Model Test Paper – Direct Taxes – May 2015

(This paper is designed to help students in understanding their knowledge and application thereof towards preparation of CA (Final) exams. This paper is not at all any kind of guess work to decide the probable questions in coming examinations)

Total No. of Questions – 7 **Total No. of Printed Pages: 6**

Time Allowed – 3 Hours **Maximum Marks – 100**

Answers to question are to be given only in English except in case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi and will not be valued.

Wherever appropriate, suitable assumptions may be made by the candidate and stated clearly in the answer.

Working notes should form part of the answer.

Question No. 1 is compulsory.

Answer any **five** questions from the remaining six questions.

All questions relate to the Assessment Year 2015-16, unless stated otherwise in the question.

Marks

1. (a) PT Ltd. is a company engaged in manufacturing sports shoes in Okhla Industrial Area, New Delhi. Its Profit & Loss account shows a net profit of Rs. 170 lacs for the financial year 2014-15 after debiting/crediting the following items: 15

   i. Contribution to IIT, Khadagpur for an approved scientific research programme duly approved: Rs. 10 lacs.
   ii. ISO Certification charges of Rs. 2 lacs out of which only 1.5 lacs were actually paid to the agency before year end.
   iii. Corporate Social Responsibility expenses of Rs. 5 lacs.
   iv. A sum of Rs. 7 lacs is credited to the profit & loss account towards an unsecured loan forgone by Ms. Sunita Agarwal (wife of Director Mr. Bhuvnesh Agarwal)
   v. Depreciation debited of Rs. 25 lacs.
   vi. Tax amounts debited include: local taxes Rs. 4 lacs, excise duty Rs. 14 lacs, income tax provisions Rs. 45 lacs and wealth tax Rs. 6 lacs.
   vii. An amount of Rs. 15 lacs is debited towards a claim made by a party for not delivering goods in time.
   viii. Interest on fixed deposits being Rs. 12 lacs.
   ix. Dividend from shares held in a private limited company based at Gurgaon: Rs. 4 lacs.
   x. Payment of Rs. 50,000 to the internal auditor without deducting any tax at source.
   xi. Interest rate negotiation fees of Rs. 1.50 lacs paid to Uco Bank, Delhi at the time of interest rate change.

   Following additional information being provided:

a. The opening block of asset (plant & machinery) for income tax purposes was Rs. 100 lacs. During the current financial year machinery costing Rs. 25 lacs was further put to use in January 2015. Marks

b. During the current financial year a depreciable asset being building of Rs. 10 lacs was sold for Rs. 8 lacs. This asset was upward revalued from Rs. 6 lacs to Rs. 10 lacs at the beginning of the current financial year. The profits/losses arising on such sale were not routed through the profit and loss account.

You are required to compute the final tax liability of the company, giving appropriate reasons for treatment adopted.

(b) Mr. Himmat Chordia submits the following details of his wealth for computing his wealth tax liability as at 31.03.2015. He has returned to India on 30.06.2014 after 10 years of stay in Germany: 5

i. Paternal property in Kota received under will from father valuing Rs. 57 lacs.
ii. Gold bars purchased for Rs. 15 lacs from NRE account proceeds.
iii. Car brought into India at the time of return from Germany valuing Rs. 50 lacs.
iv. Plot of land admeasuring 450 sq. meters purchased at Jodhpur in January 2015 for Rs.75 lacs. Proceeds for plot were collected from sale of shares purchased three years back from foreign currency investments.
v. Flat of Rs. 65 lacs purchased in Jaipur from NRE account proceeds.
vi. Jewellery received on 25.05.2014 from mother by way of gift Rs. 12 lacs.
vii. Industrial plot purchased in May 2012 valuing Rs. 40 lacs, however no construction took place on plot till valuation date. This plot was purchased from foreign currency remittances.
viii. Premium villa purchased in name of HUF in November 2014 for Rs. 85 lacs by using foreign currency remittances.

