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INTERMEDIATE EXAMINATION

December 2011

Applied Direct Taxation

I-P7(ADT)
Syllabus 2008

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Wherever required, the candidates may make suitable assumptions and state them clearly in the answers.

Working notes should form part of the relevant answers.

All questions relate to the assessment year 2011-12 and the provisions stated relate to Income Tax Act, 1961, unless stated otherwise in the question.

Answer Question No. 1 which is compulsory and any five questions from the rest.

1. Choose the correct answer:

1×25

- (a) For RAJASTHALI Ltd., a company engaged in the manufacture of automotive parts, the rate of depreciation on acquiring machinery from UK on 1 January, 2011 to be used in India for the first time for AY 2011-12 will be:

A. 15%	B. 25%	C. 7.5%	D. None of these
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- (b) ARUN JAIDEV Ltd. has taken office premises on lease from Mr. X. The monthly rental amounts to ₹15,000- on which service tax is levied @ 10.30% thereby resulting in a total monthly expense of ₹16,545. TDS u/s 1941 on this transaction is applicable on:

A. ₹ 15,000	B. ₹ 16,500	C. ₹ 16,545	D. Nil
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- (c) PREM BANSAL Ltd. makes a payment of ₹. 35,000 in cash to a transporter for plying of goods carriages in a single day. The disallowance under section 40A(3) will be:

A. ₹ 35,000	B. ₹ 20,000	C. ₹ 15,000	D. Nil
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- (d) S. S. CORPORATE SECURITIES Ltd., an existing company incurred an expenditure of ₹ 1,00,000 in FY 2010-11 in connection with issue of shares to increase its share capital for a period of 10 years. The amount allowed as deduction under section 37(1) for AY 2011-12 will be:

A. ₹ 10,000	B. ₹ 20,000	C. ₹ 1,00,000	D. Nil
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- (e) PELF FINSTOCK Ltd. filed its Return of Income Tax for AY 2010-11 on 30th March, 2011. The notice for making scrutiny assessment under section 143(3) can be served on the assessee upto:

A. 30th September, 2011	B. 31st December, 2011	C. 30th March, 2012	D. 30th September, 2012
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- (f) Interest under section 234B is payable by an assessee due to the following reason:

A. Defaults in furnishing return of income	B. Defaults in payable of advance tax	C. Defaults in instalments of advance tax	D. Defaults due to non-deduction of tax at source
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- (g) The basic exemption limit for a Non-resident woman who is 70 years old for the Assessment Year 2011-12 is:

A. ₹ 1,60,000	B. ₹ 2,40,000	C. ₹ 1,90,000	D. ₹ 1,80,000
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- (h) The charging section of the Income Tax Act is:

A. Section 1	B. Section 2	C. Section 3	D. Section 4
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- (i) Deduction of profit and gains derived from export under section 10AA available to SEZ units is for _____ years.

A. 10	B. 5	C. 8	D. None of these
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- (j) In case of conflict between the provisions of Income Tax Act and the provisions of Double Taxation Avoidance Agreement (OTAA), the following shall prevail:

A. The Income Tax Act, 1961	B. DTAA	C. Whichever is beneficial to the assessee	D. Whichever is beneficial to the Income Tax authorities
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- (k) Walmart Ltd., is in the business of setting up and operation cold chain facilities. It commenced its operations on 1.4.2010 and claimed deduction of all expenditure under section 35AD. The net loss for the year ending 2010-11 is ₹ 50,00,000. The number of years for which this loss can be carried forward is:

A. 8 years	B. 4 years	C. Infinitely	D. Cannot be carried forward
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- (l) MR. RAKESH BEHARI is a trader and deals in purchase and sales of cloth. He is required to get his accounts audited under section 44AB if his total sales/turnover exceeds:

A. ₹ 40,00,000	B. ₹ 10,00,000	C. ₹ 15,00,000	D. ₹ 60,00,000
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- (m) MAT credit under section 115IAA is allowed to be carry forward and set-off for _____ years.

