

**OLD COURSE
FINAL COURSE- GROUP II**

**PAPER - 7: DIRECT TAX LAWS
SYLLABUS: 50%**

Question paper

Question No.1 is compulsory. Candidates are also required to answer any five questions from the remaining six questions.

Maximum time: 3 hours

Maximum Marks: 100

- 1 (a). Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2017 his Unit 1 by way of slump sale for a total consideration of Rs. 25 lacs. Unit 1 was started in the year 2004-05. The expenses incurred for this transfer were Rs. 28,000. His Balance Sheet as on 31.3.2017 is as under:

Liabilities	Total (Rs.)	Assets	Unit 1(Rs.)	Unit 2 (Rs.)	Total (Rs.)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	<u>1,50,000</u>	Other assets	<u>1,50,000</u>	<u>60,000</u>	<u>2,10,000</u>
Total	<u>21,50,000</u>	Total	<u>17,50,000</u>	<u>4,00,000</u>	<u>21,50,000</u>

Other information:

- (i) Revaluation reserve is created by revising upward the value of the building of Unit 1.
- (ii) No individual value of any asset is considered in the transfer deed.
- (iii) Other assets of Unit 1 include patents acquired on 1.7.2015 for Rs. 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2018-19.

(10 marks)

- (b) Rao & Jain, a partnership firm consisting of two partners, reports a net profit of Rs. 7,00,000 before deduction of the following items:
- (1) Salary of Rs. 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
 - (2) Depreciation on plant and machinery under section 32 (computed) Rs. 1,50,000.
 - (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest Rs. 5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary for the assessment year 2018-19 as per section 40(b).

(6 marks)

- (c) Hari, an individual, carried on the business of purchase and sale of agricultural commodities

like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

		Amount
(i)	Andhra-Pradesh State Financial Corporation (P.Y. 2016-17 & 2017-18)	15,00,000
(ii)	Indian Bank (P.Y. 2017-18)	30,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2017 - 18, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2018, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of Rs. 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Discuss whether his claim is valid and if not what is the amount of interest, if any, allowable.

(4 marks)

Question 2:

(a) Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

Particulars	Rs.
Opening WDV of plant and machinery as on 1.4.2017	30,00,000
New plant and machinery purchased and put to use on 08.06.2017	20,00,000
New plant and machinery acquired and put to use on 15.12.2017	8,00,000
Computer acquired and installed in the office premises on 2.1.2018	3,00,000

Compute the amount of depreciation and additional depreciation as per the Income -tax Act, 1961 for the A.Y. 2018-19.

(8 marks)

(b) Mr. Q, a non-resident, operates an aircraft between Singapore and Chennai. He received the following amounts while carrying on the business of operation of aircrafts for the year ended 31.3.2018:

- (i) Rs. 2 crores in India on account of carriage of passengers from Chennai.
- (ii) Rs. 1 crore in India on account of carriage of goods from Chennai.
- (iii) Rs. 3 crores in India on account of carriage of passengers from Singapore.
- (iv) Rs. 1 crore in Singapore on account of carriage of passengers from Chennai.

The total expenditure incurred by Mr. Q for the purposes of the business during the year ending 31.3.2018 was Rs. 6.75 Crores.

Compute the income of Mr. Q chargeable to tax in India under the head "Profits and gains of business or profession" for the assessment year 2018-19.

What would be your answer in case the business was carried on by a foreign company, Q Airlines (P) Ltd?

(8 marks)

3. (a) Shivani has two houses, both of which are self -occupied. The particulars of the houses for the PY 2017-18 are as under:

Particulars	House I	House II
Municipal valuation p.a.	Rs.4,00,000	Rs.6,00,000
Fair rent p.a.	Rs.3,00,000	Rs.7,00,000
Standard rent p.a.	Rs.3,60,000	Rs.7,40,000
Date of completion	31.3.2007	31.3.2010
Municipal taxes paid during the year	10%	9%
Interest on money borrowed for construction of house	Rs.1,75,000	Rs.2,50,000

Compute Shivani's income from house property for AY 2018-19 and suggest which house should be opted by Shivani to be assessed as self-occupied so that her tax liability is minimum. (8 marks)

- (b) Mrs. Savitri Sinha, (aged 60 years) is a well-known dramatist. She is resident and ordinarily resident of India for the Assessment Year 2018-19. She is deriving income of Rs. 1,10,000 from theatrical works played abroad. Tax of Rs. 11,000 was deducted in the country where the plays were performed. India does not have any Double Tax Avoidance Agreement under section 90 of the Income-tax Act, 1961, with that country. Her income in India amounted to Rs. 5,10,000.

In view of tax planning, she has deposited Rs. 1,50,000 in Public Provident Fund and paid contribution to approved Pension Fund of LIC Rs. 32,000. She also contributed Rs. 28,000 to Central Government Health Scheme during the previous year and gave payment of medical insurance premium of Rs. 26,000 to insure the health of her father, a non-resident aged 84 years, who is not dependent on her. Compute the tax liability of Mrs. Savitri Sinha for the Assessment year 2018-19. (8 marks)

Question 4:

- (a) G Ltd. is engaged in the business of growing and manufacturing tea in India. For the previous year ended 31.03.2017, its composite business profits before allowing deduction u/s 33AB is Rs. 60,00,000. On 01.09.2017, it deposited a sum of Rs. 11,00,000 in the Tea Development Account. During the previous year 2015-16, G Ltd. had incurred a business loss of Rs. 14,00,000 which has been carried forward. On 25.01.2018, it withdrew Rs. 10 lakhs, from deposit account which is utilized as under:
- Rs. 6,00,000 for purchase on non-depreciable asset as per the scheme specified.
 - Rs. 3,00,000 for purchase of machinery to be installed in the office premises.
 - Rs. 1,00,000 was spent for the purpose of scheme on 5.4.2018.

