

Test Series: March, 2013

MOCK TEST PAPER – 2

FINAL COURSE: GROUP – II

PAPER – 7: DIRECT TAX LAWS

Question No. 1 is compulsory.

Attempt any five questions from the remaining six questions.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) The income of Star Ltd., an Indian company, computed under the head “Profits and gains of business or profession” is ` 45 lakh. Compute its total income and tax liability for the A.Y. 2013-14 from the other information given below:

It has received dividend income during the P.Y.2012-13:

- (1) from shares held in Jupiter Ltd. & Pluto Ltd., which are Indian companies –
` 1,02,000.
- (2) from shares held in Venus Inc., a foreign company, in which it holds 15% of nominal value of equity share capital – ` 64,000;
- (3) from shares held in Sunrise Inc., a foreign company, in which it holds 30% of nominal value of equity share capital – ` 98,000.

Star Ltd. has paid commission of ` 20,000 for realising dividend, the details of which are as follows –

- (1) ` 9,000 (Jupiter Ltd. & Pluto Ltd.)
- (2) ` 3,000 (Venus Inc.)
- (3) ` 8,000 (Sunrise Inc.)

Ignore the provisions of minimum alternate tax (MAT). (10 Marks)

- (b) Mr. Kamal has a house property at Delhi, which he has rented out to Mr. Vimal from 1st October, 2012. The cost of acquisition of the property (acquired in the year 1999) is ` 62 lacs. The other particulars regarding the property is as under –
- (i) The annual value of the property as per municipal records is ` 10 lacs.
 - (ii) The monthly rent which the property fetches is ` 66,000.
 - (iii) Half yearly municipal tax is ` 48,000, paid partly by Mr. Vimal (50%) and partly by Mr. Kamal (50%).

(iv) The cost of repairs of the house property is entirely borne by Mr. Vimal.

(v) Mr. Vimal has given an interest-free deposit of ` 5 lacs to Mr. Kamal.

(vi) The unexpired period of lease on the valuation date is 30 years.

Determine the value of his property chargeable to wealth-tax as on the valuation date 31.3.2013. (7 Marks)

- (c) Mr. Sharma, a member of co-operative housing society, was allotted a plot as per the bye laws of the society. He constructed a house on plot and substituted the name of his wife in the records of the society in his place. The society executed the registered sale deed in respect of said plot in favour of his wife. The Assessing Officer included the value of the said property in the hands of Mr. Sharma. Examine the validity of the action of the Assessing Officer. (3 Marks)

2. Chirag Ltd., engaged in the business of manufacturing, shows a net profit of ` 91 lakhs for the financial year ended 31.03.2013, after debiting/crediting the following items:

Credits to the Profit and Loss Account	` (in Lacs)
(i) Net agricultural income in India	22
(ii) Share of profits from a firm engaged in business in India	25
(iii) Income from an Industrial Undertaking covered and qualifying for deduction under Section 80-IC of Income-tax Act, 1961.	8
Debits to the Profit and Loss Account	` (in Lacs)
(i) Depreciation for current year under the Companies Act, 1956	34
(ii) Interest to Financial Institutions not paid upto the date of filing the return	8
(iii) Penalty for infraction of law	2
(iv) Proposed Dividend	4
(v) Provision for Taxation (Income-tax)	3
(vi) Transfer to General Reserve	7
(vii) Provision for Unascertained Liabilities	3
(viii) Expenditure relating to 80-IC undertaking	7

The following additional information is also provided:

	` (in Lacs)
Brought forward loss (As per books of account)	17
Depreciation allowable under Income-tax Rules, 1962.	42

Brought forward business loss and unabsorbed depreciation
as per Income-tax law.

