TAX PAPER 7

(Topic covered: -Miscellaneous topics of Income Tax)

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 2012-13, unless otherwise stated. All questions are compulsory.

Ques. 1: - A.O. if finds some works of the charitable society beyond its scope and thus thereby giving benefits to the trustee's of the society and thus cancels the registration by passing an order. Is A.O.'s action justifiable in law? (5 marks)

Ques. 2: - Donation should be the only main source of income, apart from interest income from bank savings, for the Association of person's registered under section 12AA of the Act. Justify the validity of the statement? (8 marks)

Ques. 3: - Yashraj Films Production Pvt. Ltd. is engaged in film production is planning to release a new feature film of romantic category featuring the all time hit actor Sharukh Khan with Katrina Kaif sometime around Diwali or Christmas or on the New Year. Mr. Aditya Chopra, Director of Yashraj Films is has approached you to get the brief of taxation scheme for them. (5 marks)

Ques. 4: - Ramji Charitable Trust has filed return of income for the Assessment Year 2011-12 within the stipulated time under section 139(1) and applied only 50% of its income to specified purposes. It intends to accumulate the balance 15% of income to be spent in future years. While completing the assessment, the Assessing Officer disallowed the accumulated income of 15% and taxed the same on the ground that the trust has not made any application under Section 11(2) along with return of income or even before the completion of assessment. Discuss the validity of the action of the Assessing Officer in this case. (5 marks)

Ques. 5: - A company is engaged in the development and sale of computer software applications. It has started a new undertaking for which approval as hundred per cent export-oriented undertaking has been obtained from the Central Board of Direct Taxes. It furnishes the following data and request you

(a) to compute the deduction allowable to it under section 10B in respect of assessment year 2012-13:

	Rs. In lacs
Total profit of the company for the previous year	50
Total turnover, i.e. Export, Sales and Domestic Sales for the previous year	500
Consideration received in respect of export of software received in convertible foreign exchange within 6 months of the end of the previous year	250
Sale proceeds credited to a separate account in a bank outside India with the approval of RBI	50
Telecom and insurance charges attributable to export of software	10
Staff costs and travel expenses incurred in foreign exchange to provide technical assistance outside India to a client	40

(b) State the conditions to be fulfilled for the undertaking to qualify for the deduction

(c) How long will the deduction be admissible (10 marks)

Ques. 6: - A Public Sector Company has engaged you to frame a scheme of voluntary separation for its employees in order that the amount received by the employees under the scheme would qualify for tax exemption under section 10(10C). What points would you bear in mind while drawing up the scheme? What will be the tax treatment of the payments under the scheme in the hands of the company? (6 marks)

Ques. 7: - Ramamurty Public Charitable Trust (Registered under section 12AA of the Income-tax Act) furnishes the following data for the financial year ending 31.3.2012.

		(Rs. in lacs)
(i)	Income from Engineering College (Gross receipts Rs.100 Lacs)	10
(ii)	Income from properties held in trust (out of his Rs.2 Lacs was not received during the year and Rs.2 Lacs was received only on the last day of the year)	26
(iii)	Net income from business held under trust (As incidental to the main objects) as per books	2
(iv)	Amount spent on free scholarship, free meals and fee medical relief	9

(v) Repayment of loan taken for construction of Health Care Centre 3

You are required to:

(a) Compute the taxable income of the Trust for the assessment year, 2012-13. Assume that option is exercised under explanation to section 11(1) of the Act. (8 Marks)

(b) Advise how the taxability on the computed income could be minimized or reduced. (3 Marks)

<u>Ques. 8</u>: - The books of account maintained by a National Political Party registered with Election Commission for the year ended on 31.3.2012 disclose the following receipts:

(a)	Rent of property let out to a departmental store at Chennai	Rs.6,00,000
(b)	Interest on deposits other than banks	Rs.5,00,000
(c)	Contributions from 100 persons (who have secreted their names) of Rs.11,000 each	Rs.11,00,000
(d)	Contribution @ Rs.11 each from 1,00,000 members in cash	Rs.11,00,000
(e)	Net profit of cafeteria run in the premises at Delhi	Rs.3,00,000

Compute the total income of the political party for the year 2012-13, with reasons for inclusion or otherwise. (5 Marks)

