

APPLIED DIRECT TAXATION

BASIC CONCEPTS

Objective -Type Questions :

Q1. Choose the correct answer :

- (i) Surcharge of 2.5% is payable in the case of companies, by
 - (a) domestic companies only;
 - (b) companies other than domestic companies;
 - (c) all companies;
 - (d) none of the above.

[Ref: Q1. (a)(i), June '05 / Paper-8]

Q2. All answer should be on the basis of provisions relating to income-tax assessment year 2006-07.

(a) Fill up blanks :

- (i) The basic exemption limit in case of a non-resident individual being a senior citizen is Rs. _____.

[Ref: Q1. (b)(iv), Dec. '05 / Paper-8]

Q3. All answer should be on the basis of provisions relating to Income-Tax assessment year 2006-07.

(a) Choose the correct answer :

- (i) An individual is said to be resident in India in a previous year (in which the February month has 29 days) if he is in India in that year for a period or periods amounting in all to _____ days or more. [(a) 182, (b) 183, (c) 60, (d) 150]

[Ref: Q1. (a)(i), June '06 / Paper-8]

Q4. Answer the following, giving brief reasons/comments not exceeding 3 to 4 sentences :

(a) Answer true or false and state relevant section :

- (ii) If a person is resident and ordinarily resident of India, his income earned outside India is taxable in the country in which he earned that income.

[Ref: Q1. (a)(ii), June '04 / Paper-8]

Descriptive & Practical Questions :

Q1. Briefly discuss the situations in which the various types of persons are regarded as 'non-resident' for the purposes of the Income-tax Act, 1961. [Ref: Q2. (a), Dec '08 / Paper-8]

Q2. (c)'Y' a foreign citizen (not being a person of Indian origin), comes to India, for the first time in the last thirty years on March 20, 2005. On September 1, 2005, he leaves India for Nepal on a business trip. He comes back on February 26, 2006. Determine his residential status under the Income-tax Act, 1961 for asst. year 2006-07. [Ref: Q4. (c), Dec '06 / Paper-8]

INCOME FROM SALARY**Objective -Type Questions :**

Q1. State with reasons, whether the following statements are True or False (any four) :

- (a) Vivitha, a Cost Accountant, is employed in Hema Plastic Ltd. The company pays the annual Cost accountant membership fee. The fee so paid by the company is not to be treated as a perquisite in the hands of Vivitha. [Ref : Q1. (b)(ii), June '08 / Paper-8]

Q2. Choose the correct answer :

- (a) If an employer transfers second hand motor car to the employee, the perquisite is valued at
- (1) Actual cost less depreciation @ 30% for every completed year under straight line method
 - (2) Actual cost less depreciation @ 30% for every completed year under WDV method
 - (3) Actual cost less depreciation @ 30% for every completed year under WDV method
 - (4) Actual cost less depreciation @ 20% for every completed year under SLM method.

[Ref : Q1. (a)(ii), Dec. '07 / Paper-8]

Q3. Fill up the blanks :

- (a) Where an employer gifts a second hand motor car to an employee, the perquisite value is actual cost less depreciation at _____ % for every completed year under _____ method of computing depreciation. [Ref : Q1. (A)(b), June '07 / Paper-8]

Q4. All answer should be on the basis of provisions relating to income-tax assessment year 2006-07.

(a) Choose the correct answer :

- (i) Any income chargeable under the head "Salaries" is exempt from tax under section 10(6)(viii), if it is received by any non-resident individual as remuneration for services rendered in connection with his employment in a foreign ship where his total stay in India does not exceed a period of _____ days in that previous year.

[Ref : Q1. (a)(iii), Dec '06 / Paper-8]

Q5. All answer should be on the basis of provisions relating to Income-Tax assessment year 2006-07.

(a) Choose the correct answer :

- (i) Expenditure incurred by an employer on medical treatment and stay abroad of the employee shall not be taxed in the case of _____. [(a) an employee whose gross total income before including the said expenditure does not exceed Rs. 2 lakhs, (b) an employee whose income under the head "Salaries" exclusive of all monetary perquisites does not exceed Rs. 2 lakhs, (c) an employee whose income under the head "Salaries" exclusive of all non-monetary perquisites does not exceed Rs. 2 lakhs, (d) all employees irrespective of their amount of gross total income/ the amount of income under the head "Salaries"]

[Ref : Q1. (a)(v), June '06 / Paper-8]

Q6. Fill in the blanks :

- (a) Death-cum-retirement gratuity received by an employee of Central Government is _____ (wholly exempt/ exempt up to Rs. 3,50,000/ exempt up to 5,00,00).

- (b) If loan granted by employer to employee does not exceed Rs. _____ (10,000, 20,000, 50,000, 1,00,000), it is not treated as perquisite to employee for purpose of income tax.

[Ref: Q1. (b)(i)(ii), Dec. '05 / Paper-8]

Q7. Fill in the blanks :

- (a) Expenditure on free meals to employee in excess of Rs. _____ per meal will be treated as perquisite of employee
- (b) Gift to employee upto Rs. _____ per annum will not be treated as perquisite taxable in the hands of employee
- (c) Professional tax of Rs. 2,500 payable by employee was paid by employer on his behalf. How will the transaction be treated for income tax purposes?

[Ref: Q1. (d), (f), Dec. '04 / Paper-8]

Q8. (a) Fill in the blanks :

Accumulated losses of amalgamating company shall be allowed to be set off or carried forward by amalgamated company, if the amalgamated company holds continuously for a minimum period of _____ years from date of amalgamation at least three-fourths of _____ of the amalgamating company.

- (b) State whether following perquisite received by employee during previous year 2003-04 are taxable :
- (i) Gift or wrist watch costing Rs. 4,000;
- (ii) Free meal costing Rs. 80 per meal;
- (iii) School fees of Rs. 4,000 of family members of employee paid by employer directly to school;
- (iv) Reimbursement of medical expenses of Rs. 22,000 during the year.

[Ref: Q1. (b), (h), June '04 / Paper-8]

Descriptive & Practical Questions :

Q1. Mr. Vasudevan retired on June 30, 2007. He submits the following information :

Basic salary (since January 2007) : Rs. 20,000 per month

Dearness allowance : Rs. 6,000 per month (One-third of which is part of salary for retirement benefits)

Employer's contribution towards provident fund : Rs. 3000 per month (Vasudevan makes a matching contribution)

Interest credited to PF at the rate of 15% on April 30, 2007 : Rs. 7,500

Pension after retirement : Rs. 10,000 per month

Payment of provident fund received at the time of retirement : Rs. 7,60,000.

As per details below :

Employer's contribution	: Rs. 3,30,000
Interest thereon	: Rs. 44,000
Vasudevan's contribution	: Rs. 3,40,000
Interest thereon	: Rs. 46,000

Salary and pension become due on the last day of each month.

Vasudevan has deposited the entire provident fund payment with a company (rate of interest 9 per cent per annum).

Find out the total income of Vasudevan for the assessment year 2008-2009 on the assumption that the provident fund is.

- (a) Statutory provident fund,
- (b) Recognized provident fund, and
- (c) Unrecognize provident fund.

[Ref: Q2. June '08 / Paper-8]

Q2. X, who resides in Kanpur, receives Rs. 78,000 as basic pay during the financial year 2006-07. He stays in his father's house up to August 31, 2006 for which he does not pay any rent, and thereafter in an accommodation taken on monthly rent of Rs. 3,000. The employer, however, pays Rs. 700 per month as house rent allowance throughout the previous year. Calculate the HRA taxable in hands of X for the assessment year 2007-08. [Ref: Q2. (a), Dec. '07 / Paper-8]

Q3. Mr. X retires on 30.03.2005 from Z Ltd. which maintains recognized provident fund. Rs. 9,00,000 (being accumulated balance of said fund of which Rs. 3,80,000 was employer's contribution, Rs. 53,000 as interest thereon, Rs. 4,10,000 as employee's contribution and Rs. 57,000 as interest thereon) is paid on the same day. Discuss the tax treatment of the above sums;

- (a) If he had joined in 1990;
- (b) If he had joined in 2001.

[Ref: Q4. (a), June '05 / Paper-8]

INCOME FROM HOUSE PROPERTY

Objective -Type Questions :

Q1. State with reason whether true or false (answers without reasoning will not deserve any credit) :

- (a) Income from subletting premises is liable to income-tax as income from house property.

[Ref : Q1. (b), (i) Dec. '08 / Paper-8]

Q2. Choose the correct answer :

- (a) If an assessee earns rent from a sub-tenant in respect of tenanted property let out as a residence, the said rent is :

(1) Exempt under section 10.

(2) Taxable as business income, as the letting out is a commercial activity.

(4) Taxable as income from other sources, unless the assessee is in the business of subletting properties on a regular basis.

[Ref : Q1. (a), (i) June '08 / Paper-8]

Q3. State true or false with reasons :

- (a) Rental income from residential property owned by a company carrying on business of property rentals is taxable under the head "income from house property".

