

INTERMEDIATE EXAMINATION

June 2017

P-7(DTX)
Syllabus-2016

DIRECT TAXATION

1st Set

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(s) and state the same clearly in the answer.

Working notes should form part of the relevant answer.

All questions relate to the Income-tax Act, 1961.

All the questions relate to Assessment Year 2017-2018, unless otherwise stated.

Answer **Question No. 1**, which is compulsory and **any five** from Question Nos. 2 to 8.

Section A

1. (a) Find the most suitable alternative for the following: 1×10=10
- (i) The number of identities included in the definition of persons is
- (A) five
(B) six
(C) seven
(D) eight
- (ii) A trust shall not be considered as charitable trust for according the benefits of section II, when the commercial activities in the previous year exceed ₹ _____ .
- (A) 10 lakhs
(B) 25 lakhs
(C) 15 lakhs
(D) 30 lakhs

Please Turn Over

- (iii) Deduction available under section 24(a) is _____ of NAV.
- (A) 30%
 - (B) 50%
 - (C) 15%
 - (D) 70%
- (iv) Expenditure incurred by a businessman for ready to use software is entitled to benefit of
- (A) 15% as depreciation
 - (B) 30% as depreciation
 - (C) 60% as depreciation
 - (D) 100% as revenue expenditure
- (v) The basic exemption limit for a resident super senior citizen above the age of 80 is
- (A) ₹ 2,00,000
 - (B) ₹ 2,50,000
 - (C) ₹ 5,00,000
 - (D) None of the above
- (vi) The provisions relating to interest on delay in payment of refund are given in section
- (A) 234A
 - (B) 234B
 - (C) 244A
 - (D) 244B

- (vii) Which of the following can be corrected while processing the return of income under section 143(1)?
- (A) Any arithmetical error in the return
 - (B) Any mistake in the return of income
 - (C) Any error of principle in the return of income
 - (D) Any claim by the taxpayer which is against law
- (viii) Notice under section 156 is given for
- (A) failure to submit return
 - (B) tax demand
 - (C) deferment of tax
 - (D) None of the above
- (ix) As per section 271H, where a person fails to file the statement of tax deducted/collected at source i.e. TDS/TCS return on or before the due dates prescribed in this regard, then he shall be liable to pay penalty under section 271H. Maximum penalty that can be levied is ₹ _____.
- (A) 1,00,000, but not exceeding the amount of TDS/TCS.
 - (B) 2,00,000
 - (C) 3,00,000
 - (D) 3,00,000
- (x) The threshold exemption limit for Equalization levy is ₹
- (A) ₹ 5 lakh
 - (B) ₹ 3 lakh
 - (C) ₹ 2 lakh
 - (D) ₹ 1 lakh

(b) Match the following:

1×5=5

| | | | |
|-------|-------------------------|-----|---------------------------------|
| (i) | Section 87A | (A) | ₹ 5000 |
| (ii) | Section 80GG | (B) | ₹ 5000 (or) Actual Tax (w.e.l.) |
| (iii) | Sukanya Samrudhi Scheme | (C) | ₹ 1500 |
| (iv) | Minor child exemption | (D) | 30% deduction |
| (v) | Arrears of rent | (E) | Section 80C |

(c) State whether true or false:

1×5=5

- (i) An Indian company is always resident in India.
- (ii) Salary received by a member of Parliament is exempt.
- (iii) Income of a self-occupied property cannot be negative.
- (iv) Preliminary expenditure are allowed deduction in 10 equal instalments.
- (v) Capital gain arises from the transfer of any capital asset.

(d) Fill in the blanks:

1×5=5

- (i) In case of an Indian citizen who leaves India during the previous year for employment outside India, the period of 60 days shall be substituted by _____ days.
- (ii) Scholarship received by a student was ₹ 2,000 p.m. He spends ₹ 16,000 for meeting the cost of education. The Balance ₹ 8,000 is _____.
- (iii) Generally, income is taxable under the head, house property only when the assessee is the _____ of such house property.
- (iv) Salary, bonus, commission or remuneration due to or received by a working partner from the firm is taxable under the head _____.
- (v) Period for holding bonus shares or any other financial asset without any payment shall be reckoned from the date of _____.

Section B

Answer *any five* questions from this section.

2. (a) Mr. Ramesh, an Indian citizen, gives you the following information for the year ended 31.03.2017.

| | ₹ |
|---|----------|
| Business income in Mumbai | 2,50,000 |
| Rental income from property let out in London (Converted in Indian rupees) | 5,40,000 |
| Fixed deposit interest in India from LMN Bank | 60,000 |
| Fixed deposit interest from Bank of England (Converted in Indian rupees) | 40,000 |
| Business consultancy income from Essex Ltd. in Hampshire (England), being a company incorporated in Delhi having branch office in England. The business is managed from Delhi. (Converted in Indian rupees) | 75,000 |
| Agricultural income from land located in Malaysia (Converted in Indian rupees) | 90,000 |
| Income from nursery at Alwar, Rajasthan | 1,40,000 |

Mr. Ramesh returned to India on 15.06.2016 after remaining in England for 10 years. During the last 4 years he was in India for 100 days only. Determine the residential status of Mr. Ramesh for the assessment year 2017-18 and compute his total income chargeable to tax in India by *giving reason for treatment of each item*.