25

(Loss ` 11 Lacs and Depreciation ` 14 Lacs)

Compute the total income and tax liability of Chirag Ltd. for the Assessment Year 2013-14. (16 Marks)

3. (a) XYZ Ltd., engaged in the business of manufacturing of tiles, furnishes the following particulars for the P.Y.2012-13:

	Particulars	`
1.	Expenditure incurred on in-house research and development facility as approved by the prescribed authority	
	(a) Revenue expenditure on scientific research	1,50,000
	(b) Capital expenditure (including cost of acquisition of land ` 9,50,000) on scientific research	12,50,000
2.	Amount paid to National Laboratory for an approved scientific research programme	3,50,000
3.	Amount paid to Sigma Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	2,00,000

Compute the deduction allowable under section 35 for A.Y.2013-14, while computing its income under the head "Profits and gains of business or profession". (6 Marks)

- (b) A piece of land owned by Mr. Bharti located on Yamuna Express highway was acquired by NHAI in the F.Y.2008-09, but the award ordered in F.Y. 2009-10 was paid in the F.Y. 2012-13. This land was purchased by him on 5.7.1980 for ` 25,000. The fair market value of the land as on 1.4.1981 was ` 22,500. Compensation paid was ` 38 lacs.

The other piece of land located in Hyderabad purchased in February, 2004 for ` 62 lacs was also sold by him in February, 2013 for ` 88 lacs, but sale deed thereof could not be executed by 31.3.2013. The value for the purpose of stamp duty to be applied by the stamp valuation authority was ` 100 lacs.

Compute the income chargeable to tax arising as a result of these transactions in the A.Y.2013-14.

The CILs for the F.Y: 2003-04, 2008-09, 2009-10 and 2012-13 are 463, 582, 632 and 852 respectively. (6 Marks)

- (c) Mr. Shivam employed as Finance Manager in a telecom company, received a car in March 2013, as a gift from a distributor of the company whose value is estimated at ₹ 4,80,000.

Is the value of car taxable as a perquisite under the head "Salaries"? If not, is the same taxable under section 56(2)(vii) under the head "Income from other sources"? Discuss.

(4 Marks)

4. Discuss the following with the aid of recent case laws –

- (a) Can the expenditure on demolition and re-erection of a cell room, which represents a part of a building used for business purposes, be treated as "current repairs" for the purpose of deduction under section 31?
- (b) Can non-resident match referees and umpires in the games played in India fall within the meaning of "sportsmen" to attract taxability under the provisions of section 115BBA and consequently, the provisions of tax deduction at source under section 194E in the hands of the payer?
- (c) Whether prize money winnings on unsold lottery tickets held by the distributor can be assessed as business income in his hands and be subject to normal rates of tax?
- (d) One of the conditions to be fulfilled by an industrial undertaking engaged in manufacturing or producing articles or things to qualify for claim of deduction under section 80-IB is that it should employ ten or more workers in a manufacturing process carried on with the aid of power. Examine whether the persons employed by such industrial undertaking through agency (including contractors) can be treated as "workers" for fulfillment of the above condition for claim of deduction under section 80-IB.

(4 x 4 = 16 Marks)

5. (a) Discuss the liability for tax deduction at source in the following cases for the assessment year 2013-14:

- (i) An Indian company pays gross salary including allowances and monetary perquisites amounting to ₹ 5,60,000 to its Finance Manager. Besides, the company provides non-monetary perquisites to him in the same period whose value is estimated at ₹ 2,40,000.
- (ii) I, an individual whose total sales in business during the year ending 31.3.2012 was ₹ 80 lakhs, paid ₹ 6.5 lacs by cheque on 12.2.2013 to a contractor (an individual), for construction of his business premises, in full and final settlement. No amount was credited earlier to the account of the contractor in the books of I.
- (iii) A television company pays ₹ 1,50,000 to a cameraman for shooting of a documentary film.

(2 x 3 = 6 Marks)

- (b) "Infratech Pvt. Ltd." is an Indian company engaged in undertaking infrastructure projects. In April 2012, it undertook two projects in Noida - a highway project which involves expansion of existing roads by constructing additional lanes and a roadway project which involves relaying of existing roads. Discuss whether deduction under section 80-IA can be availed in respect of profits from such projects. (5 Marks)
- (c) In the course of search operations under section 132 in the month of August, 2012, the tax payer makes a declaration under section 132(4) on the earning of income relating to P.Y. 2011-12 not disclosed in his books of account. Can this statement save the tax payer from a levy of penalty, assuming that the due date of filing return of income for A.Y. 2012-13, in his case, is 30th September 2012 and he is yet to file the return? (5 Marks)
6. (a) The following is the Balance sheet of Axel Ltd. as on 31-03-2013:
- Paid up capital ` 250 lacs.