[Ref : Q1. (c), (i) Dec. '06 / Paper-8]

Q4. Fill up the blanks :

- (a) For a self-occupied house property occupied on 1.7.2004, for which housing loan was availed, if the interest up to 31.3.2004 is Rs. 90,000 and thereafter the interest payable is Rs. 3,000 per month, the deduction available under section 24 in respect of interest for the year ended 31.3.2005 is Rs. _____.

[Ref : Q1. (b), (i) June '05 / Paper-8]

Q5. Answer the following, giving brief reasons/comments not exceeding 3 to 4 sentences :

- (a) Fill in the blanks :

Interest on capital borrowed for acquisition or construction of property is deductible subject to limit of Rs. _____ per year, if capital is borrowed on or after _____. This is allowable if acquisition or construction is completed within _____ years from _____. [Ref : Q1. (e), June '04 / Paper-8]

Descriptive & Practical Questions :

Q1. Is unrealized rent received subsequently taxable? What is the tax treatment of receipt of arrears of rent? Under what head of income will they be charged? Has ceased to be the owner of the house property concerned?

[Ref : Q2. (b), Dec. '08 / Paper-8]

- Q2. Mr. Kuber Chand, owner of a property gives it on a rent of Rs. 11,000 per month to a bank. Municipal value of the property is Rs. 1,30,000, fair rent is Rs. 1,40,000 and standard rent is Rs. 1,34,000. Municipal tax paid by Mr. Kuber Chand is Rs. 26,000 on March 3, 2006 and Rs. 30,000 on May 10, 2006. On May 1, 2006, the rent is increased from Rs. 11,000 per month to Rs. 15,000 per month with retrospective effect from April 1, 2005. Arrears of rent are paid on May 1, 2006. Find out the income chargeable to tax for the assessment year 2007-08.

[Ref: Q3. (b), Dec. '07 / Paper-8]

- Q3. Mr. Jai Prakash has house property in Chennai, which he has given on rent during F.Y 2004-05. Municipal valuation of the property is Rs. 1,94,000. Its fair rent as determined on the basis of similar property in similar area is Rs. 2,34,000. Standard Rent as determined under provision of Rent Control Act is Rs. 1,60,000. Actual rent received during the year is Rs. 1,40,000. Jai Prakash has paid municipal taxes of Rs. 12,000. He incurred expenditure of Rs. 10,000 on repairs of building. Insurance premium paid was Rs. 2,000. He had borrowed from housing finance and interest payable was Rs. 84,000. Find the income from house property.

[Ref: Q2. (b), Dec. '05 / Paper-8]

- Q4. X owns a big house (erection completed on September 14, 1999) which is partly self-occupied and partly let-out. Unit 1 (50% of the floor area) is let out for commercial purposes on a monthly rent of Rs. 6,000 (rent of 2 months could not realized). Unit 2 (25% of the floor area) is used by X for the purpose of his profession, while unit 3 (the remaining 25%) is utilized for the purpose of his residence.

Other particulars of house are as follows :

Municipal valuation : Rs. 80,000

Standard rent under the Delhi Rent Control Act : 1,40,000

Municipal tax : Rs. 10,812 (levied during the year), Rs. 10,000

(actually paid during the year 2003-04, Rs. 812 is, however paid on April 30, 2004)

Repairs : Rs. 8,000

Ground rent : Rs. 16,800

Annual charge created by will by father in favour of Mrs. X : Rs. 14,000

Insurance premium : Rs. 12,000.

Income of X from profession is Rs. 62,000 (without debiting house rent and other incidental expenditure).

Cost of construction of the house : Rs. 8,00,000; rate of depreciation : 10%

X has a substantial interest in ABC Ltd., a closely-held company. For financing the construction of the house property he had borrowed Rs. 2,00,000 @ 6% from ABC Ltd. The amount of loan was treated as dividend under section 2(22)(e) in the assessment of X for the assessment year 1999-2000. However, as per contract with the company, he is liable to pay interest on January 1 every year.

Determine the total income of X for the assessment year 2004-05, on the assumption that he maintains books of accounts on the basis of merchantile system.

[Ref: Q2. June '04 / Paper-8]

- Q5. Explain the tax treatment of arrears of rent received under the Income-tax Act, 1961.

[Ref: Q4. (c), June '04 / Paper-8]

PROFIT & GAINS FORM BUSINESS & PROFESSION

Objective -Type Questions :

Q1. Choose the correct answer :

- (a) The unabsorbed loss from a speculation business that is carried forward to the next year
 - (i) Can be set off only against the profit of same speculation business.
 - (ii) Can be set off against income/profit from any head of income except salaries.
 - (iii) Cannot be set off beyond 16 years.
 - (iv) Can be set off only against income from the same or any other speculative business.
- (b) The profit arising on sale of a painting held for two generations is
 - (i) Not liable to tax as paintings being personal effect is not a capital asset.
 - (ii) Not liable to tax as it is held for five years before being sold.
 - (iii) Liable to tax as long term capital gain.
 - (iv) Liable to capital gains tax as short term gain. [Ref: Q1. (a), (ii), (iii) Dec. '08 / Paper-8]

Q2. Choose the correct answer :

- (a) If any expenditure is incurred by an Indian company wholly and exclusively for the purpose of amalgamation or demerger, the said expenditure is :
 - (i) Not allowable as a deduction in computing profits and gains of business or profession.
 - (ii) Fully deductible as revenue expenditure in the year in which it is incurred.
 - (iii) Not deductible but is eligible to be treated as an intangible asset in respect of which depreciation can be claimed.
 - (iv) Allowed as a deduction spread over five successive previous years beginning with the previous year in which the amalgamation or demerger takes place.
- (b) State with reasons, whether true or false :
 - (i) TDS is now applicable on rent in respect of plant, equipment, machinery etc. also, apart from land or building. [Ref: Q1. (a), (b), Dec. '07 / Paper-8]

Q3. Fill up the blanks :

- (a) Where an Indian company incurs any expenditure in connection with amalgamation or demerger, the same is allowable as deduction, spread over _____ successive previous years beginning with the year _____. [Ref: Q1. (A), (a), June '07 / Paper-8]

Q4. All answer should be on the basis of provisions relating to income-tax assessment year 2006-07.

- (a) Choose the correct answer :
 - (i) Validity period of stay of recovery granted by ITAI is
 - (A) 180 days

- (B) one year
 - (C) Till final order is passed by Tribunal
 - (D) Three years
- (iv) If any expenditure is incurred by an Indian company wholly and exclusively for the purpose of amalgamation or demerger, the said expenditure is :
- (A) not allowable as a deduction in computing "Profits and gains from business or profession"
 - (B) fully deductible as revenue expenditure in the year in which it is incurred
 - (C) allowable as a deduction, spread over eight successive previous years beginning with the previous year in which the amalgamation or demerger taken place
 - (D) allowable as a deduction, spread over five successive years beginning with the previous year in which the amalgamation or demerger taken place.
- (b) Fill up blanks :
- (i) The additional or accelerated depreciation, for an eligible assessee, for machinery installed and used after 31.03.2005 is _____ % of _____ of the machinery.
- (c) State true or false with reasons :
- (iii) Business expenses are allowed to be deducted from business income even if they are in the nature of personal expenditure of the assessee, as long as they are reasonable.

[Ref: Q1. (a), (b), Dec. '06 / Paper-8]

Q5. Fill in the blanks :

- (i) According to section 44AB, every person, carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds Rs. _____ in any previous year, inter alia, get his accounts of such previous year audited by a Chartered Accountant.
- (ii) Additional depreciation of 20% of the actual cost of any new machinery or plant which has been acquired or installed after 31.03.2005 is available to an assessee engaged in the business of _____ .
- (iii) According to section 40A(3), where the assessee incurs any expenditure in respect of which payment is made in a sum exceeding Rs. _____ otherwise than by a crossed cheque or crossed bank draft. _____ per cent of such expenditure shall not be allowed as a deduction.

[Ref: Q1. (b), June '06 / Paper-8]

Q6. Fill in the blanks :

- (a) A person owns 4 heavy goods vehicles. His estimated annual income u/s. 44AE is Rs. _____ (1,68,000, 1,51,200, 1,92,000, 2,40,000).

[Ref: Q1. (b), (iii) Dec. '06 / Paper-8]

Q7. Fill in the blanks :

- (a) What is the rate and period for allowing amortization of expenditure in case of amalgamation?

- (b) Name any two intangible assets on which depreciation is allowable under Income-tax Act, 1961. [Ref: Q1. (a), (iii), (iv) Dec. '05 / Paper-8]

(c) Answer in brief :

- (i) An assessee raised an invoice of Rs. 50,000 in AY 2004-05 and had taken it into account as his income. Since it was not recoverable, he has filed suit in civil court. However, he wants to write it off as bad debt in AY 2005-06 and claim as deduction as bad debt. Can he do so?
- (ii) Your client is a doctor. When is he required to compulsorily maintain books of accounts?
- (iii) Explain the provisions under the Income-tax Act, 1961 in respect of valuation of closing stock of raw materials when assessee has availed Cenvat in respect of his inputs.

