2. Practical aspects of Surcharge and Marginal Relief

Total income of A Ltd. for the previous year 11-12 is Rs. 1 crore and 100. Compute tax liability of A Ltd.

Solution:-

4. Practical aspects of Section 2 (15)- Charitable Purpose

The amendment by the Finance Act, 2010 (Further amendment by Finance Act, 2011) to the definition of "charitable purpose" may have the effect of changing the "charitable status" of the trust/institution every year, though it is intended to provide relief, to some extent, to the genuine hardship faced by certain trusts/institutions" – Elucidate.

Or

XYZ institution having object of "advancement of general public utility" provides following information.

Assessment Year:→	**2010-11**	**2011-12**	**2012-13**
Total receipts from activity in nature of trade, commerce or business	Rs. 10 Lakh	Rs. 11 Lakh	Rs. 24.00 Lakh

Determine whether XYZ institution is charitable or not for various assessment years.

Solution :-

Assessment Year:→	**2010-11**	**2011-12**	**2012-13**
Total receipts from activity in nature of trade, commerce or business	Rs. 10 Lakh	Rs. 11 Lakh	Rs. 24.00 Lakh
Status	Charitable	Non-Charitable	Charitable

EXTRA SHOT: - Does your answer differ, if object of XYZ institution is of "education" instead of "advancement of general public utility"?

8. Practical aspects of Section 35 (2AA) (modified)

X Ltd. furnishes the following particulars for the P.Y.2011-12. Fill in the last two columns for computing income under the head "Profits and gains of business or profession". Further, X Ltd. is eligible for weighted deduction under section 35 (2AB).

Particulars	**Section No.**	**% of deduction**
Amount paid to Indian Institute of Science, Bangalore, for scientific research		
Amount paid to IIT, Delhi for scientific research		
Amount paid to Zenith Ltd., a company registered in India which has as its main object scientific research and development and approved by the prescribed authority		
Expenditure incurred on in-house research and development facility as approved by the prescribed authority *(a) Revenue expenditure on scientific research* *(b) Capital expenditure on scientific research*		

9. Practical aspects of Section 35 AD (adapted)

XYZ Ltd. commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2011. The company incurred capital expenditure of Rs. *50 lakh during the period January, 2011 to March, 2011 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2011. Further, during the P.Y.2011-12, it incurred capital expenditure of* Rs. *2 crore (out of which* Rs. *1.50 crore was for acquisition of land) exclusively for the above business. Compute the income under the head "Profits and gains of business or profession" for the A.Y.2012-13, assuming that XYZ Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2012-13 is* Rs. *25 lakhs. Assume that the company also has another existing business of running a four-star hotel in Coimbatore, which commenced operations 5 years back, the profits from which are* Rs. *120 lakhs for the A.Y.2012-13.*

Answer

Particulars		Rs.
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)		25 lakh
Less**: Deduction under section 35AD**		
Capital expenditure incurred during the P.Y.2011-12 (excluding the Expenditure incurred on acquisition of land)	50 Lakh	
Capital expenditure incurred prior to 1.4.2011 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2011	50 lakh	
Total deduction under section 35AD for A.Y.2012-13		100 lakh
Loss from the specified business of new hotel in Madurai		**(75 lakh)**
Profit from the existing business of running a hotel in Coimbatore		120 lakh
Net profit from business after set-off of loss of specified business		45 lakh

Note: - In respect of the business of hotels and hospitals, the word “new” has been removed from the definition of “specified business”. Therefore, four star hotel at Coimbatore also fall within the definition of “specified business”.

Consequently, the loss of hotel at Madurai can be set-off against the profit of another specified business under section 73.

EXTRA SHOT:- Whether four star hotel at Coimbatore is eligible to claim deduction under section 35AD in view of the amendment in section 35AD particularly the word “new” has been removed?

