

**INTERMEDIATE EXAMINATION**

June 2014

**P-7(DIX)**  
**Syllabus-2012**

**Direct Taxation**

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.*

*Wherever necessary, the candidate may make suitable assumption and state the same clearly in the answer.*

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

**Section A**

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

1. (a) Fill up the blanks:

1×8=8

- (i) Mr. A, a senior citizen, has total income of ₹ 8 lacs, earned by way of interest from secured debentures. The advance tax payable by him is ₹ \_\_\_\_\_.
- (ii) A partnership firm will be treated as non-resident, only if the \_\_\_\_\_ of the control and management of its affairs is situate outside India.
- (iii) An employee of a partnership firm is treated as "specified employee" if the income under the head "Salaries", excluding non-monetary perquisites exceeds ₹ \_\_\_\_\_.
- (iv) The maximum amount of retrenchment compensation exempt u/s 10 (10B) in the hands of a person, when received from a private scheme not approved by the Board, is ₹ \_\_\_\_\_.
- (v) Where any unrealized rent, earlier allowed as deduction is realized subsequently, the deduction available therefor is \_\_\_\_\_.
- (vi) In the case of a payee not having PAN for whom tax is to be deducted at source u/s 194A, the rate applicable is \_\_\_\_\_.
- (vii) Net wealth tax computed to be rounded off to the nearest multiple of \_\_\_\_\_.
- (viii) Section \_\_\_\_\_ of the Wealth Tax Act provides for exemption from wealth tax to section 25 companies, co-operative societies, social clubs, etc.

(b) Choose the most appropriate alternative:

1×5=5

- (i) For an employee in receipt of fixed medical allowance, the maximum amount which is exempt is ₹  
(A) 12,000      (B) 15,000      (C) 18,000      (D) Nil

**Please Turn Over**

- (ii) Disallowance for expenditure incurred in relation to exempt income is made under section  
(A) 14A (B) 14 (C) 80A (D) 10(33)
- (iii) Where any land is located within aerial distance of 7 kms from municipal limits, to be regarded as capital asset u/s 2(14), the population of the municipality as per last census done before 1.3.2013 should be more than  
(A) 9 lacs (B) 8 lacs (C) 10 lacs (D) None of these
- (iv) To avail exemption u/s 54, an individual should purchase a new residential house within \_\_\_\_\_ years from the date of sale  
(A) 2 (B) 3 (C) 1 (D) 4
- (v) For an assessee engaged in manufacturing activity, additional depreciation u/s 32(1)(iv) for second-hand machinery costing ₹ 3 lacs, installed on 12.5.2013 is ₹  
(A) 30,000 (B) 45,000 (C) 60,000 (D) Nil
2. (a) There exists no difference in the treatment of income claimed as exempt u/s 10 with those entitled to deduction under chapter VI-A of the Income Tax Act, 1961. Do you agree with the statement? Justify your answer: 3
- (b) Briefly explain the deduction allowable u/s 37 of the Income Tax Act, 1961 in respect of income from business or profession. 4
- (c) Ram and Shyam are members of a firm "R and S" and also joint owners (50% each) of a two storied house property (of equal area), the details of which are as follows:
- (i) Ground Floor—let out at a monthly rent of ₹ 20,000/-.
- (ii) First Floor—used for partnership business of Ram and Shyam.
- (iii) Ram and Shyam received the following amounts in respect of another property which they had sold it on 31.03.2013:
- \* Unrealised Rent pertaining to FY 2012-13—₹ 50,000/-
- \* Arrears of rent pertaining to FY 2012-13—₹ 1,00,000/-
- (iv) Municipal taxes paid for the entire house property—₹ 15,000/- p.a.
- (v) Interest on borrowings for the entire house property (Joint loan taken from HDFC)—₹ 3,00,000/-
- Compute the income from house property and also explain how such income will be assessed in the hands of R and S. 6
3. (a) Mr. Raghu joined a company at Chennai on 01.07.2013 and was paid the following emoluments:
- (i) Basic salary ₹ 50,000 per month.
- (ii) Dearness allowance 50% of basic salary (eligible for retirement benefits).