[Ref: Q1. (c), Dec. '05 / Paper-8]

Q8. Fill up the blanks :

- (a) In case of an existing industrial undertaking, to be eligible for additional depreciation, increase in installed capacity as compared to the installed capacity as on 31-3-2002 is _____ per cent. [Ref: Q1. (B), (iv) June '05 / Paper-8]

Q9. (a) A person purchased a motor car in December, 2003, which was used for business purposes during the year. However, the relevant transfer in records of RTO (Regional Transport office) was made only in April 2004. Can the assessee claim depreciation on motor car for the assessment year 2004-05?

- (b) An assessee had acquired a machinery from foreign country for USD 10,000. The liability was provided in books @ 1 USD = Rs. 49.25 and payment of 50% of value of asset was made at that rate. Balance 50% was payable next year, when dollar depreciated. The payment of balance 50% was made to foreign supplier when exchange rate was 1 USD = Rs. 46.25. How will the change in value be treated for income-tax purposes and in what year? The machinery is being regularly put to use

- (c) State any four expenditure which are allowable for amortization as 'preliminary expenses' under section 35D.

- (d) Name any four expenses which are deductible only on payment basis under section 43B.

[Ref: Q1. (a), (e), (g), (h) Dec. '04 / Paper-8]

Q10. Expand abbreviations – ITAT, CCIT, MAT, CBDT.

[Ref: Q1. (b) Dec. '04 / Paper-8]

Descriptive & Practical Questions :

Q1. Briefly discuss the provisions of the Income-tax Act, 1961 relating to deductibility of interest paid in respect of capital borrowed for the purpose of business or profession.

[Ref: Q2. (a), June '07 / Paper-8]

Q2. OPTIMA Ltd. is engaged in the business of playing goods carriages. On 1st April, 2006, the company owns 10 trucks (6 out of which are 'heavy goods vehicles'). On May 2, 2006 one of the

heavy goods vehicles is sold by OPTIMA Ltd. to purchase a light goods vehicle on May 6 2006, which is put to use only from June 15, 2006. Find out the total income of OPTIMA Ltd. for the assessment year 2007-08 taking into consideration the following data gathered from its books :

	Rs.
Freight collected	8,90,000
Less : Operational expenses	6,40,000
Depreciation as per section 32	1,90,000
Other office expenses	<u>15,000</u>
Net profit	45,000
Other non-business income	70,000

[Ref : Q3. (a), June '07 / Paper-8]

Q3. Please advise, with reasons, regarding admissibility of the following expenditure in computing the business income ;

- (i) Interest for late payment/non-payment of advance tax;
- (ii) Legal charges for obtaining loan from financial institutions;
- (iii) Expenses incurred in developing software program;
- (iv) Fees paid to obtain license to investigate and search minerals;
- (v) (A) Penalty paid for contravening provisions of Central Excise Act;
(B) Penalty of a compensatory nature paid for breach of a contract;
- (vi) Royalty paid by the assessee for user of trademark of another company;
- (vii) Annual listing fees paid to stock exchanges;
- (viii) Insurance premium paid by a firm on life insurance policies of its partners;

[Ref : Q2. (c), Dec. '06 / Paper-8]

Q4. Briefly explain the salient features of the presumptive provisions (of section 44AD) for computing income from business of civil construction.

[Ref : Q2. (c), June '06 / Paper-8]

Q5. Briefly explain whether trading in derivatives is regarded as speculative transaction.

[Ref : Q4. (b), June '06 / Paper-8]

Q6. What would be your advice regarding admissibility of the following items of expenditure in computing the business income :

- (a) A Donation of Rs. 1 lakh made to a University for starting a laboratory for Scientific Research (i) relating to the assessee's business (ii) not relating to the assessee's business.
- (b) Travelling expenses include a sum Rs. 1,50,000 incurred by a Director in Travelling abroad for negotiating purchase of Plant & Machinery.
- (c) Amount payable to Government as penalty on account of shortfall in export target.
- (d) Interest of Rs. 20,000 charged by bank on account of overdraft taken for payment of income tax.
- (e) Payment of interest of Rs. 40,000 on monies borrowed from bank for payment of dividend to shareholders.
- (f) Rs. 1,20,000 paid for shifting of business premises from the original site to the present place which is more advantageously located.

- (g) Retrenchment compensation of Rs. 4 lakhs paid to the workmen on the closure of one of the units. [Ref: Q3. Dec. '05 / Paper-8]
- Q7. (a) State whether tax audit u/s. 44AB is applicable in the following cases :
- (i) Gross turnover from manufacturing business Rs. 20 lakhs and gross turnover from retail trade business of Rs. 30 lakhs where the assessee opts to be assessed u/s. 44AF.
 - (ii) Professional receipts Rs. 15 lakhs and gross sales in business Rs. 20 lakhs. [Ref: Q4. (b), Dec. '05 / Paper-8]
- Q8. (a) S owns two plant A and B, the depreciation rate being 25% WDV of the block as on 01.04.2002 is Rs. 2,36,000. He purchased plant C for Rs. 60,000 on 31.10.2002. He transferred plant C to F for Rs. 80,000 (FMV Rs. 28,000) on 30.06.2004. On 05.07.2004, F gives plant C on lease to S at a monthly lease rent of Rs. 2000. Find the actual cost of plant C for purpose of computing depreciation in the hands of F.
- (b) An assessee had raised invoice of Rs. 20,000 in AY 2002-03. He has not received the amount, but is very much hopeful of getting the amount. However, he has provided for that amount in 'provision of bad and doubtful debts', as three years are over. Can he claim deduction as 'bad debt'? [Ref: Q4. (b), (c), June '05 / Paper-8]
- Q9. (a) A foreign company has executed technical collaboration agreement on 30th July, 2003 with an Indian company. The agreement is permissible as per industrial policy of Government of India. State tax treatment for assessment year 2004-05, if –
- (i) The foreign company has no permanent establishment in India.
 - (ii) The foreign company has permanent establishment in India and the technical know how fee paid is connected with the permanent establishment of foreign company in India. [Ref: Q4. (c), Dec. '04 / Paper-8]

CAPITAL GAIN**Objective -Type Questions :**

Q1. Choose the correct answer :

- (a) The profit arising on sale of a painting held for two generations is
 - (i) Not liable to tax as paintings being personal effect is not a capital asset.
 - (ii) Not liable to tax as it is held for five years before being sold.
 - (iii) Liable to tax as long term capital gain.
 - (iv) Liable to capital gains tax as short term gain. [Ref: Q1. (a), (iii) Dec. '08 / Paper-8]

Q2. Choose the correct answer :

- (a) Long-term capital gain arising to an assessee on the sale of a capital asset is exempt under section 54EC of the Income-tax act, 1961,
 - (i) To the extent of investment in specified bonds up to a limit of Rs. 100 lakhs.
 - (ii) To the extent of 50% of investment in certain bonds up to a limit of Rs. 50 lakhs.
 - (iii) To the extent of investment of capital gain in specified bonds not exceeding Rs. 50 lakhs.
 - (iv) Proportionate to the extent of investment of net sale proceeds in specified bonds, not exceeding Rs. 50 lakh.
- (b) State with reasons, whether the following statements are True or False (any four) :
 - (i) No disallowance under section 40A(3) of the Income-tax Act, 1961 arises where an assessee makes a cash payment exceeding Rs. 20,000 towards purchase of a capital assets. [Ref: Q1. (a), (iv) , (b)(iii) June '08 / Paper-8]

Q3. State true or false with reasons :

- (a) Surplus on sale of motor car on which depreciation has been allowed for 4 years by proprietor of a business will be taxed as long – term capital gain.

[Ref: Q1. (c) (ii), Dec '06 / Paper-8]

Q4. Tax treatment of Zero coupon bonds.

[Ref: Q2. (b), Dec '06 / Paper-8]

Q5. All answers should be on basis of provisions relating to Income Tax assessment year 2006-07.

(a) State true or false, with reasons :

- (i) For computation of capital gains, full value of consideration arising from the transfer of a capital asset, being land or building or both, shall be the value adopted by the “stamp valuation authority” for payment of stamp duty or the consideration accruing or received from the transfer, whichever is less. [Ref: Q1. (c)(i), June '06 / Paper-8]

Q6. Choose the correct answer :

- (a) Long-term capital gains arising on compulsory acquisition of agricultural land held by a domestic company within specified urban limits is
- (i) not exempt under section 10(37);
 - (ii) exempt under section 10(37) in full;
 - (iii) 50% of the receipt is exempt under section 10(37);
 - (iv) 25% of the receipt is exempt under section 10(37).
- (b) State true or false, referring to the relevant provisions of the Income-tax Act, 1961.
- (i) Long-term capital gains arising from units of debt-oriented equity funds for which securities transactions tax has been paid in a recognized stock exchange is exempt.

