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INTERMEDIATE EXAMINATION

December 2013

Direct Taxation

P-7(DIX)
Syllabus-2012

Time Allowed: 3 Hours

Full Marks: 100

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

Wherever necessary, the candidate may make suitable assumption and state the same clearly in the answer.

All the questions relate to the assessment year 2013-14, unless stated otherwise.

Section A

[Question No. 1 is compulsory and answer any four from Q. Nos. 2 to 6]

1. (a) Answer the following sub-divisions briefly in the light of the provisions of the Income-tax Act, 1961: 1×8=8
- (i) Interest on bank term loan paid during financial year 2012-13 was ₹ 1,21,000. Outstanding as on 31.03.2013 was ₹ 28,000. The assessee paid ₹ 15,000 before the "due date" for filing the return of income under section 139(1). Is the amount paid after the end of the year be eligible for deduction?
 - (ii) A Government employee received gratuity of ₹ 16 lakhs upon retirement, in September 2012. How much is taxable?
 - (iii) A nationalized bank gave interest reduction of ₹ 1,70,000 in a cash credit account of a trader relating to earlier years. Is the interest reduction chargeable to income-tax? Said interest had not been paid to the bank.
 - (iv) Is the right of management in an Indian company a capital asset? On relinquishment directly or indirectly, is it liable to tax?
 - (v) A life insurance policy was taken in April, 2012 for a capital sum assured of ₹ 8 lakhs. The annual premium amounts to ₹ 1,10,000 for 10 years. How much is deductible under section 80C?
 - (vi) A wind mill was installed in June, 2012 for ₹ 200 lakhs. What is the rate of normal depreciation applicable on such wind mill? 100
 - (vii) Giant Oil Inc. sold crude oil to HPCL, a company in India. The sale was made within India. Is the income arising from such sale liable to tax?
 - (viii) A company owned chain of star hotels in India. It has been availing deduction under section 35AD. In December, 2012, it transferred the operation of hotels (all above two star category) to another group company. Is it eligible to avail the benefit of section 35AD even after the transfer of operating the hotels?

Please Turn Over

(b) Choose the most appropriate alternative:

- (i) Travel expenditure of the patient and the attender for medical treatment abroad is fully exempted, if gross total income before including reimbursement of foreign travel expenditure is
(A) ₹ 2,00,000 (B) ₹ 2,50,000 (C) ₹ 3,00,000 (D) ₹ 5,00,000
- (ii) Audit of accounts u/s 44Ab of the Income-tax Act, 1961 is mandatory for a person carrying on profession where his gross receipts exceed
(A) ₹ 40,00,000 (B) ₹ 60,00,000 (C) ₹ 20,00,000 (D) ₹ 25,00,000
- (iii) Long-term capital gain arising from sale of listed shares in a recognized stock exchange (STT paid) is exempt under section _____ of the Income-tax Act, 1961:
(A) 10(35) (B) 10(37) (C) 10(38) (D) 10(36)
- (iv) Deduction in respect of interest on deposits in savings account is allowed under section 80 TTA of the Income-tax Act, 1961 for the assessment year 2013-14 to the maximum extent of
(A) ₹ 5,000 (B) ₹ 10,000 (C) ₹ 15,000 (D) ₹ 20,000
- (v) An assessee who has no income from business or profession will not be required to pay any advance tax if the said assessee is a/an
(A) Firm (B) AOP (C) Senior citizen (D) Indian Company
2. (a) What are the circumstances in which previous year and assessment year will be the same? 3
- (b) What are the conditions for claiming exception u/s 10(10C) of the Income-tax Act, 1961 relating to Voluntary Retirement Compensation? 3
- (c) "Accommodation provided in a hotel will not be a taxable perquisite" in the hands of employee. Is it correct? Briefly explain. 2
- (d) Mr. Lal is the owner of a commercial property let out at ₹ 60,000.00 per month. The Corporation tax on the property is ₹ 30,000.00 annually, 60% of which is payable by the tenant. This tax was actually paid on 15.04.2013. He had borrowed a sum of ₹ 40.00 lakhs from his cousin, resident in Singapore (in dollars) for the construction of the property on which interest at 8% is payable. He has also received arrears of rent of ₹ 80,000.00 during the year, which was not charged to tax in the earlier years. What is the property income of Mr. Lal for the assessment year 2013-14? 5
3. (a) Chirag, an individual, purchased 5,000 shares of X. Limited at ₹ 50 per share and 4,000 shares of Y. Limited at ₹ 60 per share in the previous year 2009-10 and held them as capital assets. In the previous year 2011-12, he converted the shares into his stock-in-trade. The fair market value of the shares of both the companies on the date of conversion was ₹ 300 per share. In the previous year 2012-13, he sold the shares of the two companies at ₹ 380 per share. Shares were sold by way of private sale and hence securities transactions tax was not payable.