A. 10	B. 8	C. 7	D. Infinitely
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- (n) Xing Ltd. is incorporated in USA, it declared of ₹ 1,00,000 to its Indian shareholders on 30th September, 2010. The rate at which Xing Ltd. is liable to pay Dividend Distribution Tax (DDT) under section 115-O is equal to:

A. 15%	B. 16.995%	C. 16.61%	D. Not liable to pay DDT
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- (o) The ceiling limit for exemption of Gratuity under section 10(10) received from the employer is:

A. ₹ 10,00,000	B. ₹ 3,50,000	C. ₹ 5,00,000	D. ₹ 3,00,000
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- (p) On 17th January, 2011, M/s. Naina sold a house property and earned a long term capital gain of ₹ 1,02,50,000. She invested a sum of ₹ 50,00,000 in bonds specified in section 54EC on 8th March, 2011. She further invested a sum of ₹ 50,00,000 in same bonds on 8th May, 2011. Taxable Income of M/s. Naina for the Assessment Year 2011-12 will be:

A. ₹ 50,00,000	B. ₹ 50,50,000	C. ₹ 1,00,50,000	D. ₹ 2,50,000
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- (q) PRARTHANA Ltd. has to make a payment of ₹ 10,00,000 to Mr. PIYUSH for certain services. PRARTHANA Ltd. is required to deduct tax at source at the rate of 10%. However, Mr. PIYUSH does not provide Permanent Account Number (PAN) to PRARTHANA Ltd. for deduction of tax from ₹ 10,00,000. The rate at which tax will be deducted by PRARTHANA Ltd. will be:

A. 10%	B. 20%	C. 30%	D. No TDS should be deducted due to non-availability of PAN
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- (r) Incomes which accrue or arise outside India but are received directly in India are taxable in case of:

A. Resident only	B. Non-Residents	C. All Assesseees	D. Resident but not Ordinarily Resident
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- (s) Where the Assessing Officer is aggrieved by an order of the Commissioner of Income-tax (Appeals), further appeal in respect of same lies to:

A. Income-tax Appellate Tribunal	B. Dispute Resolution Panel	C. Central Board of Direct Taxes	D. Income-tax Settlement Commission
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- (t) A company is required to pay 75% of its advance tax liability by which date:

A. 15 March of the previous year	B. 15 December of the previous year	C. 15 September of the previous year	D. 15 June of the previous year
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- (u) S. Ltd. is an Indian Company which is 100% subsidiary of H. Ltd., a Foreign Company. H. Ltd. sells its products to S. Ltd. at \$ 15 per unit. At the same time, it sells its products to an unrelated party at \$ 20 per unit. The arm's length price as per section 92C in this transaction will be:

A. \$ 15	B. \$ 20	C. \$ 15.75	D. \$ 21
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- (v) R. Ltd. is registered in UK. Its control and management is wholly situated in India. R. Ltd. shall be:

A. Resident in India	B. Non-resident in India	C. Resident but not ordinarily resident	D. Resident in India if other certain conditions are satisfied
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- (w) Transfer Pricing provisions are applicable if:

A. There is an international transaction between any two parties	B. There is any transaction between associated enterprises	C. There is an international transaction between associated enterprises	D. There is an international transaction between associated enterprises and the transaction is not at arm's length price
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- (x) Circulars issued by the Central Board of Direct Taxes is binding on:

A. Assessee only	B. Income-tax authority only	C. Both assesseees and income tax authorities	D. On everyone except the Judiciary
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(y) Additional depreciation under section 32(1)(ia) of the Income-tax Act, 1961 is available to:

A. Plant & Machinery	B. Plant & Machinery and Buildings	C. Plant & Machinery and intangible assets	D. All depreciable assets under the Income-tax Act, 1961
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2. (a) Answer the following with reference to the provisions of the Income-tax Act, 1961:

- Bad debt claim disallowed in an earlier assessment year, recovered subsequently. Is the sum recovered, chargeable to tax?
- Return of income of a company was signed by the Company Secretary. Is the return a valid return?
- Tax deducted at source on salary paid to employees not remitted till the 'due date' for filing the return prescribed in section 139. Is the expenditure to be disallowed under section 40(a)(ia)?
- X Co. Ltd. paid ₹ 120 lakhs as compensation as per approved Voluntary Retirement Scheme (VRS) during the financial year 2010-11.

How much is deductible under section 35DDA for the assessment year 2011-12?

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(b) BHART doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year:

	₹
2009-10	45,00,000
2010-11	55,00,000

State whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2010-11:

	₹
Interest paid to UCO Bank	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each)	24,000
Shop rent paid (one payee)	1,90,000
Commission paid	7,000

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(c) RAJASTHALI Ltd. furnishes you the following information for the year ended 31.3.2011:

	₹
Total turnover of Unit A located in Special Economic Zone	100 lakhs
Profit of the business of Unit A	30 lakhs
Export turnover of Unit A	50 lakhs
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200 lakhs
Profit of the business of Unit B	20 lakhs

Compute deduction under section 10AA for the A.Y. 2011-12.

