INTERMEDIATE EXAMINATION

December 2012

I-P7(ADT)
Syllabus 2008

Applied Direct Taxation

ime Allowed: 3 Hours

Full Marks: 100

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

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

Wherever necessary, you may make suitable assumptions and state them clearly in your answer.

Working notes should form part of the answer.

) Choose the most appropriate alternative: 1×13=13

(i) An eligible company gives a donation of Rs. 2 lacs to IIT, Mumbai for the purposes of scientific research on 11.1.2012. The weighted deduction allowable to the company as per section 35 is

(A) Rs. 2,50,000 (B) Rs. 3,00,000 (C) Rs. 3,50,000 (D) Rs. 4,00,000

(ii) Tax rate (basic rate) applicable for domestic company, as per the normal provisions, for the assessment year 2012-13 is

(A) 30% (B) 40% (C) 18.5% (D) 20%

(iii) When interest is paid to non-resident by an infrastructure debt fund referred to in section 10(47), the rate of tax deduction at source is

(A) 5% (B) 10% (C) Nil (D) 30%

(iv) Expenditure incurred in respect of demerger is

(A) Not deductible (B) 150% deductible (C) Deductible in five annual instalments
(D) Deductible in four annual instalments

(v) Leave travel concession given to the employee is

(A) Taxable every year (B) Exempt for two years in a block of four years (C) Always exempt
(D) Exempt for one year in a block of five years

(vi) When a debt is written off as bad debt it is eligible for deduction

(A) Upon proving the same as bad (B) If it was outstanding for more than three years
(C) Without any condition (D) In two annual instalments

(vii) Expenditure towards obtaining working capital limit from a bank is

(A) Deductible business expenditure (B) Capital expenditure (C) Deferred revenue expenditure
(D) Miscellaneous expenditure

(viii) Failure to deduct tax at source from salary paid to employees would result in

(A) Disallowance of entire expenditure (B) Disallowance of expenditure in excess of Rs. 1,80,000
(C) Allowance of expenditure claim (D) Disallowance of 50% of expenditure

(ix) Ceiling for amortization of preliminary expenses incurred by an eligible company is

(A) 5% of the cost of project (B) 2.5% of the cost of project (C) Rs. 5,00,000
(D) Limitless but subject to actual expenditure

(x) When Valuation Officer has fixed the value more than the value adopted by the State stamp valuation authority, the amount to be adopted as sale consideration for computing capital gain is

(A) Actual sale consideration (B) Stamp duty valuation (C) Value fixed by Valuation Officer
(D) Amount determined by Assessing Officer

(xi) Where an assessee discovers a mistake apparent from record, he should present an application for rectification within a period of
(A) 4 years (B) 3 years (C) 2 years (D) 1 year

(xii) Demerger of undertaking is applicable for
(A) Partnership firms (B) Companies (C) Individuals (D) Charitable trusts

(xiii) The time limit for issue of notice under section 143(2) is 6 months from the end of
(A) The month in which the return was filed (B) The financial year in which the return was filed
(C) The month in which tax was paid (D) The month in which notice for search was made

(b) Fill up the blanks: 1×12=12

(i) Minor child Vaibhav having special talent earned Rs. 1,00,000 by virtue of such special talent. The amount of income is __________ (liable/not liable) for clubbing.

(ii) When a person fails to maintain books of account as required u/s 44AA, he is liable for penalty of Rs. 5000__________.

(iii) The time limit for filing appeal before Commissioner (Appeals) is 90__________ days from the date of service of notice of demand relating to assessment or penalty.

(iv) Where an assessee continuously fails to furnish the details sought for by the Assessing Officer during the course of scrutiny proceedings, then a best judgment assessment can be made under section 144__________ of the Income-tax Act, 1961.

(v) Where after sale of the house, arrears of rent is received, income has to be computed under the head H.P__________.

(vi) Rate of tax in respect of deemed dividend when it exceeds Rs. 2,500 is 10.36__________ per cent.

(vii) Advance tax is payable in 3 __________ instalments by a non-corporate assessee.

(viii) Guest house owned by an individual situated 35 kms from municipal limits, is __________ (regarded/not regarded) as an asset for wealth tax.

