of exemption under section 10(10B) of the Income-tax Act, 1961 in respect of retrenchment compensation is ₹ \_\_\_\_\_ .
- (v) First residential property acquired by individual taxpayer satisfying the conditions of section 80EE the Income-tax Act, 1961 entitles deduction of interest on monies borrowed upto a maximum of ₹ \_\_\_\_\_ .
- (vi) Expenses in connection with family planning is deductible only in the case of \_\_\_\_\_ assessees.
- (vii) When an asset owned by father for 10 years is inherited by son in June, 2013 and is subsequently sold in December, 2013, the resultant capital gain is \_\_\_\_\_ in nature.
- (viii) When a factory building owned by an individual used for business purposes is sold after 48 months from the date of purchase, no other building being owned by the assessee, the resultant capital gain is \_\_\_\_\_ in nature.
- (ix) When Mr. Dev (age 65), doing business, omits to record or explain the source for marriage expenses of his daughter of ₹ 5 lakhs, the total income-tax payable by him will be ₹ \_\_\_\_\_, when the loss from his business is ₹ 1 lakh.
- (x) The provisions of specified domestic transfer pricing are attracted when the transaction between two related enterprises exceeds ₹ \_\_\_\_\_ .
- (xi) Education cess payable on wealth tax is \_\_\_\_\_ .
- (xii) While computing the net wealth, the wealth tax liability is \_\_\_\_\_ .
- (xiii) Urban land for which the State Housing Board has initiated acquisition proceedings is \_\_\_\_\_ asset u/s 2(ea) of the Wealth tax Act.

2. (a) Mrs. Q received a family pension of ₹ 54,000. How much is chargeable to income-tax? 2
- (b) State the conditions to be satisfied for allowance of expenditure under section 37 of the Income-tax Act, 1961. 6
- (c) Mrs. Laxmi resident in India, has a house property at New Jersey, USA, which is let out. The annual value and the actual rent of the house is USD (\$) 15000. The value of one USD (\$) may be taken as ₹ 60. The rent was credited to her bank account there and was not brought into India. She has one residential house property at Chennai which is self-occupied. She borrowed ₹ 25 lakhs from her friend in April, 2013 for acquisition of the property. The loan interest for the year is ₹ 1,80,000 but the amount actually paid was ₹ 1,15,000. Municipal tax for the said property was ₹ 27,000 but only ₹ 21,000 was actually paid. Her other incomes are – (i) Bank fixed deposit interest ₹ 47,000; (ii) Salary income (computed) ₹ 5,40,000. She deposited ₹ 40,000 in tax saver deposit and ₹ 70,000 in her minor son's PPF account. Compute the total income of Mrs. Laxmi for the assessment year 2014–15. 7

3. (a) Following is the Profit and Loss Account of Mr. Ashwin, a resident of India, for the year ended 31.03.2014:

	₹		₹
To Administrative expenses	2,75,000	By Gross Profit	7,50,000
To Interest	55,000	By Agri. Income (net):	
To Life Insurance Premium:		from Lands in India	25,000
—Self	25,000	from lands in Malaysia	20,000
—daughter in law	15,000	By Interest—Public	
To Depreciation	1,50,000	Provident Fund	31,200
To Net Profit	3,24,200	By Dividend from listed	
		Indian companies	12,000
		By Savings Bank Interest	6,000
	8,44,200		8,44,200

Other information:

- Depreciation allowable for the year under section 32 of the income-tax Act, 1961 amounts to ₹ 1,75,000.
- Administrative expenses include salary taken by Mr. Ashwin at ₹ 10,000 per month for 8 months.
- Interest includes payment of ₹ 24,000 to daughter @ 36% per annum when the market rate of interest is 15% per annum.

Compute the total income of Mr. Ashwin for the assesment year 2014-15. 7

- (b) State **with brief reason**, whether the following assets are long-term or short-term capital assets (*Mere conclusion will not receive any credit*): 4

- Renunciations of right to subscribe to right shares, immediately after the offer was made by the company.
- Sale of surgery equipments by a doctor on discontinuance of profession.
- Slump sale of undertaking after operating for 4 years.
- Sale of bonus shares within 6 months after the allotment; original shares were acquired 24 months earlier.

- (c) Mr. Rajan running an undertaking, reports net profit of ₹ 10,15,000 before deduction under section 80-IA; the turnover of the assessee for the year was ₹ 85,00,000. By what date must he file his return of income to avail deduction under section 80-IA? 4

4. (a) A, B and C are equal partners of the firm ABC & Co. The net profit of the firm was ₹ 5,72,000 before deduction of salary to working partner and interest on capital to partners. The partners have contributed ₹ 2,00,000 each as their capital. The partnership deed authorizes interest on capital at 15% per annum and working partner salary of ₹ 10,000 each per month for each partner.

