

INTERMEDIATE EXAMINATION

June 2011

I-P7(ADT)
Syllabus 2008

Applied Direct Taxation

Time Allowed: 3 Hours

Full Marks : 100

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

Wherever required, the candidate may make suitable assumptions and state them clearly in the answers.

Working notes should form part of the relevant answers.

All questions relate to the assessment year 2011-12 and the provisions stated relate to Income Tax Act, 1961, unless stated otherwise in the question.

Answer Question No. 1 which is compulsory and any five from the rest.

1. (a) Fill up the blanks:

1×12=12

- (i) Mr. Nathan acquired on 30-3-2011, a building for Rs. 10 lakhs when the State stamp valuation authority adopted Rs. 15 lakhs for stamp duty purpose. The amount taxable in the hands of Mr. Nathan u/s. 56(2) will be 1200000.
- (ii) The due date for filing return of income u/s. 139(1) in the case of individual assessee having turnover above Rs. 60 lakhs is _____.
- (iii) Where an employee is paid fixed medical allowance of Rs. 1000 per month, a sum of Rs. 12000 is taxable per annum.
- (iv) Salary paid to a working partner of a firm is chargeable to income-tax in the hands of such partner under the head _____.
- (v) Total tax payable on a lottery income of Rs. 3,00,000 as per section 115BB is Rs. _____.
- (vi) Payment of education loan _____ (principal/interest) is deductible under section 80E.
- (vii) Property held under trust of charitable/religious purpose is _____ (exempt/non-exempt) from wealth tax.
- (viii) Surcharge is payable by Indian Companies when the total income exceeds 10 lac.
- (ix) Maximum amount exempt in respect of Transport Allowance granted to an employee for commuting between residence and place of work is Rs. 800 per month.
- (x) Claim of depreciation is _____ (mandatory/optional) while computing business income of the assessee.
- (xi) Advance tax is payable in _____ instalments by a non-corporate assessee.
- (xii) The Minimum Alternate Tax rate applicable to certain companies is _____ per cent of the book profits. 1000000

(b) Choose the correct alternative:

1×5=5

- (i) An individual (aged 28 years) born in India left for employment in France on 30.10.2010. His visit outside India is for the first time. His residential status for the assessment year 2011-12 will be
(a) Resident and Ordinarily Resident

Please Turn Over

- (b) Resident but Not Ordinarily Resident
- (c) Non-resident
- (d) None of the above

(ii) Xmas Charities received anonymous donation of Rs. 5 lakhs. The said sum is

- (a) Exempt from tax
- (b) Partly exempt and partly taxable
- (c) Taxable @ 30%
- (d) None of the above

(iii) Mr. A let out his house property to Mr. B. Mr. B sub-let the property to Mr. C. The income from sub-letting in the hands of Mr. B will be

- (a) Exempt income
- (b) Taxable under the head 'house property'
- (c) Income from other sources or business income, depending on facts
- (d) Income under the head 'capital gains'

(iv) Miss Padmaja received Rs. 50,000 on 13.10.2010 being the unrealized rent pertaining to an earlier year, consequent to court decree. The property to which the unrealized rent relates was sold in the year 2006-07. The unrealized rent amount received now is,—

- (a) Fully taxable as income from other sources
- (b) 50% taxable as income from other sources
- (c) Fully taxable as income from house property
- (d) 70% taxable as income from house property

(v) Guest home is liable for wealth tax

- (a) If it is located within the local limits of Municipality
- (b) If it is located within 8 kms from the local limits of Municipality
- (c) If it is located within 25 kms from the local limits of Municipality
- (d) Regardless of the distance or location

(c) State **with reasons** whether the following statements are true or false:

2×4=8

- (i) Where Mr. VKS (an Indian resident) received Rs. 50,000 as dividend from a foreign company, the same is taxable.
- (ii) Farm house rent received from tenant of agricultural land is chargeable to tax as income from house property.
- (iii) Motor cars held by a dealer in vehicles for trading purposes, are treated as "assets" for purposes of wealth tax.
- (iv) Income from transfer of self-generated goodwill of a profession is not chargeable to tax under the head "Capital gains".

2. (a) Mrs. Sneha, aged 64, has carried on business during the year ended March 31, 2011. The particulars of Profit and Loss Account are given below:

Profit and Loss Account for the year ended 31-3-2011

	Rs.		Rs.
To office salaries	22,000	By Gross profit	3,78,150
To Proprietor's salary	12,000	By profit on sale of residence <i>2d</i>	33,500
To General expenses <i>→ only 6000</i>	8,500	By disallowed bad debts recovered	62,000
To Bad debts	7,500	By Interest from Govt. securities (net) <i>ad</i>	12,600
To Fire insurance premium	5,500	By Dividend from JB Agro Ltd.	4,000
To Depreciation	2,500	By Income from Horse race (gross) <i>3d</i>	16,000
To Motor car expenses	7,500	By Sundry receipts	1,500
To Donation to Goa University <i>25</i>	60,000		
To Income tax 2010-11	8,000		
To Life Insurance premium	10,000		
To reserve for future loss	2,000		
To Advertisement	6,000		
To Net profit	3,56,250		
	<u>5,07,750</u>		<u>5,07,750</u>

