

Level of knowledge	:	C.A. FINAL / SOLICITERS
Problems based on the amendments	:	A.Y. 2005-2006
Relevant exam	:	MAY / NOV 2005
Problems drafted by	:	Prof. KALPESH SANGHAVI
Answers to these question	:	Will be available in LMR.
		Price Rs. 400
For any Queries Contact	:	2380 1121 or 2382 0676

Question

“Charities Forever” is a Charitable trust registered under section 12, during the year income (Rs. 15,00,000) of the trust property is already applied (Rs. 13,50,000) for the purpose of the object (Medical and Education) of the trust which is approved by the CIT. However during the year it has awarded some medical benefit to pregnant women in cash which is not supported by her medical bills. The commissioner of income tax is of the opinion that the registration of this trust should be cancelled because its activity is not genuine and there are no adequate evidence for the application of the income. You are required to answer whether the action of the commissioner is justified or not.

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Question

TISCO limited in the business of manufacturing steel products. The activity of undertaking located at Bihar had begin on 01-06-1999. In connection to this undertaking it has purchased following assets. It has also submitted the other details regarding the block of assets. You are required to discuss the treatment of depreciation under the provision of income tax act and tell the company how much depreciation it would avail for the year ending 31.03.2005 and 31.03.2006.

	Date of Acquisition	Date of Put to use	Amount (In Lakhs)
Plant and Machinery (Newly Purchased)	01-06-2002	01-12-2002	10
Plant and Machinery (Newly Purchased)	01-03-2003	15-12-2003	15
Plant and Machinery (Newly Purchased)	01-06-2004	01-11-2004	20
Factory Building	15-04-2002	01-07-2002	20
Trucks for the transportation of Raw material	15-08-2002	15-08-2002	20
Computers at officer for the accounting of undertaking	15-08-2004	15-08-2004	20
Opening WDV of block of assets of P.Y. (Plant)			15
Opening WDV of block of assets of P.Y. (Building)			20
Opening WDV of block of assets of P.Y. (Vehicles)			30
Opening WDV of block of assets of P.Y. (Computers)			50

Installed capacity of undertaking as on 31.03.2002	600 tonns
Installed capacity of undertaking as on 31.03.2003	630 tonns
Installed capacity of undertaking as on 31.03.2004	650 tonns
Installed capacity of undertaking as on 31.03.2005	680 tonns
Installed capacity of undertaking as on 31.03.2006	750 tonns

You are also required to discuss the treatment for depreciation if some of the old plant and machinery would have been sold for Rs. 520 Lakhs as on 05-09-2004.

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Question

Mr. X has made the following payments during the year. However it has committed the default in deducting the tax at source for some of the payments. It has presented to you the appropriate details of the transaction and wants to know from you whether it will qualify for the deduction of the said payments or not.

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	Nature of Payment	Paid to	Details	Amount
1	Interest	Mr. A in New York who is resident in India.	Tax is not deducted at source.	1,00,000
2	Brokerage	Mr. B in India who is a Non Resident.	Tax is deducted at source but not paid.	2,00,000
3	Dyeing Charges	Mr. C in India who is a Resident.	Tax is deducted at source and paid after 90 days of end of previous year. (after the due dates of section 200)	4,00,000
4	Printing Charges	Company D which is a foreign company and resident in India.	Tax is deducted at source and paid during the previous year but after 90 days of the due date referred to in section 200.	4,60,000
5	Commission	Mr. E (foreign citizen) outside India who is a Non Resident for providing foreign market information on internet.	Tax is not deducted at source.	1,00,000
6	Salary	Mr. F in India who is a Non Resident.	Tax is not deducted at source however Mr. F has already filed return of income and paid the Self assessment tax.	20,000 Per Month

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Question

Assessee has sold some of the shares and securities in short term which is subject to securities transaction tax. You are required to compute the capital gains and tax liability in relation to the same.