- (iii) Furnished accommodation owned by company was provided at Chennai.
- (iv) Value of furniture in the accommodation ₹ 2,00,000 (cost).
- (v) Motor car owned by the employer (with engine capacity less than 1.6 litres) given for exclusive personal use. Self-driven by Raghu. Expenses incurred by employer on its running and maintenance ₹ 55,950.
- (vi) Educational facility for two children provided free of cost. The school is owned by the company. Tuition fee per month ₹ 600 and ₹ 1200 respectively.
- (vii) Annual membership fee for Gymkhana Club paid by the employer ₹ 20,000.

Compute the income from salary of Mr. Raghu for the assessment year 2014-15. 7

- (b) Mr. Somu placed a deposit of ₹ 20,00,000 in LMN Bank on which he is eligible for interest of ₹ 1,90,000 for the year. He also borrowed ₹ 7,00,000 from the bank on the security of the deposit. The amount borrowed was used for his medical expenses and daughter's education. Interest on the amount borrowed was ₹ 63,000. He offered net interest income of ₹ 1,27,000 under the head 'income from other sources'. Is he correct? 3
- (c) What is reverse merger? Explain the reasons for resorting to the same by the assesseees. 3
4. (a) Powell Ltd. filed its return of loss beyond the 'due date' prescribed in section 139(1) read with section 80 of the Act. It has business loss of ₹ 20,50,000. It approaches you for advice regarding the course of action to be taken to secure the benefit of carry forward of business loss for set off against future profits. Advise suitably. 3
- (b) Write a brief note on the deduction available under section 80DDB. 4
- (c) Mr. Nitin owns two houses, both of which are occupied by him for residential purpose. The details are given below:

	House—I	House—II
Fair rent	7,20,000	6,30,000
Municipal value	5,00,000	5,00,000
Standard rent	6,00,000	6,00,000
Date of completion	01.01.2002	01.07.2008
Municipal tax paid	10%	12%
Date of loan	01.07.1998	01.05.2005
Interest on loan for the financial year 2013-14	1,10,000	1,70,000

Compute his income from house property and advise which house should be opted by him as self occupied. 6

Please Turn Over

5. (a) Write short notes on deduction under section 80TTA in respect of interest from banks. 4  
(b) ABC LLP furnishes you the following details pertaining to the financial year 2013-14:

	₹
Net Profit as per Profit and Loss Account	90,00,000
Depreciation debited in Profit and Loss Account	7,00,000
Depreciation allowable under section 32	9,00,000
Inadmissible/disallowable expenses	5,00,000
Deduction under section 10AA (computed)	12,00,000
Deduction under section 80IA (computed)	60,00,000

Compute total income, adjusted total income under section 115JC and tax liability of ABC LLP for the assessment year 2014-15. 6

- (c) Explain the term "substantial interest" defined in section 2(32) and its application in at least two situations. 3
6. (a) Who are not 'Regular Workmen' u/s 80JAA of the Income Tax Act 1961? 3  
(b) State the provisions relating to claiming of exemption in order to reduce tax liability on short-term capital gains. 5  
(c) Discuss the taxability or otherwise of the following gifts received by Arun, an individual during the financial year 2013-14: 2  
(i) ₹ 50,000 each from his four friends on the occasion of his birthday.  
(ii) Wrist watch valued at ₹ 20,000 from his friend.  
(d) Mr. Rahim, Director in a MNC Ltd. is entitled to a motor car (1.8 ltrs.) to be used for both official and private purposes. 3

Discuss the taxability of perquisite, if

- (i) The car is owned by the employee, expenses paid by employer and it is a Chauffeur-driven car.  
(ii) The car is owned by Mr. Rahim, expenses incurred ₹ 30,000 and chauffeur is paid a salary of ₹ 90,000 provided by the employer.

### Section B

All questions in this section relate to the Wealth Tax Act.

[Answer all questions.]

