

MOCK TEST PAPER – 1
FINAL COURSE: GROUP – II
PAPER – 7: DIRECT TAX LAWS

Question No. 1 is compulsory.

*Attempt any **five** questions from the remaining **six** questions.*

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Mr. Tarun (aged 59) carried on wholesale trade in plastics under the name "Tarun Plastics". The turnover of the financial year 2011-12 was ₹ 54,00,000 and net profit as per books of account was ₹ 3,60,000. The following items are required to be considered for the financial year 2011-12 :
- (i) Bank term loan interest ₹ 63,000 debited to profit and loss account includes unpaid interest of 22,000 which was paid in August, 2012.
 - (ii) Depreciation on air conditioners (plant & machinery) debited to profit and loss account amounts to ₹ 48,000. Eligible depreciation under the Income-tax Act, 1961 works out to ₹ 43,000.
 - (iii) Bad debts were written off in the financial year 2008-09 which was allowed by the Assessing Officer in entirety of which ₹ 28,000 was recovered during the year and has been credited to profit and loss account.
 - (iv) Interest paid to his father ₹ 19,000 @ 19% per annum. The market rate for such borrowing entails cost at 10% per annum.

Note: Mr. Tarun does not want to opt for the provisions of section 44AD.

He gifted ₹ 10,00,000 on 11.08.2011 to his wife Madhuri who deposited the said amount in bank on 01.10.2011 for two years. The interest rate on deposit is at 10% per annum.

He inherited a vacant site consequent to demise of his father in 14 August 2001. The site was acquired by his father in March 1991 for ₹ 4,26,000. The said site was sold by him for ₹ 40,00,000 on 21.01.2012. He paid brokerage @ 1.625 % of sale value. He had acquired a residential apartment at Delhi for ₹ 20,00,000 in August, 2011 which was self-occupied by him.

Following further particulars are given below :

- (i) He paid premium of ₹ 28,000 on life insurance policy of his brother.
- (ii) Deposited ₹ 50,000 in tax saver deposit of Canara Bank in January, 2012 in his name and ₹ 40,000 in the name of his minor son.

Paid ₹ 8,300 in Public Provident Fund account with State Bank of India.

(iv) Subscribed infrastructure bonds for ₹ 30,000 in March, 2012.

(v) Paid premium of ₹ 25,000 on health insurance policy for his whole family (the family consists of himself, wife and two minor children).

Cost inflation index: F.Y. 1990 - 91 = 182: F.Y. 2001- 02 = 426: F.Y. 2011 -12 = 785

Compute total income of Mr. Tarun for the assessment year 2012-13. (10 Marks)

(b) ABC Limited engaged in industrial activity has furnished the following particulars of its assets as at the valuation date 31st March, 2012.

(i) One hectare of vacant land was allotted to the company at Jaipur by the State Government for industrial purpose in July, 2009 on permanent lease basis on payment of a non-refundable premium of ₹ 5 lacs. The terms of allotment includes that in the event the lessee transfers the lease, 45% of the unearned increase in the value should be made over to the lessor. The construction work for the proposed factory has not been started. The value of the land as on 31st March, 2012 is ₹ 45 lacs.

(ii) The company is a partner of a firm with 30% share, whose net assets as on 31st March, 2012 is ₹ 150 lacs. Its capital as on that date is ₹ 20 lacs out of total capital of ₹ 70 lacs.

(iii) It has let out a building with effect from 1st October, 2011 at a monthly rent of ₹ 1 lac for a period of 10 years. The tenant has made a deposit of ₹ 3 lacs. Annual Corporation Tax of ₹ 1 lac is borne by the tenant. The building is on a freehold land. The written down value of the building is ₹ 80 lacs.

You are required to compute the net wealth and wealth-tax liability of the company on the valuation date 31.03.2012. (6 Marks)

(c) 'F' filed his return of net wealth for the assessment year 2008-09. Penalty proceeding under section 18 for concealing particulars of net wealth was initiated by the Assessing Officer in 2010. 'F' died in January, 2011. The estate of 'F' devolved on his wife, 'M', who also died in October, 2011. Thereafter, the estate devolved on their Son 'S'. The Assessing Officer passed penalty order on 28th February, 2012 and served notice of demand for penalty on 'S'. Is the action of the Assessing Officer valid in law? (4 Marks)

2. (a) Hari and Mohan are members of an association of persons, sharing profit and losses in the ratio of 2:1. The Profit and Loss account of the business for the financial year ended 31st March, 2012, is as under:

Particulars	₹	Particulars	₹
Cost of goods sold	40,00,000	Sales	49,00,000

Remuneration to:			
Hari	2,06,000	Capital gains-Long term	6,40,000
Mohan	1,21,000		
Employees	3,93,000	Dividend from Indian companies	25,000
Interest to:			
Hari	60,000		
Mohan	24,000		
Other expenses	2,20,700		
Sales-tax penalty due	16,000		
Net profit	<u>5,24,300</u>		
	<u>55,65,000</u>		<u>55,65,000</u>

Additional information furnished:

- (i) Other expenses included:
 - (a) Mobile phones costing ₹ 3,000 each were given to 10 dealers, who had exceeded the sales quota prescribed under a sales promotion scheme;
 - (b) employer's contribution of ₹ 6,000 to the Provident Fund was paid on 25th February, 2012.
 - (c) ₹ 26,000 was paid in cash to an advertising agency for publicity.
- (ii) Outstanding sales tax penalty was paid on 5th October, 2012. The penalty was imposed by the Sales-tax Officer for non-filing of returns and statements by the due dates.