[Ref: Q1. (A), (C), June '05 / Paper-8]

Descriptive & Practical Questions :

- Q1. Janak is a shareholder in Prem Plastic Ltd. The company bought back the shares held by him on 30.3.2008. Payment was received by Janak from the company on 15.4.2008. Discuss the tax consequences in the hands of Janak, clearly indicating the assessment year of taxability, if any. You are informed that Janak maintains books of account on cash basis.
- [Ref: Q2. (c), Dec. '08 / Paper-8]
- Q2. Can deduction of interest be claimed even where such borrowing is for acquiring a capital asset? Should any income be earned from out of such asset? [Ref: Q2. (b), June. '07 / Paper-8]
- Q3. NDA Ltd., running an industrial undertaking located within the corporation limits, decided in December, 2006, to shift the said undertaking to non-urban area. The company sold some of the assets (which were used in business and on which depreciation had been claimed wherever admissible) and acquired new assets in the process of shifting (completed in March, 2007). The relevant details are as follows :

	(Rs. In lakhs)			
	Land	Building	Plant and Machinery	Furniture
Sale proceeds (sale effective in March, 2007)	8	18	16	3
Indexed cost of acquisition	4	10	12	2.2
Adjusted cost as per section 50	—	4	5	2
Cost of new assets purchased in July, 2006 for the purpose of the industrial under	4	7	17	2

Compute the capital gains of NDA Ltd. for the assessment year 2007-08, bearing in mind that exemption, if any, available, should be claimed such that it is most beneficial to the assessee.

[Ref: Q3. (b), June '07 / Paper-8]

Q4. X sells the following long-term capital assets on January 11, 2005 :

	Residential House property Rs.	Gold Rs.	Silver Rs.	Diamonds Rs.
Sales consideration	3,90,000	8,10,000	2,96,000	6,40,000
Indexed cost of acquisition	70,000	1,15,000	1,78,000	4,30,000
Expenses on transfer	10,000	81,000	6,000	32,000

The due date of filling return of income for the assessment year 2005-06 is July 31, 2005. For claiming exemption under section 54 and 54EC, X has acquired or deposited the following :

Assets	Date of Purchase/deposit	Amount (Rs.)
Land (for constructing a residential house)	March 31, 2005	1,00,000
Deposit in Capital Gains Deposit Scheme (for constructing house)	August 5, 2005	50,000
National Bank for Agriculture and Rural Development (redeemable on July 5, 2009)	July 5, 2005	7,50,000
Bonds of National Highways Authority of India (Redeemable on August 10, 2014)	July 10, 2005	3,05,000

Find out the amount of capital chargeable to tax for the assessment year 2005-06.

[Ref: Q2. (b), June '05 / Paper-8]

Q5. During the financial year 2003-04, Mr. X sells the following assets held as investments

	Shares in A Ltd. (listed) Rs.	Shares in B Ltd (listed) Rs.	Shares in C Pvt. Ltd Rs.
Sale consideration	5,00,000	4,50,000	6,89,000
Cost of acquisition	26,000	1,10,000	20,000
Date of acquisition	May 10, 1982	June 6, 1983	April 6, 1984

Income of X from other sources is Rs. 7,86,000. He deposits Rs. 50,000 in public provident fund. Find out the total income and tax liability for the assessment year 2004-05.

Cost of inflation indices are :

<i>Financial year</i>	<i>Index No.</i>
1982-83	109
1983-84	116
1984-85	125
2003-05	463

[Ref: Q3. Dec. '04 / Paper-8]

Q15. X sells shares in a private sector company on July 10, 2003 for Rs. 8,05,000 (cost of acquisition on June 15, 1984 : Rs. 60,000, expenses on sale : Rs. 5,000). On July 10, 2003, he owns one residential house property. To get the benefit of exemption under section 54F, X deposits on July 30, 2004 Rs. 6,00,000 in Capital Gains Deposit Account Scheme. By withdrawing from the Deposit Account, he purchase a residential house property at Delhi on July 6, 2005 for Rs. 4,80,000. Ascertain

- (a) the amount of capital gain chargeable to tax for the assessment year 2004-05;
- (b) tax treatment of the unutilized amount;
- (c) when he can withdraw the unutilized amount; and
- (d) what X has to do to ensure that exemption under section 54F is never taken back.

Cost Inflation Index : FY 2003-04 is 463, FY 1984-85 is 125. [Ref: Q3. June '04 / Paper-8]

INCOME FROM OTHER SOURCES

Objective -Type Questions :

Q1. State with reason whether true or false (answers without reasoning will not deserve any credit) :

- (a) Vivitha derives income chargeable as income from other sources; she has made cash payment of Rs. 25,000 towards salary of an employee, which she wants to claim as expenditure. Her friend advises her that the same is possible.

[Ref: Q1. (b) Dec. '08 / Paper-8]

Q2. State with reason whether true or false (answers without reasoning will not deserve any credit) :

- (a) Vivitha derives income chargeable as income from other sources; she has made cash payment of Rs. 25,000 towards salary of an employee, which she wants to claim as expenditure. Her friend advises her that the same is possible.

[Ref: Q1. (b) (ii) Dec. '08 / Paper-8]

Q3. Choose the correct answer :

- (a) Allowed as a deduction spread over five successive previous years beginning with the previous year in which the amalgamation or demerger takes place.

[Ref: Q1. (a)(4) Dec. '07 / Paper-8]

Q4. State with reasons, whether the following statements are true or false (Answer without 1 reasons will not receive any credit) :

- (a) Gift received from assessee's grandfather in excess of Rs 50,000 will be taxed as income from other sources.

[Ref: Q1. (B)(d) June '07 / Paper-8]

Q5. State true or false, referring to the relevant provisions of the Income-tax Act, 1961 :

- (a) Mr. A has received gift of Rs. 1,50,000 on 12th December, 2004 from his close friend who is assessed to income-tax. The same is taxable at the hands of Mr. A.

[Ref: Q1. (C)(b) June '05 / Paper-8]

CLUBBING OF INCOME**Objectives -Type Questions :**

Q1. State with reason whether true or false (answers without reasoning will not deserve any credit) :

- (a) Where an asset is transferred by an individual to a person (non-relative) for a period of seven years, the value of the same cannot be clubbed in the hands of the individual.

[Ref: Q1. (b)(iv) Dec. '08 / Paper-8]

Q2. Fill up the blanks :

- (a) Exemption u/s. 10(32) of IT Act 1961 in respect of income of minor child included in the hands of assessee under section 64(1A) is restricted to Rs. _____ per child.

[Ref: Q1. (c)(iii) Dec. '07 / Paper-8]

Q3. Choose the correct answer :

- (a) Capital gains arising to an individual/HUF is exempt from tax under section 10(37) if the land was being used for agriculture purpose by such HUF or individual or parent of his during a period of _____ or more immediately preceding the date of transfer. [(a) 2 years, (b) 36 months, (c) 12 months, (d) 6 months]

[Ref: Q1. (A)(iv) June '06 / Paper-8]

Descriptive & Practical Questions :

Q1. As per section 64(1A), income of a minor child is clubbed with income of his parent,

- (a) Where the marriage of the parent subsists, the income will be added in the income of that parent whose total income [other than income includible u/s 64(1A)] is higher.
(b) Otherwise, in the hands of the parent who maintains the minor child in the previous year.
(c) The parent in whose income in the income of minor is added is eligible for exemption of upto Rs. 1,500 for each minor child whose income is added to his income.
(d) However, if income is derived by minor from manual work or from any activity involving his talent or specialized knowledge and experience, it will not be clubbed.
(e) Similarly, income of minor child suffering from disability as specified in section 80U will not be included in income of his parent.

[Ref: Q3. (c) June '06 / Paper-8]

SET-OFF OR CARRY FORWARD AND SET-OFF LOSSES

Objective -Type Questions :

Q1. Choose the correct answer :

- (a) The unabsorbed loss from a speculation business that is carried forward to the next year
 - (i) Can be set off only against the profit of same speculation business.
 - (ii) Can be set off against income/profit from any head of income except salaries.
 - (iii) Cannot be set off beyond 16 years.
 - (iv) Can be set off only against income from the same or any other speculative business.

[Ref : Q1. (a)(ii) Dec. '08 / Paper-8]

Q2. State true or false, with reasons ;

- (a) Section 73 does not permit carry forward of losses from speculation business for more than four assessment years immediately succeeding the assessment year for which the loss was first computed.

[Ref : Q1. (C)(ii) June '06 / Paper-8]

Q3. State true or false, referring to the relevant provisions of the Income-tax Act, 1961 :

- (a) business loss can be set off against salary income.

[Ref : Q1. (C)(a) June '06 / Paper-8]

Q4. Answer the following, giving brief reasons/comments not exceeding 3 to 4 sentences :

- (a) Answer true or false and state relevant section :
 - (i) Benefit of carry forward and set off of accumulated losses and unabsorbed depreciation is not available in case of amalgamation of a company owing hotel, with another company.