Additional information:

- (i) General expenses include Rs. 1500 paid as compensation to an old employee whose services were terminated. His service was considered detrimental to business interest. A sum of Rs. 6000 being cost of small machine is also included in general expenses.
- (ii) One-third of motor car expenses is for personal use.
- (iii) Reserve for future loss represents a demand of sales tax under dispute.
- (iv) Depreciation is found to be in excess by rs. 500 as per Income-tax Rules.
- (v) Actual income tax for 2010-11 Rs. 12,000.
- (vi) Profit on sale of residence represents long-term capital gains computed in the prescribed manner.
- (vii) Tax has been deducted at source from the Govt. Securities at 10%.
- (viii) JB Agro Ltd. is a listed Indian company.
- (ix) She received interest of Rs. 4,000 on moneys lent to her friends, which has not been reflected in her books.

Compute her total income and tax liability.

- (b) Scindia furnishes the following particulars for the previous year 2010-11:

A plot of land was sold on 19-7-2010 for Rs. 35,00,000. He paid brokerage on its sales at one per cent. He had purchased this plot on 20-12-1988 for Rs. 4,20,000. On 1-2-2010, he had purchased a residential house for Rs. 18,00,000. He owns another residential house, purchased on 8-7-2009.

The cost of inflation index for financial years 1988-89 and 2010-11 are 140 and 711 respectively.

Find out the amount of capital gains chargeable to income tax.

Suppose Scindia sells the new residential house on 1-1-2013, what will be the taxable amount of capital gains and in which year it will be charged to tax?

If he purchases any other residential house on 1-6-2012, what will be taxable amount of capital gains and in which year it will be charged to tax? Is the same short-term or long-term in nature? 6

3. (a) Mrs. Vasudha retires on 15th Feb., 2011, after serving for 30 years and 5 months. She gets Rs. 10,70,000 as gratuity. Her salary details are as under:

FY 2010-11 Salary Rs. 1,00,000 p.m. D.A. 50% of salary. 50% thereof taken for retirement benefits.

FY 2009-10 Salary Rs. 90,000 p.m. D.A. 50% of salary. 50% thereof forms part of retirement benefits.

Compute the taxable amount of gratuity in her hands in the following situations:

- She retires from Government service;
- She retires from seasonal factory in a private sector, covered under Payment of Gratuity Act, 1972. 6

- (b) State the treatment of the following perquisites for income tax purpose in the hands of the employee:

- Firm (employer) offers special discount on its product sales to employees.
- Employee is allowed to use the laptop of the employer, at his residence.
- Reimbursement of air travel expense to an employee's wife.
- Assessee is given interest-free loan for purchase of car. 1×4=4

- (c) State the conditions under which the political party gets tax exemption under section 13A in respect of certain types of income/receipts. 3

- (d) Distinguish between inter-source adjustment and inter-head adjustment. 2

4. (a) Mrs. Vimala commenced construction of house meant for residential purpose on 01.11.2008. She raised a loan of Rs. 10 lakhs @ 11% per annum from a bank. Finding that there was over run in the cost of construction, she raised a further loan of Rs. 5 lakhs from her friend at 15% rate of interest per annum on 1.10.2010. The construction was completed by February, 2011.

Compute the amount of interest allowable exemption under section 24 of the income-tax Act, 1961 in the following cases:

- The house was meant for self occupation from 01.03.2011
- The house was to be let out from 01.03.2011

Is there any deduction available u/s. 80C towards principal repayment in respect of above loans? 6

- (b) Mr. Janak receives the following gifts during the previous year 2010-2011:

Date of gift	Details of gift and donor	Amount of gift (Rs.)
1. 01.07.2010	Gift from Raju, a friend, by cheque	50,000
2. 01.09.2010	Cash gift from sister-in-law	1,00,000
3. 01.12.2010	Gift of diamond ring on his birthday, by his friend living in Dubai	75,000
4. 15.12.2010	Cash gifts of Rs. 31,000 each made by four friends on the occasion of his son's marriage	1,24,000
5. 01.12.2010	Gift of a rosewood cot made by friend on house opening ceremony	51,000

Discuss the taxability of each of the above as income from other sources. 5

- (c) What do you mean by annexure less return? In what manner can the return of income be filed? 4

5. (a) Miss Vivitha, who carried on wholesale cum retail trade during the year 2010-11, reports a turnover of Rs. 52,50,000.
WDV of plant as on 01.04.2010 was Rs. 3,10,000.
On 01.12.2010, she acquired a plant for Rs. 50,000.
Net profit as per profit and loss account (before depreciation) was Rs. 4,35,000.
Compute business income both under regular provisions and applicable presumptive provisions of the Act.
State what would be the income chargeable to tax with the conditions to be complied with in this regard. 6

- (b) Mrs. Arundhati aged 70 years furnishes, the following details for the assessment year 2011-12:

	Rs.
Family pension (gross)	1,32,000
Income from house property (computed)	(62,000)
Income from horse racing (gross) (TDS deducted @ 30%)	55,000
Bank deposit interest	17,000
Short term capital loss from shares	(1,00,000)
Agricultural income in India	75,000

Compute total income of Mrs. Arundhati and her tax liability. 6

- (c) What is the due date of filing of return of income in case of a non-working partner of a firm whose accounts are subject to tax audit? Who is regarded as 'working partner'? 3

6. (a) Mr. Rajiv commenced business with a capital of Rs. 2 lakhs in the financial year 2004-05. His capital as on 1.4.2009 was Rs. 5 lakhs. His wife gifted Rs. 1 lakh on 10.04.2009, which was also invested in the business.
His Net profit for the year 2009-10 = Rs. 2 lakhs
His Net profit for the year 2010-11 = Rs. 4 lakhs

Compute the income from business to be clubbed in the hands of Mrs. Rajiv and the income from business taxable in the hands of Mr. Rajiv for the assessment year 2011-12.

Mr. Rajiv did not withdraw any money from the business from 01.04.2009 to 31.03.2010. 6

- (b) Johnson is provided 2 cars by his company ABC Ltd. Other pertinent details are as under:

Particulars	Car 1	Car 2
Cost of the Car (Rs.)	6,00,000	4,00,000
Cubic capacity of engine	Above 1.6 litres	Less than 1.6 litres
Running & repairs/maintenance (borne by the company)	72,000	45,000
Drivers salary (borne by the company)	39,000	33,000

Compute the perquisite value of car on the assumption that Car 1 is meant for both official and personal use and that Car 2 is meant for exclusive personal use. 5

- (c) Vasudevan converted jewellery/ornaments owned by him into stock in trade on 1.9.2010, when he commenced a sole proprietary business by name Vaasu Jewellers. The jewellery/ornaments were acquired on 1.4.1975 for Rs. 2,00,000. The FMV on 1.4.1981 was Rs. 4 lakhs. The market value on 1.9.2010 was Rs. 35 lakhs.

He recorded the value at Rs. 25 lakhs in his books of account.

Compute taxable capital gain chargeable to tax.

If the entire jewellery stock so converted was sold for Rs. 32 lakhs before 31.03.2011, how much is taxable and under what head it is taxable?

Clearly indicate the assessment years in which the above are taxable. Cost inflation indices for financial years 1981-82 and 2010-11 are 100 and 711 respectively.

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7. (a) Banerjee, a person of Indian origin was working in Australia from 1997. He returned to India for permanent settlement in May, 2009, when he remitted money into India. For the valuation date 31st March, 2011, the following particulars were furnished:

Rs.

(i) Building owned and let out for 270 days for residence. Net maintainable rent (60,000) and the market value Rs. 20,00,000. (Excess of unbuilt area over specified area is 20% of the aggregate area).	
(ii) Jewellery	
(a) Bought in April'09 out of money remitted to India from Australia	15,00,000
(b) Purchased in April'2010 out of sale proceeds of motor car brought from abroad and sold	14,00,000
(iii) Value of interest in urban land held by a firm in which he is a partner	17,00,000
(iv) Shares held in Indian companies	5,00,000
(v) Vacant house plot of 400 sq. mts. (purchased in December 2005) market value	9,00,000
(vi) Cash in hand	1,80,000
(vii) Urban land purchased in the year 2009 out of withdrawals from NRE a/c	10,00,000

You are required to compute the taxable wealth as on 31-3-2011. The reason for inclusion or exclusion of each item above should be stated.

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- (b) What is a protective assessment under income-tax law? When is it resorted to and what is the procedure followed for the recovery of tax in such cases? Can penalty be imposed in a protective assessment?

4

8. (a) X held 18% shares in a private limited company. He gifted all the shares to his wife Y on 1st Nov., 2010. Y obtained a loan of Rs. 8,00,000 from the company when the company's accumulated profit was Rs. 6,00,000. What are the tax implications of the above transaction?

2

- (b) Mr. Ramachandran submits details of his income/savings for the previous year 2010-11 as below:

Rs.

(i) Interest on capital from partnership firm	1,04,000
(ii) Other interest receipts:	
(a) Interest on loan from Y	20,000
(b) Interest from Bank FDR	10,000
(iii) Long term capital gain	46,000
(iv) Contribution to PPF	50,000

Compute the tax liability of Mr. Ramachandran.

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(c) Discuss the liability towards deduction of tax at source in the following cases:

- (i) An Indian company pays dividends on preference shares to a shareholder, of an amount of Rs. 10,000 on Sept. 30, 2010.
- (ii) A foreign enterprise enters into a contract for the fabrication and supply of components for machinery with X & Co. firm in India on Dec. 1, 2007. X & Co. in turn sub-contracts the work to Y & Co. and pays Rs. 20 lakhs on June 16, 2010.
- (iii) A domestic company pays to a doctor a monthly retainership of Rs. 2,500/- for attending an outpatient clinic at its factory premises.

3×2=6