(ix) Where an individual doing real estate business has bought urban land for business purposes, the same is not treated as an asset for wealth tax, for a period of 10 years__________.

(x) In the case of a Hindu Undivided Family, the return of wealth should be signed by its kartha, and when he is absent or is mentally incapacitated, by __________.

(xi) The rate of interest for non-payment of tax after deduction shall be 1__________% per month or part thereof from the date of deduction to the date of actual payment.

(xii) The amount of gratuity received by a Central Government servant is __________.

2. (a) Mr. Sricharan, a resident, presently living in India, aged 45, furnishes the following information relating to the year ended 31.3.2012:

(i) He has a house property at Los Angeles, USA, which is let out for a monthly rent of 2,000 USD. Municipal tax of 1,200 USD was paid. The fair rental value of the house is 1,800 USD per month.

(ii) He owns a house plot at Kolkata, which was given on rent for Rs. 54,000 during the year.

(iii) He was working with an Indian employer for a monthly salary of Rs. 50,000.

(iv) Reimbursement of medical expenses by the employer Rs. 18,000.

(v) He was given free ticket for IPL cricket match worth Rs. 4,200 by the employer.

Compute the total income for the assessment year 2012-13, showing income under proper heads of income. If considered essential, 1 USD may be taken as Rs. 50 for conversion purposes. Show appropriate reasoning wherever required. 7

(b) Vaibhav Charities, a charitable trust registered u/s 12AA of the Income-tax Act, 1961, has earned the following incomes from property held under trust for charitable purposes:

	Rs.
Net surplus from running a hospital	1,10,000
Donations received towards corpus of the trust	60,000
Agricultural income from lands in India	3,20,000

Is the trust required to file a return of income for the assessment year 2012-13 as per the provisions of the Income-tax Act, 1961? 4

(c) When can the Assessing Officer refer valuation of property to Valuation Officer for the purpose of wealth tax? 4

(a) The following are the broad details of income derived by Mrs. Vasudha for the assessment year 2012-13:

	Rs.
Income from Salaries	80,000
Loss from non-speculation business	40,000
Long-term capital gains from sale of land	2,40,000
Lottery winnings (net of TDS)	70,000

She has paid life insurance premium of Rs. 1,10,000 for her adult son, who is not dependent on her.

Compute the total income of the assessee for the assessment year 2012-13. Append suitable notes wherever required. 5

(b) State the quantum of deduction allowable in respect of donations for political purpose. Discuss the allowability of expenditure on advertisements in souvenirs of political parties be dealt with, in computing income from business. 6

(c) Hema & Co., is a partnership firm. The net profits of the firm for the year ended 31.3.2012 is Rs. 6 lacs. The same is after charging interest on capitals of partners at 15%, amounting to Rs. 5 lacs. What is the maximum quantum of remuneration payable to the working partners under section 40(b) of the Income-tax Act, 1961? 4

(a) Mr. X had gifted a vacant site (market value Rs. 20,00,000) to his wife on 1.4.2012 in pursuance of an agreement to live apart. The site was acquired by him in July, 2000 for Rs. 3,00,000. In whose hands is the site chargeable to wealth tax for the assessment year 2012-13? 3

(b) Padmaja Ltd. has made payments on various dates during the year ended 31.3.2012 to Vimala Ltd. towards work done under different contracts as under:

Contract Number	Date of Payment	Amount (Rs.)
1.	15.04.2011	13,000
2.	26.07.2011	18,000
3.	18.09.2011	22,000
4.	12.11.2011	10,000
5.	21.01.2012	19,000

Examine the liability of Padmaja Ltd. for deduction of tax at source under section 194C. If tax has to be deducted, what is the amount? What would be the position if the value of the contract No. 5 is Rs. 3,000 only and there is no other contract during the year? 4

Please Turn Over

(c) Mr. Sukh Basu received a gift of land from his close friend Mr. Bijoy at the time of his 60th birthday on 11.5.2011. In the gift deed, the value was stated as Rs. 6 lacs; as per the stamp valuation authority, the same was Rs. 9 lacs. His friend had bought the land on 21.10.2005 for Rs. 3 lacs.

Mr. Sukh Basu received a gift of teak chairs worth Rs. 51,000 from another friend on the said occasion.