Note: Ignore Double Taxation Avoidance Agreement (DTAA).

(b) Mr. Raghu is employed with Yes Power Co Ltd. as General Manager (Finance) at Kolkata. He furnishes you the following information for the year ended 31.03.2017.

₹

| | |
|---|--------|
| Basic salary (per month) | 40,000 |
| Dearness allowance (per month) eligible for retirement benefits | 30,000 |
| Rent-free accommodation is provided. | |
| A car was provided to him from 01.06.2016 (engine cubic capacity more than 1.6 litres). It is used both for official and personal purposes. Running expenses are fully met by employer. Mr. Raghu drives the car himself. | |
| Provident fund contribution of both employer and employee 12% of basic pay and dearness allowance. | |
| Fixed tiffin allowance (per annum) | 20,000 |
| Fixed medical allowance (per annum) | 30,000 |
| Credit card annual fee paid by employer (used for personal purposes) | 7,000 |
| Only son of Mr. Raghu is given free education in the school run by the employer. Cost of education is ₹ 1,500 per month. | |
| Loan taken by Mr. Raghu from provident fund during the year | 50,000 |

Compute the total income of Mr. Raghu for the assessment year 2017-18.

7

3. (a) Gopi Industries furnishes you the following details:

| Particulars | Machinery | Computers | Furnitures |
|---|-----------|-----------|------------|
| WDV as on 01.04.2016 | 20,00,000 | 6,00,000 | 2,00,000 |
| Purchased during the year and used for more than 180 days | 4,00,000 | 1,00,000 | 40,000 |
| Purchased and used w.e.f. 01.01.2017 | 1,00,000 | 2,00,000 | 20,000 |
| Sold a group of assets on 01.03.2017 | 2,00,000 | 1,00,000 | 50,000 |

Compute depreciation allowable for the assessment year 2017-18. Ignore additional depreciation. 6

- (b) Rao and Jain is a partnership firm, consisting of 5 partners, with turnover of ₹ 1,20,00,000 for the year ended 31.03.2017. The partnership deed provides for interest on capital at 14% per annum on the capital contribution of ₹ 5 lakhs each made by all the partners. All the partners are eligible for monthly working partner salary of ₹ 10,000 each. The firm provides you the following additional information:

| | |
|---|------------|
| Depreciation eligible under Income-tax Rules, 1962 | ₹ 2,00,000 |
| Interest paid on unsecured loans for which no tax was deducted at source during the year or before the due date for filing return of income u/s 139(1) | ₹ 5,00,000 |
| Contract payments made during the year for which tax was deducted but remitted in financial year 2017-18 and before 'due date' for filing the return of income specified in section 139(1). | ₹ 4,00,000 |
| Rent paid to a partner Mr. Jain for premises occupied by the firm ₹ 1,20,000 on which no tax was deducted at source. The reasonable rent for similar premises was determined at ₹ 1,80,000 | |

The Net Profit of the firm before charging interest on capital and working partner salary as per books was ₹ 8,40,000. Depreciation notionally computed and provided in the books amounts to ₹ 1,60,000.

The partners of the firm want you to compute income under section 44AD and also as per regular provisions, and suggest which option would be beneficial to them. 9

4. (a) Xavier Ltd. gives you the following data for the assessment year 2017-18:

| ₹ | |
|--|-----------|
| Net Profit as per Profit and Loss Account | 33,00,000 |
| Amounts debited to Profit and Loss Account: | |
| Depreciation (includes on revalued assets ₹ 5 lakhs) | 17,00,000 |
| Provision for bad and doubtful debts | 7,00,000 |
| Bank term loan interest (including unpaid amount of ₹ 1,00,000) | 3,00,000 |
| Expenditure on amalgamation (carried out 4 years ago) amortised under section 35DD | 5,00,000 |

| | |
|---|-----------|
| Transfer to general reserve | 10,00,000 |
| Proposed dividend | 15,00,000 |
| Provision for taxation (including deferred tax liability) | 13,00,000 |
| Expenditures debited on which tax was not deducted at source, though deductible | 4,50,000 |
| Items credited to Profit and Loss Account: | |
| Dividend from Indian companies | 4,00,000 |
| Long-term capital gain on sale of listed shares | 8,00,000 |
| Agricultural income from lands in Karnataka | 3,50,000 |

Additional Information:

- (i) Brought forward depreciation as per books of account ₹ 6,50,000.
- (ii) Brought forward business loss as per books of account ₹ 7,20,000.

