TAX PAPER 1

(Topics covered: - Basics + Salary + House Property Head)

Time Allowed: - 3 hours **M. M. 100**

NOTE : - All the references to the sections mentioned in the paper relates to Income Tax Act, 1961 and relevant Assessment Year is 2012-13, unless otherwise stated. All questions are compulsory.

Ques. 1: - Mr. Radharaman is a Chartered Accountant is employed with M/s Malpani and Associates, he was appointed on 01.04.2011 on pay scale of 48000-4500-66000. Further he is in receipt of Dearness Allowance (Forming part of retirement benefits) @ 15%, Fixed Bonus@ 3 months basic pay, he contributes 18% towards RPF, with an equal contribution by employer, HRA of Rs. 15000 pm, Reimbursement of medical bill of self Rs. 25000 and of daughter Rs. 15000, Reimbursement of salary of House Maid of Rs. 2500 pm, Mobile Allowance 1500 pm, Car running and maintenance expenses by employer Rs. 45800 (Car is owned by employer and is of less than 1.6 ltrs cubic capacity, car is used for both personal as well as private use), Free lunch of Rs. 100 per day provided in office and snacks on work desk usually amounts to Rs. 250 per day (Normal Working 24 days a month), Salary gets due on first day of the next month. Show the Computation of Tax for As. Y. 2012-13. (6 marks)

Ques. 2: - Jayanth who works as a CFO of Tata Ltd., Mumbai, had undertaken several foreign tours (work related) during the P.Y. 2011-12. The total number of days he stayed outside India during the said previous year is 306. He claims that he is a non-resident for the A.Y.2010-11. Is his claim valid? Further what will be your answer if his stay in India during each of the ten previous years is 100? Discuss. (5 marks)

Ques. 3: - Mrs. Iyer, a resident individual, owns a house in U.S.A. She receives rent @ $ 3,000 per month. She paid municipal taxes of $ 2,500 during the financial year 2011-12. She also owns a two storied house in Mumbai, first floor is used for her residence and ground floor is let out as a gowdown at a monthly rent of Rs.10,000. Standard rent for each floor is Rs.11,000 per month. Municipal taxes paid for the house amounts to Rs.7,500. Mrs. Iyer had constructed the house by taking a loan from her father on 20.6.2008. She repaid the loan of Rs.54,000 including interest of Rs.24,000. The value of one dollar is to be taken as Rs.49.64.
Compute total income from house property of Mrs. Iyer. (6 marks)

Ques. 4: - Mr. Mahipal Madrena an Ex-Member of Rajasthan Legislative Assembly. He underwent an open heart surgery London in respect of which he received Rs.5 lakh from the State Government towards reimbursement of his medical expenses. The Assessing Officer contended that such amount is taxable as a perquisite under section 17. Discuss the correctness of the contention of the Assessing Officer. Further will it make any difference if he had received the said sum while he was the member of legislative assembly. (5 marks)

Ques. 5: - Ram derives income from house property by letting out the wall of his house to Ambuja Cement for use in their business by way of displaying Brand Name. He uses the first floor for self-occupation. He claims that the amount of Rs.35,000 is chargeable under the head "Income from house property" and he would be eligible for deduction of 30% under section 24. Discuss the correctness of his claim.
Would the things make any difference if the first floor was given on rent to Ambuja Cements and it used whole wall for displaying the name? Further also discuss the things that would be there if the tenant uses the terrace for displaying hoarding and rent was a single monthly sum of Rs. 35000. (8 marks)

Ques. 6: - Explain the tax consequence of the following transactions –
(a) Uniliver Inc., a non-resident, purchases goods in India for the purpose of export and earns profit on such transaction, will it make any difference if there exist a liaison office too.
(b) Salary received by Mr. Joshep, a non-resident, from the Government of India for the services rendered by him in UK at Indian Embassy. (3 marks each)

Ques. 7: - Mr. Jag Mohan, is the Commissioner of Union Public Service Commission, whose retirement is due on 29th of February 2012, was in receipt of certain allowance, which shall be available to him even after retirement. He is of the view that by virtue of Sec 10(45) all the allowances received by him during the period or after the period of service is exempt from tax. He approaches you for your expert opinion on the same. (5 marks)