	Amount	Securities Transaction Tax	Bank Receipt / Payment
Sale	50,000	38	49,963
Cost	20,000	15	20,015

You are required to compute the Capital Gains

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Question

Mr. X a heart surgeon by profession has received the following amounts as gift during the previous year. You are required to discuss the tax treatment of the said receipts.

	Gift received from.	Date of Receipt	Amount
1	Brother, who is a non resident.	15-08-2004	250,000
2	Friend Mr. A, on the occasion of marriage.	15-09-2004	300,000
3	Uncle, in anticipation of his death.	15-10-2004	350,000
4	Friend Mr. B, on the occasion of his birthday party	15-11-2004	20,000
5	His patient, in appreciation of fast recovery from a surgery.	15-12-2004	35,000
6	Hospital, in which he was employed as gratuity.	15-01-2005	65,000
7	Friend Mr. C, on the occasion of his birthday party	15-11-2004	22,000
8	Friend Mr. D, on the occasion of his birthday party. Gift received in form of Diamond Ring.	15-11-2004	23,000

Question

The assessee owned a Hyderabad Deccan Cigarette Factory which was assessed to income-tax. During the relevant accounting year the Hyderabad Deccan Cigarette Factory incurred a business loss of Rs. 9 Lakhs after providing for depreciation of Rs. 6 Lakhs. The assessee claimed to set off her share of the loss under the head "Business" against her income from salary Rs. 2 Lakhs. Her claim for a set-off was rejected by the Income-tax Officer. You are required to answer whether the action of the officer is justified in so doing or not.

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Question

Mr. Humpty has purchased and sold some securities in short term. The company has declared the dividend Rs. 10 per security on 01st of September. You are required to discuss the capital gains treatment for the same on the assumption that securities are in form of shares or Units of Mutual fund.

	Date	Amount
200 No. of securities Purchased @ 75 per share	15 th August	15,000
100 No. of securities Sold @ 100 per share	1 st March	10,000
100 No. of securities Sold @ 50 per share	7 th March	5,000

Question

Mr. Dumpty has sold some units in short duration. The company has declared 1:1 bonus on 01st of September. You are required to discuss the capital gains treatment for the same.

Particulars	Date	Amount
200 units of UTI Purchased @ 75 per unit	15 th August	15,000
200 original units of UTI Sold @ 60 per unit	1 st March	12,000
100 bonus units of UTI Sold @ 50 per unit	7 th March	5,000

Question

Mr. Dumpty has sold some units in short duration. The company has declared 1:1 bonus on 01st of September. You are required to discuss the capital gains treatment for the same.

	Date	Amount
200 units of UTI Purchased @ 75 per unit	15 th August	15,000
200 original units of UTI Sold @ 60 per unit	1 st March	12,000
200 bonus units of UTI Sold @ 50 per unit	7 th February	10,000

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Question

Mr. X has sold the 200 shares of TISCO limited on 1st of December for Rs. 260 per share. Out of the said shares 60 shares were inherited from his father in the year 1989. On these inherited shares 1:1 bonus was issued in the year 1993. 30 shares were purchased by him in the year 1998 for price of Rs. 190 per share and balance shares were purchased just 6 months before for the price of Rs. 200 per share. He has no other income. You are required to compute his tax liability for the year.

Question

Company X has paid printing charges to printer Mr. P Rs. 60,000 during the previous year. However the job had been done at different occasions and every bill for the job is less then Rs. 12,000. The company want to know where on such individual payments which is less then Rs. 12,000 is there any tax required to be deducted or not. If the tax is to be deducted it wants to know further what formalities is it suppose to do in relation to the issue of certificate and other TDS related procedure. Also Mr. P has filed its return of income without attaching the TDS certificate. The assessing officer of Mr. P considers the return of income as defective is the action of the officer justified or not.

