

Test Series: February, 2013

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) Merchant LLP reports the following details for the financial year 2012-13:

Net Profit as per Profit and Loss account ₹ 54,00,000

The following items are reflected in the Profit and Loss account:

Credits	₹ In lacs
Dividend from Indian companies	1
Net profit from an undertaking eligible for 100% deduction under section 80-IA	20
Profit on sale of vacant site	7
Debits:	
Working partner's salary	12
Interest on capital to partners @ 12%	15
Provision for income tax	14
Commission	5.20
(tax was deducted in financial year 2012-13 and remitted before the 'due date' for filing the return of income)	
Depreciation	12

Other information-

- (i) Depreciation allowable under section 32 of the Income-tax Act, 1961 is ₹ 8 lacs.
- (ii) Long-term capital gain on sale of vacant site (computed) ₹ 5 lacs.
- (iii) Working partner's salary and interest on capital to partners are authorized payment but subject to limits of section 40(b).

Calculate:

- (i) Total income and regular income tax payable (as per normal provisions) for the assessment year 2013-14.
- (ii) Adjusted total income and alternate minimum tax payable for the assessment year 2013-14. (10 Marks)
- (b) Sigma Ltd. (carrying on the business of running cars on hire and also dealing in jewellery) furnishes the following particulars of its assets and liabilities as on 31.3.2013:

		(₹ in crores) Book value	(₹ in crores) If valued as per Schedule III
Assets			
(i)	Fixed Assets:		
	Plant & Machinery	20	30
	Factory building	35	15
	Urban land (350 sq. meters)	40	100
	Motor cars (used in the business of running on hire)	12	24
(ii)	Investments		
	Jewellery	15	30
	Plot of land in Mumbai (480 sq. meters)	20	50
	Equity shares in subsidiary companies	15	20
(iii)	Current assets :		
	Inventories (Jewellery)	85	85
	Sundry Debtors	22	22
	Cash and bank balances (includes cash balance of ₹ 2,50,000)	10	10
Liabilities			
(i)	Current Liabilities	32	32
(ii)	Loan for purchase of urban land	30	30

Compute the net wealth of the company as on valuation date 31.03.2013. (10 Marks)

2. The net profit of Star India Private Limited, a manufacturing company, is ₹ 120 lakh as per its profit and loss account for the year ended 31st March, 2013 after debiting or crediting the following items:

- (i) One-time license fee of ₹ 16 lakh paid to a foreign company for obtaining franchise on 21st August, 2012.
- (ii) ₹ 20,500 paid to M/s Sodhi Transporters, a goods transport operator, in cash on 27th December, 2012 for distribution of the company's products to its warehouse.
- (iii) Rent of ₹ 5 lakh received from letting out a part of its office premises. Municipal tax in respect of the said part of the building amounting to ₹ 12,000 remains unpaid.
- (iv) ₹ 1,60,000, being contribution to a University approved and notified under section 35(1)(ii).
- (v) ₹ 2,40,000, being loss due to destruction of a machinery caused by a fire due to short circuit. The Insurance Company did not admit the claim of the company.
- (iv) ₹ 3,20,000 and ₹ 80,000, being amounts waived by a bank out of principal and arrear interest, respectively, in an one-time settlement. The loan was taken four years back for meeting working capital requirement.
- (vii) ₹ 80,000, being amount payable to a contractor (who does not have Permanent Account Number) for repair work at the company's factory. The entire amount was paid to contractor without deduction of tax at source.
- (viii) Dividend of ₹ 8,000 from XYZ Limited on 800 equity shares of ₹ 10 each purchased at ₹ 100 per share on 8th September, 2012. The rate of dividend declared is 100%, the record date being 3rd November, 2012. The shares were sold on 1st February, 2013 at ₹ 80 per share. Loss of ₹ 16,000 has been debited to Profit & Loss Account.
- (ix) Depreciation on tangible fixed assets amounting to ₹ 80,000.

Additional Information:

- (i) Depreciation on tangible fixed assets as per Income-tax Rules ₹ 1.40 lakh.
- (ii) The company has obtained a loan of ₹ 3 lakh from Excel Pvt. Ltd. in which it holds 21% voting rights. The accumulated profits of Excel Pvt. Ltd. on the date of receipt of loan was ₹ 0.40 lakh.

