TAX PAPER 2

(Topic covered: - Business and Profession 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: - Section 40 and section 201 cast separate liability and are conflicting on the issues regarding time limit for the deposit of TDS. Discuss. (4 marks)

Ques. 2: - For claiming additional depreciation the only necessity is that the assessee must be engaged in the manufacturing activity. Discuss. (5 marks)

Ques. 3: - Anuradha Industries has many mines and smelters pan across India. For the smelters near the mining areas it used the water that was flushed out of the mines as the wastage. But for the other smelters it used some other alternative measures to fulfil its need of the water. For one of its smelter in Banswara, it entered into a MOU with the Rajasthan State Government for the use of water from the Mahi Dam. In mean while the assessee company had to incur some repair charges and it claimed the repair charges of the same as revenue expenditure. But The A.O. contends that sine that was just an MOU, without giving any title or right over the water or the dam. Hence only the usage charges of water if any can be allowed as the revenue expense, but in no case the repair charges of the DAM be treated as revenue expenditure nor can they be capitalised and depreciation be allowed on the same. But assessee claims that since it is a company it has some social responsibility too, hence expenditure must be allowed on the said ground of Corporate Social Responsibility. Discuss. (5 marks)

Ques. 4: - Discuss with the help of recent case laws about the following expenditure: -

a) Amount of expenditure incurred on SAP (An ERP) and Antivirus. (4 marks)
b) Amount of expenditure done on the stereo system and furniture of the theatre. Will it make any difference if with the change in furniture and stereo system alters the sitting capacity of the theatre. (6 marks)
c) Will a qualifying expenditure qualify to be the part of expenditure eligible for amortization under section 35D even though the project of the company has got failed on ground of some economical and technical issues and thus being dropped out? (4 marks)

Ques. 5: - Discuss the position of allowability of an expenditure incurred on the issue of various securities by a company, taking help of relevant recent case laws, if any. (8 marks)

Ques. 6: - Kisana ltd. Is engaged in the business of trading agriculture and dairy products, earned the net income of Rs. 50 Lacs (as per the provisions of IT Act.) for the previous year 2010-11.
It also commenced the operation of business of operating warehousing facilities for storing agriculture and dairy products on 28th April 2010. Company had incurred the capital expenditure of Rs. 35 lacs during the pre-commencement period, which was duly capitalised in the books. During the previous year of the business incurred further capital expenditure of Rs. 120 las (including the expenditure of Rs. 80 lacs for acquisition of land) exclusively used for the said business. The Gross receipts of the business were Rs. 400 lacs and expenses amounted to Rs. 360 lacs.

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The company wants to claim that the said business must be covered in section 35AD. Hence in this regards company has approached you for the clarifications and suggestion and changes along with preparation of the computation of the Tax for the Company. (8 marks)

<u>Ques. 7</u>: - Briefly explain the difference between tax treatment of depreciation under Income Tax Act, 1961 and Accounting Standard -6. (5 marks)

<u>Ques. 8</u>: - Praveen was a partner in a firm in his capacity as the Karta of his HUF. On the amounts deposited by the partners, the firm paid interest. Praveen, in his individual capacity had made deposits in the same firm in which he was a partner. The assessee claimed that the interest paid in his individual capacity should not be disallowed. The Assessing Officer did not agree and disallowed the interest paid to Praveen in his individual capacity. Discuss. (3 marks)

<u>Ques. 9</u>: - A company had an inventory of closing stock on 31.3.11, the cost of manufacture of which was Rs.10 lakhs. Since the goods were liable to excise duty, provision of Rs.2 lakhs towards the duty was also made in the accounts. Since the excise duty was eligible for deduction only on actual payment, the company valued the closing stock at cost viz. Rs.10 lakhs. Discuss the position from the taxation point of view. (3 marks)

<u>Ques. 10</u>: - A company engaged in textile manufacturing, debited to its Profit & Loss Account a sum of Rs.60,000, being the interest on loan of Rs.6,00,000 taken for financing its expansion scheme. The plant and machinery purchased for the project with the loan were not received during the year and those were still in transit at the end of the year. A sum of Rs.6,000 was paid to a broker who arranged the loan. Discuss the admissibility or otherwise of the interest on borrowing. (5 marks)

<u>Ques. 11</u>: - With the change in the schema of presumptive taxation all the business and professions who are not liable for audit u/s 44AB shall be covered either under the section 44AD or 44AE. Discuss. (5 marks)

