

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 8

Total number of printed pages : 7

NOTE : All references to sections mentioned in Part-A of the Question Paper relate to the Income-tax Act, 1961 and the relevant Assessment Year 2007-08 unless stated otherwise.

PART—A

(Answer Question No.1 which is compulsory and any three of the rest from this part.)

1. (a) State, with reasons in brief, whether the following statements are correct or incorrect :
 - (i) Under section 64(1A), income accruing to a minor married daughter will be taxable in the hands of the minor since clubbing provisions are not applicable to a minor married daughter.
 - (ii) In computing income from business, no deduction is allowable in respect of interest on loans, advances and borrowals not paid but converted into loans.
 - (iii) Notice under section 142(1) can now be issued even after the end of the relevant assessment year.
 - (iv) In order to be eligible for deduction under section 80CCC, contribution to pension funds need not be from out of the income chargeable to tax.
 - (v) When the employer has paid insurance premium in accordance with scheme framed by IRDA in relation to his employees to keep in force an insurance on the health of the employees or their family members, such payment shall be treated as a taxable perquisite in the hands of employees.

(2 marks each)
- (b) Who are the persons qualified to be 'tax return preparers' ? Briefly explain the provisions of section 139B with regard to new scheme for submission of returns through tax return preparers.

(5 marks)
2. (a) Satish is a State Government employee and the salary and other emoluments received by him during the previous year 2006-07 are as under :
 - Basic salary : Rs.10,000 per month.
 - Dearness allowance : 40% of basic salary.
 - Entertainment allowance : Rs.8,000.

- Medical expenses reimbursed : Rs.25,000.
- Professional tax paid : Rs.5,000 of which Rs.4,000 paid by employer.
- Free car facility provided by the employer for which expenditure incurred by employer is Rs.42,000.
- Contribution to provident fund : Rs.12,000.

He has no other income.

Compute the taxable income of Satish for the assessment year 2007-08.

(5 marks)

- (b) Choose the correct/most appropriate answer from the given options in respect of the followings having regard to the provisions of the Income-tax Act, 1961 applicable for the assessment year 2007-08 :
- (i) For the financial year 2006-07, interest credited to the recognised provident fund in excess of the following percentage shall be treated as income deemed to be received by the assessee from salary :
 - (a) 9.5%
 - (b) 12%
 - (c) 8.5%
 - (d) None of these rates.
 - (ii) Anurag received an aggregate gift of Rs.75,000 on 10th August, 2006 from his three friends. The amount chargeable to tax in this case would be :
 - (a) Rs.50,000
 - (b) Rs.25,000
 - (c) Rs.75,000
 - (d) Nothing is taxable.
 - (iii) ABC & Co. paid Rs.40,000 by crossed cheque to a supplier of raw materials. The disallowance under section 40(A)(3) for the purpose of computing taxable income would be :
 - (a) Rs.8,000
 - (b) Rs.4,000
 - (c) Rs.40,000
 - (d) No disallowance since not paid by cash.
 - (iv) If a trust established wholly for charitable purposes, receives an anonymous donation with a specific direction that the donation shall form part of the corpus of the trust, such anonymous donation would be :
 - (a) Exempt by virtue of section 11(1)(d)
 - (b) Taxable @ 30% as provided in section 115BBC
 - (c) Taxable @ 10%
 - (d) Taxable @ 20%.

- (v) Bharat contributed a sum of Rs.30,000 to an approved institution for research in social science, which is not related to his business. The amount of deduction eligible under section 35 would be :

- (a) Rs.30,000
- (b) Rs.37,500
- (c) Rs.45,000
- (d) No deduction as it is unrelated to his business.

(1 mark each)

- (c) Re-write the following sentences after filling-up the blank space with appropriate word(s)/figure(s) so as to convey the correct meaning having regard to the provisions of the relevant tax laws :

- (i) The deduction under section 80QQB in respect of royalty income of authors of certain books is subject to a maximum limit of _____.
- (ii) Jagdish, after sale of his house property during August, 2005, received arrears of rent amounting to Rs.40,000 on 2nd February, 2007. The said income is chargeable to tax under the head_____and the taxable income would be Rs._____.
- (iii) Mahesh purchased a house property during May, 2006 with a loan from HDFC Bank. He paid a sum of Rs.30,000 to the bank towards principal instalment, Rs.25,000 towards interest, and incurred expenditure of Rs.15,000 towards stamp duty and registration charges for the purchase of said house during the year 2006-07. The eligible deduction under section 80C would be Rs._____ under the overall ceiling limit of Rs._____.
- (iv) A partnership firm, whose turnover from business is Rs.55 lakh for the year ended 31st March, 2007 shall file its return of income on or before _____ of the relevant assessment year.
- (v) Loan on a residential property let out throughout the year is _____ debt from the gross wealth for the computation of taxable wealth.

