Roll No. [redacted]..........

Direct Tax

Total No. of Questions—8]

[Total No. of Printed Pages—7

Time Allowed—3 Hours

Maximum Marks—100

JOB

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Marks

1. Hyper Ltd. engaged in diversified activities, earned a net profit of Rs. 14,25,000 after debit/credit of the following items to its Profit and Loss Account for the year ended on 31.3.2008 : 16

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(a) Items debited to Profit and Loss Account

	Rs.
Expenses on Industrial Unit exempt under section 10A	2,10,000
Provision for Loss of Subsidiary	70,000
Provision for Sales Tax Demand (Paid before due date)	75,000
Provision for Wealth Tax Demand	90,000
Provision for Income Tax Demand	1,05,000
Expenses on purchase/sale of equity shares	15,000
Depreciation	3,60,000
Interest on deposit credited to buyers on 31.3.2008 for advance received from them, on which TDS was deposited on 31.7.2008	90,000

Marks

(b) Items credited to Profit and Loss Account

	Rs.
Income on Industrial Unit exempt under Section 10A	2,70,000
Profit from 100% EOU under Section 10B	60,000
Long term capital gain on sale of equity shares on which Security transaction tax was paid	3,60,000
Income from units of UTI	75,000

The company provides the following additional information :

(i) Depreciation includes Rs. 1,50,000 on account of revaluation of fixed assets.

(ii) Depreciation allowable as per Income Tax Rules is Rs. 2,80,000.

(iii) Brought forward Business Loss/Unabsorbed Depreciation :

F.Y.	Amount as per books		Amount as per Income Tax	
	Loss	Depreciation	Loss	Depreciation
1999-2000	2,50,000	3,00,000	2,00,000	2,50,000
2004-2005	Nil	2,70,000	1,00,000	1,80,000
2005-2006	3,50,000	3,15,000	1,20,000	2,10,000

You are required to (i) compute the total income of the company for the assessment year 2008-09 giving the reasons for treatment of items and (ii) examine the applicability of Section 115 JB of the Income Tax Act, and compute book profit and the tax credit to be carried forward.

2. (a) Ayush, an employee with M/s Isomer Solutions Ltd. provides the following information relating to his income for Financial year 2007-08 : 6

(i) He received salary Rs. 25,000 per month including conveyance allowance @ Rs. 2,500 per month for official purposes. 3

(ii) He deposited Rs. 2,500 per month in his account under a pension scheme notified by the Central Government.

(iii) He paid a sum of Rs. 60,000 during the year as interest on loan taken in April, 2006 from bank for higher studies of his daughter.

Marks

(iv) He paid health insurance premium for himself and for his family members Rs. 8,500 in cash and Rs. 9,000 by credit card.

(v) He invested Rs. 40,000 in notified bonds under Section 80C issued by NABARD in July, 2007.

(vi) Equity shares having fair market price of Rs. 1,00,000 were allotted to him by the company at a concessional price of Rs. 20,000 on 30.5.2007, which were sold by him for Rs. 1,80,000 on 28.2.2008.

Compute the total income of Ayush for assessment year 2008-09 and give reasons for treatment to each of the items.

(b) 'X' Ltd., transferred its fertilizers business to a new company 'Y' Ltd., by way of demerger with effect from appointed date as 1.4.2007 after satisfying the conditions of demerger. Further information given :

(a) WDV of the entire block of plant and machinery held by 'X' Ltd., as on 1.4.2007 is Rs. 100 crores;

(b) Out of the above, WDV of block of plant and machinery of fertilizer division is 70 crores;

(c) 'X' Ltd., has unabsorbed depreciation of Rs. 50 lakhs as at 31.3.2007;

On the above facts :

(i) You are required to explain the provisions of the income tax as to the allowability of depreciation, post-merger in the hands of 'X' Ltd., and 'Y' Ltd., as at 31.3.2008 duly calculating the depreciation. 4

(ii) State how the unabsorbed depreciation has to be dealt with for the assessment year 2008-2009 ? 3

3. (a) Bharat Charitable Trust created on 1.1.2003 applied for registration of trust under Section 12A of Income Tax Act before the Commissioner of Income Tax on 1.7.2007 and requested for condonation of delay. 6

(i) Explain with reasons the period for which the trust is eligible to get exemption under Section 11 and 12 of Income Tax Act.

(ii) Can the exemption under Section 11 and 12 for Assessment year 2008-09 be denied if the trust is holding investments in equity shares of a public sector company since 1.4.2005.

Marks

(iii) The Trust has also applied for granting exemption under Section 80G of Income Tax Act. But the approval for the same has been rejected by the Commissioner of Income Tax under Section 80G 5(vi) of Income Tax Act on 30.9.2007. The Trust seeks your advice whether it can file an appeal against the said rejection before the higher authorities.

(b) Xtra Ltd. gives the following information for the year ended 31.3.2008 : 4

— Net Profit as per Profit and Loss Account for the financial year 2006-07 Rs. 33,00,000 was included in General Reserve.

— On 1.8.2007, the company redeemed its redeemable bonus shares for Rs. 9,09,000. 3

— A shareholder holding 10% equity shares of the company borrowed Rs. 3,00,000 from the company @ 18% per annum on 31.8.2008.