<u>Ques. 12</u>: - Discuss in brief the provision of the scientific research and also advice the planning aspect to be kept in mind while thinking of any research. (8 marks)

<u>Ques. 13</u>: - The balance sheet of 'X' Ltd. a shipping company shows the following details as at 31.3.2010:

- Balance in reserve created u/s 33AC of I.T. Act	Rs.1,000 lakhs
- Paid up capital	Rs.500 lakhs
- Balance in general reserve	Rs.100 lakhs
- Share premium account	Rs.50 lakhs
- W.D.V. of ships	Rs.3,000 lakhs

Net profit for the year ended on 31.03.11 is Rs.400 lakhs. Following information is further collected from records:

(a)Amount of Rs.60 lakhs being the deficit of W.D.V. of a ship retired from the business and sold on 13.6.10 for Rs.150 lakhs, was charged in P & L account.

(b)Payments charged in miscellaneous expenses include an amount of Rs.10 lakhs paid to a don who abducted one of its ships while it was in red sea.

(c)Depreciation for the year, Rs.800 lakhs was charged on straight line method basis.

(d)A ship added in its fleet during the year costed Rs. 920 lakhs sailed for her first journey from JNPT on 10.10.2010.

(e)A ship was added in 2008-09 with the financial assistance of a foreign bank. The last installment of loan of US $ 50,000 was paid on 18.9.2010. The value of one US $ at the time when loan was taken was Rs.44 but at

the time of repayment it was Rs.48. The exchange difference was charged in miscellaneous expenses in profit and loss account.
Compute the taxable income of X Ltd. for A.Y. 2011-12, with reasons for adjustments made. (10 marks)

Ques. 14: - The profit and loss account of East West Bank Ltd. operating in India for the financial year 2010-11 contains, interalia, the following particulars:

	(Rupees in crores)
- Profit before taxation	100
- Depreciation as per books	25
- Depreciation admissible as per income tax rules	40
- Corporation tax disputed by the bank and not paid	10
- Bad debts written off	45
- Provision for non-performing assets as per prudential norms of Reserve Bank of India	250
- Provision for standard assets at 2% of such advance as per the above norms	5
- Net depreciation on investments under "held-for-trading" and "available-for-sale" categories calculated on lower of cost price or market price basis as per guidelines of Reserve Bank of India.	30

Other Information:
(a)In assessment year 2008-09 provision for doubtful debts allowed in assessment amounted to Rs.35 crores only
(b)The assessment for assessment year 2010-11 resulted in a loss and unabsorbed depreciation amounting to Rs.30 crores and Rs.40 crores respectively and the bank was not allowed deduction on account of provision for doubtful debts
(c)Unrealised interest income not recognized in the accounts in financial year 2010-11 in respect of non-performing assets as per asset classification norms of RBI amounts to Rs. 65 crores.
(d)The aggregate average rural advances calculated as per section 36(1)(viia) read with rule 6 ABA amounts to Rs.30 crores.
From the above information compute total income of the bank for the A.Y. 2011-12. (7 marks)

Ques. 15: - The net profit for the year ended on 31.3.2011 of India Biotech Ltd. engaged in the business of bio-technology works out at Rs.45 lacs after debit /credit of the following items:
- Profit of Rs.2,50,000 from a hedging contract entered into for meeting out the loss in foreign currency payments towards an imported machinery of Rs.80 lacs installed on 1.2.2011.
- Incidental charges of Rs.20 lacs paid to a financial institution for taking short-term loan of Rs.25 crores repayable in 18 months.
- Commission of Rs.25,000 paid to a recovery agent for getting realisation of an old outstanding.
- Registration fees of Rs.20,000 and listing fees of Rs.30,000 paid to the Registrar of Companies and the Stock Exchange respectively on the issue of bonus shares.
- Amount of Rs.1,00,000 towards carry forward losses for Asst. Year 01-02 of X Ltd., which got merged with the company during the financial year 2006-07.
- Interest received from banks of Rs.90,000 net of TDS of Rs.10,000.
- Amount of Rs.1,50,000 incurred towards reconditioning of generator.
- Employees share to the EPF for the month of March, 2011 of Rs.40,000. The amount was deposited with the PF Commissioner on 22-4-2011.

Compute the total income of the company for Asst. year 2011-12 and give brief reasons for the treatment given to each of the items. (10 marks)