

Total No. of Questions-7
Time Allowed - 3 Hours

VGFNLN Total No. of Printed Pages- 10
Maximum Marks - 100

DIRECT TAX

Question No. 1 is Compulsory

Attempt **any five** from the **remaining six** questions
Wherever required, suitable assumptions may be made by the candidate and stated clearly in the answer.

Working notes should form part of the answer

Question No. 1 (a)

PQR LLP, a limited liability partnership set up a unit in Special Economic Zone (SEZ) in the financial year 2012-13 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2015-16, it has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to Rs. 75 lakhs (including cost of land Rs. 10 lakhs). The warehouse became operational with effect from 1st April, 2016 and the expenditure of Rs. 75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2016-17 are as follows:

Particulars	Rs.
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD).	1,05,00,000

Compute income tax (including AMT under Section 115JC) payable by PQR LLP for Assessment Year 2017-18.

(6 Marks)

Question No. 1 (b)

A Pvt. Ltd. has converted into a LLP on 01.04.2016. The following are the particulars of A Pvt. Ltd. as on 31.3.2016 –

- (1) Unabsorbed depreciation Rs. 13.32 lakh
Business loss Rs. 27.05 lakh
- (2) Unadjusted MAT credit under section 115JAA Rs. 8 lakh
- (3) WDV of asset
 - Plant & Machinery (15%) Rs. 60 lakh
 - Building (10%) Rs. 90 lakh
 - Furniture (10%) Rs. 10 lakh

(4) Cost of land (acquired in the year 2000) Rs. 50 lakh

(5) VRS expenditure incurred by the company during the previous year 2014-15 is Rs. 50 lakh. The company has been allowed deduction of Rs. 10 lakh each for the P.Y.2014-15 and P.Y.2015-16 under section 35DDA.

Assuming that the conversion fulfills all the conditions specified in section 47(xiiiib), explain the tax treatment of the above in the hands of the LLP.

(6 Marks)

Question No. 1 (c)

A firm consisting of four partners was dissolved consequent to the death of one of the partners. The remaining partners reconstituted the firm immediately, without discontinuance of the business, and carried on the business as before. The inventory of stocks on the date of dissolution was valued at cost, which was lower than the market value and all other assets were valued at book value, for the purpose of transfer to the reconstituted firm. The Assessing Officer, while arriving at the total income of the firm was constituted prior to dissolution, valued the stocks as well as the other assets at market value. You are required to comment on the correctness of the Assessing Officer's action.

(4 Marks)

Question No. 1 (d)

Arihant Hotels Ltd., engaged in the business of owning, operating and managing hotels, allowed its employees to receive tips from the customers, by virtue of their employment.

The tips were also collected directly by the hotel-company from the customers, when payment was made by them through credit cards. The hotel-company, thereafter, disbursed the tips to the employees. The Assessing Officer treated the receipt of the tips as income under the head "Salary" in the hands of the various employees and held that the company was liable to deduct tax at source from such payments under section 192. Since the company had not deducted tax at source on such payments, the Assessing Officer treated the company as an assessee-in-default under section 201(1). Discuss the correctness of the action of the Assessing Officer.

(4 Marks)

Question No. 2

Parik Hospitality Limited is engaged in the business of running hotels of 3-star category. The Company's Statement of Profit and Loss for the previous year ended 31st March, 2017 shows a net profit of Rs. 152 lakhs after debiting or crediting the following items:

(a) Payment of Rs. 0.25 lakh and Rs. 0.30 lakh in cash on 3rd December, 2016 and 10th December, 2016 respectively for purchase of crab, lobster and squid to Mr. Raja, a fisherman, and Mr. Khalid, a middleman for these products, respectively.