Compute the business income of the firm. 5

(b) State the quantum of deduction available under Chapter VIA of the income-tax Act, 1961, in the following cases: 5

- (i) Health insurance premium paid by cash ₹ 10,000 for self and ₹ 7,000 by credit card to other members of family.
- (ii) Cash payment towards preventive health check up ₹ 6,000.
- (iii) Deposited ₹ 10,000 in a scheme framed by LIC of India towards maintenance of son suffering from permanent physical disability.
- (iv) Doctor fee of ₹ 2,00,000 towards treatment of Chronic Renal failure to dependent father.
- (v) Tuition fee paid ₹ 3,50,000 for son studying in Cambridge University, United Kingdom.

(c) Briefly state the conditions to be satisfied by a charitable trust to be eligible for the benefits of section 11 and section 12 of the Income-tax Act, 1961. 5

5. (a) What are the deterrents provided in the income-tax Act, if a firm paying rent for building used for its business purpose at the rate of ₹ 50,000 per month fails to deduct tax at source from such rent? List out the consequences of such failure. 6

(b) Mr. Guharaj is employed as a senior cost controller of GKV Limited. Details of his compensation package for the previous year 2013-14 are as follows:

- (i) Basic salary ₹ 60,000 per month.
  - (ii) Dearness Allowance ₹ 10,000 per month.
  - (iii) He is provided with a motor car (1.4 litre engine capacity) with chauffeur, which is used partly for official purpose and partly for personal purpose.
  - (iv) The company reimbursed the expenditure on his medical treatment amounting to ₹ 18,000.
  - (v) He purchased a Laptop from the company on 1st October, 2013 for ₹ 30,000. The company bought the same on 1st October 2012 for ₹ 80,000.
- His other income comprises of interest on fixed deposit and interest on savings bank account amounting to ₹ 1,50,000 and ₹ 15,000. He stays in a rented house in Kolkata at a monthly rent of ₹ 10,000.

Compute the total income of Mr. Guharaj for the Assessment Year 2014-15. 9

6. (a) Arghya, a resident individual and a software engineer, set up one unit in a special economic zone in the year 2011-12 for development of the software. All the conditions of section 10AA of the income-tax Act stand fulfilled.

His Profit and Loss Account for the year ended 31st March, 2014 shows a net profit of ₹ 25 lakhs.

The other details are as follows:

- (i) Export turnover ₹ 75 Lakhs.
- (ii) Domestic turnover ₹ 25 Lakhs.

Debit side of the Profit & Loss Account includes corporation tax of ₹ 5 Lakhs for office premises, which was not paid due to certain dispute.

Compute tax payable by Arghya for the Assessment Year 2014-15. 7

- (b) XYZ Limited, a manufacturing company, purchased machines for ₹ 120 crores during the previous year 2013-14 for use in factory. The said machines were put to use from 16th August, 2013 and include second hand machinery costing ₹ 10 crores.

What are the deductions admissible to the company in respect of the cost incurred while computing income under the head "profits and gains of business or profession" for Assessment Year 2014-15?

5

- (c) What is the objective of "regular assessment" under section 143(3) of the income-tax Act? What is the time limit for service of notice on the assessee for taking up such assessment?

3

7. (a) Mr. Balakrishnan sold shares of VKS Limited, a listed company to RR Private Limited for consideration of ₹ 6,50,000 on 30th April, 2013, on which date the fair market value of shares was ₹ 7,50,000. Indexed cost of acquisition of such shares to Mr. Balakrishnan was ₹ 7,25,000. The sale was a private sale.

Examine the tax consequences of the above transaction in the hands of Mr. Balakrishnan and RR Private Limited.

5

- (b) Who are the persons not liable to pay advance tax?

2

- (c) State with reasons whether the following constitute assets chargeable to wealth tax as on the valuation date i.e. 31st March, 2014:

(i) A factory building let out for 200 days. 2

(ii) A clinic building used by owner-doctor for the past 3 months after construction. 1

(iii) Motor car owned by a bank employee. 2

(iv) Guest house within 20 kms from the city limits of Chennai. 1

(v) Gold deposit bonds. 2

8. (a) A firm filed a return of income for the Assessment Year 2014-15 on 1st December, 2014 showing business loss ₹ 3.35 Lakhs, unabsorbed depreciation ₹ 1 Lakh, loss from house property ₹ 0.75 Lakhs and loss of ₹ 1.30 Lakhs under the head "Capital gains". What is the effect of such return of income?

5

- (b) Is Association of Persons liable to wealth tax, where shares of the members are indeterminate?

2

- (c) State the penalties leviable in the following cases:

4

(i) Failure to file return of income before the end of the assessment year;

(ii) Failure to keep and maintain information and documents in respect of international transactions.

(iii) Failure to keep or maintain books of account and documents as required under section 44AA.

(iv) Furnishing inaccurate particulars of income or concealing particulars of income.

- (d) State the cases in which the previous year for income-tax purposes will be the same as the assessment year.

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