2 (a) In the context of transfer pricing provisions determine comment on the following transactions: 8

i. Ashapurna Housing Finance Ltd, Mumbai has financed a loan of Rs. 50 crores to M/s Ashapurna Buildhome Ltd., N.Delhi @ 12% p.a. and therefore recovered an amount of Rs. 6 crores. However the SBI rate for similar lending facility is 14%. The finance company holds 30% equity stake in the later.

ii. Atlanta India Ltd. has sold 10 lac liters of chemical products to Pacific India Ltd. @ Rs. 50/ltr. However the transaction price determined between the companies are negotiated by Arabian Inc. (US) which is the holding company of Atlanta India Ltd. The market price of such chemical sold in open market is generally quoted at Rs. 52/ltr.

(b) During the course of re-assessment proceedings of Mr. Arvind Mahirshi under section 147 the following circumstances arose. You are required to comment upon the validity or otherwise thereof: 8

i. Assessing Officer refused to accept the deductions claimed by the assessee against the income escaped assessment earlier but now being taxed.
ii. Assessee puts a claim before assessing officer that he could not claim a deduction of

Rs. 10 lacs during scrutiny assessment proceedings which may now be permitted to him. Marks

iii. The income proposed to be taxed as escaped income arises from certain entries in the books which were already submitted before the AO during the course of original assessment proceedings.

iv. Assessee seeks to provide him reason to believe for opening up reassessment proceedings against him.

3 (a) Welfare Charitable Trust has received a notice of assessment for the AY 2013-14 on 11.06.2014. The trust is operating in the field of charitable activities since 2009-10 however it has not applied for registration under section 12AA of the Income Tax Act 1961. The trust seeks your advise on the following: 8

i. Can it apply for a registration under income tax provisions now.

ii. If it applies for a registration now, the exemption benefit u/s 11 & 12 shall be available from which assessment year.

iii. If trust successfully receives a registration under section 12AA now, whether previous assessment years income can also be claimed exempt under section 11 & 12.

iv. Whether under any circumstances the registration granted to it may be withdrawn.

(b) Axis Food Products LLP provides you following information to determine its final tax liability for the AY 2015-16: (Rs. in lacs) 8

Particulars	Amount	Particulars	Amount
Warehouse Expenses	120	Warehousing Charges	455
Warehouse depreciation	50	Mutual Fund Dividend Income	15
Salary to Partners X: 7 lacs (working) Y: 8 lacs (nonworking)	15		
Income Tax Provisions	80		
Net Profits	205		
	470		470

Additional Information:

i. The assessee has 4 warehouses for storage of agriculture products.

ii. One of the above mentioned four warehouses is established during the financial year 2014-15 by incurring a cost of Rs. 80 lacs. This cost includes land acquisition cost of Rs. 10 lacs. Rest three warehouses were established two years back.

iii. The LLP has contributed an amount of Rs. 5 lacs to the Prime Minister Relief Fund which is not debited to Profit & Loss account.

iv. The partners X & Y share the profits and losses equally among them.

You are required to determine the final tax liability of the LLP.

4 (a) Mrs. Vinita Arora has sold a flat on 30.09.2014 for a consideration of Rs. 146 lacs to Mr. Bharat Makhija. She submits you the following information for the purposes of determining her capital gain tax liability: 6

i. Flat was purchased by her on 12.3.2010 directly from the builder for an amount of Rs. 52 lacs.

ii. Before the current sale materialized she entered into an agreement with Ms. Meghna Jain for an amount of Rs. 140 lacs on 10.2.2014 and provided a time of 2 months to close the deal. Since Ms. Meghna Jain could not complete the deal in due time thus on 10.4.2014 Ms. Vinita forfeited the advance money of Rs. 4 lacs. Marks
iii. The assessee has purchased another flat in UK for an amount of Rs. 160 lacs before 31.03.2015.
iv. The cost inflation index number for the FY 2009-10 & 2014-15 are respectively 632 and 1024.

(b) Mrs. Yagnik has received/acquired following assets during the financial year 2014-15 from various persons: 5

i. Gold Chain worth Rs. 2 lacs from daughter.
ii. 200 square yards piece of land from father-in-law valuing Rs. 15 lacs.
iii. Agriculture land in village - Pokran (Jaisalmer) valuing Rs. 25 lacs. Stamp duty value being Rs. 10 lacs. Pokran has a population of 8500 as per the latest census figures. This land is gifted by her friend.
iv. Oil painting of a famous artist purchased from an art exhibition for Rs. 5 lacs. The fair market value of painting is around Rs. 8 lacs.
v. Flat acquired from a builder for Rs. 80 lacs. The stamp duty value as on the date of registration of sale deed was Rs. 110 lacs. However she paid an advance by way of cheque two years back of Rs. 5 lacs. The stamp duty value on the date of booking the flat was Rs. 78 lacs.