(d) TUSHAR had 4 heavy goods vehicles as on 1.4.2010. He acquired 7 heavy goods vehicles on 27.6.2010. He sold 2 heavy goods vehicles on 31.5.2010.

He has brought forward business loss of ₹ 50,000 relating to assessment year 2007-08 of a discontinued business. Assuming that he opts for presumptive taxation of income as per section 44AE, compute his total income chargeable to tax for the assessment year 2011-12.

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the loss of 50,000 should be carried over to the next year.

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3. (a) Mr. PADAM engaged in retail trade, reports a turnover of ₹ 58,50,000 for the financial year 2010-11. His income from the said business as per books of account is computed at ₹ 2,90,000. Retail trade is the only source of his income:

- (i) Is Mr. PADAM eligible to opt for presumptive determination of his income chargeable to tax for the assessment year 2011-12?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case he does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iv) What is the due date for filing his return of income under both the options? 5

(b) MITTAL (P) Ltd., converted into a Limited Liability Partnership (LLP) by name All Trade LLP, with effect from 01.04.2010:

The following details are given to you:

	₹
Asst. year 2003-04 : Business loss brought forward	2,00,000
Asst. year 2010-11 : Business loss brought forward	5,00,000
(These are related to erstwhile MITTAL (P) Ltd.	
Total income of All Trade LLP, for the financial year 2010-11 (Before set off of brought forward business losses of erstwhile company i.e. MITTAL (P) Ltd.)	6,00,000

Assume that all the conditions prescribed in section 47(xiii b) were satisfied by (P) Ltd. at the time of conversion into LLP:

(P)

- (i) Explain whether All Trade LLP can set off and carry forward the business loss of its predecessor i.e. MITTAL (P) Ltd.?
 - (ii) State whether any change in partners of All Trade LLP at later date would have any tax consequence. 5
- (c) CHERRY Limited commenced the business of operating a three star hotel in Tirupati on 1.4.2010.

It furnishes you the following information:

	₹
(i) Cost of land (acquired in June 2008)	60 lakhs
(ii) Cost of construction of hotel building	
Financial year 2008-09	30 lakhs
Financial year 2009-10	150 lakhs
(iii) Plant and Machineries (all new) acquired during financial year 2009-10	30 lakhs
[All the above expenditures were capitalized in the books of the company]	
Net profit before depreciation for the financial year 2010-11	80 lakhs

Determine the amount eligible for deduction under section 35AD of the Income-tax Act, 1961, for the assessment year 2011-12. 5

Please Turn Over

4. (a) BIRLA Ltd., a cement manufacturing company, entered into an agreement with a supplier for purchase of additional cement plant. One of the conditions in the agreement was that if the supplier failed to supply the machinery within the stipulated time, the company would be compensated at 5% of the price of the respective portion of the machinery without proof of actual loss. The company received ₹ 8.50 lakhs from the supplier by way of liquidated damages on account of his failure to supply the machinery within the stipulated time. What is the nature of liquidated damages received by BIRLA Ltd. from the supplier of plant for failure to supply machinery to the company within the stipulated time—a capital receipt or a revenue receipt? 5
- (b) A public charitable trust, created under a trust deed for providing relief to poor, registered under section 12A, furnishes the following particulars of its receipts during the year ended 31st March, 2011:

	₹ in lakh
(i) Income from properties held by trust (net)	12
(ii) Income (net) from business (incidental to main objects)	25
(iii) Voluntary contributions from public	14
(including the corpus donation of ₹ 4 lakh)	

The trust applied ₹ 15 lakhs towards activities undertaken for the benefit of street urchins and "Below Poverty Line" (BPL) families during the year. The trust has also paid ₹ 18 lakh towards repayment of a loan taken a year back for the purpose of construction of a vocational training centre for the benefit of training of youth from BPL families.