You are required to compute the total income of the company for the Assessment Year 2013-14 indicating reasons for treatment of each item. Ignore the provisions relating to minimum alternate tax. (16 Marks)

3. (a) State with reasons, based on the provisions of the Act, as to chargeability of the following receipts to tax in the assessment year 2013-14:
 - (1) Rent of ₹ 1 lakh charged from tenants occupying houses (constructed on the land situated in India and used for agricultural purposes). The houses were used for residential purpose.
 - (2) Minister of Surface Transport was in receipt, besides salary, an amount of

₹ 2,000 p.m. as an entertainment allowance.

- (3) Rent of ₹ 55,000 for the period 1.4.2010 to 31.8.2010 due till the property sold out by the owner on 8.4.2012 was received on 23.12.2012 because of a court order. (6 Marks)

- (b) Determine the permissible quantum of deduction for the assessment year 2013-14 in the following cases:

(i) A company converted into LLP incurred ₹ 250 lakhs towards approved scheme of voluntary retirement.

(ii) Advertisement in souvenirs of political parties ₹ 5,50,000 and donation to registered political parties ₹ 3,00,000 by a company deriving income from business.

(iii) Cash payment for purchase of fish products ₹ 50,000. (6 Marks)

- (c) (i) Ashwini Ltd. follows mercantile system of accounting. During the financial year 2012-13, it has negotiated with its bankers and converted an interest amount of ₹ 5 lacs into term loan which includes ₹ 2 lacs pertaining to the financial year 2012-13. Can the interest of ₹ 2 lacs pertaining to the assessment year 2013-14 be allowed as business expenditure?

(ii) It is mandatory for an assessee to claim depreciation under section 32 of the Income-tax Act, 1961. Discuss. (4 Marks)

4. Discuss the following with the aid of recent case laws –

(a) Harish regularly files his return of income electronically. While he was trying to upload his return of income for assessment year 2012-13 on 31st July, 2012, the last date for filing the same, he found it extremely difficult to do the same due to network problems and ultimately he became successful in making e-filing of his return only at 1 A.M. on 1st August, 2012. The return contained a claim for carry forward of business loss of ₹ 1 lakh. This circumstance was recorded in a letter delivered to the office of the Deputy Commissioner of Income Tax on 1st August, 2012 during normal office hours. Harish made a request to the CBDT for condonation of delay in filing the return of income. Does the CBDT has the power to condone the delay in filing the return of income and permit carry forward of loss in the given circumstance?

(b) Does the Income-tax Appellate Tribunal have the power to recall its own order to correct a mistake apparent from the record?

(c) Ashoka Ltd., engaged in the business of owning, operating and managing hotels, allowed the employees to receive tips from the customers, by virtue of their employment. The tips were also collected directly by the company from the customers, when the payment was made by them through credit cards. The company thereafter disbursed the tips to the employees. Is the company liable to

deduct tax under section 192 from the tips so disbursed to the employees, by treating the same as salary?

- (d) On 27th November, 2012, Mr. Rajiv sold a building, purchased by him five years back used for the purposes of his sole-proprietorship business, on which he has been claiming depreciation under section 32. He claimed benefit of exemption under section 54F in respect of capital gains arising on sale of the building, by investing the entire net consideration therefrom in purchase of a residential house in March, 2012. The Assessing Officer, however, in this case contended that he would not be eligible for exemption under section 54F since such exemption is available only in respect of capital gain arising from transfer of a long-term capital asset whereas the capital gain arising from transfer of a depreciable asset (namely, building, in this case) is deemed to be a capital gain arising from transfer of a short-term capital asset by virtue of the provisions of section 50. Discuss the correctness of contention of the Assessing Officer. (4 x 4 = 16 Marks)
5. (a) Mr. X did not file his return of income for the assessment year 2013-14 and a notice under section 142(1) was issued by the Assessing Officer in November, 2013. The return of income was filed in December, 2013. He wants to file a revised return in January, 2014. Is it possible to file a revised return? (4 Marks)
- (b) Discuss whether adjustment is required in the context of transfer pricing provisions where the transfer price adopted for an international transaction for sale of goods by an Indian company during the financial year 2012-13, is ₹ 100 lacs whilst the Arm's Length Price determined using the most appropriate method are ₹ 96 lacs and ₹ 112 lacs. Assume that the rate of permissible variation prescribed by the Central Government is 2% of the transfer price for this class of international transaction. (4Marks)
- (c) The Income-tax Act, 1961 provides for taxation of a certain income earned by Sachin. The Double Taxation Avoidance Agreement, which applies to Sachin, excludes the income earned by Sachin from the purview of tax. Is Sachin liable to pay tax on the income earned by him? Discuss. (4 Marks)
- (d) A sum of ₹ 90,000 was paid to Mr. Lalit, a chartered accountant, on 7th May, 2012 towards fees for his professional services without deducting tax at source. Later on, a further sum of ₹ 1,05,000 was due to him on 19th December, 2012 from which tax of ₹ 19,500 was deducted at source. The tax so deducted was deposited on 17th April, 2013. Compute interest payable by the deductor under section 201(1A). (4 Marks)
6. (a) Examine the following cases and state whether the same are liable for penalty as per the provisions of the Income-tax Act, 1961-

