

Roll No.

Total No. of Questions – 7

Time Allowed – 3 Hours

Total No. of Printed Pages – 15

Maximum Marks – 100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi 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 Assessment Year 2015-16, unless stated otherwise in the question.

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1. (a) MNO Corporation LLP, is carrying on two businesses viz. Textile manufacture and Operation of cold chain facility. It gives you the following information for the year ended 31st March, 2015. **10**

Net profit as per Profit & Loss Account :

From Textile Manufacture ₹ 10,25,000

From Operation of cold chain facility ₹ 20,50,000

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The following items are debited to Profit & Loss Account :

- (i) Interest on capital payable to partners @ 15% on total capital of ₹ 100 lakhs.
- (ii) Working partner salary ₹ 36 lakhs (i.e. ₹ 1 lakh each per month for 3 partners).
- (iii) Depreciation on textile factory building ₹ 5 lakhs.
- (iv) Depreciation on Plant & Machineries of textile business ₹ 35 lakhs.
- (v) Keyman insurance policy premium paid ₹ 1,55,000.

Other Information :

Eligible depreciation U/s. 32 for the previous year 2014-15 are –

- (i) On Plant & Machineries of textile business ₹ 27 lakhs.
- (ii) On factory building relating to textile business ₹ 4 lakhs.

The assessee set up and operating a cold chain facility since 1st April, 2013. It incurred capital expenditure towards construction of cold chain facility during the period from 1st June, 2011 to 31st March, 2013 as under :

Cost of land (acquired on 1st June, 2011) ₹ 30 lakhs.

Cost of construction of building and Machineries installed till 31st March, 2013 ₹ 50 lakhs.

The income of the firm for the previous year 2013-14 (Assessment Year 2014-15) is given below :

Income from Textile manufacture ₹ 12 lakhs.

Income from cold chain facility ₹ 60 lakhs (before deduction U/s. 35 AD)

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The firm originally had 4 equal partners and one partner retired on 31-3-2014. The partnership agreement authorizes payment of salary and interest on capital which are debited to Profit & Loss Account.

You are requested to compute the total income of the firm for the assessment year 2015-16.

Note : Ignore Alternate Minimum Tax (AMT) under section 115 JC.

- (b) Explain the term "Urban Land" as per the Wealth Tax Act, 1957. 5
- (c) State with brief reasons whether the following statements are valid/invalid under the Wealth Tax Act, 1957 : 5
- (i) Determination of net wealth is dependent on the system of book-keeping adopted by the assessee.
 - (ii) Unrecorded cash of ₹ 1 lakh as on 31-3-2015 is an 'asset' for the firm and hence to be included in its net wealth.
 - (iii) Mr. Tom transferred his vacant site to his wife in connection with an agreement to live apart. The vacant site is liable to wealth tax in the hands of Mr. Tom even though it is given to his wife.
 - (iv) Penalty for concealment of wealth could be levied on legal representative though proceedings were initiated on the assessee when he was alive.
 - (v) A company incorporated in Sri Lanka is liable to wealth tax in respect of assets held in India.

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Moon India Ltd. engaged in manufacturing activity furnishes the following details : 16

Net profit as per Profit and Loss Account ₹ 50,00,000.

(i) The company took a loan of ₹ 12,00,000 in the financial year 2011-12 for the purpose of relocation of its office premises. The lender waived ₹ 8,00,000 in the financial year 2014-15 and it is credited in the Profit and Loss Account.

(ii) Depreciation charged to Profit and Loss Account is ₹ 16,00,000. Depreciation as per Income-tax Act, 1961 amounts to ₹ 28,00,000 which includes the following :

Depreciation rate meant for computers has been adopted for (i) accessories like printers and scanners; and (ii) EPABX. The written down value of these as on 1-4-2014 is given below :

(a) Printers and Scanners ₹ 50,000

(b) EPABX ₹ 2,00,000

Assume that there were no additions during the year.

(iii) It incurred ₹ 2,50,000 as expenditure for public issue of shares. The public issue could not materialize on account of non-clearance by SEBI. This amount is charged to Profit & Loss Account.

(iv) It incurred expenditure of ₹ 2,00,000 towards issue of debentures. This amount has been capitalized in the books.