Ascertain chargeable capital gain and business income from the above-noted transactions in the hands of Chirag.

Cost Inflation Index:

Financial Year 2009-10 : 632

Financial Year 2011-12 : 785

Financial year 2012-13 : 852

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(b) State, with reasons, the deductibility or taxability of the following items in computation of income under the head "Profits and gains of business or profession":

- (i) Profit of ₹ 10 lacs on sale of import entitlement.
- (ii) A sum of ₹ 15 lacs was spent for acquiring one equipment used for in-house scientific research project which was approved by the prescribed authority.
- (iii) Share of profit of ₹ 12 lacs as partner of a partnership firm.
- (iv) Expenditure on purchase of raw materials amounting to ₹ 5 lacs from a concern owned by son of the Managing Director of the assessee company.
- (v) Interest of ₹ 10 lacs on loan taken from a bank for acquiring a machine in connection with expansion project of the assessee. Loan was taken on 1st April, 2012 and the machine was put to use on 1st July, 2012.

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4. (a) Discuss whether the following receipts are chargeable to tax in the hands of the recipients:

- (i) Prize money of ₹ 10,000 awarded to Arjun for participating in a motor car rally.
- (ii) Madhu received ₹ 10,000 each from six friends on his 50th birth day.
- (iii) Ramesh received a plot of land from his father-in-law as gift on his marriage anniversary. The value assessed by the Stamp Valuation Officer for the purpose of stamp duty was ₹ 5 lacs.
- (iv) Pramod purchased shares of Z. Limited at ₹ 1 lac from his friend. The fair market value of the shares on the date of purchase was ₹ 1.70 lacs.

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(b) Sanjay holds 16% shares in XYZ Private Limited. The company has given him a loan of ₹ 2 lacs on 1st February, 2013. Accumulated profit of the company on that date was ₹ 1.75 lacs. Sanjay repaid the loan on 31st March, 2013. Examine the tax implication, if any, of the above transactions in the hands of Sanjay.

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(c) Ameet furnishes the following particulars of income/loss pertaining to previous year 2012-13:

(₹ in lacs).

(i) Profit from trading business	6
(ii) Loss from manufacturing business	1.50
(iii) Loss from profession	2.50
(iv) Profit from speculation in shares	2.50
(v) Loss from speculation in commodities	3

Please Turn Over

He has no other income during the year. Determine total income of Ameet for the Assessment Year 2013-14. Also state the loss to be carried forward. *The manner of set off must be clearly shown in your answer.* 5

5. (a) Raja joined TCI Limited on 1st June, 2012. Emoluments paid and benefits allowed by the company to Raja are as follows:

	₹
Basic Salary	40,000 p.m.
Dearness Allowance	15,000 p.m.
Incentive	30,000 p.m.
A furnished accommodation at Mumbai belonging to the company is provided free. Cost of furniture therein ₹ 3,00,000	
Motor car (with engine cc less than 1.6 litres) owned by the company along with a chauffeur for official and personal purposes	
Salary of sweeper paid by the company	1,000 p.m.
Education provided for Raja's son without any fees. Cost of providing education by the school is	750 p.m.
Admission fee for corporate membership of a club paid by the company. Bills for club facilities were paid by Raja.	1,20,000
House building loan of ₹ 10,00,000 was given by the company to Raja on 1st December, 2012 at interest rate of 5% p.a.	
No repayment was made during the year.	

Compute the income of Raja chargeable under the head "Salaries".

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- (b) Manmohan owns a tea estate in Assam. He also owns a nursery wherein he grows plants and sells them. He furnishes the following particulars:

	₹
(i) Profit from sale of green tea leaves	1,75,000
(ii) Profit from manufacturing of tea grown in the garden owned by him	7,00,000
(iii) Profit from sale of plants from nursery	1,00,000

Compute tax payable by Manmohan for the Assessment Year 2013-14.

6

6. (a) State the conditions to be fulfilled for deduction in respect of write off of bad debt. 3
- (b) Manoj gifted ₹ 3,00,000 to his wife on 01.07.2012, which she invested in her beauty parlour business. The capital of Mrs. Manoj as on 01.04.2012 was ₹ 6,00,000. The profit for the year ended 31.03.2013 (computed) from business amounts to ₹ 2,40,000.

The total income of Manoj (before clubbing) who is employed in a company amounts to ₹ 4,50,000 (computed).

Determine the income liable for clubbing in the hands of Mr. Manoj out of the incomes earned by Mrs. Manoj during the financial year 2012-13. 3

(c) Compute the quantum of deduction under section 80C for Mr. Niraj for the assessment year 2013-14.