(1 mark each)

3. Comment on the correctness or otherwise of *any three* of the following statements/propositions with reference to the relevant provisions of tax laws :

- (i) An assessee can have a loss from a house property.
- (ii) In case of depreciable assets forming part of block of assets, there can be a short term capital gain but no short term capital loss.
- (iii) Commissioner of Income-tax has powers only to revise order in favour of the assessee.
- (iv) The residential status of an assessee does not affect his tax liability.
- (v) Every person is required to deduct tax at source on payments made to contractors.

(5 marks each)

4. (a) Distinguish between *any two* of the following :
- (i) 'Recognised provident fund' and 'unrecognised provident fund'.
 - (ii) 'Survey under section 133A' and 'search under section 132'.
 - (iii) 'Tax audit under section 44AB' and 'special audit under section 142(2A)'.
- (4 marks each)
- (b) Lovely Enterprises owns the following assets on 31st March, 2007 :
- (i) Land situated in rural area : Book value Rs.18,00,000.
 - (ii) Unused land situated in urban area, purchased on 7th August, 2000 for construction of factory : Book value Rs.50,00,000; Value as per Schedule III to the Wealth-tax Act, 1957 : Rs.62,00,000.
 - (iii) Motor car : Written down value Rs.6,00,000; Value as per Schedule III to the Wealth-tax Act, 1957 : Rs.6,50,000.
 - (iv) Residential house : Written down value Rs.14,00,000; Value as per Schedule III to the Wealth-tax Act, 1957 : Rs.18,90,000.
 - (v) Gold and silver : Book value Rs.1,10,000; Value as per Schedule III to the Wealth-tax Act, 1957 : Rs.32,00,000.
 - (vi) Shares in companies : Book value Rs.15,00,000; Quoted value : Rs.17,00,000.
 - (vii) Cash in hand : Rs.2,40,000.
 - (viii) Bank balance : Rs.9,40,000.
 - (ix) Plant and machinery : Written down value Rs.5,00,000; Cost Rs. 16,00,000; and Market value Rs.6,00,000.
- Assuming that the firm has borrowed Rs.4,00,000 for purchase of plant and machinery (out of which Rs.2,00,000 is outstanding on 31st March, 2007), find out the wealth-tax liability of Lovely Enterprises for the assessment year 2007-08.
- (7 marks)
5. (a) Write short notes on *any two* of the following with reference to the provisions of the Income-tax Act, 1961 :
- (i) 'Transfer' for purposes of capital gains
 - (ii) Revised return of income
 - (iii) Taxation of agricultural income.
- (4 marks each)
- (b) Rakshit, a non-resident Indian, remits US \$80,000 to India on 16th September, 1989. The amount is partly utilised on 3rd October, 1989 for purchasing 10,000 shares in Amrit Ltd., an Indian company, at the rate of Rs.12 per share. These shares are sold for Rs.38.40 per share on 28th February, 2007. Rakshit deposited Rs.1,92,000 with an Indian public company on 1st August, 2007 (due date of filing of return of income 31st July, 2007).

You are required to compute capital gains chargeable to tax for the assessment year 2007-08 on the assumption that telegraphic transfer buying and selling rate of US dollars adopted by the State Bank of India is as follows :

	<i>Telegraphic Transfer Rate</i>	
	<i>Buy a US\$ (Rs.)</i>	<i>Sell a US\$ (Rs.)</i>
16 th September, 1989	18	20
3 rd October, 1989	19	21
28 th February, 2007	44	46

(7 marks)

PART—B

(Answer ANY TWO questions from this part.)

6. (a) Briefly explain the provisions of the Central Excise Act, 1944 relating to e-filing of returns.

(5 marks)

- (b) Explain the provisions of the Central Sales Tax Act, 1956 relating to sale effected by transfer of documents of title.