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- (v) The company paid ₹ 1,00,000 as compounding fee for violations in the pollution control regulations. This has been charged as revenue expenditure.
- (vi) The company lost cash of ₹ 25,00,000 due to theft when it was withdrawn from bank and taken to administrative office. It is not insured and hence fully charged as revenue expenditure.
- (vii) ₹ 5,00,000 was spent during the year towards permitted CSR activities as per 135 of the Companies Act, 2013. This is charged to Profit and Loss Account.
- (viii) It paid ₹ 2,00,000 to share broker for transacting shares listed in stock exchange and ₹ 1,00,000 to commodity broker for commodity transactions at MCX. Both the amounts are debited to Profit and Loss Account and no tax was deducted at source on these payments.
- (ix) The company during the year employed 115 new workers in factory which was 20% of the existing work force and 18 employees in the registered office which was equal to 10% of the existing employee strength. It paid ₹ 20,00,000 and ₹ 8,00,000 respectively as additional wages and salary.
- (x) It paid ₹ 50,000 to an electoral trust by cash and ₹ 1,00,000 by cheque to a registered political party. Both these are debited to Profit and Loss Account.

Compute the total income of the company for the assessment year 2015-16. Give reasons in brief for treatment of each of the above items. Ignore MAT provisions.

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3. (a) A public charitable trust registered U/s. 12AA runs a hospital and also a medical college. It furnishes you the following information for the year ended 31st March, 2015 :

- (i) Gross receipt from Hospital ₹ 425 lakhs
- (ii) Income from business – incidental to main objects ₹ 2 lakhs.
- (iii) Voluntary contributions received from public ₹ 32 lakhs. It includes corpus donation of ₹ 3 lakhs and anonymous donation of ₹ 5 lakhs.

Note : Voluntary contributions are included in Gross receipt given in (i) above.

- (iv) Hospital operational expenses incurred ₹ 105 lakhs. (This does not include capital expenditures and depreciation)
- (v) Income from Medical College (solely for education purpose) ₹ 10 lakhs. Gross receipts of college for the year ₹ 90 lakhs.
- (vi) Gross receipt given in (i) above includes a sum of ₹ 55 lakhs which has accrued but not received. However, a sum of ₹ 18 lakhs was received only on 31st day of March, 2015.
- (vii) The trust set apart ₹ 80 lakhs for acquiring a building to expand its hospital. But the amount was paid in May 2015 when sale deed was registered in its name.
- (viii) In June, 2014, the trust purchased and installed new computer software for ₹ 28 lakhs. The rate of depreciation is 60% as per Income-tax Act, 1961.

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- (ix) The trust incurred ₹ 35 lakhs towards purchase of laptops, computers and printers for the hospital.
- (x) It repaid loan of ₹ 15 lakhs taken earlier for construction of hospital building.

Compute the total income of the trust for the assessment year 2015-16 in order to avail maximum benefits within the four corners of law.

- (b) With brief reasons answer the following in terms of Chapter VI-A of the Income-tax Act, 1961 :

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- (i) Mr. Raju invested ₹ 60,000 in listed units of Rajiv Gandhi Equity Saving Scheme (RGESS) during the financial year 2014-15. How much, he can claim deduction in respect of such investment ?
- (ii) Mr. Jaju deposited ₹ 65,000 with life insurance corporation for the maintenance of his mother who suffers from disability of 90%. She is wholly dependent on him. How much is deductible ?
- (iii) Mr. Shiva has gross total income of ₹ 3,75,000. He has given the following donations :

National Children's Fund ₹ 25,000 – by cheque
Prime Minister's Drought Relief Fund ₹ 30,000 – by cheque
National Blood Transfusion Council ₹ 40,000 – by cash
National Illness Assistance Fund ₹ 20,000 – equally by cash and cheque.

Compute the amount deductible under section 80G.

- (iv) Mr. Manoj a computer software engineer co-authored a book on advanced computer programming alongwith his friend. He received ₹ 4,10,000 as lumpsum royalty in March, 2015. How much of royalty is taxable ?