[Ref : Q1. (a)(i) June '04 / Paper-8]

Descriptive & Practical Questions :

Q1. From the following data you are required to compute the total income and tax thereon of X Ltd. in a manner most beneficial to the company, for the assessment year 2005-06 :

	Rs.
Business loss	50,00,000
Property income	45,00,000
Income from other sources	1,00,000
Short-term capital gain	3,00,000
Long-term capital gain	10,00,000

[Ref : Q2. (a) June '05 / Paper-8]

COMPUTATION OF TOTAL INCOME

Descriptive & Practical Questions :

- Q1. MH Construct & Co., a non-resident firm, is engaged in the business of Civil Construction (Turnover of 2996-07 being Rs. 38,50,000). It wants to claim the following deductions while offering income under presumptive provisions :

	Rs.
Salary and interest to partners [as permitted by section 40(b)]	60,000
Salary to employees	5,00,000
Depreciation	2,70,000
Cost of materials used	25,90,000
Other expenses	3,50,000
Total	37,70,000
Net profit (Rs. 38,50,000 – 37,70,000)	80,000

The following information are also provided :

- (i) Taxable income from other business is Rs. 1,90,000
- (ii) Long-term capital gain is Rs. 40,000
- (iii) The firm is eligible for a deduction of Rs. 5,000 under section 80G.

Determine the total income of MH Construct & Co. and tax payable for the assessment year 2007-08. [Ref: Q3. (a) Dec. '07 / Paper-8]

- Q2. X Ltd. is a manufacturing company. The Profit and Loss Account of X Ltd. for the year ending March 31, 2006 is given below :

Sales Tax	50,000	Sales	20,10,000
Other Expenses	14,15,000		
Net Profit	5,45,000		
Total	20,10,000		20,10,000

Other Information :

- (1) Out of sales tax of Rs. 50,000 only Rs. 47,000 is paid . The payment is made as follows :
 - (i) Rs. 40,000 on September 2, 2005;
 - (ii) Rs. 4,000 on October 5, 2006; and
 - (iii) Rs. 3,000 on November 1, 2006.
- (2) Return of income is submitted on November 10, 2006 and evidence of sales tax payment as stated in 1 (i) and 1 (ii) above is submitted along with the return of income.
- (3) During the previous yer 2005-06, the following payments are made in respect of expenses pertaining to earlier yars;

- (i) Bonus to employees pertaining to the previous year 2003-04 paid on April 30, 2005 : Rs. 15,000;
- (ii) Customs duty pertaining to the previous year 2003-04 paid on December 1, 2005 : Rs. 25,000;
- (iii) Electricity bill payable to BSES pertaining to previous year 2003-04 paid on May 3, 2005; Rs. 35,000;
- (iv) Excise duty pertaining to the previous year 2004-05 paid on May 20, 2005 : Rs. 40,000; and
- (v) Leave salary payable to employees pertaining to the previous year 2004-05 paid on December 2, 2005 : Rs. 45,000.

These payments do not pertain to the previous year 2005-06. Consequently, these are not recorded in the Profit & Loss Account.

Find out the consequences on the net income of X Ltd. for the assessment year 2006-07, assuming that there are no other adjustments. [Ref: Q4. (a) June '06 / Paper-8]

- Q2. A public company had unabsorbed depreciation of Rs. 18,000 and business loss of Rs. 40,000 as on 01.04.2004. During the financial year 2004-05, the company made profit from business of Rs. 60,000 (before depreciation). Depreciation for the financial year 2004-05 was Rs. 38,000. The company received during the year income from other sources of Rs. 52,000, which included dividend of Rs. 10,000 received from its investment in other companies. Calculate net income liable to tax for assessment year 2005-06 and tax payable, if any. Also show the amount of unabsorbed depreciation and unabsorbed business loss, if any, that can be carried forward.

[Ref: Q2. (a) Dec. '05 / Paper-8]

- Q2. X Ltd., a manufacturing company, retains you to assist in preparing the income tax return for assessment year 204-05. The company earns a net profit of Rs. 6,00,000, in the financial year 2003-04. You are required to assist the company to compute its gross total income after taking note of the following ;

- (1) Other income credited to profit and loss account, inter alia, include :
 - Rs. 35,000 received on termination of a contract entered into in the ordinary course of business.
 - Rs. 25,000 realised as penalty from a supplier of raw material whose supply fell short of the agreed quantity contracted to be supplied by him.
 - Rs. 50,000 being dividends received from a foreign company on shares allotted pursuant to a collaboration agreement.
- (2) Interest debited to profit and loss account is inclusive of :
 - Payment of interest for late filing of return of income for the assessment year 2003-04 ; Rs. 5,000.
 - Payment of interest on money borrowed from bank for purchase of land for construction of a building for own administrative office : Rs. 55,000. Of this, interest up to the date on which the asset was put to use is Rs. 23,000.
 - Payment of interest on overdraft with bank utilized for payment of dividends Rs. 40,000.

- (3) Repairs and maintenance include :
- Expenditure incurred on replacement of worn out asbestos sheets of the factory shed with new sheets : Rs. 30,000.
 - Repairs to compound wall collapsed due to heavy rain Rs. 25,000.
- (4) Salaries and staff welfare expenses include :
- Expenditure of capital nature incurred for the purpose of promoting family planning amongst its employees Rs. 75,000.
 - Contribution to Government for construction of health centre adjacent to the company's factory where its employees are allowed to have treatment along with the members of public : Rs. 35,000.
 - Salary of foreign technicians retained on contract basis to study and suggest improved method of production : Rs. 80,000.
- (5) General expenses include :
- Entertainment expenses : Rs. 10,000
 - Cost of a statue of the founder-chairman erected within the factory premises : Rs. 15,000.
- (6) The company decided to close one of its divisions and accordingly retrenched employees working in that division by paying the retrenchment compensation and notice pay of Rs. 90,000 (separately debited to profit and loss account)

You are requested to briefly state with reasons how the above are to be dealt with in computing gross total income of company for the Assessment year 2044-05. Total income need not be computed. Ignore MAT Provisions.

[Ref: Q2. Dec. '04 / Paper-8]

DEDUCTION IN COMPUTING TOTAL INCOME

Objective -Type Questions :

Q1. State with reasons, whether true or false :

- (i) Maximum deduction for medical insurance premium paid, allowable under section 80D of Income-tax Act 1961 is Rs. 20,000.
- (ii) Donation made in kind are allowed as a deduction under section 80G on Income-tax Act 1961 provided, the trust is recognized by the CBDT to accept such donations.

[Ref: Q1. (b) Dec. '07 / Paper-8]

Q2. State with reasons, whether the following statements are true or false (Answer without 1 reasons will not receive any credit) :

- (a) In the case of an individual resident in India, who is an author, maximum deduction available from gross total income in respect of eligible royalty income is Rs. 5,00,000.

[Ref: Q1. (B)(a) June '07 / Paper-8]

Q3. Fill up blanks :

- (a) The maximum amount of permissible deduction under section 80C, subject to overall ceiling of Rs. 1,00,000, for repayment of principal part of eligible housing loan is Rs. _____ and that of interest is Rs. _____.

[Ref: Q1. (b)(iii) Dec. '06 / Paper-8]

Q4. Choose the correct answer ;

- (a) Government's contribution to the new pension scheme referred to in section 80CCD is
 - (i) an exempt income;
 - (ii) income chargeable to tax as "Salaries" in full;
 - (iii) 50% thereof is income chargeable to tax as "Salaries".
 - (iv) income chargeable to tax as "Income from other sources" in full.

[Ref: Q1. (A)(ii) June '05 / Paper-8]

Q5. Answer the following, giving brief reasons/comments not exceeding 3 to 4 sentences :

- (a) Name any four States where tax holiday for new industrial undertaking is available under section 80-IC of the Income-tax Act, 1961, from AY 2004-05.
- (b) An author of a work of literary, artistic or scientific nature is entitled to deduction up to certain amount from his income. State the amount and section number under which he is entitled to deduction.

[Ref: Q1. (c) (d) June '04 / Paper-8]

Descriptive & Practical Questions :

Q1. Write short notes on *any three* of the following :

- (a) Deduction under section 80-1A of the Income-tax act, 1961 to an undertaking engaged in the business of laying and operating cross-country natural gas distribution network.

[Ref : Q4. (a) June '08 / Paper-8]

Q2. Can interest be claimed as deduction where the borrowing is used for generating income which is not includible in assessee's total income? Will the answer be different if the income forms part of total income, but deduction is available under Chapter VIA? Briefly explain the related provisions.

[Ref : Q2. (c) June '07 / Paper-8]

REBATE**Objective -Type Questions :**

Q1. All answers should be on basis of provisions relating to assessment year 2005-06 :

- (a) Name the postal investment scheme where investment is eligible for tax rebate u/s.88, but interest qualifies for deduction only within limits of section 80L.

[Ref : Q1. (a)(iv) Dec. '05 / Paper-8]

Q2. Fill up the blanks :

- (a) For a person suffering from severe physical disability, deduction available under section 80U is Rs. _____ .

- (b) The tax rebate available under section 80E to a Hindu Undivided Family resident in India is Rs. _____ .