Mr. Sukh Basu sold the aforesaid land on 11.1.2012 for Rs. 11 lacs.

Examine the tax implications of the above transactions in the hands of Mr. Sukh Basu.

Cost inflation indices are: Financial year 2005-06 .. 497
Financial year 2011-12 .. 785
5

(d) Where the return of income is filed beyond the due date specified in section 139(1) of the Income-tax Act, 1961, can the unabsorbed loss suffered in specified business covered by section 35AD be carried forward to subsequent years? 3

5. (a) Compute the additional or accelerated depreciation, if any, allowable to an eligible assessee, in respect of the following assets:

(i) Lorry purchased on 12.4.2011 for Rs. 8 lacs;

(ii) Computer installed in production yeard for quality control, purchased on 14.1.2012 for Rs. 4 lacs. 5

(b) State the concessions granted to road transport operators in the context of cash payments under section 40A(3) and deduction of tax at source under section 194C of the Income-tax Act, 1961. 4

(c) Explain with examples, the distinction between diversion of income and application of income. 6

6. (a) Ganguly incurred an expenditure of Rs. 5 lacs, on the occasion of his daughter's marriage on 18th January, 2012. He has no explainable source of this expenditure. What are the income-tax implications? 3

(b) The following are the broad details of income earned by VKS Pvt. Ltd. for the assessment year 2012-13:

	Rs. in lacs
Income from industrial undertaking A	50
Loss from industrial undertaking B	20
Income from other sources	5

Compute the total income of the assessee. Assume that tax holiday benefit u/s 80-IB is 100% of the profits of the eligible units. Both units A and B are eligible. Ignore MAT provisions. 6

(c) Discuss the income-tax treatment of the following in the hands of Mr. Naren, a resident: 2×3=6

(i) Profit of Rs. 5 lacs from sale of agricultural lands in a remote rural village in Colombo, Sri Lanka;

(ii) Rent of Rs. 2 lacs from letting out agricultural lands for a movie shooting;

(iii) Compensation received from State Government for acquiring house property for an infrastructure project.

7. (a) Mukerjee Pvt. Ltd., is engaged in the construction of buildings. It furnishes the following particulars as on 31.3.2012 and request you to compute its net wealth: 9

Particulars	*Amount (Rs.)*
(i) An unused land held for industrial purposes purchased on 1.2.2007	10,00,000
(ii) Cash balance not recorded in the books of account	3,00,000
(iii) Motor car (used only for official purposes)	15,00,000
(iv) Farm house (located beyond 30 kilometres from the local limits of the Municipality)	20,00,000
(v) Residential house let out for 280 days	15,00,000
(vi) Loan obtained for purchase of residential house let out	5,00,000
(vii) Bank loan for acquiring farm house	6,00,000

(b) The assessee had filed his return of income within the due date stipulated u/s 139(1) of the Income-tax Act, 1961, without paying the self assessment tax u/s 140A amounting to Rs. 10,000. The Assessing Officer, besides charging interest under sections 234B and 234C, issued a show cause notice to levy a penalty of Rs. 2,000. The assessee claims that there is no provision in the Income-tax Act, 1961 to levy penalty for non-payment u/s 140A. Examine the correctness of the claim. 3

(c) Mr. Ahmed is a Cost Accountant practising in Kolkata since April, 1985. He transfers the practice to another Cost Accountant on 30.7.2011 and charges Rs. 15 lacs for goodwill. Compute the capital gain for the assessment year 2012-13. 3

8. (a) Examine the deductibility of the following expenses under the Income-tax Act, 1961: 8

(i) Lump sum payment made to acquire a license regarding technical information to reduce the production cost.

(ii) Secret commission paid to doctors by a pharmaceutical company.

(iii) Expenses incurred for registration of trade marks.

(iv) Theft of stock-in-trade assuming it is insured and that it was uninsured.

(b) What is 'reverse merger'? How does it help in avoiding the implications of section 72A of the Income-tax Act, 1961? 4

(c) Jayakrishna Flour Mills Ltd., was having two bullocks to run a cart for its business purposes, since April, 2010. They were purchased for Rs. 2,00,000. Due to a sudden disease, they died on 13.1.2012. The carcass was sold for Rs. 75,000. Explain the income-tax treatment. 3