1×5=5

7. (a) What do you mean by "specified area" in case of valuation of immovable property in Delhi for the purpose of wealth tax?  
(b) Do you consider motor boat used in fishing business as an asset?  
(c) Is it correct to say that a guest house, regardless of its locations, is always an "asset"?  
(d) Poonam, while computing net wealth, wants to claim deduction of outstanding income tax and wealth tax liabilities of proceeding years of ₹ 3,25,000. Can she do so?  
(e) Gold Deposit Bonds are also assets as jewellery. Is this true?

8.

**EITHER**

Price Foundations has let out a warehouse with effect from 01.10.2013 for a monthly rent of ₹ 2 lacs. The lease is valid for 15 years and the tenant has made a security deposit equivalent to 6 months rent which bears interest @ 15%. The tenant has undertaken to pay the municipal taxes of the warehouse amounting to ₹ 3 lacs p.a. What will be the value of the property under Schedule III of the Wealth Tax Act? 5

**OR**

- (i) An assessee being an Indian citizen, purchased an urban land for ₹ 3 crores, out of remittance from outside India on 01.01.2013. He returned to India with an intention to permanently reside in India on 10.10.2013. Discuss the liability under Wealth tax for FY 2012-13 and FY 2013-14. 2
- (ii) Explain the procedure for valuation of interest of a partner in a firm. 3

**Section C**

All questions in this section relate to transfer pricing provisions under the Income-tax Act, 1961

9.

[Answer all questions.]

1×5=5

- (i) What is 'Arm's Length Price'?
- (ii) What does 'uncontrolled transaction' mean?
- (iii) Define 'safe harbour'.
- (iv) What is the maximum period for which advance pricing agreement shall remain valid?
- (v) Under what circumstance may, an advance pricing agreement, be declared to be void *ab initio*?

10.

**EITHER**

- (a) State the reasons for cancellation of advance pricing agreement. 4
- (b) Narrate the procedure for furnishing Annual Compliance Report by the assessee, where advance pricing agreement has been entered into. 3
- (c) State the possible cases in which cost plus method is used for determination of arm's length price. 4
- (d) During the previous year 2013-14 ABC Associates, an Indian partnership firm made payment of ₹ 6 crores for purchase of raw materials from Mr. D, who is a close relative of Mr. A, a partner of the firm. Both Mr. D and Mr. A are residents in India. Explain whether transfer pricing provision is applicable to the said transaction. 3

Please Turn Over

- (e) Zenith Inc., a US company holds 30% shares in Intech Ltd. an Indian company. Zenith Inc. sells its goods to Intech Ltd. Zenith Inc. also sells similar goods to Logitech Ltd., an Indian company which is not an associated enterprise. Zenith Inc. sells 50,000 units at ₹ 12,000 per unit. The warranty in the case of sale of goods by Intech Limited is handled by Intech Limited. However, in case of sale of goods to Logitech Limited, Zenith Inc. is responsible for warranty for 6 months. Both Zenith Inc. and Intech Limited offer extended warranty at a standard rate of ₹ 1,000 per annum.

Compute arm's length price under CUP method and the amount of increase or decrease in total income of Intech Limited. 6

**OR**

- (a) In case an advance pricing agreement is entered into, does it have any effect on the return of income of the assessee? 3
- (b) What is the period for which an assessee has to keep and maintain the information and records relating to international transactions/specified domestic transactions? 2
- (c) X. Limited, an Indian company has borrowed certain sum from a financial institution, a resident of a Non Jurisdictional Area (NJA) notified by the Central Government. During the previous year, X Limited paid interest of ₹ 10 lacs to the financial institution. What authorisation is to be furnished by X. Limited? At what rate tax is required to be deducted source by X. Limited from payment of such interest? 4
- (d) What are the difficulties in applying arm's length principle? 5
- (e) P. Limited, an Indian company bought goods from its associated enterprise Q. Limited of UK at ₹ 3,050 per unit. Using Resale Price method, which is found to be the most appropriate method, the arm's length prices determined are ₹ 3,000, ₹ 3,050, ₹ 2,900 and ₹ 2,950.
- (i) Compute the arm's length price assuming tolerance variation notified by the Central Government to be 3%.
- (ii) Will your answer be different, if Q. Limited paid ₹ 3,080 per unit to P. Limited? 6