Determine the Taxable Income, if any, of the trust for the assessment year 2011-12. 5

- (c) During the financial year 2010-11, the following payments/expenditures were made/incurred by Mr. ATUL GUPTA, a resident individual (whose turnover during the year ended 31.3.2010 was ₹ 39 lakhs).
- (i) Interest of ₹ 12,000 was paid to P C T & Co., a resident partnership firm, without deduction of tax at source;
 - (ii) Interest of ₹ 4,000 was paid as interest to Mr. PULKIT a non-resident, without deduction of tax at source;
 - (iii) ₹ 3,00,000 was paid as salary to a resident individual without deduction of tax at source;
 - (iv) He had sold goods worth ₹ 5 lakhs to Mr. SANCHIT. He gave Mr. SANCHIT a cash discount of ₹ 12,000 later. Commission of ₹ 15,000 was paid to Mr. Vidyasagar on 2.7.2010. In none of these transactions, tax was deducted at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(i)/40(a)(ia) of the Income-tax Act, 1961. 5

5. (a) The following are the details relating to Mr. SUNIL a resident Indian, aged 57, relating to the year ended 31.3.2011:

	₹
Income from salaries	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid)	1,10,000
Loss from card games	32,000
Income from betting	45,000
Life Insurance Premium paid	1,20,000

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Compute the total income and show the items eligible for carry forward.

- (b) NIKITA Pvt. Ltd. is converted into NIKITA LLP on 1.1.2011. The following particulars are available to you:

	₹	
(i) WDV of land as on 1.4.2010	5,00,000	5,00,000
(ii) WDV of machinery as on 1.4.2010	3,30,000	3,30,000
(iii) Patents acquired on 1.6.2010	3,00,000	3,00,000
(iv) Building acquired on 12.3.2009 for which deduction was allowed under section 35AD	7,00,000	
(v) Above building was revalued as on the date of conversion into LLP as	12,00,000	12,00,000
(vi) Unabsorbed business loss as on 1.4.2010 (A. Y. 2007-08)	9,00,000	2,37,000

Though the conversion into LLP took place on 1.1.2011, there was disruption of business and the assets were put in to use by the LLP only from 1st March, 2011 onwards.

The company earned profits of ₹ 8 lakhs prior to computation of depreciation.

Assuming that the necessary conditions laid down in section 47(xiiib) of the Income-tax Act, 1961 have been complied with, explain the tax treatment of the above in the hands of the LLP.

Note—"WDV of land as on 1.4.2010" may be read as "Cost of land".

6. (a) VERTIKA Limited has two units – one engaged in manufacture of computer hardware and the other involved in developing software. As a restructuring drive, the company has decided to sell its software unit as a going concern by way of slump sale for Rs.385 lakh to a new company called SUMEDHA Limited, in which it holds 74% equity shares.

Please Turn Over

The balance sheet of VERTIKA Limited as on 31st March, 2011 being the date on which software unit has been transferred, is given hereunder—

Balance Sheet as on 31.3.2011

Liabilities	₹ in lakh	Assets	₹ in lakh
Paid up Share Capital	300	<u>Fixed Assets</u>	
General Reserve	150	Hardware unit	170
Share Premium	50	Software unit	200
Revaluation Reserve	120	<u>Debtors</u>	
<u>Current Liabilities</u>		Hardware unit	140
Hardware unit	40	Software unit	110
Software unit	90	<u>Inventories</u>	
		Hardware unit	95
		Software unit	35
	750		750

Following additional information are furnished by the management.

- The Software unit is in existence since May, 2007.
- Fixed assets of software unit includes land which was purchased at ₹ 40 lakh in the year 2004 and revalued at ₹ 60 lakh as on March 31, 2011.
- Fixed assets of software unit mirrored at ₹ 140 lakh (₹ 200 lakh minus land value ₹ 60 lakh) is written down value of depreciable assets as per books of account. However, the written down value of these assets under section 43(6) of the Income Tax Act is ₹ 90 lakh.

Ascertain the tax liability, which would arise from slump sale to SUMEDHA Limited.

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- Mr. AGGARWAL purchased a house property on 14th April, 1979 for ₹ 1,05,000. He entered into an agreement with Mr. B for the sale of house on 15th September, 1982 and received an advance of ₹ 25,000. However, since Mr. B did not remit the balance amount, Mr. AGGARWAL forfeited the advance.

Later on, he gifted the house property to his friend Mr. A on 15th June, 1986.

Following renovations were carried out by Mr. AGGARWAL and Mr. A to the house property:

	Amount (₹)
By Mr. AGGARWAL during FY 1979-80	10,000
By Mr. AGGARWAL during FY 1983-84	50,000
By Mr. A during FY 1993-94	1,90,000

The fair market value of the property as on 1.4. 1981 is ₹ 1,50,000.