(5 marks)

- (c) Total inter-State sales of Bhutani & Brothers for the financial year 2006-07 is Rs.1,38,50,000 (excluding sales tax component) consisting of goods carrying 2% CST and 4% CST in the ratio of 4:6 respectively. Following further information is provided :

- (i) Excise duty duly included in the above sales : Rs.5,60,000;
- (ii) Deposit for returnable packages and containers : Rs.8,00,000;
- (iii) Out of the goods sold on 30th May, 2006, goods worth Rs.75,000, liable to CST at 2%, were returned on 23rd November, 2006 and similar goods worth Rs.1,32,000 returned on 3rd February, 2007;
- (iv) A customer to whom goods worth Rs.80,000 carrying 4% CST despatched on 1st June, 2006, rejected the goods and the same were received back on 31st January, 2007.

- (v) It is confirmed that all relevant forms have been received.

Based on the above information, you are required to calculate the taxable turnover and tax liability under the Central Sales Tax Act, 1956.

(5 marks)

- (d) Your client company exported manufactured goods (market price of the goods prevailing in the export market in India is Rs.100 lakh) to China and expected to realise the price of Rs.125 lakh from the overseas purchaser. He paid the import

duty and central excise duty on imported materials used in the manufacture of goods whose value is Rs.105 lakh. The customs department refuses to grant duty drawback on the ground that the market price of the goods in export market in India is less than the value of imported materials used in the manufacturing process. Advise your client citing case law, if any.

(5 marks)

7. (a) State, with reasons in brief, whether the following statements are correct or incorrect :

- (i) Aravind, a dealer not registered under the Central Sales Tax Act, 1956, who effected only one inter-State sale is not liable for penalty under the provisions of the Central Sales Tax Act, 1956.
- (ii) Rule 5 of CENVAT Credit Rules, 2004 provides for refund of CENVAT credit in respect of capital goods.
- (iii) Under section 111 of the Customs Act, 1962, a person importing prohibited goods valued Rs.50,000 shall be liable for a maximum penalty of Rs.5,000 apart from confiscation of goods.
- (iv) The Central Government can impose safeguard duty under section 8B of the Customs Act, 1962 if the share of imports of that article from a developing country exceeds 3%.
- (v) Under the Central Excise Act, 1944, manufacture is accomplished only when goods are marketable.

(2 marks each)

(b) With reference to provisions of the Customs Act, 1962, write short notes on the following :

- (i) Determination of assessable value
- (ii) Provisions relating to baggage and bonafide baggage.

(3 marks each)

(c) Re-write the following sentences after filling-up the blank space with appropriate word(s)/figure(s) so as to convey the correct meaning having regard to the provisions of the relevant Act :

- (i) In accordance with the provisions of sections 53 and 54 of the Customs Act, 1962, prohibited goods will neither be allowed to be _____ nor allowed to be _____.
- (ii) The basic document for assessment of customs duty on imported goods is _____.
- (iii) Explanation 1 to section 4A of the Central Excise Act, 1944 provides that the retail sale price is the _____ at which the packaged goods may be sold to the ultimate consumers.
- (iv) Local sales tax rate applicable to declared goods sold to a registered dealer shall not be more than _____.

(1 mark each)

8. (a) Comment on the correctness or otherwise of *any two* of the following statements/ propositions with reference to the relevant provisions of tax laws and cite case law, wherever applicable :

- (i) Under the Central Sales Tax Act, 1956, the certificate of registration granted once can either be cancelled or amended by the concerned authority.
- (ii) Trident Textiles Ltd. is engaged in the activity of cutting fabric into running length and in turn production of bed sheets, bed spreads, table cloths and napkins. Both raw materials (fabric) and output (bed sheets) fall under the same tariff. The activity amounts to manufacture and levy of excise duty is attracted.
- (iii) The importer shall not be liable to pay duty on the abandonment of offending goods if he relinquishes his title to such goods before they are cleared by the proper officer for home consumption or warehousing under the Customs Act, 1962.

(4 marks each)

- (b) Highlight the points of distinction between *any two* of the following concepts/ principles :

- (i) 'Inter-State sale' and 'sale in the course of export/import' under the Central Sales Tax Act, 1956.
- (ii) 'Tariff value' and 'transaction value' under the Central Excise Act, 1944.
- (iii) Clearance of imported goods from customs area for 'home consumption' and 'warehousing'.

(4 marks each)

- (c) Write short notes on *any two* of the following :

- (i) 'Dutiability of waste and scrap' with reference to the Central Excise Act, 1944.
- (ii) Concept of 'CENVAT credit' under the central excise law.
- (iii) 'Bill of entry' under the Customs Act, 1962.
- (iv) 'Deemed dealers' under the Central Sales Tax Act, 1956.

(2 marks each)

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