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Question

The assessee had constructed a commercial complex and had shown an investment of Rs. 6,50,000. During the course of proceedings pertaining to the assessment year 2003-2004, the Assessing Officer referred the matter to the Departmental Valuation Officer for estimating the cost of construction of the said building. The Departmental Valuation Officer submitted his report estimating the cost of construction at Rs. 12,50,000. The assessee, on the other hand, filed a copy of a registered valuer's report. It was pointed out that previously there was an old building on the site which was demolished and old bricks and mortar, etc., retrieved therefrom were used for the construction of the new building. It was further pointed out that two walls of the old building had also been retained. Further copies of bills and vouchers qua the expenses were produced. The Assessing Officer, after considering the assessee's explanation, estimated the cost of construction at Rs. 9,50,000 and accordingly treated the difference of Rs. 3,00,000 as unexplained investment and made proportionate additions and passed the orders of scrutiny on 01-12-2005. You are required to answer whether the action of the officer is justified or not.

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Question

The assessee company paid different amounts aggregating to more than 50,000 to each parties /contractors however each payment being less than 20,000 to each parties /contractors for carrying out contracts of stitching, embroidery and finishing, etc. the assessing officer is of the opinion that according to the provisions of section 194C tax at 2 per cent. was deductible at source from the payments made by it to the contractors engaged for carrying out the aforesaid work; and that the company contravened the provisions of section 194C of the Act inasmuch as they failed to deduct the tax at source while making payments to the contractors. Assessee is of the opinion that work for the purpose of 194C does not include stitching, embroidery and finishing, etc. further payment is not of income but of contract charges. You are required to discuss the correct position of law in relation to the deduction of tax at source.

Question

X acquired a house for Rs.20,000 in 1977-78. On his death in October 1986 the house was inherited by his son Y. The market value of the house as on 1.4.1981 was Rs. 80,000. This house was acquired by the government in 15.3.1996 for Rs.3,00,000 and a compensation of Rs.2,20,000 was paid to him on 25.3.2005 and the balance Rs.80,000 on 15.4.2005 Y filed a suit against the government challenging the quantum of compensation and the court ordered for reducing compensation to Rs.2,75,000 and directed Mr. Y to pay Rs. 25,000 to the government with the interest of Rs. 12,000. The suit challenging the compensation took 12 years to be decided. He incurred an expenditure of Rs. 2,000 in connection with the suit. You are required to discuss the tax treatment of the same.

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Question

Agricultural land owned by Mr. X is subject matter of compulsory acquisition. The land acquisition collector while making the payment to assessee is of the opinion that the Tax should be deducted. You are required to discuss the correct position of law.

OR

Assessee owns two property in Jammu. Both the properties are subject matter of compulsory acquisition. The compensation fixed for both the properties is Rs. 60,000 each. The land acquisition collector while making the payment to assessee is of the opinion that the Tax should be deducted. You are required to discuss the correct position of law.

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Question

The assessee-company was engaged in open cast mining of soap stone crude. A lease for exploration of mines was granted to it by the State Government of Rajasthan. The lease amount is Rs. 25,00,000 + Rs. 10,000 royalty for tonne of soap stone extracted. During the year 38 tonnes have been actually extracted. There was an agreement between the assessee and the State that as far as possible a lessee shall restore the surface land so used to its original condition. The assessee claimed under section 37(1) that the liability to refill pits accrued as soon as the pits were dug. The claim was rejected by the Assessing Officer. You are required to discuss the tax implication of the said transaction.

Question

Messers A & company a partnership firm is in the business of operating ships. It owns one sea going vessel having tonnage 250 tonnes. You are required to compute the tonnage income of the said firm as per tax tonnage scheme.

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Question

India world Private Limited is an Indian company in business of operating ships. It has already exercised the option of TTS and has done the necessary formalities of chapter XII-G. You are required to compute the tonnage income as per section 115VG of the India world Private Limited based on the following information.

