TAX PAPER 1

(Topics covered: - Basics + Salary + House Property Head)

Time Allowed: - 3 hours **M. M. 100**

NOTE: - All the references to the sections mentioned in the paper relates to Income Tax Act, 1961 and relevant Assessment Year is 2011-12, unless otherwise stated.
All questions are compulsory.

Ques. 1: - Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.3.10 and came to India for the first time on 16.3.10. She remained in India up till 19.9.10 and left for USA on 20.9.10. She returned to India again on 27.3.11. Determine her residential status for the Asst. Year 2011-12. (3 marks)

Ques. 2: - Rahul who works as a Finance Controller of ABC Ltd., Mumbai, had undertaken foreign tour (work related) several times during the P.Y. 2010-11. The total number of days he stayed outside India during the said previous year is 300. He claims that he is a non-resident for the A.Y.2010-11. Is his claim valid? Further what will be your answer if his stay in India during each of the ten previous years is 100? Discuss (5 marks)

Ques. 3: - Mrs. Indu, a resident individual, owns a house in U.S.A. She receives rent @ $ 2,000 per month. She paid municipal taxes of $ 1,500 during the financial year 2010-11. She also owns a two storied house in Mumbai, first floor is used for her residence and ground floor is let out as a gowdown at a monthly rent of Rs.10,000. Standard rent for each floor is Rs.11,000 per month. Municipal taxes paid for the house amounts to Rs.7,500. Mrs. Indu had constructed the house by taking a loan from a nationalised bank on 20.6.2008. She repaid the loan of Rs.54,000 including interest of Rs.24,000. The value of one dollar is to be taken as Rs.45.
Compute total income from house property of Mrs. Indu. (7 marks)

Ques. 4: - Mr. X is a Member of Legislative Assembly. He underwent an open heart surgery abroad in respect of which he received Rs.5 lakh from the State Government towards reimbursement of his medical expenses. The Assessing Officer contended that such amount is taxable as a perquisite under section 17. Discuss the correctness of the contention of the Assessing Officer. (5 marks)

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<u>Ques. 5</u>: - Ram derives income from house property by letting out the ground floor of his house for a commercial purpose as a warehouse. He uses the first floor for self-occupation. He also derived income of Rs.35,000 on account of display of advertisement hoardings of various concerns on the roof of the building. He claims that the amount of Rs.35,000 is chargeable under the head "Income from house property" and he would be eligible for deduction of 30% under section 24. Discuss the correctness of his claim.

Would the things make any difference if the first floor was given on rent instead of the ground floor on same terms? Further also discuss the things that would be there if the tenant uses the terrace for displaying hoarding and rent was a single monthly sum of Rs. 35000. (8 marks)

<u>Ques. 6</u>: - Explain the tax consequence of the following transactions –

(a) Mr. X, a non-resident, purchases goods in India for the purpose of export and earns profit on such transaction.

(b) Salary received by Mr. Y, a non-resident, from the Government of India for the services rendered by him in Canada. (3 marks each)

<u>Ques. 7</u>: - Amish has built a house on a leasehold land. He has let-out the above property and has considered the rent from such property under the head "Income from other sources" and deducted expenses on repairs, security charges, insurance and collection charges in all amounting to 50% of receipts. (5 marks)

<u>Ques. 8</u>: - Discuss the correctness or otherwise of the statement – "Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus. (5 marks)

<u>Ques. 9</u>: - Anand was the Karta of HUF. He died leaving behind his minor son Prem, his widow, his grandmother and brother's wife. Can the HUF retain its status? Will it make any difference if there had been a daughter instead of son? (8 marks)

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<u>Ques. 10</u>: - A Hindu undivided family owns a property which has been let out to a firm carrying on business. The family is a partner in the firm through the Karta. No rent has been charged by the HUF from the firm for use of the premises by the firm. The Assessing Officer, however, has taxed the family on the notional income from property based on municipal valuation. Is this decision justified? (5 marks)

<u>Ques. 11</u>: - Draw out your salary slip on annual basis in such a manner that the Annual cost to company is Rs. 10 lacs and at the same time you get the maximum take away home salary, with least tax burden. Assuming that you are posted in Mumbai as VP Finance along with the following benefits: -

1) Car (of cubic capacity of less than 1.6 ltrs) is provided by Co. To you for official as well as personal use – cost to the company (on estimated basis) Rs. 72,000. Along with a driver whose salary is Rs. 2000 monthly.
2) A house whose rent is 18000 p.m.
3) Telephone expenses on estimated basis Rs. 6400 annually. (11 marks)

<u>Ques. 12</u>: - Alfha Company contracted with Friends Engineering Co. for Supply of 5 Gangsaw Machines within a period of a month. On failure of the seller to supply the machines Alfha sued the seller for the compensation of loss caused due to delay in supplies of machine @6% of the value of machines, which amounted to Rs. 18 Lacs. Alfha Company has approached you to determine the taxability of the said sum. Also it seeks your opinion that will it make any difference if the damages would have been based on the values of sales affected or total value of sales. (8 marks)

<u>Ques. 13</u>: - Kamal had rented the house on rent for Rs. 35000 per month along with the security deposit of Rs. 10 lacs. Kamal filed the return of Income showing the Income under the house property head. On Regular Scrutiny u/s 143(3) the A.O. contended that he'll make addition of Notional Income of Rs. 1 lac in House Property Head as against the interest on amount of security deposit. Mr. Kamal has approached you for consultancy in the aforesaid matter. Will it make any difference if Mr. Kamal had declared interest Income of Rs. 1 lacs in other sources (on account of the interest on sum of security deposit)? Discuss. (8 marks)

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<u>Ques. 14</u>: - Rana Iron Ltd. (RIL) provided 'free meal coupons' to its employees. RIL entered into an agreement with Atul who was in the business of providing such coupons. The employees were provided with coupons of Atul at the rate of Rs.50.00 per day per employee. RIL claimed that the value of the said coupons was not taxable perquisite within the meaning of Rule 3(7)(iii) of the Income-tax Rules, 1962.

Assessing Officer found that some of the coupons were misused for purchase of grocery and cosmetic items. It was estimated by the Assessing Officer that the misuse amounted to 30% of the amount of the 'free meal coupons' considered it as a perquisite to the employees. The assessee company was held to be in default for non-deduction of TDS from the employees to the extent of the value of the alleged perquisite and held liable for levy of interest towards the short deduction of tax and levy of penalty. RIL contested the same.

Examine whether the assessee company had defaulted in its responsibility to deduct appropriate amount of tax from the employees. (5 marks)

<u>Ques. 15</u>: - "With the abolition of fringe benefit tax; the actual tax burden on fringe benefits is completely eliminated." Do you agree? (2 marks)

<u>Ques. 16</u>: - Explain the provisions of gratuity received by an employee under following circumstances: -

- During the period of service
- At the time of retirement. (4 marks)

<u>Ques. 17</u>: - Can an AOP be constituted by inheritance under will? (2 marks)

<u>Ques. 18</u>: - Where an industry was established based on subsidy announced by the State Government, can such subsidy be treated as a revenue receipt solely due to the reason that the same was received by the assessee after completion of the projects and commencement of the business? (3 marks)

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