

Test Series: October, 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 Pen 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 Pencil Ltd. & Paper Ltd., which are Indian companies – ₹ 1,02,000.
- (2) from shares held in Ruler Inc., a foreign company, in which it holds 15% of nominal value of equity share capital – ₹ 64,000;
- (3) from shares held in Rubber Inc., a foreign company, in which it holds 30% of nominal value of equity share capital – ₹ 98,000.

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

- (1) ₹ 9,000 (Pencil Ltd. & Paper Ltd.)
- (2) ₹ 3,000 (Ruler Inc.)
- (3) ₹ 8,000 (Rubber Inc.)

Ignore the provisions of minimum alternate tax (MAT).

(10 Marks)

- (b) Mr. Kapil has a house property at Mumbai, which he has rented out to Mr. Ajay 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. Ajay (50%) and partly by Mr. Kapil (50%).
 - (iv) The cost of repairs of the house property is entirely borne by Mr. Ajay.
 - (v) Mr. Ajay has given an interest-free deposit of ₹ 5 lacs to Mr. Kapil.

(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. Verma, 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. Verma. Examine the validity of the action of the Assessing Officer. (3 Marks)

2. Chinara 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 Chinar Ltd. for the Assessment Year 2013-14. (16 Marks)

3. (a) State with reasons, based on the provisions of the Act, as to chargeability of the following receipts to tax in the assessment year 2013-14:
- (1) Rent of ₹ 1 lakh charged from tenants occupying houses (constructed on the land situated in India and used for agricultural purposes). The houses were used for residential purpose.
 - (2) Minister of Rural Development was in receipt, besides salary, an amount of ₹ 2,000 p.m. as an entertainment allowance.
 - (3) Rent of ₹ 60,000 for the period 1.5.2010 to 30.9.2010 due till the property sold out by the owner on 10.4.2012 was received on 12.12.2012 because of a court order. (6 Marks)
- (b) Determine the permissible quantum of deduction for the assessment year 2013-14 in the following cases:
- (i) A company converted into LLP incurred ₹ 150 lakhs towards approved scheme of voluntary retirement.
 - (ii) Advertisement in souvenirs of political parties ₹ 6,75,000 and donation to registered political parties ₹ 2,50,000 by a company deriving income from business.
 - (iii) Cash payment for purchase of fish products ₹ 75,000. (6 Marks)
- (c) (i) Bhargava Ltd. follows mercantile system of accounting. During the financial year 2012-13, it has negotiated with its bankers and converted an interest amount of ₹ 6 lacs into term loan which includes ₹ 2.5 lacs pertaining to the financial year 2012-13. Can the interest of ₹ 2.5 lacs pertaining to the assessment year 2013-14 be allowed as business expenditure?
- (ii) Is it mandatory for an assessee to claim depreciation under section 32 of the Income-tax Act, 1961? Discuss. (4 Marks)
4. Discuss the following with the aid of recent case laws –
- (a) Paresh regularly files his return of income electronically. While he was trying to upload his return of income for assessment year 2012-13 on 31st July, 2012, the last date for filing the same, he found it extremely difficult to do the same due to network problems and ultimately he became successful in making e-filing of his return only at 1 A.M. on 1st August, 2012. The return contained a claim for carry forward of business loss of ₹ 1 lakh. This circumstance was recorded in a letter delivered to the office of the Deputy Commissioner of Income tax on 1st August, 2012 during normal office hours. Paresh made a request to the CBDT for condonation of delay in filing the return of income. Does the CBDT has the power to

condone the delay in filing the return of income and permit carry forward of loss in the given circumstance?

- (b) Does the Income-tax Appellate Tribunal have the power to recall its own order to correct a mistake apparent from the record?
 - (c) Golu Ltd. filed its return of income for the assessment year 2011-12 on 30.3.2013. The whole tax payable was already deducted at source. The Assessing Officer levied a penalty of ₹ 5,000 under section 271F. The assessee makes a submission to the CIT (Appeals) that he has furnished the return of income within the due date specified in section 139(4) and hence no penalty should be levied under 271F. Discuss.
 - (d) Does the Settlement Commission have the power to reduce or waive interest levied under sections 234A, 234B and 234C of the Income-tax Act? Discuss.
(4 x 4 = 16 Marks)
5. (a) Mr. Zoro did not file his return of income for the assessment year 2013-14 and a notice under section 142(1) was issued by the Assessing Officer in November, 2013. The return of income was filed in December, 2013. He wants to file a revised return in January, 2014. Is it possible to file a revised return? (4 Marks)
- (b) Discuss whether adjustment is required in the context of transfer pricing provisions where the transfer price adopted for an international transaction for sale of goods by an Indian company during the financial year 2012-13, is ₹ 100 lacs whilst the Arm's Length Price determined using the most appropriate method are ₹ 96 lacs and ₹ 112 lacs. Assume that the rate of permissible variation prescribed by the Central Government is 2% of the transfer price for this class of international transaction.
(4 Marks)
- (c) The Income-tax Act, 1961 provides for taxation of a certain income earned by Shomu. The Double Taxation Avoidance Agreement, which applies to Shomu, excludes the income earned by Shomu from the purview of tax. Is Shomu liable to pay tax on the income earned by him? Discuss. (4 Marks)
- (d) A sum of ₹ 90,000 was paid to Mr. Lal, a chartered accountant, on 7th May, 2012 towards fees for his professional services without deducting tax at source. Later on, a further sum of ₹ 1,05,000 was due to him on 19th December, 2012 from which tax of ₹ 19,500 was deducted at source. The tax so deducted was deposited on 17th April, 2013. Compute interest payable by the deductor under section 201(1A).
(4 Marks)

6. (a) The following is the Balance sheet of Pixel Ltd. as on 31-03-2013:

Paid up capital- ₹ 250 lacs.

	Unit LCD (₹)	Unit LED (₹)
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 'LED' 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 'LED'. The company decides to sell Unit 'LED' 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 'LED' under section 43(6) as Rs.112 lakhs.
(8 Marks)

- (b) Ms. Roopali, a non-resident individual, is due to receive interest of ₹ 3,00,000 during March 2013 from a notified infrastructure debt fund eligible for exemption under section 10(47). She incurred expenditure amounting to ₹ 10,500 for earning such income. Assuming that Ms. Roopali 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) Sumo Ltd., a company incorporated in Mauritius, has a branch office in Hyderabad 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) 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) Irwin, an individual whose total sales in business during the year ending 31.3.2012 was ₹ 80 lakhs, paid ₹ 6.5 lakhs 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 Irwin.
 - (iii) A television company pays ₹ 1,50,000 to a cameraman for shooting of a documentary film. (2 x 3 = 6 Marks)
- (b) What is the time limit for completing assessment in the following cases –
- (i) Best judgment assessment under section 144 in respect of A.Y.2012-13.
 - (ii) Reassessment under section 147, in respect of which notice under section 148 was served on 1.5.2011.
 - (ii) Assessment under section 143(3) in respect of A.Y.2011-12, where reference under section 92CA(1) is made on 1.12.2012. (6 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? (4 Marks)