	Unit X (`)	Unit Y (`)
Fixed assets	75,00,000	1,70,00,000
Debtors	75,00,000	56,00,000
Liabilities	21,00,000	38,00,000
Stock-in-trade	37,50,000	19,00,000
Reserves		1,11,00,000
Share Premium		12,50,000

The company acquired Unit Y on 1.04.2010. They made certain capital additions in the form of Generator set and additional building etc., for ` 19 lacs during the year 2010-11. The members of the company have authorized the Board in their meeting held on 25.02.2013 to dispose of the unit 'Y'. The company decides to sell Unit 'Y' by way of slump sale for ` 170 lacs as consideration. The buyer has agreed with the vendor-company to give time for putting through the sale but not later than 31.07.2013 subject to a discount of 2% on agreed sale consideration. However, this discount is not applicable if the sale is completed after 31.03.2013. The company now approaches you to advise them as a measure of tax planning to determine the date of sale keeping in view of the capital gains tax. Assume that the written down value of fixed assets of Unit Y under section 43(6) as ` 112 lakhs. (8 Marks)

- (b) Ms. Hemali, a non-resident individual, is due to receive interest of ` 2,20,000 during March 2013 from a notified infrastructure debt fund eligible for exemption under section 10(47). She incurred expenditure amounting to ` 7,500 for earning such income. Assuming that Ms. Hemali is a resident of a Notified Jurisdictional Area (NJA), discuss the tax implications in her hands and the applicability of provisions relating to deduction of tax at source in respect of such interest. (4 Marks)

- (c) Kyoto Ltd., a company incorporated in Mauritius, has a branch office in Bangalore opened in January, 2012. The Indian branch has filed return of income for assessment year 2013-14 disclosing income of ` 200 lacs. It paid tax at the rate applicable to domestic company i.e. 30% plus education cess on the basis of paragraph 2 of Article 24 (Non-Discrimination) of the Double Taxation Avoidance Agreement between India and Mauritius, which reads as follows:

"The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities in the same circumstances."

However, the Assessing Officer computed tax on the Indian branch at the rate applicable to a foreign company i.e. 40% plus education cess. Discuss, whether the action of the Assessing Officer is tenable in law? (4 Marks)

7. (a) State whether the following assesseees have to file return of income and if so, the due date for the assessment year 2013-14:
- (i) A registered trade union having income from let out property of ` 1,90,000.
 - (ii) A public trust hospital having an aggregate annual receipt of ` 110 lacs and availing exemption under section 10(23C)(via) with total income of ` 1,65,000, before giving effect to such exemption. (2 x 2 = 4 Marks)
- (b) Suresh is an individual carrying on business, who is required to maintain books of account under section 44AA and get the same audited under section 44AB. However, Suresh did not maintain his books of account as required under section 44AA. The Assessing Officer levied penalty under section 271A for non-maintenance of books of account and section 271B for not getting the books audited as required by section 44AB. Is the Assessing Officer justified in levying penalty under section 271B? (4 Marks)
- (c) A petition for stay of demand was filed before the Appellate Tribunal by ABC Ltd. in respect of a disputed demand for which appeal was pending before it, on which stay was granted by the Appellate Tribunal vide order dated 11.2.2012. The bench could not function thereafter till 11.3.2013 and therefore, the disputed matter could not be disposed off. The Assessing Officer attached the bank account on 26.3.2013 and recovered the amount of ` 30 lacs against the arrear demand of ` 50 lacs. The assessee requested the Assessing Officer to refund back the amount as it holds stay over it. The Assessing Officer rejected the contention of the assessee. Decide the correctness of the action of the Assessing Officer. (4 Marks)
- (d) Mr. Viren is a non-resident. The appeal pertaining to the assessment year 2012-13 is pending before the Income-tax Appellate Tribunal, the issue involved being computation of export profit and tax thereon. The same issue persists for the

assessment year 2013-14 as well. Mr. Viren's brother Mr. Virat has obtained an advance ruling under Chapter XIX - B of Income-tax Act, 1961 from the Authority for Advance Ruling on an identical issue. Mr. Viren proposes to use the said ruling for his assessment pertaining to the assessment year 2013-14. Can he do so? (4 Marks)