Hari and Mohan had, for this year, income from other sources of ₹ 3,00,000 and ₹ 1,32,000 respectively.

Compute the total income of association of persons and tax liability thereon for the assessment year 2012-13. Also mention the tax treatment of income in the hands of members of the association of persons. (10 Marks)

- (b) The net profit of SSG Ltd. for the year ending 31.03.2012 amounted to ₹ 100 lacs after debiting/crediting the following items:
 - (i) Provision for income-tax : ₹ 15 lacs
 - (ii) Provision for deferred tax : ₹ 8 lacs
 - (iii) Proposed Dividend : ₹ 20 lacs
 - (iv) Depreciation debited to Profit & Loss Account is ₹ 12 lacs. This includes

depreciation on revaluation of asset to the tune of ₹ 2 lacs.

(v) Profit in Special Economic from unit established Zone : ₹ 30 lacs

(vi) Provision for permanent diminution in value of investments : ₹ 2 lacs

Brought forward losses and unabsorbed depreciation as per books of the company are as follows:

Previous year	Brought forward loss (₹ in lacs)	Unabsorbed Depreciation (₹ in lacs)
2008-09	2	5
2009-10	-	3
2010-11	10	2

You are required to compute the book profit of the company under section 115JB for Assessment Year 2012-13. (6 Marks)

3. (a) Following issues have been raised by Sakshi Limited in connection with its eligibility for claiming deduction under section 80-IB for your consideration and advice for the assessment year 2012-2013.

(i) It operates two separate industrial units. One unit is eligible for deduction under section 80-IB, while the other unit is not eligible for such deduction. If the eligible unit has profit and the other unit has loss, should it claim deduction after setting off the loss of the other unit against profit of the eligible unit?

(ii) Its profit from one unit includes sale of import entitlement, duty drawback and interest from customers for delayed payment. Is it permissible to claim deduction on these items of income? (8 Marks)

(b) Gangaram Charitable Trust running education institution is registered under section 12A of the Income-tax Act, 1961 furnishes the following particulars relevant for the previous year ended 31st March, 2012:

(i) Income from running of institution ₹ 15.50 lacs.

(ii) Donation received (including anonymous donation ₹ 3 lacs) ₹ 4.50 lacs.

(iii) Amount applied for the purposes of institution ₹ 13 lacs.

(iv) The trust had accumulated ₹ 10.50 lacs under section 11(2) in the financial year 2005-06 for a period of five years for extension of one of its schools. The trust has spent ₹ 9 lacs for the said purpose till 31st March, 2011.

Compute the taxable income of the trust and tax payable by Gangaram Charitable Trust for the assessment year 2012-13. (8 Marks)

4. (a) Bharat Ltd., an Indian company is a subsidiary of Japan Ltd., a Japanese company. Japan Ltd. sells mobile phones to Bharat Ltd. for resale in India. Japan Ltd. also sells mobile phones to PRK Ltd., another mobile reseller. It sells 20,000 mobile phones to Bharat Ltd. at ₹ 12,500 per unit. The price fixed for PRK Ltd. is ₹ 9,500 per unit. The warranty, in case of sale of mobile phones by Bharat Ltd. is handled by Bharat Ltd. However, for sale of mobile phones by PRK Ltd., Japan Ltd. is responsible for the warranty for 3 months. Both Japan Ltd. and Bharat Ltd. offer extended warranty at a standard rate of ₹ 2,000 per annum.

Compute the income to be adjusted in the assessment of Bharat Ltd. applying the provisions applicable for transfer pricing. (6 Marks)

- (b) I. Limited, an Indian company has made an international transaction of sale of goods during the financial year 2011-12 and taken ₹ 100 lacs as the transfer price while the Arm's Length Price determined using appropriate method are ₹ 96 lacs and ₹ 112 lacs. Assume that the rate of permissible variation prescribed by the Central Government is 6% of the transfer price for this class of international transaction.

Discuss whether adjustment is required in the context of transfer pricing provisions for the above transaction. (4 Marks)

- (c) Mr. Mehta, a resident Indian and aged 62 years, has furnished the following details of income derived during the previous year 2011-12:

	Particulars	₹
(i)	Salary income earned in India	1,50,000
(ii)	Income from Indian business	1,00,000
(iii)	Commission (Gross) from a company in China (Tax paid in China ₹ 60,000)	3,00,000
(iv)	Dividend (Gross) from a company in China (Tax paid in China ₹ 18,000)	90,000
(v)	Cash gifts from non-relative in India	2,00,000

India has no double tax avoidance agreement with China.