(c) Determine the applicability or otherwise of deduction of tax at sources in following circumstances: 5

i. M/s Avanti Marbles Pvt. Ltd. has paid an amount of Rs. 5 lacs to Mr. Santosh for providing JCB Crain Services.
ii. LIC of India has paid an amount of Rs. 10 lacs to the wife of Mr. Dushyant Gupta. Her husband died in a road accident in May 2014. The annual premium payable on the policy was Rs. 1.5 lacs per annum for 5 years. The policy was issued in December 2013.

5 (a) Katholic Charitable Trust (registered under section 12AA) submits the following information to determine its taxable income for the AY 2015-16: 8

Receipts:	Rs.
Voluntary Contributions – India	25 lacs
Voluntary Contributions – Abroad	50 lacs
Anonymous Contributions	5 lacs
Corpus Contributions	10 lacs
Interest from Tax Free Bonds	20 lacs
Payments:	
Free Medical Camp in India	35 lacs
Scholarships distributed	10 lacs
Expansion of Building of Trust	15 lacs

The trust further asks you answer the following:

a. How can it save the tax liability, if payable as per your computation.
b. Can it claim depreciation of school building which is treated as application of income.

Marks

(b) Mr. Abhijeet, a resident Indian and aged 61 years, has derived the following income for the AY 2016-17: 4

		Rs.
i.	Dividend from shares in foreign companies at UAE (Tax paid overseas Rs. 30,000)	2,00,000
ii.	Interest from fixed deposits, held in India	4,00,000
iii.	Interest from saving bank deposits in Indian bank accounts	50,000
iv.	Pension from Washington University, US (Tax paid overseas Rs. 55,000)	5,50,000

He has invested Rs. 15,000 in PPF account during the relevant previous year. Assuming that India does have treaty with UAE and US determine the tax payable by the assessee for the AY 2016-17.

(c) Rectification proceedings under section 154 can be conducted even in respect of a revision order. Examine the validity of this statement. 4

6 (a) Discuss the correctness of the following statement in the context of provision of Income Tax Act 1961: 10

a. Assessments involving transfer pricing matters are subject to 'Dispute Resolution Panel (DRP)" proceedings.
b. Valuation Officer's services can be invoked only where the valuation matter arises as a consequence of section 69 or 69A or 69B type of sections.
c. Time taken by valuation officer under section 142A is excluded in computation of time limit prescribed for completion of assessment.

(b) MRT Granites Pvt. Ltd., Jalore has exported certain marble slabs (1500 tonnes) to Florida Inc, Cyprus @ Rs. 4.5 lacs per tonne. There is no associationship with reference to management, control or capital between both the companies. However the assessing officer wishes to replace the price charged from Rs. 4.5/tonne to Rs.5.5/tonne based on transfer pricing regulations. The assessee wishes to object the addition so proposed by the assessing officer and therefore seeks your valuable advice in the matter. 6

7 Comment on the following with reference to recent judicial pronouncements: 16

i. Lotus dairy supplies milk and other products to various milk booth operators at a price lower than maximum retail price (MRP). Income tax authorities issue notice for non-compliance of TDS provisions in respect of difference amount arising as above. Lotus dairy seeks your advice in the matter.

ii. M/s ABSM & Co. claimed a deduction of fuel charges reimbursement claimed by the partners of the firm duly supported by bills. The assessing officer disallowed 40% of claim assuming the same to be personal in nature without any specific observation and therefore also invokes concealment penalty provisions. Assessee seeks your advice in the matter.

iii. Mr. Kapil Bhushan, a renowned advocate has incurred an amount of Rs. 15 lacs on his heart surgery. He has claimed the same as deduction against his professional receipts whereas the assessing officer intends to disallow the amount. Assessee seeks your opinion in the matter.

iv. ABB Ltd. has granted a plant supply order to Alpas Infrastructure Ltd. for Rs.50 crores. The later could not supply the plant within stipulated time thus it paid Rs. 5 crores to ABB Ltd. as per contract cancellation terms. ABB Ltd. seeks your advice regarding taxability of Rs. 5 crores received.