- (i) ABC Ltd. had made payments in excess of the limits prescribed to the contractors for carrying out labour job work at various sites, but had not deducted tax at source as per section 194C.
- (ii) ICICI Bank were asked by Income-tax Officer (CIO) to furnish details of all such account holders who had an account balance of ₹ 10 lacs or more at any time during the previous year. They have not furnished the requisite information in spite of various reminders. (4 Marks)
- (b) Does the Settlement Commission have jurisdiction to entertain an application made under section 245C(1) in respect of a case covered by Chapter XIV-B (Search and seizure case). (4 Marks)
- (c) Mr. Suresh received the following gifts during the P.Y.2012-13 from his friend Mr. Ramesh -
- (1) Cash gift of ₹ 60,000 on his birthday, 31st August, 2012.
 - (2) 50 shares of Beta Ltd., the fair market value of which was ₹ 1,20,000 on the date of transfer i.e. 1.11.2012. This gift was received on the occasion of Diwali. Mr. Ramesh had originally purchased the shares on 13.6.2012 at a cost of ₹ 70,000.
- Further, on 5th January, 2013, Mr. Suresh purchased land from his brother's father-in-law for ₹ 10,00,000. The stamp value of land was ₹ 15,00,000.
- On 7th March, 2013, he sold the 50 shares of Beta Ltd. for ₹ 1.5 Lacs.
- Compute the income of Mr. Suresh chargeable under the head "Income from other sources" and "Capital Gains" for A.Y.2013-14. (5 Marks)
- (d) A private company got converted into a public company in the financial year 2010-11. There is a pending tax demand relating to the assessment year 2005-06 which got crystallized in June 2009. The company went into liquidation March 2013 and the Court has appointed a liquidator.
- Are the directors of the company personally liable for the tax arrears given above? (3 Marks)
7. (a) Compute the total income of Jatin for the A.Y. 2013-14 from the following information relating to his income for the financial year 2012-13:
- (i) He received salary ₹ 30,000 per month including conveyance allowance @ ₹ 3,000 per month for official purposes.
 - (ii) He deposited ₹ 3,000 per month in his account under a pension scheme notified by the Central Government.
 - (iii) He paid a sum of ₹ 72,000 during the year as interest on loan taken in June, 2008 from bank for higher studies of his son.

- (iv) He paid health insurance premium for himself and for his family members ₹ 10,200 in cash and ₹ 10,800 by credit card.
- (v) He invested ₹ 48,000 in notified bonds issued by NABARD in January, 2013.
- (vi) Equity shares having fair market price of ₹ 1,20,000 (on the date of exercise of option) were allotted to him by the company at a concessional price of ₹ 24,000 on 4.6.2012, which were sold by him for ₹ 2,16,000 on 2.3.2013.

You are also required to give reasons for treatment to each of the items given above. (10 Marks)

- (b) In the following cases discuss whether the loss could be set off:
- (i) Mrs. Verma carried on business with gifted funds of her husband Mr. Verma. For the financial year 2012-13, she incurred a loss of ₹ 1 Lacs which Mr. Verma wants to set-off from his taxable income.
 - (ii) Mrs. Radha succeeded to the business of her husband Mr. Krishna who died on 2nd January 2013. She carried on the business as a sole proprietor. The business of Krishna upto the date of his death resulted in a loss. Mrs. Radha earned profit in business for the period ending 31.03.2013. Radha wants to set off the loss of her husband for the period ending 2nd January, 2013 against her income. (6 Marks)