Ques. 8: - Income received by a call centre working in US giving a customer support services to the HP India Ltd. The Income tax officer is of the view that the income so earned by the call centre is taxable in India on the basis of

Fees for Technical Services received by an Indian Company for its customers in India. Further the company had its business connections too in India. Is the view of Officer correct and justified? (5 marks)

Ques. 9: - J.K Jain (HUF) owns a property which has been let out to a firm carrying on business. The family is a partner in the firm through the J.K. Jain, Karta. No rent has been charged by family from the firm for use of the premises by the firm. The Assessing Officer, however, has taxed the family on the notional income from property based on municipal valuation. Is this decision justified? (5 marks)

Ques. 10: - You are selected for the post of the VP Finance in the campus interview after passing CA at an annual package of Rs. 12 lacs. The CEO of the co. has asked you to draw out your salary slip in such a manner that you get the maximum take away home salary, with least tax burden. Keeping following benefits: -
1) Car (of cubic capacity of more than 1.6 ltrs) is provided by Co. To you for official as well as personal use – cost to the company (on estimated basis) Rs. 72,000. Along with a driver whose salary is Rs. 2000 monthly.
2) A house whose rent is 23000 p.m.
3) Telephone expenses on estimated basis Rs. 14400 annually. (11 marks)

Ques. 11: - "In actual there is no abolition of fringe benefit tax; As the Burden has completely got shifted from the giver to receiver." Do you agree? (5 marks)

Ques. 12: - Ramanuj had rented the house on rent for Rs. 48000 per month along with the security deposit of Rs. 10 lacs. Ramanuj filed the return of Income showing the Income under the house property head. On Regular Scrutiny u/s 143(3) the A.O. contended that he'll make addition of Notional Income of Rs. 1 lac in House Property Head as against the interest on amount of security deposit. Mr. Ramanuj has approached you for consultancy in the aforesaid matter. Will it make any difference if Mr. Ramanuj had declared interest Income of Rs. 1 lacs in other sources (on account of the interest on sum of security deposit)? Discuss. (8 marks)

Ques. 13: - Rakesh runs a Paying Guest house facility in the Lake Side area of the town, which he lets out on the basis of Day to Day rental, further he clubbed some room as a hall and rented on the basis of month to month rental for the accommodation of the Staff of a tour operator. The assessee declared the whole of the income under BNP head whereas A.O. is of the view that the rent so received shall be taxable under House Property Head. Is the A.O justified-Discuss. (7 marks)

Ques. 14: - Rana Iron Ltd. (RIL) provided 'free meal coupons' to its employees. RIL entered into an agreement with Atul who was in the business of providing such coupons. The employees were provided with coupons of Atul at the rate of Rs.50.00 per day per employee. RIL claimed that the value of the said coupons was not taxable perquisite within the meaning of Rule 3(7)(iii) of the Income-tax Rules, 1962.
Assessing Officer found that some of the coupons were misused for purchase of grocery and cosmetic items. It was estimated by the Assessing Officer that the misuse amounted to 30% of the amount of the 'free meal coupons' considered it as a perquisite to the employees. The assessee company was held to be in default for non-deduction of TDS from the employees to the extent of the value of the alleged perquisite and held liable for levy of interest towards the short deduction of tax and levy of penalty. RIL contested the same.
Examine whether the assessee company had defaulted in its responsibility to deduct appropriate amount of tax from the employees. (5 marks)

Ques. 15: - What will be the nature of subsidy announced by the Government with a view to increase the self employment rate in the state. Will it make any difference if the subsidy is calculated on the basis of interest or on the basis of excise duty? (5 marks)

Ques. 16: - State how the value of perx shall be calculated when a company engages the Gardner's on the annual contract basis for the looking after the gardens in the houses provided to the employees of the company and the gardens of the colony. (4 marks)

Ques. 17: - Karta of Hukam Singh Rathore (HUF) received the salary by the firm in which the HUF is partner. The Karta claims the salary to be taxable under the head of salary. But A.O. is of the view that any remuneration to the partners of the firm shall be taxable under the head of salaries. Is A.O's view justified, Give reason in support of your answer. (4 marks)