10 and 11. Practical aspects of Section 36 (1) (iva), 40A (9) and 80 CCD and 80 CCF

X is employed by the Tata Consultancy Services Limited. During the concerned previous year, basic salary (including dearness allowance) is Rs. 32,000 per month. He contributes 12 percent of his salary towards notified pension scheme. A matching contribution is made by the employer. He annually contributes Rs. 70,000 to public provident fund. Income of X from others sources is Rs. 96,000. He is eligible for deduction of Rs. 12,000 and Rs. 8,000 under sections 80CCC and 80D respectively. He also subscribed IDFC long-term infrastructure bonds of Rs. 25,000 .Compute the total income of X for the relevant assessment year.

Solution:

EXTRA SHOT: Discuss the deductibility of employer’s contribution to notified pension scheme under the head “PGBP”.

13. Transfer Pricing

Enumerate the powers of Transfer pricing officer while determining ALP under chapter "Transfer pricing"

Solution:-

13. and 14. *Practical aspects of Transfer Pricing and* Section 94 A

Tiku Pvt Ltd., an Indian company, provides software support services to XYZ Inc., located in a NJA for a consideration of Rs. 50 *lakhs. It charges* Rs. 51 *lakhs and* Rs. 53 *lakhs for similar services rendered to PQR Inc. and MNO Inc., respectively, which are not located in a NJA. Further, XYZ Inc., PQR Inc. and MNO Inc. are not associated enterprises of Tiku Pvt. Ltd.*

Assuming that the variation notified by the Central Government for such class of international transactions is 6% of the transaction price, discuss the tax implications of this transaction under the Income Tax Act, 1961.

Solution:-

As per provisions of **section 94 A (2)**, XYZ Inc. and Tiku Pvt. Ltd. are deemed to be associated enterprise and the transaction of provision of software support services by Tiku Pvt. Ltd. would be deemed to be an international transaction AND therefore, the provisions of transfer pricing shall be applicable.

Following Comparable Uncontrolled Price (CUP) Method and **considering the first proviso to section 92 C (2)**, ALP = (Rs. 51 lakhs + 53 lakhs) / 2 = Rs. 52 Lakh

On the other hand Transfer price = Rs. 50,00,000

Since the ALP is more than the transfer price, the ALP of Rs. 52 lakhs would be considered as the income arising from the international transaction between Tiku Pvt. Ltd. and XYZ Inc.

Students must note that benefit of **second proviso to section 92 C (2)** shall not be available if transactions are carried out with a person in NJA. Therefore, it is not necessary to determine the impact of permissible variation of 6%.

EXTRA SHOT:- What would have been your answer if XYZ Inc. is located outside NJA but it is an associated enterprise of Tiku Pvt. Ltd. in view of the provisions of section 92 A?

7. and 14. Practical aspects of 115A, 94A and 194 LB

Mr. Robert, a non-resident has invested Rs. 6 crore in notified infrastructure debt fund and therefore he is in receipt of interest income Rs. *50 lakhs during the concerned previous year. Further,he incurred bank charges* Rs. *12,000 for realizing such income. Assuming that Mr. Robert is a resident of a NJA, discuss the tax implications of this transaction under Income Tax Act, 1961.*

Solution

As per section 115A of the Income Tax Act, 1961, gross interest income from a notified infrastructure debt fund shall be taxed at 5% (plus 3% EC). Therefore, the tax liability of Mr. Robert in respect of such income would be Rs. 2,57,500.

Generally, as per section 194LB, TDS shall be made @5% on interest paid by infrastructure debt fund.

However, since Robert is a resident of a NJA and therefore, considering **the overriding effect of section 94 A (5)**, TDS shall be made at @30%.

EXTRA SHOT: What shall be the tax implication of Rs. 6 crore in the hands of notified infrastructure debt fund, if it fails to offer an explanation about the source of investment made by Mr. Robert?

15. Taxation of companies – Section 115BBD

From the following information, compute tax liability of Reliance Fruit-Vegetable Ltd. Ignore MAT effect and assume that there are no other incomes for the concerned previous year.