Compute the income and tax payable by Mr. Mehta for assessment year 2012-13.

(6 Marks)

5. (a) An assessment for the assessment year 2010-11 was completed under section 143(3) and the order was passed by the Assessing officer, but the typist wrongly typed in the order, the assessment year as 2009-10 and the relevant previous year as ending on 31.3.2009. Assessee claimed in appeal that the same is an invalid order which was not accepted by the CIT(Appeals) on the ground of error of clerical nature.

Examine the correctness of the order passed by CIT(Appeals) ? (4 Marks)

- (b) A foreign company entered into contracts with several Indian companies for installation of mobile telephone system and made an application to the Authority for Advance Rulings for advance ruling on the rate of withholding tax on receipts from Indian companies. One of the Indian companies had also made an application to the Assessing Officer for determination of the rate at which tax is deductible on payment to the said foreign company. The Authority for Advance Rulings rejected the application of the foreign company on the ground that the question raised in the application is already pending before an income tax authority.

Whether it is justified as per law to reject the application of the foreign company?

(4 Marks)

- (c) Sugan Ltd. submitted its return of income for A.Y. 2011-12 on 16th August, 2011. The Assessing Officer served a notice under section 143(2) on the company on 7th October, 2012 in order to make assessment under section 143(3). The company responded to the said notice. State whether the service of the notice is within time and if not, can the assessee challenge the assessment order. (4 Marks)

- (d) Mrs. Priya had a total income of ₹ 5,20,000 from her business of growing, curing, roasting and grounding of coffee after mixing chicory which was her only source of income during the year ended on 31.3.2012. She desires to know whether she is required to file return of income for the A.Y. 2012-13 as per provisions of section 139(1). (4 Marks)

6. (a) The Balance sheet of SKG Polymers Limited as on 31st March 2011 is given as under:

Paid up capital

₹ 5,04,00,000

Particulars	₹ (in lacs)	
	Unit A	Unit B
Fixed assets	200	300
Debtors	200	150
Liabilities	56	100
Stock in trade	100	50
Reserves		296
Share premium		44

The company acquired Unit B on 1.04.2009. They made certain capital additions in the form of Generator set and additional building etc., for ₹ 50 lacs during the year 2009-10. The members of the company have authorized the Board in their meeting held on 28.01.2012 to dispose of the unit 'B'. The company decides to sell the Unit 'B' by way of slump sale for ₹ 450.00 lacs as consideration. The buyer would be entitled to a discount of 1% on the agreed sale consideration if the sale is effected on or before 31.03.2012. Discuss whether it would be beneficial for the company to

effect the sale on or before 31.03.2012 or after that date? Your answer should be supported with proper reasons. (8 Marks)

- (b) An Assessing Officer entered business premises run by a person, in respect of whom he exercises jurisdiction, at 7 p.m. for the purpose of collecting information, which may be useful for the purposes of the Act. The premises is kept open for business every day between 10 a.m. and 8 p.m. The assessee claims that the Assessing Officer could not enter the business premises after sunset. The Assessing Officer wants to take away with him the books of account kept at the premises.

Examine whether the claim made by the assessee and the proposed action of the Assessing Officer is valid or not with reference to the provisions of section 133B of the Income-tax Act, 1961. (4 Marks)

- (c) Peterson, a Cricketer and a non-Indian citizen participated in India in a Cricket Tournament and won the prize money of ₹ 30 lacs. He contributed articles on the tournament in a local newspaper for which he was paid ₹ 2 Lac. He was also paid ₹ 10,00,000 by a Shoe company for appearance in a T.V. advertisement. He had to incur ₹ 6,00,000 towards his travel costs to India which was not reimbursed by the sponsors. He was a non-resident for tax purposes in India.

Peterson seeks your advice regarding his tax liability in India for assessment year 2012-13. Is he required to file his return of income under section 139(1)? (4 Marks)

7. (a) An assessee is aggrieved by the order of the Assessing Officer and requests you to contest the same by filing an appeal before the Commissioner of Income-tax (Appeals) as well as by filing a revision petition before the Commissioner under section 264 of the Act. Can the assessee invoke simultaneously both the remedies against the order of the Assessing Officer. (4 Marks)
- (b) What is the quantum of penalty that could be levied in each of the following cases:
- Failure to get books of accounts audited as required under section 44AB within the time prescribed under the Act.
 - Failure to get books of accounts audited in response to the notice issued under section 142(2A).
 - Failure to furnish audit report as required under section 92E. (6 Marks)
- (c) India International Ltd. incorporated in Bangalore engaged the services of Heli Inc., US. The company availed the following services and incurred expenses as given below during the financial year 2011-12:

	Particulars	₹
(i)	Permission to use logo of Heli Inc. at a royalty of 1% on sales.	70,00,000

(ii)	Fee for technical services for manufacture within India-lump sum payment	25,00,000
(iii)	Interest on amounts borrowed for business	55,00,000

Decide the taxability of the above said payments in the hands of Heli Inc. Will your answer be different if the foreign company had no Permanent Establishment (PE) in India during the financial year 2011-12?
(6 Marks)