[Ref : Q1. (B) June '05 / Paper-8]

EXEMPTED INCOME

Objective -Type Questions :

Q1. Fill up the blanks :

- (a) Exemption under section 10B of the Income-tax Act, 1961 is available till assessment year _____ .
[Ref: Q1. (A)(d) June '05 / Paper-8]

Q2. Fill up blanks :

- (a) To claim the benefit under section 10A, SEZ undertaking having a turnover of Rupees two crores, should file the return of income on or before _____ .
[Ref: Q1. (b)(v) Dec. '06 / Paper-8]

Q3. Choose the correct answer :

- (a) The income of any university or other educational institution existing solely for educational purpose and not for the purposes of profit is exempt under clause (iiia) of section 10(23C) if the aggregate annual receipts of such university or educational institution do not exceed Rs. _____. [(a) Rs. 100 crores, (b) Rs. 1 crore, (c) Rs. 10 crores, (d) Rs. 10 lakhs]
[Ref: Q1. (A)(iii) June '06 / Paper-8]

Q4. What are the types of income of a political party exempt from income-tax under section 13A?
[Ref: Q1. (c) Dec. '04 / Paper-8]

Descriptive & Practical Questions :

Q1. Write short notes on :

- (a) Exemption of income from international sporting event ; [Ref: Q2. (a) Dec. '06 / Paper-8]

Q2. Briefly discuss about deductibility of expenditure incurred in respect of income exempt under the Income-tax Act, 1961.
[Ref: Q4. (a) Dec. '04 / Paper-8]

AGRICULTURAL INCOME

Descriptive & Practical Questions :

Q1. For the assessment year 2006-07, net agricultural income of Mrs. X (aged 47 years) is Rs. 8,10,000, non-agricultural income is Rs. 2,28,300. Mrs. X Rs. 27,000 as life insurance premium for an assured sum of Rs. 3,00,000 on the life of her major son, who is not dependent on her and has his own sources of income. Determine her tax liability. [Ref: Q4. (a) Dec. '06 / Paper-8]

RETURN OF INCOME**Objective -Type Questions :**

Q1. Choose the correct answer :

- (a) Where assessment has not been completed, belated incom-tax return for assessment year 2007-08 can be filed upto
- (1) 31-03-2009
 - (2) 31-12-2008
 - (3) 31-03-2008
 - (4) 31-12-2009

[Ref: Q1. (a)(iii) Dec. '07 / Paper-8]

Q2. Fill up the blanks :

- (a) Belated return of income for the assessment year 2007-08 can be filed on or before _____, where no assessment has been made. [Ref: Q1. (A)(c) June '07 / Paper-8]

Q3. Choose the correct answer :

- (a) In case of companies deriving loss for any assessment year, filling of return of income within the due date laid down in section 139(I) is compulsory
- (a) only where the Department issues notice to the assessee-company;
 - (b) for domestic companies only;
 - (c) for foreign companies only;
 - (d) for all companies.

[Ref: Q1. (A)(iv) June '05 / Paper-8]

Descriptive & Practical Questions :

Q1. What is a belated return of income as envisaged by section 139(4) of the Income-tax Act, 1961? Can such a belated return of income be revised? [Ref: Q2. (d) Dec. '08 / Paper-8]

Q2. Submission of income-tax returns through Tax Return Prepare. [Ref: Q5. (b) Dec. '07 / Paper-8]

Q3. Loss returns under section 80 of the Income-tax Act, 1961. [Ref: Q4. (b) June '08 / Paper-8]

Q4. Should partnership firms compulsorily file return of income from assessment year 2006-07, onward? Briefly explain. What is the obligation in case of individual, HUF, AOP or BOI? [Ref: Q1. (a) Dec. '06 / Paper-8]

Q5. Explain the scheme of filing returns by salaried employees through employer. [Ref: Q3. (b) June '06 / Paper-8]

INCOME ASSESSMENT PROCEDURE**Objective -Type Questions :**

Q1. All answers should be on basis of provisions relating to assessment year 2005-06 :

(a) What is last date for serving of notice for hearing for regular assessment u/s. 143(2)?

[Ref: Q1. (a) Dec. '05 / Paper-8]

Q2. Expanded abbreviations – ITAT, CCIT, MAT, CBDT.

[Ref: Q1. (b) Dec. '04 / Paper-8]

Descriptive & Practical Questions :

Q1. Please state the time limit and conditions for issue of notice of reassessment under section 148 and 149 of the income-tax Act, 1961.

[Ref: Q4. (b) Dec. '06 / Paper-8]

ASSESSMENT OF VARIOUS ENTITIES**Objective -Type Questions :**

Q1. Choose the correct answer :

- (a) Payment of interest to partners of partnership firm assessed as firm is allowable as deduction under section 40(b) of the Income-tax Act, 1961.
 - (i) If the rate of interest does not exceed 8% p.a.
 - (ii) If the interest is paid on the minimum balance of capital account between 10th and the end of every month.
 - (iii) If it is calculated on quarterly balance.
 - (iv) If it is authorized by and in accordance with the partnership deed, pertains to a period after the deed and does not exceed 12 percent simple interest per annum.

[Ref: Q1. (a)(v) Dec. '08 / Paper-8]

Q2. State with reasons, whether the following statements are true or false (Answer without 1 reasons will not receive any credit) :

- (a) Under section 12A of the Income-tax Act, 1961, application for registration of charitable trust can be made within one year from the date of creation of the trust.

[Ref: Q1. (a)(b) June. '07 / Paper-8]

Descriptive & Practical Questions :

Q1. Choose the correct answer :

- (a) A partnership firm's profit as per the profit and loss account is Rs. 10,00,000. Its total income determined according to the provisions of the Income-tax Act, 1961 is Rs. 9,00,000. A partner who has 20% share in the firm can claim exemption of amount of Rs. _____ under section 10(2A). [(a) 2,00,000, (b) 1,80,000, (c) 20,000, (d) None of the above]

[Ref: Q1. (a)(ii) June. '06 / Paper-8]

COLLECTION AND RECOVERY TAX**Objective -Type Questions :**

Q1. Choose the correct answer :

- (a) Validity period of stay of recovery granted by ITAT is
 - (i) 180 dyas
 - (ii) one year
 - (iii) Till final order is passed by Tribunal
 - (iv) Three years

[Ref: Q1. (a)(i) Dec. '06 / Paper-8]

DEDUCTION AND COLLECTION AT SOURCE**Objective -Type Questions :****DECEMBER - 2008**

Q1. Choose the correct answer :

- (a) The sum payable to a contractor by a partnership firm for doing petty repairing work in the factory during the year (any single amount) is not likely to exceed Rs. 20,000 and aggregate payments to him during the year will be about Rs. 75,000. The person making the payment to the contractor is
- (i) Liable to deduct tax at source on each such payment under section 194-C as the total payment will exceed Rs. 50,000/-.
 - (ii) Liable to deduct tax at source when the payment exceeds Rs. 20,000/- individually.
 - (iii) Liable to deduct tax at source when the payment exceeds Rs. 1,00,000 in the aggregate.
 - (iv) Not liable to deduct tax on such payments at all.
- (b) With effect from 1.6.2007, the rate for deduction of tax at sources from fees for professional or technical services, has been increased from%% .
- (i) 2.5 to 5
 - (ii) 5 to 7.5
 - (iii) 5 to 10
 - (iv) 10 to 15

[Ref : Q1. (a)(i) (iv) Dec. '08 / Paper-8]

Q2. State with reasons, whether true or false :

- (a) TDS is not applicable on rent in respect of plant, equipment, machinery etc. also, apart from land or building.

[Ref : Q1. (b)(iii) Dec. '07 / Paper-8]

Q3. Choose the correct answer :

- (a) X Ltd. has failed to remit the tax deducted at source from annual rent of Rs. 6,60,000 paid to Mr. A for its office building. Said rent is
- (i) fully allowable as a business expenditure;
 - (ii) not allowable in view of section 40(a)(i);
 - (iii) allowable to the extent of 50%;
 - (iv) none of the above.
- (b) Inc case of rural hospital built after 31.3.2004 fulfilling the required conditions laid down in section 80IB-(II), the profits and gain derived from running the hospital are
- (i) deductible in full;
 - (ii) deductible to the extent of 50%;
 - (iii) deductible to the extent of 75%;
 - (iv) taxable in full.

[Ref : Q1. (A)(vi)(ix) June '05 / Paper-8]

Descriptive & Practical Questions :

Q1. Write short notes on *any three* of the following :

- (a) Deduction of income-tax at source from payments made to contractors after 01.06.2007.

[Ref: Q4. (d) Dec. '08 / Paper-8]

Q2. Is there any option for an employer, not to deduct tax at source, in respect of perquisites portion of salaries paid to an employee? Discuss.

[Ref: Q2. (b) Dec. '07 / Paper-8]

Q3. Name any three transactions where tax collection at source is required to be made and the rate at which tax collection is to be done.

[Ref: Q2. (c) Dec. '05 / Paper-8]

Q4. On 31.08.2006, the assessee remitted tax deducted at source pertaining to interest for the year ended 31.03.2006. Can the assessee, who follows mercantile system, claim the interest in question, in the assessment year 2007-08?