Mr. A entered into an agreement with Mr. C for sale of the house on 1st June, 1995 and received an advance of ₹ 80,000. The said amount was forfeited by Mr. A since Mr. C could not fulfil the terms of the agreement.

Finally, the house was sold by Mr. A to Mr. Sanjay on 2nd January, 2011 for a consideration of ₹ 12,00,000. Compute the capital gains chargeable to tax in the hands of Mr. A for the assessment year 2011-12. Cost inflation indices are as under:

Financial Year	Cost Inflation Index
1981-82	100
1983-84	116
1986-87	140
1993-94	244
2010-11	711

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7. (a) ANJU, an individual resident retired employee of the All India Radio aged 60 years is a well-known dramatist deriving income of ₹ 1,10,000 from theatrical works played abroad. Tax of ₹ 11,000 was deducted in the country where the plays were performed. India does not have any Double Tax Avoidance Agreement under section 90 of the Income-tax Act, 1961, with that country. Her income in India amounted to ₹ 5,10,000. In view of tax planning she has deposited ₹ 70,000 in Public Provident Fund and paid contribution to approved Pension Fund of LIC ₹ 32,000 along with subscription to notified long-term infrastructure bonds ₹ 25,000. She also contributed ₹ 18,000 to Central Government Health Scheme during the previous year and gave payment of medical insurance premium of ₹ 21,000 to insure the health of her father, a non-resident aged 76 years, who is not dependent on her. Compute the tax liability of ANJU for the Assessment year 2011-12. 8
- (b) CHERRY Ltd. is running two industrial undertakings, one in a SEZ (Unit S) and another in a normal area (Unit N). The brief summarized details for the year ended 31.3.2011 are as under:

	(₹ in lacs)	
	S	N
Domestic turnover	10	100
Export turnover	120	Nil
Gross profit	20	10
Less : Expenses and depreciation	7	6
Profits derived from the unit	13	4

The brought forward business loss pertaining to Unit N is ₹ 2 lacs. Briefly compute the business income of the assessee. 7

Please Turn Over

8. (a) Mrs. MITTAL furnishes the following particulars for the computation of her wealth-tax liability for the assessment year 2011-12.

- (1) She owns two residential house properties, valuing ₹ 52 lakhs and ₹ 55 lakhs.
- (2) She is one of the partners in the business with her husband. The value of her interest in assets of the firm as at 31st March, 2011 is ₹ 15 lakhs. The said business is conducted in one of the house properties owned by Mrs. MITTAL.
- (3) She has two motor cars – one Indian car valued at ₹ 8 lakhs and an imported car valued at ₹ 19 lakhs.
- (4) She has invested ₹ 5,00,000 in a bank deposit for five years to meet the future expense of children on their education.
- (5) She has signed “agreement to sell” for purchase of new residential house property of ₹ 40 lakhs and has made advance payment of ₹ 20 lakhs on 15th March, 2011 and has taken possession. However, the sale deed has not been executed till 31st March, 2011. She has taken loan of ₹ 20,00,000 from bank for purchase of said property.
- (6) She has cash balance of ₹ 80,000.

Compute the wealth tax payable by Mrs. MITTAL for the assessment year 2011-12.

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- (b) On 21.3.2010, Mr. PIYUSH gifted to his wife Mrs. PRARTHANA 200 listed shares, which had been bought by him on 19.4.2009 at ₹ 2,000 per shares. On 1.6.2010 bonus shares were allotted in the ratio of 1:1. All these shares were sold by Mrs. PRARTHANA as under.

Date of sale	Manner of sale	No. of shares	Net sales value (₹)
21.5.2010	Sold in recognized stock exchange, STT paid	100	2,20,000
21.7.2010	Private sale to an outsider	All bonus shares	1,25,000
28.2.2011	Private sale to her friend Mrs. NIKITA (Market value on this date was ₹ 2,10,000)	100	1,70,000

Briefly state the income-tax consequences in respect of the sale of the shares by Mrs. PRARTHANA showing clearly the person in whose hands the same is chargeable, the quantum and the head of income in respect of the above transactions. Detailed computation of total income is NOT required.

Net sales value represents the amount credited after all taxes, levies, brokerage, etc., and the same may be adopted for computing the capital gains.

Cost inflation index for the FY 2010-11 is 711 and for the FY 2009-10 is 632.