- (i) You are required to determine business income of G Ltd. and the tax consequences that may arise from the above transactions in the relevant assessment year.
- (ii) What will be the consequence if the asset which was purchased for Rs. 6,00,000 is sold for Rs.8,00,000 in April, 2018.

(10 marks)

- (b) A Ltd., an Indian company, provides technical services to a company, XYZ Inc., located in a NJA for a consideration of Rs. 40 lakhs in October, 2017. It charges Rs. 42 lakhs for similar services rendered to PQR Inc., which is not located in a NJA. PQR Inc. is not an associated enterprise of A Ltd.

Discuss the tax implications under section 94A read with section 92C in respect of the above transaction of provision of technical services by A Ltd. to XYZ Inc.

(6 marks)

Question 5:

- (a) An enterprise engaged in manufacturing of steel balls discontinued its activities and decided to lease out its factory building, plant and machinery and furniture from 1.4.2017 on a consolidated lease rent of Rs. 50,000 per month. Compute the income for Assessment Year 2018-19 of the assessee from following information:

Particulars		Rs.
(i)	Interest received on deposits	1,00,000
(ii)	Brokerage paid on hundi loan taken	2,000
(iii)	Interest paid on hundi and other loans which were given as deposits	
	on interest to others	75,000
(iv)	Expenses incurred on repairs of building, plant and machinery	15,000
(v)	Fire insurance premium of plant and machinery and furniture	12,000
(vi)	Depreciation for the year	1,47,500
(vii)	Legal fees paid to an advocate for drafting and registering the lease agreement	1,500
(viii)	Factory licence fees paid for the year	1,000
(ix)	There is unabsorbed depreciation of Rs. 2,75,000 of the Assessment Years 2016-17 and 2017-18.	
(x)	Interest paid includes an amount of Rs. 25,000 remitted to a non-resident outside India on which tax was not deducted at source.	

(10 marks)

- (b) In which of the following situations capital gains tax liability does not arise?
- (i) Mr. A purchased gold in 1970 for Rs. 25,000. In the P.Y. 2017-18, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was Rs. 1,00,000.
 - (ii) A house property is purchased by a Hindu undivided family in 1945 for Rs. 20,000. It is given to one of the family members in the P.Y. 2017-18 at the time of partition of the family. FMV on the day of partition was Rs. 12,00,000.
 - (iii) Mr. B purchased 50 convertible debentures for Rs. 40,000 in 1995 which are converted in to 500 shares worth Rs. 85,000 in November 2017 by the company.

(6 marks)

Question 6:

- (a) Mr. A is an employee of X Ltd. and he has 25% shares of that company. His salary is Rs. 50,000 p.m. Mrs. A is working as a computer software programmer in X Ltd. at a salary of Rs. 30,000 p.m. She is, however, not qualified for the job. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2018-19, assuming that they do not have any other income.

(6 marks)

- (b) Mr. A submits the following particulars pertaining to the A.Y.2018-19:

Particulars	Amount
Income from salary	4,00,000
Loss from self-occupied property	(-)70,000
Loss from let-out property	(-) 1,50,000
Business loss	(-)1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the A.Y.2018-19.

(6 marks)

- (c) X Ltd., a domestic company, has distributed on 1/11/2017, dividend of Rs. 230 lakh to its shareholders. On 1/10/2017, X Ltd. has received dividend of Rs. 60 lakh from its domestic

subsidiary company Y Ltd., on which Y Ltd. has paid dividend distribution tax under section 115-O. Compute the additional income-tax payable by X Ltd. under section 115-O.

(4 marks)

Question 7:

- (a) Compute the eligible deduction under section 80C for A.Y.2018-19 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2017-18, the details of which are given hereunder -

	Date of issue of policy	Person insured	Actual capital sum insured (Rs.)	Insurance premium paid during 2017-18 (Rs.)
(i)	1/4/2011	Self	3,00,000	40,000
(ii)	1/5/2014	Spouse	1,50,000	20,000
(iii)	1/6/2015	Handicapped Son (section 80U disability)	4,00,000	80,000

(4 marks)

- (b) Mr. Cee purchased a residential house on July 20, 2015 for Rs. 10,00,000 and made some additions to the house incurring Rs. 2,00,000 in August 2015. He sold the house property in April 2017 for Rs. 20,00,000. Out of the sale proceeds, he spent Rs.5,00,000 to purchase another house property in September 2017.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y. 2018-19?

(4 marks)

- (c) Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Financial year 2014-15	1,15,000
Financial year 2015-16	1,80,000
Financial year 2016-17	2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2018-19 under section 44AA of Income-tax Act, 1961?

(4 marks)

- (d) X converts his capital asset (acquired on June 10, 2002 for Rs. 60,000) into stock-in-trade on March 10, 2017. The fair market value on the date of the above conversion was Rs. 3,50,000. He subsequently sells the stock-in-trade so converted for Rs. 4,00,000 on June 10, 2017. Examine the tax implication.

Cost Inflation Index - F.Y. 2002-03: 105; F.Y. 2016-17: 264

(4 marks)