[Ref: Q2. (d) June '07 / Paper-8]

REFUND**Descriptive & Practical Questions :**

- Q1. The Assessing Officer processes the return filed under section 143(1)(a) and refunds the amount claimed as refund with interest at the rate of 0.5% pr month on the amount of refund. Subsequently, a notice is issued under section 143(2) and it is found in the scrutiny proceedings that the refund was wrongly granted. The Assessing Officer issues a demand for the wrongly allowed refund amount and interest at the rte of 0.5% p.a. thereon. What will be the consequences?
[Ref : Q2. (b) June '06 / Paper-8]

SETTLEMENT OF CASES**Objectives -Type Questions :****DECEMBER - 2008**

- Q1. State with reason whether true or false (answer without reasoning will not deserve any credit) :
- (a) Timie limit for passing final order of settlement in respect of an application made after 1.6.2007 and before 31.03.2008 is six months from the date of filing of valid application.
[Ref : Q1. (b)(iii) Dec. '08 / Paper-8]

TAX ADMINISTRATION**Objectives -Type Questions :****JUNE - 2005**

- Q1. Choose the correct answer :
- (a) The registration fo a charitable trust can be cancelled under section 12AA of the Income-tax Act, 1961 by
- (i) Assessing Officer;
 - (ii) Commissioner of Income-tax;
 - (iii) Chief Commissioner of Income-tax;
 - (iv) Central Board of Direct Taxes.
- [Ref : Q1. (A)(i) June '05 / Paper-8]

MINIMUM ALTERNATE TAX

Objective -Type Questions :

Q1. Fill up the blanks :

- (a) The rate of Minimum Alternate Tax has been increased from _____ percent to _____ percent of book profits with effect from assessment year 2007-08.
- (b) Long-term capital gain which are exempt u/s. 10(38) credited to profit and loss account are _____ (subject to/not subject to) Minimum Alternate Tax, from assessment year 2007-08.

[Ref: Q2. (c) Dec. '07 / Paper-8]

Descriptive & Practical Questions :

Q1. From the following data, compute the book profit of ABC Ltd. under section 115JB of Income-tax Act, 1961 for the assessment year 2006-07 :

Particulars	Amount (Rs.)
Net Profit as per Profit and Loss Account (before tax)	50,00,000
Profit on sale of listed securities (these listed securities are long-term capital assets)	
Included in Net Profit as above	5,00,000
Depreciation charged in accounts	10,00,000
Proposed dividend (including dividend distribution tax thereon)	5,00,000
Transfer to general reserve	10,00,000
Provision for taxation — current tax	14,00,000
Provision for taxation — deferred tax (liability)	6,00,000
Provision for taxation — fringe benefit tax	1,00,000

Of the depreciation charged in accounts, Rs. 6,00,000 is the depreciation on plant and machinery which was revalued upwards on 1.4.2005. The increase on revaluation was credited to revaluation reserve. Had there been no revaluation, depreciation charged on plant and machinery (as per books) would have been Rs. 4,50,000.

[Ref: Q2. (a) June '06 / Paper-8]

DOUBLE TAXATION

Descriptive & Practical Questions :

Q1. Double taxation relief under section 90A of the Income-tax Act, 1961

[Ref: Q5. (a) Dec. '07 / Paper-8]

SECURITY TRANSACTION TAX**Objective -Type Questions :**

Q1. Choose the correct answer :

- (a) In case of an investor in shares, in respect of shares sold, securities transactions tax paid (at the time of purchase of the said shares earlier), is
 - (i) to be added to the cost acquisition;
 - (ii) to be deducted as an expenditure connected with transfer :
 - (iii) not deductible at all while computing capital gains;
 - (iv) none of the above.
- (b) In respect of listed shares held for 10 months sold on 12.8.2004, the rate of tax in respect of capital gains is
 - (i) 10%
 - (ii) 20%
 - (iii) 15%
 - (iv) not determinable, as the capital gains will form part of the total income whose other components are not known.

[Ref: Q1. (A)(vii)(viii) June '05 / Paper-8]

FRINGE BENEFIT TAX**Objective -Type Questions :****DECEMBER - 2006**

Q1. Fill up blanks :

- (a) While Fringe Benefit Tax _____ (is/is not) a permissible business expenditure, banking cash Transaction Tax _____ (is/is not). [Ref : Q1. (b)(ii) Dec. '06 / Paper-8]

Descriptive & Practical Questions :**JUNE - 2006**

Q3. Explain in brief whether the following expenses incurred by a company during the financial year 2005-06 attract Fringe Benefit Tax? Answer any four.

- (i) Non-transferable food vouchers/meal vouchers usable at eating joints/eating outlets provided to employees.
- (ii) Expenses on food and beverages for the permanent employees in a temporary training centre.
- (iii) Reimbursement of out-of-pocket expenses to auditors to the company.
- (iv) Payment of employer's ESI (Employees' State Insurance) contributions.
- (v) Repairs, running and maintenance expenses and depreciation on delivery vans.
- (vi) Expenditure on holding of press conference. [Ref : Q3. (a) June '06 / Paper-8]

DIVIDEND DISTRIBUTION TAX**Objective -Type Questions :****DECEMBER - 2005**

Q1. All answers should be on basis of provisions relating to assessment year 2005-06 :

- (a) State the time limit for payment of dividend distribution tax u/s. 115-O(2).

[Ref: Q1. (a)(i) Dec. '05 / Paper-8]

Q2. Fill in the blanks :

For the assessment year 2004-05, tax on distributed profits (dividend distribution tax) is payable at _____ % plus such charge of _____ , if domestic company distributes dividend on or after _____ .

[Ref: Q1. (f) June '04 / Paper-8]

WEALTH TAX

Objective -Type Questions :

Q1. Choose the correct answer :

- (a) Under the Wealth-tax Act, in the case of assesses other than individuals and HUFs, following amount of cash in hand is regarded as asset
- (i) In exce of Rs. 25,000.
 - (ii) In excess of rs. 50,000.
 - (iii) In excess of rs. 1,00,000.
 - (iv) Not recorded in the books of accounts.

[Ref: Q1. (a)(v) Dec. '08 / Paper-8]

Q2. (a) Fill up the blanks :

- (i) The due date for filing wealth-tax return by a closely held company, whose turnover is below Rs. 40 lakhs, is _____ .
 - (ii) Where L whose cash and bank balance on 14.01.2007 is Rs. 50,000 gifts Rs. 2,50,000 to M, without any actual delivery of the money, Rs. _____ will be clubbed in the hands of L for wealth-tax purposes.
- (b) State with reasons, whether the following statements are true or false (Answer without 1 reasons will not receive any credit) :
- (i) Property held by an assessee under trust for any private purpose of charitable nature in India is not an exempt asset under section 5 of the Wealth-tax Act.
 - (ii) A charitable trust whose income is not exempt under any clause of section 10 of the Income-tax Act, 1961 will be chargeable to wealth-tax in all cases, where the trust forfeits exemption.

[Ref: Q1. (A), (B) June '07 / Paper-8]

Q3. Fill up the blanks :

- (a) The due date for filling return of net wealth by an individual who is a non-working partner in a firm whose accounts are audited under section 44AB of the Income-tax Act, 1961 is

[Ref: Q1. (B)(v) June '05 / Paper-8]

Q4. (a) Fill in the blanks :

- (i) A plot of land not exceeding _____ sq. meters of area, belonging to an individual is exempt from wealth tax.
- (ii) Partial partition of HUF is _____ (recognised/not recognised) for purpose of Wealth-tax Act, 1957.

[Ref: Q1. (d) Dec. '04 / Paper-8]

Q5. Choose the correct answer :

- (a) Under the Wealth-tax Act, 1957 the time limit for completion of regular assessment is _____ months from the end of relevant assessment year.
- (i) 21
 - (ii) 12
 - (iii) 24
 - (iv) None of the above.
- (b) State with reasons, whether the following statements are True or False (any four) :
- (i) The term “individual”, as defined in the Wealth-tax, 1957 means only a single human being.
 - (ii) Under the Wealth-tax Act, 1957 a person who is once treated as a citizen of India, continues to be treated as a citizen of India for ever.

[Ref: Q1. (a)(vi), (b) (iv)(v) June '08 / Paper-8]

Q6. Choose the correct answer :

- (a) The due date for filing return of net wealth of an individual, who is a partner in a firm, whose turnover for the year ended 31-03-2007 exceeds Rs. 40 lacs, is
- (i) 30th June 2007
 - (ii) 31st July, 2007
 - (iii) 31st October, 2007
 - (iv) None of the above.
- (b) Which one of the following is an “asset” as per section 2(ea) of the Wealth-tax Act?
- (i) Any residential property forming part of stock-in-trade
 - (ii) Any residential house that has been let out for a minimum period of 180 days during the previous year
 - (iii) Commercial complex
 - (iv) House occupied for the purpose of assessee's business.
- (c) State with reasons, whether true or false :
- (i) The tax liability under the Wealth-tax Act is determined solely on the basis of residential status of an assessee.

[Ref: Q1. (a)(v)(vi), (b)(iv) Dec. '07 / Paper-8]

Descriptive & Practical Questions :

Q1. (a) ABC Ltd., is a company engaged in the construction and sale of buildings. It has the following assets as on 31.03.2008 :

	Rs. in lakhs
(i) Flats (residential) ready for sale	200
(ii) Commercial properties ready for sale	500
(iii) Guest house situated 30 kms away from Delhi	25
(iv) 2 residential houses occupied by	
(1) An officer having an annual salary of Rs. 4 lakhs	10
(2) An officer having an annual salary of Rs. 6 lakhs	15
(v) Cars used for Comapny's business	20
(vi) Aircraft used for personal use of directors	400
(vii) Urban land held from 31.03.1999, on which no building could be built due to dispute of title	50
(viii) Cash in hand	5

Net Wealth of the Company as on 31.3.2008 is to be computed from above.