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4. Answer any **four** out of the following **five** cases :

**4×4
=16**

- (a) A & Co. Ltd., a property developer and builder disclosed unsold flats as stock in trade in its books of account as well as in wealth tax return. It let out those flats and offered the same as income from house property by claiming statutory deduction U/s. 24 of the Act. The Assessing Officer disallowed statutory deduction and taxed the same as income from business. Decide the correctness of the action of the Assessing Officer.
- (b) Mr. X had a leasehold property since 5th May, 2008. The leasehold rights were converted into freehold on 20th May, 2014. The said property was sold on 10th January, 2015. The assessee claimed the capital gain as long-term capital gain. The Assessing Officer contended the same as short-term as the property was acquired by converting the leasehold right into freehold right only on 20th May, 2014. Is Mr. X justified in his claim ?
- (c) Mr. Manas is a distributor of lottery tickets. He won ₹ 6,00,000 as prize money on unsold lottery tickets. It was offered as business income. The Assessing Officer wants to tax the same as lottery winning at the rate prescribed under Section 115BB. Is he justified ?
- (d) Maitri Jeans (P) Ltd. is in the business of manufacturing jeans. For the assessment year 2015-16 it paid tax @ 18.50% on its book profit computed under section 115JB. The Assessing Officer though satisfied that it is liable to pay book profit tax U/s. 115JB, wants to charge interest under sections 234B and 234C as no advance tax was paid during the financial year 2014-15. The company seeks your opinion on the proposed levy of interest. Advice.

- (e) Mango Ltd. has inadvertently claimed deduction in respect of provision made for payment of gratuity in its return of income. However, this was shown as disallowance U/s. 40A(7) in the tax audit report filed U/s. 44AB. The Assessing Officer initiated proceedings for levy of penalty under Section 271(1)(c). The company pleads that the claim was inadvertent as the return was computer fed and e-filed by its administrative staff. Decide the correctness of action proposed by the Assessing Officer.

5. (a) Mr. Ramesh purchased a plot of land in Chennai in June 2005 for ₹ 50 lakhs. He decided to sell the property to Mr. Mahesh for ₹ 80 lakhs and received an advance of ₹ 2 lakhs in May, 2009. Mr. Mahesh was unable to complete the agreement and hence the entire advance was forfeited by Mr. Ramesh.

Again Mr. Ramesh entered into an agreement to sell the property to Mr. Rakesh for ₹ 95 lakhs and received advance money of ₹ 2.50 lakhs in August, 2014. But again the transfer did not materialise due to which the advance money was again forfeited.

On 4th January, 2015 the property was finally sold to Mr. Mukesh for ₹ 105 lakhs and the stamp duty value on that date was ₹ 125 lakhs. During financial year 2014-15, Mr. Ramesh earned business income of ₹ 25 lakhs.

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He acquired a new residential property for ₹ 130 lakhs by investing entire sale consideration and his business income.

Determine the total income of Mr. Ramesh for the assessment year 2015-16.

Cost inflation index are :

Financial year	Cost inflation index
2005-06	497
2009-10	632
2014-15	1024

(b) Specify with reason, whether the following acts can be considered as (i) Tax planning; or (ii) Tax management; or (iii) Tax evasion. **5**

- (i) An individual tax payer making tax saver deposit of ₹ 1,00,000 in a nationalised bank.
- (ii) A partnership firm obtaining declaration from lenders/depositors Form No. 15G/15H and forwarding the same to income-tax authorities.
- (iii) A company installed an air-conditioner cost ₹ 75,000 at the residence of a director as per terms of his appointment but treats it as fitted in quality control section in the factory. This is with the objective to treat it as plant for the purpose of computing depreciation.

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(iv) RR Ltd. issued a credit note for ₹ 80,000 as brokerage payable to Mr. Ramana who is the son of the managing director of the company. The purpose is to increase the total income of Mr. Ramana from ₹ 4,00,000 to ₹ 4,80,000 and reduce the income of RR Ltd. correspondingly.

(v) A company remitted provident fund contribution of both its own contribution and employees' contribution on monthly basis before due date.

(c) The business premises of Mr. Amit was subjected to a survey under section 133A of the Act. There were some incriminating materials found at the time of survey. The assessee apprehends reopening of assessments of the earlier years. He wants to know whether he can approach the Settlement Commission. 4

Explain briefly the basic conditions to be satisfied and the benefits that may accrue to Mr. Amit by approaching the Settlement Commission.

