TAX PAPER 4

(Topic covered: - Deductions, TDS, Advance Tax, Set off, Clubbing)

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: - Explain the difference in treatment of the following items under the Income-tax Act and Accounting Standards –

(a) Profit or loss on sale of machinery (on which no revaluation has been effected); and

(b) Depreciation on leased assets. (8 marks)

Ques. 2: - ABC Ltd., engaged in diversified activities, estimated a net profit of Rs.5,25,000 after debit/credit of the following items to its profit and loss account for the year ended on 31.3.2012:

(a) Items debited to Profit and Loss Account	Rs.
Provision for income-tax	80,000
Interest on income-tax	4,000
Education cess on income-tax	1,600
Secondary and higher education cess on income-tax	800
Dividend distribution tax	10,000
Provision for deferred tax	7,000
Wealth-tax	19,000
Securities Transaction Tax	13,500
Cash Payment of an Expenses	26,000

Transfer to General Reserve	15,000
Provision for gratuity based on actuarial valuation (As per AS-15)	12,000
Provision for losses of subsidiary company	14,000
Proposed dividend	16,000
Compounding Fees paid to Municipality (for Extra Errection)	22,000
Preference dividend	13,000
Expenditure to earn agricultural income	5,000
Provision of BAD Debts (@ 5% on an estimated basis over the past trend	21,250
Expenditure to earn LTCG exempt under section 10(38)	4,000
Expenditure to earn dividend income	2,000
Loss on Impairment of Asset (As per AS-28)	24,000
Loss on Impairment of Asset (As per AS-13)	28,000
Depreciation (including depreciation of Rs.15,000 on revaluation)	35,000
Interest for Delayed payment of the Fees of unlicensed imports	3,872
Fees paid to Customs authority for unlicensed imports	30,000

(b) Items credited to Profit and Loss Account

Amount credited to P& L A/c from Special Reserve	10,000
Amount credited to P& L A/c from Revaluation Reserve	18,000
Agricultural income	25,000
LTCG exempt under section 10(38)	16,000

Dividend income	12,000
Interest on FD's with Bank	43,000

The company provides the following additional information:

1) Amount of Depreciation as per act is Rs. 28,000
2) Brought forward Business Loss/Unabsorbed Depreciation:

Assessment Year	Amount as per books	
	Loss	Depreciation
2006-07	50,000	40,000
2007-08	30,000	Nil
2008-09	10,000	25,000

Assessment Year	Amount as per Act	
	Loss	Depreciation
2006-07	20,000	60,000
2007-08	65,000	Nil
2008-09	30,000	45,000

You are required to calculate the liability of payment of advance tax of the company for the P. Y. 11-12 (16 marks).

Ques. 3: - As per the recent court ruling i.e. in case of CIT vs Bharti Cellular Ltd. (Delhi) it was held that for a service to fall within the scope of technical nature, presence of human element is necessary, means technical fees covers the aspect of human labour and involvement for a particular work. If its so than where and why is the category of fees for Professional Services also categorized. Hence in light of the above ruling and the relevant laws draw the mark of difference between the Fees for Technical Services and Fees for Professional Services along with the example. (8 marks)

<u>Ques. 4</u>: -When there are separate section covered for the deduction of tax at source on the various incomes of the Non Resident. Then why a separate section 195 created and casted on payers to check upon while making any payment to the Non Residents. (10 marks)

<u>Ques. 5</u>: - Rent are the charges for the exclusive use of the property. Discuss in the light of the provisions of Section 194 I. (8 marks)

<u>Ques. 6</u>: - What will be the liability upon an assessee who has contracted with the hotel for availability of room on a full year basis along with some specific services. Discuss the situation in following cases: -

- Services are made arranged as and when the rooms are occupied and the need is generated.
- Services are available in general, but some extra payment is being charged so as to provide the services on the preferential basis. (10 marks)

<u>Ques. 7</u>: - M/s Z and Co. comprising of two partners Mr. Y and Mr. Z in the representative capacity of Z(HUF). The partnership deed provided that the interest shall be paid @ 18% p.a. on the monthly compounding basis, along with the salary to both Mr. Y and Z of Rs. 20,000 per month each. Further if loan is provided by any member then the same shall carry on interest of 24% p.a. (the current market rate of the loan was prevailing at 18%) in this regard the loan granted to the company by Mr. Z and Y was put in this category and the loan of Rs. 8 lakhs was taken from each of the two. The profit of the firm after allowing the said items was Rs. 300000. Compute the total tax of the firm for As. Y. 2011-12, taking the self assessment to be done on current date, along with the interest, if any required to be paid, if the total TDS of the company was only Rs. Rs. 1.54 Lacs only and no advance tax was deposited by the company. Capital of the partners was Rs. 7 lacs each. (10 marks)

<u>Ques. 8</u>: -Discuss the provisions of Set off and carry forward of the losses, in the context of the filling of the return along with the constitution and composition of business. (7 marks)

<u>Ques. 9</u>: - Define revocable transfer. Along with the example. (5 marks)

<u>Ques. 10</u>: - With the help of example explain the concept of Indirect transfer and also discuss that whether the income in respect of which asset shall be clubbed - original asset or in new asset through indirect transfer. (6 marks)

<u>Ques.11</u>: -Write a short note on Income based deductions. (12 marks)

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