(b) Mr. X has the following income/losses pertaining to the assessment year 2008-2009 :

	Rs.
(a) Long-term capital loss	20,000
(b) Net profit from business	50,000
(c) Net loss from let out property	3,000
(d) Net loss from self-occupied residential property	7,000
(e) Business loss carried forward from Assessment year	10,000

2001-2002

Compute his total income.

(c) Mr. A an individual, aged about 50, has made the following payments during the financial year 2007-2008 :

- (i) Prepayment of entire outstanding housing loan balance of Rs. 80,000 as on 1.4.2007. The loan was taken from HDFC Ltd. 10 years ago. He repaid this amount out of the maturity proceeds of his life insurance policy (Rs. 1,90,000) which he received on 1.4.2007.
- (ii) He contributed Rs. 15,000 to recognized provident fund (by way of deduction from salary).
- (iii) He purchased National Savings Certificate Rs. 5,000 in the name of his wife.
- (iv) He paid his health insurance premium (for self) of Rs. 20,000 through his credit card on 31.3.2008. He paid the credit card company the amount on 25.04.2008.

What is the amount of deduction to which Mr. A is entitled to, under sections 80C and 80D of the Income-tax Act, 1961 for the assessment year 2008-2009?

[Ref: Q3. (a), (b) Dec. '08 / Paper-8]

Q2. Write short notes on *any three* of the following :

- (a) Exemption from Wealth-tax (any six items);
- (b) Valuation of self-occupied residential house acquired/constructed on or after 01.04.1974;
- (c) Liability to Wealth-tax of charitable and religious trusts;
- (d) Deduction of income-tax at source from payments made to contractors after 01.06.2007.

[Ref: Q4. Dec. '08 / Paper-8]

Q3. From the following particulars, compute the net wealth of 'A' as on 31.3.2008 and the wealth tax payable, *showing the treatment of each item separately.*

	Rs.
(i) Self-occupied residential house	3,00,000
(ii) Let out residential house (let out for more than 300 days)	5,00,000
(iii) Cars	3,50,000
(iv) Gold ornaments of wife :	
(A) given by her father at the time of marriage	4,00,00
(B) gifted by the assessee	3,00,00
(v) Gold ornaments purchased for daughter's marriage on 14.9.08 in advance	12,00,00
(vi) Cash in hand	70,350
(vii) Cash at bank	8,000
(viii) Equity shares in India companies	2,00,000
(ix) Fixed deposit with bank	1,00,000
(x) Balance with PPF	5,00,000
(xi) Loan taken for car purchase still outstanding	50,000
(xii) Loan taken on the security of house for the purchase of	
(A) Equity shares	50,000
(B) Income tax liability	10,000

[Ref: Q3. June '08 / Paper-8]

Q4. (a) 'Assets' as defined in section 2(ea) of the Wealth-tax Act, 1957.

(b) Penalties leviable under section 18 and 18A of the Wealth-tax Act, 1957.

[Ref: Q4. (c)(d) June '08 / Paper-8]

Q5. Assessment of charitable or religious trust u/s. 21A of the Wealth-tax Act.

[Ref: Q5. (c) Dec. '07 / Paper-8]

- Q6. Mr. Gurpreet, a person of Indian origin, had been residing in Kenya since 1987 and returned to India for permanent settlement in May, 2005, when he remitted money into India. As on the valuation date March 31, 2007, the following particulars of his assets and liabilities are furnished :

	Rs.
(a) Self-occupied house at Kolkata	10,00,000
(b) Residential house at Madras let out for the whole year at Rs. 20,000 per month – market value	13,00,000
(c) Land at Delhi (no restriction for construction)	7,00,000
(d) 2 motor cars (market value) –	
(i) purchased at Rs. 5,00,000 on 1.4.2006 out of moneys remitted from Kenya	4,50,000
(ii) old car for personal use (purchased on 2.5.2003 for Rs. 4,25,000)	2,00,000
(e) Jewellery, including Rs. 3,00,000 acquired in July, 2006 out of remittance from Kenya	7,00,000
(f) House plot of area 525 square meters in urban area, transferred to minor son on 1.8.2006	6,00,000
(g) Shares in listed companies	1,00,000
(h) Loan for purchase of land transferred to minor son	4,00,000
(i) Cash at Bank	70,000
(j) Cash lying at house	90,000
(k) Race horse	2,00,000
(l) Income-tax dues	20,000

You are required to compute the net wealth of Mr. Gurpreet as on 31.3.2007 and the wealth-tax payable for the assessment year 2007-08. [Ref: Q4. June '07 / Paper-8]

- Q7. (a) Under the Wealth-tax Act, 1957, what is the effect of transfer of assets to an AOP otherwise than under an irrevocable transfer?
- (b) How are residential status and citizenship status determined under the Wealth-tax Act, 1957? [Ref: Q3. (b)(c) Dec. '06 / Paper-8]

- Q8. M/s. Alpha Beta Co. Ltd. has the following assets and liabilities as on 31st March, 2005. Compute the Net Wealth as on 31.3.2005 (stating whether each item is taxable or not).

	Rs.
(i) Land in urban area (Construction not allowed as per Municipal bye laws)	36,00,00
(ii) Land in rural area	38,00,000
(iii) Land in urban area (bought 12 years ago, but construction of factory year to start)	50,60,000
(iv) Residential Quarters for workers	34,80,000
(v) Residential Quarters for officers-six units (2 of them are occupied by officers drawing monthly salary of Rs. 46,700 each)	48,00,000
(vi) Guest House and land appurtenant thereto	10,00,000
(viii) Air craft	2,80,00,000
(viii) Motor cars for use of officers	20,50,000
(ix) Loan from L.I.C. for acquiring aircraft	90,00,000
(x) Residential house provided to a whole-time director (salary Rs. 7,20,000 p.a., the director owns 25% equity)	27,00,000

[Ref: Q4. (a) Dec. '05 / Paper-8]

- Q9. X Ltd. is a company carrying on business in the construction and sale of residential flats. It furnishes the following data and requests you to compile wealth-tax return and determine the tax payable for assessment year 2005-06.

	Market Value Rs.
1. Land in rural area (it is within 5 kilometers of Ajmer; construction is permissible; land was purchased in 1987)	92,78,000
2. Land in urban area (construction not permitted as per municipal laws)	23,00,000
3. Land in urban area (held as stock-trade since 1995, construction will be commenced during June, 2005)	49,50,000
4. More cars (one of them is imported : Rs. 4,00,000 ; none of them is held as stock-in-trade)	11,30,000
5. Jewellery	18,00,000
6. Aircraft for use of directors and auditors	1,58,00,000
7. Bank balance	3,10,000
8. Cash in hand as per cash book	1,70,000

- | | |
|---|-----------|
| 9. Guest house and land appurtenant thereto situated in rural area | 8,00,000 |
| 10. Residential flats of identical size provided to 6 employees for their use near factory which is situated in rural area (salary of two of them exceeds Rs. 5,00,000) | 15,00,000 |
| 11. Residence provided to Managing Director (salary exceeds Rs. 5,00,000) | 10,00,000 |
| 12. Flats constructed and remaining unsold | 30,00,000 |
| 13. Residence provided to a whole-time director (gross annual salary Rs. 4,20,000, the director owns 25 per cent equity share capital) | 17,00,000 |
| 14. Three let out residential houses given on rent (value of each being Rs. 50 lakhs; one of them is let out for 9 months during 2004-05) | |

The company has taken a loan of Rs. 6,00,000, Rs. 7,00,000, Rs. 50,000 and Rs. 90,000 for acquiring property numbers 5, 6, 12 and 13 respectively.

Find out the wealth-tax liability of the company for the assessment year 2005-06.

[Ref: Q3. June '05 / Paper-8]

- Q10. Write short note on Residential status vis-a-vis inclusion of foreign assets and debts as per section 6 of the Wealth-tax Act, 1957.

[Ref: Q4. (b) Dec. '04 / Paper-8]

- Q11. X furnisheds the following particulars for the compilation of his wealth-tax return for assessment year 2004-05 :

- | | |
|--|---------------|
| 1. Gifts of jewellery made to wife from time to time aggregating Rs. 60,000 (market value on valuation date) | Rs. 2,00,00 |
| 2. Flat purchased under instalment payment scheme in 1972 for Rs. 7,50,000, used for purposes of his residence and market value as on March 31, 2004 (instalments remaining unpaid Rs. 50,000) | Rs. 10,00,000 |
| 3. Urban land transferred to minor handicapped child valued on March 31, 2004. | Rs. 5,00,000 |

Explain how you will deal with these items. Make suitable assumptions, if required.

- (b) Under what circumstances can the Assessing Officer make a reference to the Valuation Officer for the purpose of making an assessment under the Wealth-tax Act?

[Ref: Q4. (a) June '04 / Paper-8]