Life Insurance premium

-Own—Capital sum assured 2,00,000 (being the first premium paid) 25,000

-Brother's life—dependent on Niraj 10,000

-Major son—doing business 5,000

Contribution to recognized provident fund 15,000

Repayment of bank loan for purchase of residential apartment—let out 60,000

Tuition fees for M.Com (part-time) pursued by wife 12,000 3

(d) Zoom Ltd. acquired a machinery from Japan on 17.08.2011 for \$ 2,50,000.

The eligible rate of depreciation is 15% and it is used regularly from 10.09.2011. The exchange rate at the time of acquisition was ₹ 50 per dollar and the company paid \$ 1,50,000.

The balance payment to the supplier i.e. \$ 1,00,000 was paid in September, 2012 when the exchange rate was ₹ 54 per dollar.

Compute depreciation for the assessment year 2013-14. Ignore additional depreciation. 4

Section B

[Answer *all* the questions.]

7. State whether the following propositions are correct or not with brief reasons:

1×5=5

(i) Motor car held by an individual is liable for wealth tax.

(ii) Guest house located in remote area is also liable for wealth tax.

(iii) Urban land held as stock in trade for less than 6 years is exempt from wealth tax.

(iv) Gifted assets held by minor child (not being a child suffering from disability referred to in section 80U) is liable for clubbing with the total wealth of respective donors.

(v) Wealth tax cannot be levied on a co-operative society.

8.

EITHER

(a) The return of net wealth of Mr. B was filed in September 2013 for the assessment year 2013-14. A vacant urban land (assessable value ₹ 20 lakhs) was omitted to be disclosed in the return of net wealth. Is it possible to file a revised wealth tax return? If so, what is the time limit? What is the

Please Turn Over

time limit for the Assessing Officer within which notice is to be issued for assessing the wealth escaping assessment? 3

(b) Is an AOP with members shares being indeterminate be chargeable to wealth tax? 2

OR

(a) The return of net wealth of D (P) Ltd. disclosed net wealth of ₹ 80 lakhs. No advance wealth tax was paid. What is the due date for filing the wealth tax return? Assuming the return for the assessment year 2013-14 was filed in April, 2014. Calculate the interest payable under the wealth tax Act for delayed filing of return. 3

(b) Do you agree that the partnership firms are also liable for wealth tax? 2

Section C

(All questions in this section relate to the transfer pricing provisions under the Income-tax Act, 1961)

9. 1×5=5

- (i) Who can apply for advance pricing agreement and state the time limit for its withdrawal?
- (ii) State any two methods for determining arms length price.
- (iii) State any two types of permanent establishments.
- (iv) Can the data of earlier year of comparables be used for determination of ALP?
- (v) Do you agree that arm's length price determination is applicable when Indian importer imports goods/services from related party at a price more than the price supplied to unrelated parties by a foreign company.

10.

EITHER

- (i) State four tests which are to be satisfied before an agreement could be called as "impermissible avoidance arrangement". 4
- (ii) What is Berry ratio? Discuss its usefulness in computing ALP. 3
- (iii) Narrate the procedures relating to pre-filing consultation of advance pricing agreement. 4
- (iv) Can the application for advance pricing agreement be amended? If so, state the conditions. 3
- (v) Brain Inc. London has 35% equity in Salem Ltd. The company Salem Ltd. is engaged in development of software and maintenance of customers across the globe, which includes Brain Inc.

During the year 2012-13, Salem Ltd. spent 2000 man hours for developing and maintaining a software for Brain Inc. and billed at ₹ 1000 per hour. The cost incurred for executing maintenance work to Brain Inc. for Salem Ltd. amounts to ₹ 15,00,000. Similar such work was done for unrelated party Try Ltd. in which the profit was at 50%.

Brain Inc. gives technical support to Salem Ltd. which can be valued at 8% of gross profit. There is no such functional relationship with Try Ltd.

Salem Ltd. gives credit period of 90 days the cost of which is 3% of the normal billing rate which is not given to other parties.

Compute ALP under cost plus method in the hands of Salem Ltd. and the impact of the same on the total income. 6

OR

(i) State any six filters which are used in computation of arm's length price. 6

(ii) Explain the term 'tested party'. 3

(iii) State possible cases in which Profit Split Method (PSM) is used for determination of ALP. 4

(iv) What is cost cover ratio and return on assets ratio? 3

(v) A Co Ltd. of Chennai and Sky Inc. of Singapore are associate enterprises. A Co Ltd. imported 1000 television sets at ₹ 16,000 per set without any warranty period. A Co Ltd. also imports similar TV sets from unrelated party Sign Inc. of Japan. It is imported at ₹ 15,000 per set with warranty time of 2 years. The cost of warranty in respect of goods imported from Sky Inc. for a period of 2 years would cost ₹ 2,000.

Compute arm's length price and the amount of increase in total income of A Co Ltd. as per CUP method. 4