You are requested to compute book profit of the company under section 115 JB of the Income-tax Act, 1961.

7

- (b) Ms. Vidya residing in Chennai acquired a residential house for ₹ 15,25,000 on 28th May, 1996. It was sold for ₹ 100 lakhs in July 2016. The stamp duty valuation on the date of sale was ₹ 110 lakhs. She paid brokerage @2% of sale consideration and on which no tax was deducted at source.

She deposited ₹ 40 lakhs in REC Capital Gain Bonds in September, 2016 and ₹ 20 lakhs in NHAI Capital Gain bonds in February 2017. She acquired a residential property in Colombo for ₹ 50 lakhs and left for Colombo in August 2016 and occupied the said property. She returned to India in September 2016 leaving the property vacant till the date of sale.

Her other incomes include (i) ₹ 1,50,000 by way of interest on capital @15% from a firm at Salem; and (ii) income from rubber estates and manufacture of rubber in Kerala amounting to ₹ 3 lakhs., where rubber is grown and processed by her.

She paid ₹ 35,000 towards health insurance of her parents who are senior citizens through credit card and paid in cash ₹ 8,000 towards master health checkup for herself.

Cost Inflation Index : F.Y. 1996-97 = 305; F.Y. 2016-17 = 1125

Compute the total income of Ms. Vidya for the Assessment Year 2017-18 under proper heads of income. Ignore DTAA provisions.

8

5. (a) Mr. Chirag has given the following details relating to financial year 2016-17:

- (i) Received ₹ 56,000 by way of gift from his friends on the occasion of his marriage.
- (ii) Purchased a land at Kanpur for ₹ 12,50,000 for construction of a residential house from a friend. The stamp duty value of the land on the date of purchase was ₹ 15,00,000.
- (iii) Interest amounting to ₹ 1,80,000 relating to earlier years, on enhanced compensation received during the year. Legal expenses incurred ₹ 25,000.
- (iv) Received loan of ₹ 3,50,000 from CNK Private Limited in which Mr. Chirag holds 12% voting power. Accumulated profit in the hands of the company at the time receipt of loan was ₹ 2,90,000.

Briefly narrate the tax consequences of the aforesaid items, sharing clearly the amount to be taxed in each case.

9

(b) The following details have been furnished by Parikshit relating to previous year 2016-17:

| Particulars | ₹ |
|--|----------|
| (i) Income from business (non-speculation) | 6,00,000 |
| (ii) Interest on fixed deposit (net of TDS) | 63,000 |
| (iii) Long-term capital gain on sale of a residential house | 1,00,000 |
| (iv) Unabsorbed short-term capital loss carried forward from Assessment Year 2016-17 | 1,10,000 |
| (v) Loss in non-speculative business carried on by his wife, Prerana. The business was started with the amount gifted by Parikshit during the year | 45,000 |

You are required to compute the total income of Parikshit for Assessment Year 2017-18.

6

6. (a) Mr. Sengupta (aged 65 years) is a retired person drawing a monthly pension of ₹ 6,000. His taxable long-term capital gain from sale of painting during the previous year 2016-17 is ₹ 2,75,000. He has no other income during the year.

Compute his tax liability for Assessment Year 2017-18 (i) if he is resident and (ii) if he is non-resident. 8

- (b) (i) What is "charitable purpose" as envisaged by section 2(15)? 6
(ii) Is audit of accounts of charitable trust mandatory under the Income-tax Act, 1961? 1

7. (a) CKS Ltd., an Indian company, intends to distribute dividend of ₹ 100 lakhs to its shareholders. It also received the following dividends during the year ended 31-3-2017:

- (i) ₹ 20 lakhs from MNO Ltd., Indian subsidiary company, which paid dividend distribution tax.
(ii) ₹ 4,50,000 received from KKR Ltd., a foreign company in which CKS Ltd. hold 30% share.
(iii) ₹ 3,00,000 received from IPL Ltd., a foreign company in which CKS Ltd. holds 25% share.

Compute the dividend distribution tax (DDT) payable by CKS Ltd. if such dividends are paid during the financial year 2016-17.

Also compute the tax payable by CKS Ltd., on its total income assuming business income (computed) is ₹ 1,85,00,000. 9

- (b) Answer the following questions in the context of the provisions relating to advance tax: 6
(i) Who is not liable to pay advance tax, in case of individual assesses?
(ii) State the due dates of instalment for payment of advance tax and the amount of instalment for such assesses who are not covered under the provisions of section 44AD.

8. Write short notes on *any three* of the following:

5×3=15

- (a) Features of ICDS
 - (b) Adjustments required to be made while processing the return of income, u/s 143(1).
 - (c) Provisions of Equalization levy as per the Finance Act, 2016.
 - (d) Revised return of income: Meaning and interplay of section 139(5).
-