<u>Ques. 9</u>: - Gangaram Public Charitable Trust runs a hospital, which derived income of Rs.250 Lacs, from its operational activities. Expenses incurred to earn such income are Rs.55 Lacs. Depreciation on various assets used in the hospital is Rs.15 Lacs. Out of income of Rs.250 Lacs, the amount accrued but not received as on 31-03-2012 is Rs.20 Lacs. The institution earmarked and set apart Rs.30 Lacs in March, 2012 to give as advance for a building intended to be taken on lease for expansion of the hospital, but the amount was paid on 7th April, 2012, as the lease agreement could not be signed by 31st March, 2012. The trust has got an ERP package developed and installed by an IT company during the year. The total cost to the trust on account of the ERP package was Rs.85 Lacs. Advice the trust on its total income, if the trust has incurred Rs.12 Lacs for purchase of a number of desktop and laptop computers for use in the hospital. (8 marks)

<u>Ques. 10</u>: - Distinguish between Tax Planning, Tax Avoidance, Tax Evasion. (6 marks)

<u>Ques. 11</u>: - T and Q are individuals, who constitute an Association of persons, sharing profit and losses in the ratio of 2:1. For the accounting year ended 31st March, 2012, the Profit and Loss account of the business was as under:

Figures are in Rs. '000s

Cost of goods sold	4,250	Sales	4,900
Remuneration to:		Dividend from companies	25
T	130	Capital gains-Long term	640
Q	170		
Employees	256		
Interest to:			
T	48.3		
Q	35.7		
Other expenses	111.7		
Sales-tax penalty due	39		
Net profit	524.3		
	5,565		5,565

Additional information furnished:

(i) Other expenses included:

  (a) entertainment expenses of Rs.35,000;

  (b) wristwatches costing Rs.2,500 each were given to 12 dealers, who had exceeded the sales quota prescribed under a sales promotion scheme;

  (c) employer's contribution of Rs.6,000 to the Provident Fund was paid on 14th January, 2012.

  (d) Rs.30,000 was paid in cash to an advertising agency for publicity.

(ii) Outstanding sales tax penalty was paid on 15th October, 2012. The penalty was imposed by the Sales-tax Officer for non-filing of returns and statements by the due dates.

(iii) T and Q had, for this year, income from other sources of Rs.94,000 and Rs.32,000 respectively.

Required to:

(i) Compute the total income of the AOP for the assessment year 2012-13;
(ii) Ascertain the tax liability of the Association for that year; and
(iii) Ascertain the tax liability for that year of the individual members. (9 marks)

Ques. 12: - Tarun Shipping Co. Ltd., having its registered office in Mumbai, plies two ocean-going vessels which it owns. The registered tonnage of the two vessels are 47,549 tonnes and 800 kgs and 25,759 tonnes and 400 kgs respectively. In the accounting year 2011-12, the first vessel was operated for 360 days and the second for 199 days.
The accounts of the company reveal the following results:
(i) Profit from core shipping activity Rs.60.50 lakhs
(ii) Profit from incidental activity Rs.15,000
Calculate the tax payable by the company for the assessment year 2012-13. Indicate the necessity required to be followed by the company, when it does its taxation under the special scheme. (6 marks)

Ques. 13: - MKG Agency is a partnership firm consisting of father and three major sons. The partnership deed provided that after the death of father, the business shall be continued by the sons, subject to the condition that the firm shall pay 20% of the profits to the mother. Father died in March, 2011. In the previous year 2011-12 the reconstituted firm paid Rs.2 lacs (equivalent to 20% of the profits) to the mother and claimed the amount as deduction from its income. Examine the correctness of the claim of the firm. (4 marks)

Ques. 14: - Electoral trust are nothing but the same as the political parties are and have got same benefits that a political party enjoy, in addition to that it has some more benefits too. Discuss. (5 marks)

Ques. 15: - Mr. Amit, a widower, has 3 children of 19 yrs, 15 yrs and 5 yrs respectively. The first child derives Rs. 1,20,000 income every year. The income details of his second and third child are as follows:

Particulars	Mr. Amit	Second child	Third child
	Rs.	Rs.	Rs.
Business income	70,000	--	--
Interest on FD invested out of gifts	--	20,000	--
Bank interest	8,000	9,000	2,000
Salary earned on application of skills	50,000	25,000	--
Interest on salary income saved and invested	9,000	3,000	--

Compute the gross total income of the persons for the assessment year 2012-13. (7 marks)