— The company declared dividend of Rs. 14,00,000 at its annual general meeting held on 30.9.2007. But the dividend remained unpaid upto 31.3.2008.

Compute the tax liability of the company under Section 115-O (tax on distributed profits) for the A.Y. 2008-09. Also give reasons for treatment of each item.

4. Discuss the correctness or otherwise of the following propositions in the context of Income Tax Act, 1961 : 4×4 =16

(a) A fresh claim before the assessing officer can be made only by filing a revised return and not otherwise. 8

(b) The powers of the Commissioner of Income tax (Appeals) to enhance the assessment are plenary and quite wide.

(c) At the time of hearing of rectification application, the Income tax appellate tribunal can re-appreciate the evidence produced during the proceedings of the appeal hearing.

(d) The High Court cannot interfere with the factual finding recorded by the lower authorities and the tribunal, without any valid reasons.

Marks

5. (a) The Commissioner of Income tax issued notice to revise the order passed by an assessing officer under Section 143(1) (A). During the pendency of proceedings before the Commissioner on the basis of material gathered during survey action under section. 133A, Commissioner of Income tax issued a second notice the contents of which were different than the contents of the first notice. State with reasoning whether the action of the Commissioner is justified as to the second notice ? 3

(b) State the circumstances where the appellant shall be entitled to produce additional evidence oral or documentary before the Commissioner of Income tax (Appeals) other than the evidence produced during the proceedings before the assessing officer ?. 3

2

(c) In the context of Transfer-pricing provisions, read with rules, what are the factors to be considered while selecting the most appropriate method ? 6

3

6. (a) P Ltd., is engaged in manufacture of a product. It paid a lump-sum deposit and obtained 50 mobile phone services so that the employees of the assessee can be contacted immediately. The company paid Rs. 45,000 every month towards the service and call-charges to the mobile phone franchise. On these facts : 3

(i) Whether P Ltd., has to deduct tax at source on the payment ?

(ii) If so under which provisions of the Act ?

2

(b) R Ltd., paid Rs. 5 lakhs as sales commission to Mr. Francis (non-resident) who acted as its agent for booking orders from various customers who are outside India. The assessee has not deducted tax at source on the commission payment for the year ended 31.3.2008. On these facts : 4

(i) Decide whether the commission is chargeable to tax in the hands of Mr. Francis in India ?

(ii) Decide about the deductibility of the commission payment in the assessment of R Ltd. ?

7. (a) Zeta (India) Ltd. a non-resident company dealing in consumer products and having their employee base in India has furnished following information for the year ended on 31.3.2008 : 8

(i) Expenditure on foreign travelling Rs. 1,80,000.

(ii) Expenditure on display of its products Rs. 3,60,000.

(iii) Expenditure on distribution on free samples Rs. 2,40,000.

(iv) Expenditure on providing transport facility for movement of offshore employees from their residence in home countries (outside India) to place of work (rigs in India) and back Rs. 6,30,000.

(v) The company granted to its 300 employees options to buy 200 sweat equity shares of the company over a period of two years at Rs. 100 per share on 1.6.2007. Out of which 250 employees exercised their option to buy 50% shares by 31.12.2007 and balance 50% shares after 1.6.2008. The Fair Market Price of shares as on 1.6.2007 was Rs. 200 per share. 4

Calculate the Fringe Benefit Tax liability of the company for Assessment Year 2008-09 alongwith due dates and amount of advance fringe benefit tax payable under Section 115 WJ of Income Tax Act. Reasons for treatment of each of the above items should form part of your answer.

(b) Explain as to what the term 'Advance Ruling' means under the Income Tax Act 1961. 4 1

(c) State the circumstances under which a certificate can be issued by the assessing officer to the tax recovery officer ? 4

8. (a) Matisha Constructions Ltd. furnishes following particulars of its wealth for the valuation date as on 31.3.2008 : 8

	Rs. in lacs
(i) Land in urban area (held as stock in trade since 1996)	81
(ii) Motor cars (including one imported car worth Rs. 18 lacs used for hiring)	38
(iii) 250 acres agricultural land acquired at Greater Noida Township on 27.8.2007 for construction of residential flats/commercial complex. However Greater Noida Authority has reserved 25 acres land as green belt.	250
(iv) Residential flats of 1500 sq feet each provided to 3 employees (salary of one employee exceeded Rs. 5 lacs per annum)	36
(v) Farm house of 5 acre at a remote village	9
(vi) Cash in hand as per cash book	3

3

Marks

Liabilities :

(i) Loan for purchase of land at Urban area	30
(ii) Loan for purchase of land at Greater Noida	120
(iii) Wealth Tax liability for Assessment year 2007-08	12
(iv) Loan for construction of residential flats	9

Compute the net wealth of the company for Assessment year 2008-09.

(b) Mr. X a member of co-operative housing society was allotted a plot as per the bye laws of the society. He constructed a house on plot and substituted the name of his wife in the records of the society in his place. The society executed the registered sale deed in respect of said plot in favour of his wife. The assessing officer included value of said property in the hands of Mr. X. Examine the validity of the action of the assessing officer. 2