	Details regarding ships / vessel.	Net Tonnage.
1	A sea going vessel "The Champion" owned by it.	10
2	A sea going vessel "The Rider" owned by it. (However this vessel could not be operated for 35 days because of temporary cessation of operation of this ship)	55
3	A sea going vessel "The Sea Roar" owned by it, however it is used as a fishing vessel.	360
4	A sea going vessel "The Sea Roar" owned by it, however it is used as a fishing vessel only for 55 days during the previous year.	480
5	A sea going vessel "The Sea Tiger" owned by it, however it is used as a fishing vessel only for 15 days during the previous year.	660
6	A pleasure craft "The craft" owned by it.	25
7	A fishing vessel "The Big Ban" owned by it.	25
8	A sea going vessel "The Pakiza" chartered by it from a partnership firm A & co for around 68 days for one voyage to Indonesia.	850
9	A sea going vessel "The Killer" operated jointly with a partnership firm B & co. in which India world Private Limited has 30 % interest. However as per the certificate of director of shipping the net tonnage is 31,560 tonns.	32560

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Question

Klubq Private Limited is in the business of shipping. It owns “The Taj” a sea going ship having net tonnage capacity of 550 tonns. It does not have any other income other than out of the operation of ship. Net of income less allowable expense out of the business is Rs. 55,000. You are required to answer whether the TTS is applicable to it or not, and if your answer is affirmative also compute the income of Klubq Private Limited.

Question

Beautiful Private Limited is an Indian company in the business of operating ship and owns one qualifying ship having net tonnage capacity of 825 tonns. It has also chartered a qualifying ship “The Era” from Sea Shore Private Limited for 186 days during the year. Beautiful Private Limited has joint interest of 30 % in one of the qualifying ship “The sharara”(Net Tonnage of 1040 Tonns) operated by Pakiza Limited an Indian company. You are required to compute the tonnage income of the Beautiful Private Limited.

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Question

Go India Private Limited is an Indian company in business of operating ships. The necessary procedure to avail the benefit of tax tonnage scheme is already done. It owns two ships ("The star" and "The Moon") having net tonnage of 630 and 760 tonns respectively. Both the ships are sea going vessels however "The Moon" also some times being used as fishing vessel. During the previous year "The Moon" and "The star" is used as fishing vessel for 45 days and 15 days respectively. It is also in the business of manufacturing Iron Rods. Some of the expenditures are common between the shipping and manufacturing business. The necessary details are given below. You are required to compute the total income of the Go India Private Limited and calculate the amount to be transferred to special reserve for the purpose of TTS. Give the adequate reasons for the same.

Particulars.	Rs. In '000
WDV of block of SHIPS	200
WDV of block of PLANT AND MACHINERY (Used for Mfg.)	400
WDV of block of FURNITURE AND FIXTURES (Partly used for Tonnage Tax Business)	100
WDV of block of COMPUTERS (Partly used for Tonnage Tax Business)	600
Book value of SHIPS (The Moon)	200
Book value of SHIPS (The Star)	300
Book value of PLANT AND MACHINERY	300
Book value of FURNITURE AND FIXTURES	150
Book value of COMPUTERS	600
Gross Collection from Business of Manufacturing and other sundry Income.	200
Gross Collection from operation of "The Moon"	250
Gross Collection from operation of "The Star"	300
Direct Expense in Business of Manufacturing	150
Direct Expense for operation of "The Star"	20
Direct Expense for operation of "The Moon"	100
Common expense for the purpose of business.	300

Question

Sea King Limited is an Indian company in business of operating ships. TTS option is already exercised by it. From the following particulars it wants to know the amount of depreciation that it would avail on the ships against the income other than falling in chapter XII-G and what will be the opening WDV of the assets for the subsequent year.

WDV of block of SHIPS Consist of Three Ships. 1) The Champion One 2) The Champion Two. 3) The Champion Three.	200
Book value of the ships 1) The Champion One 2) The Champion Two. 3) The Champion Three.	70 50 60
Rate of depreciation for the purpose of books.	20 %
Method of providing depreciation in books.	SLM

All of the ships are sea going vessel, however “The Champion One and Two” was used as fishing vessel for 10 days as against “The Champion Three” was used as fishing vessel for 55 days during previous year.

Question

You are required to explain the procedure required to be done by tax tonnage company to qualify for tax tonnage scheme.

Question

Explain the term “Abuse of Tax Tonnage Scheme” and its consequences in relation to tax tonnage scheme.

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