6. (a) Macline Cola Co. of UK entered into contracts with three Indian companies namely ABC Ltd., Pepsi Co. Ltd. and Coca Cola Ltd. for supplying know-how. Macline Cola Co. made an application to the Authority of Advance Ruling (AAR) on the rate of withholding tax on receipts applicable to it. 4

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Also, Coco Cola Ltd. also made an application to the Assessing Officer for determination of the rate at which tax is deductible on the payment made to non-resident company i.e. Macline Cola Co.

The Authority for Advance Ruling (AAR) rejected the application of Macline Cola Co. on the ground that the question raised in the application is already pending before an Income-tax authority.

Explain whether the rejection of application by the AAR is justified in law ?

- (b) The Income-tax Appellate Tribunal (ITAT) passed an order providing relief as prayed by the assessee on 4-01-2010. In December, 2013 the Tribunal found a mistake apparent from the record and immediately it rectified the mistake and passed an order.

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Is the order passed by the Tribunal barred by limitation ?

What would be your answer, if the mistake was identified by the Assessing Officer who filed a rectification petition in December, 2013 and the Tribunal passes the rectification order, say in December, 2015 ?

- (c) Assessment of Bhajan Ltd. was completed U/s. 143(3) with an addition of ₹ 15 lakhs to the returned income. The assessee-company preferred appeal before the Commissioner (Appeals) which is pending now.

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In this backdrop, answer the following :

- (i) Based on fresh information that there was escapement of income for the same assessment year, can the Assessing Officer initiate reassessment proceedings when the appeal is pending before Commissioner (Appeals) ?
- (ii) Can the Assessing Officer pass an order U/s. 154 for rectification of mistake in respect of issues not being subject matter of appeal ?
- (iii) Can the assessee-company seek revision U/s. 264 in respect of matters other than those preferred in appeal ?
- (iv) Can the Commissioner make a revision U/s. 263 both in respect of matters covered in appeal and other matters ?

7. (a) Apple Iron Ltd. paid ₹ 10 lakhs to a lawyer on 01-08-2014 for the professional services rendered by him to the company, without deducting tax at source. Again another payment of ₹ 5 lakhs was due on 31-12-2014. The company deducted tax at source before making payment on 31-12-2014 for the entire amount of ₹ 15 lakhs. 4

The tax deducted at source was however remitted by the company on 30th March, 2015.

Compute the interest chargeable U/s. 201 (1A) of the Income-tax Act, 1961.

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- (b) Examine the correctness of the claim made by the assessee in the below mentioned case. 4

Mr. Johnny has business income of ₹ 4,28,000 and salary income of ₹ 1,30,000 for the financial year 2014-15. His minor son has agricultural income of ₹ 1,00,000 for the same year. The Assessing Officer clubbed the agricultural income of minor son for determining the income tax liability of Mr. Johnny.

Mr. Johnny contends that the agricultural income is exempt U/s. 10(1) and not covered by section 2(24) hence should not be clubbed even for adopting higher income-tax rate.

- (c) Examine the taxability and applicability of TDS provisions in the following cases : 4

- (i) Miss Sony a resident received ₹ 3,80,000 on 31-10-2014 on maturity of her life insurance policy taken on 01-11-2005. The policy sum assured is ₹ 2,00,000 and the annual premium being ₹ 45,000.
- (ii) Miss Puja a resident received ₹ 1,20,000 on 01-05-2014 on maturity of her life insurance policy taken on 10-4-2010. The policy sum assured is ₹ 1,00,000 and the annual premium being ₹ 32,000.

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- (d) The assessment of SBC Ltd. was completed U/s. 143(3) and a notice of demand U/s. 156 was issued for ₹ 13 lakhs for the assessment year 2013-14 requiring the company to pay the demand within 30 days.

On appeal before the Commissioner (Appeals), the demand was reduced to ₹ 10 lakhs. Is the Assessing Officer required to issue a fresh notice of demand to continue tax recovery proceedings ?

What would be your answer, if the Commissioner (Appeals) enhanced the income and the resultant tax demand is ₹ 15 lakhs (i.e.) an increase of ₹ 2 lakhs ?

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