TAX PAPER 4

(Topic covered: - Deductions, TDS, Advance Tax, Set off, Clubbing)

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: - Explain the difference in treatment of the following items under the Income-tax Act and Accounting Standards –
(a) Accounting for the fluctuation on the Foreign Exchange on sum borrowed for the capital asset.
(b) Treatment of the Derivative Products held on the reporting date. (12 marks)

Ques. 2: - ABC Ltd., engaged in recycling of bio degradable waste, estimated a net profit of Rs.6,25,000 after debit/credit of the following items to its profit and loss account for the year ended on 31.3.2012:

(a) Items debited to Profit and Loss Account	Rs.
Provision for income-tax	40,000
Interest on income-tax	4,000
Education cess on income-tax	800
Secondary and higher education cess on income-tax	400
Dividend distribution tax	10,000
Provision for deferred tax	7,000
Wealth-tax	19,000
Securities Transaction Tax	13,500
Cash Payment of an Expenses	26,000
Transfer to General Reserve	15,000
Provision for gratuity based on actuarial valuation (As per AS-15)	12,000
Provision for losses of subsidiary company	14,000
Proposed dividend	16,000
Compounding Fees paid to Municipality (for Extra Construction)	22,000
Preference dividend	13,000
Expenditure to earn agricultural income	5,000
Provision of BAD Debts (@ 5% on an estimated basis over the past trend	21,250
Expenditure to earn LTCG exempt under section 10(38)	4,000
Expenditure to earn dividend income	2,000
Loss on Impairment of Asset (As per AS-28)	24,000
Loss on Impairment of Asset (As per AS-13)	28,000
Depreciation (including depreciation of Rs.15,000 on revaluation)	35,000
Interest for Delayed payment of the Fees of unlicensed imports	3,872
Fees paid to Customs authority for unlicensed imports	30,000
(b) Items credited to Profit and Loss Account	
Amount credited to P& L A/c from Special Reserve	10,000
Amount credited to P& L A/c from Revaluation Reserve	18,000
Provision of Deferred Tax	15,000
Agricultural income	25,000
LTCG exempt under section 10(38)	16,000
Dividend income	12,000
Interest on FD's with Bank	43,000

The company provides the following additional information:
1) Amount of Depreciation as per act is Rs. 32,000
2) Brought forward Business Loss/Unabsorbed Depreciation:

Assessment Year	**Amount as per books**	
	Loss	**Depreciation**
2008-09	50,000	40,000
2009-10	30,000	Nil
2010-11	10,000	25,000
Assessment Year	**Amount as per Act**	
	Loss	**Depreciation**

2008-09	20,000	60,000
2009-10	65,000	Nil
2010-11	30,000	45,000

You are required to calculate the liability of payment of advance tax of the company for the P. Y. 11-12. Will it make any difference if the company is in fifth year of its operation? (16 marks)

Ques. 3: - As per the recent court ruling i.e. in case of CIT vs Bharti Cellular Ltd. (Delhi), Further the Supreme Court has also affirmed the same and it was held that for a service to fall within the scope of technical nature, presence of human element is necessary, means technical fees covers the aspect of human labour and involvement for a particular work. If it's so then where and why is the category of fees for Professional Services also categorized. Hence in light of the above ruling and the relevant laws draw the mark of difference between the Fees for Technical Services and Fees for Professional Services along with the example. (8 marks)

Ques. 4: - A.O. is of the view that where any NR umpire and match referee receiving the fees for their work shall be liable for deduction under section 194E and not under section 195. Is the View of A.O. correct? (5 marks)

Ques. 5: - "Section 194LB is a completely a new section in the eternity." Comment. (5 marks)

Ques. 6: - M/s Z and Co. comprising of two partners Mr. Y and Mr. Z in the representative capacity of Z(HUF). The partnership deed provided that the interest shall be paid @ 18% p.a. on the monthly compounding basis, along with the salary to both Mr. Y and Z of Rs. 20,000 per month each. Further if loan is provided by any member then the same shall carry on interest of 24% p.a. (the current market rate of the loan was prevailing at 18%) in this regard the loan granted to the company by Mr. Z and Y was put in this category and the loan of Rs. 8 lakhs was taken from each of the two. The estimated profit of the firm after allowing the said items will be around Rs. 300,000. Firm wishes to pay its entire tax liability on 28/03/2012, hence you are required to compute the advance tax liability for As. Y. 2012-13, keeping in mind that there was a TDS of Rs. 0.54 Lacs only. Capital of the partners was Rs. 7 lacs each (Mr. Y's capital contribution was supported by Mrs. Y with a sum of Rs. 4 lacs). Also compute the taxable income of all the person. (16 marks)

Ques. 7: - The provision of Sec 80CCF is now irrelevant as the provision was inserted with a sunset clause and it stated that the same shall be available for only till the assessment year 2011-12. Elucidate. (4 Marks)

Ques. 8: -Section 80CCD was introduced with the view of providing the New Pension Scheme benefit to only the government employees but the same has now been extended to the employees of the private sector also, but with a ceiling cap of 10% of the Total Income. Discuss. (4 marks)

Ques. 9: - Requirement of the Quarterly Statement in respect of the TDS has been relaxed for all the class of Deductors. Discuss. (3 marks)

Ques. 10: - "Interest in respect of the Section 234A, B, C, shall be chargeable to tax irrespective of the fact that an assessee is liable for taxation under the normal provisions of the income tax act or the special provision of the MAT or AMT." Justify the correctness of the statement with the help of relevant case law. (4 marks)

Ques.11: -"Assembly line and a production or manufacturing line has a difference, and section 80IB is a Income based deduction for all the class of assessee provided in that the assessee is engaged in the production of certain goods in certain area. Therefore the assessee engaged in assembly of the different article and thereby giving rise to a new product shall not be allowed the deduction u/s 80IB, as assessee is engaged in the mere assembly of the parts" Such views were recorded by A.O. for disallowing the claim of Sumatra Engineers, engaged in the assembly of Windmills. Is the view of A.O. correct in law? Further would it make any difference where the assembly line was of computers instead of windmills? (6 marks)

Ques.12: - Deduction u/s 80-IA, IB, IC is allowed for a certain consecutive period only when assessee satisfies the conditions given and the claim has been made from the very first year of operations. Discuss. (3 marks)

Ques.13: - Commission to agent is liable for TDS irrespective of the fact that the agent is Kaccha or Puccka Artiriya. Discuss it in the light of the recent case laws. (6 marks)

Ques.14: - Discuss the provisions of Set off and carry forward of the losses, in the context of the filling of the return along with the constitution and composition of business. (5 marks)

Ques.15: - TDS need to be made at a gross amount of the bill. Elaborate. (3 marks)

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