Dividend income from Equity investment (Gross)	***Dividend received from***	***% of shareholding***	***Expenditure for realizing dividend***
Rs. 1,80,000	*Reliance US INC, foreign company*	*26% of nominal value of equity share capital*	*Rs. 5,000*
Rs. 52,000	*Reliance UK Ltd., Foreign company*	*24 % of nominal value of equity share capital*	*Rs.2,000*
Rs.55,000	*Reliance Telecom Ltd, Indian Company*	*30% of nominal value of equity share capital*	*Rs. 200*

Solution

Dividend received from	***Dividend income from Equity investment (Gross)***	***Expenditure for realizing dividend***	***Net Income***	***Section Applicable***	***Tax Rate applicable***	***Tax liability***
Reliance US INC, foreign company	*Rs. 1,80,000*	*Rs. 5,000*				
Reliance UK Ltd., Foreign company	*Rs. 52,000*	*Rs.2,000*				

Reliance Telecom Ltd, Indian Company	*Rs.55,000*	*Rs. 200*				

EXTRA SHOT 1:- What would have been your answer if Reliance Fruit-Vegetable Ltd. has further received following dividend

Dividend income from Preference share investment (Gross)	***Dividend received from***	***% of shareholding***	***Expenditure for realizing dividend***
Rs. 2,80,000	*Reliance US INC, foreign company*	*72% of nominal value of preference share share capital*	*Rs. 15,000*
Rs. 1,52,000	*Reliance UK Ltd., Foreign company*	*80 % of nominal value of preference share capital*	*Rs.12,000*
Rs.1,55,000	*Reliance Telecom Ltd, Indian Company*	*100% of nominal value of equity share capital*	*Rs. 1,200*

EXTRA SHOT 2:- Discuss tax implications of loan received by Reliance Fruit-Vegetable Ltd. from Reliance US Inc, assuming that Reliance US Inc, is a closely held company and had sufficient accumulated profit while granting loan to Reliance Fruit-Vegetable Ltd.

17. Taxation of LLP

Ding Don LLP has income of Rs. *22.20 lakhs under the head "Profits and gains of business or profession". One of its businesses is eligible for deduction@100% of profits under section 80-IC. The* *profit from such business included in the business income is* Rs. 15 *lakhs. Further, it has net loss under head "other sources" Rs.10,000. It has also contributed Rs. 10,000 to Prime Minister National Relief Fund.*

Step 1:- Compute Total income ignoring AMT provisions

Step 2: Compute Regular Tax payable by LLP on Step 1 income

Step 3: Compute Adjusted total income as per section 115JC

Step 4 :- Compute AMT @ 18.5 % on step 3

Step 5: Final tax liability of LLP is :- Higher of Step 2 or Step 4

Note:

EXTRA SHOT:- Whether DING DONG LLP is eligible to carry forward MAT credit which it had before conversion from unlisted company to LLP?

21. Settlement Commission

Enumerate the time limit for passing rectificatory order by various authorities under the Income Tax Act, 1961.

Section	Authority	Time Limit	Opportunity to be given to

23. Miscellaneous Provisions

Non-resident having liaison office in India failed to furnish statement as required by section 285. Is there any penalty for this default?

24. Few practical question s based on circulars and Notification

Q (a) Mr. X gifted Rs. 10 lac to Mrs. X. She made fixed deposit of this money with SBI @ 10% and therefore, she is in receipt of interest income of Rs. 1 lac. Discuss tax consequences of this transaction.

Extra Shot:- Also guide her for claiming TDS on such interest income which has been deducted by SBI under section 194A.

Q (b) Every salaried person can act as TRP – critically examine the validity of this statement

Q (c) Mr. Resident had deducted TDS at a rate higher than the rate prescribed under DTAA, while making payment to Mr. Non- Resident. List the procedure to be followed by Mr. Resident to obtain refund of the same.