- (b) Contribution towards employees' pension scheme notified by the Central Government under section 80CCD for a sum of Rs. 3 lakhs calculated at 12% of basic salary and Dearness Allowance payable to the employees.
- (c) Payment of Rs. 6.50 lakhs towards transportation of various materials procured by one of its hotels to M/s. Bansal Transport, a partnership firm, without deduction of tax at source. The firm opts for presumptive taxation under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.
- (d) Profit of Rs. 12 lakhs on sale of a plot of land to Avimunya Limited, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by Parik Hospitality Limited on 1st June, 2015.
- (e) Contribution of Rs. 2.50 lakhs to Indian Institute of Technology with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
- (f) Expense of Rs. 10 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a brewery project to be set up. The negotiation did not succeed and the project was abandoned.
- (g) Fees of Rs. 1 lakh paid to independent directors for attending Board meeting without deduction of tax at source under section 194J.
- (h) Depreciation charged Rs. 10 lakhs.
- (i) Rs. 10 lakhs, being the additional compensation received from the State Government pursuant to an interim order of Court in respect of land acquired by the State Government in the previous year 2013-14.
- (j) Dividend received from a foreign company Rs. 5 lakhs.

Additional information:

- (i) As a corporate debt restructuring, the bank has converted unpaid interest of Rs. 10 lakhs upto 31st March, 2016 into a new loan account repayable in five equal annual installments. The first installment of Rs. 2 lakhs was paid in March, 2017 by debiting new loan account.
- (ii) Depreciation as per Income-tax Act, 1961 Rs. 15 lakhs.
- (iii) The company received a bill for Rs. 2 lakhs on 31st March 2017 from a supplier of vegetables for supply made in March, 2017. The bill was omitted to be recorded in the books in March, 2017. The bill was paid in April, 2017 and the necessary entry was made in the books then.

Compute total income of Parik Hospitality Limited for the Assessment Year 2017-

18 indicating the reason for treatment of each item. Ignore the provisions relating to minimum alternate tax.

(16 Marks)

Question No. 3 (a)

Isac limited is a company engaged in the business of biotechnology. The net profit of the company for the financial year ended 31.03.2017 is Rs. 15,25,890 after debiting the following items:

S. No.	Particulars	Rs.
1	Purchase price of raw material used for the purpose of in-house research and development	180000
2	Purchase price of asset used for in-house research and development wrongly debited to profit and loss account: Land Building	500000 300000
3	Expenditure incurred on notified agricultural extension project	150000
4	Expenditure on notified skill development project: Purchase of land Expenditure on training for skill development	200000 250000
5	Expenditure incurred on advertisement in the souvenir published by a political party	75000

Compute the income under the head –Profits and gains of business or profession for the A.Y. 2017-18 of Isac Ltd.

(6 Marks)

Question No. 3 (b)

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2017 without deduction of tax at source. What would be the consequence of non- deduction of tax at source by Delta Ltd. on these amounts during the financial year 2016-17, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

S. No.	Particulars	Amt Rs.
1	Salary to its employees (credited and paid in March, 2017)	12,00,000
2	Directors' remuneration (credited in March, 2017 and paid in April, 2017)	28,000

Would your answer change if Delta Ltd. has deducted tax on director's remuneration in April, 2017 at the time of payment and remitted the same in July, 2017?

(5 Marks)

Question No. 3 (c)

On 23rd November, 2016, a search was conducted under section 132 in the business premises of Mr. X. At that time, the following assessments were pending before the Assessing Officer in the case of Mr. X

- (i) assessment under section 143(3) for A.Y. 2014-15 and A.Y. 2015-16; and
- (ii) Reassessment proceeding under section 147 for A.Y. 2013-14.

With reference to the provisions of the Income-tax Act, you are required to answer the following:

- (i) In respect of which assessment years can notice be issued for making post-search assessment?
- (ii) Describe the fate of pending assessments and reassessment
- (iii) State the consequence, if the post-search assessment orders are annulled by the Income-tax Appellate Tribunal.

(5 Marks)

Question No. 4 (a)

Mr. Ram (age 56) is Karta of his HUF. The HUF consists of himself, his wife and two sons' viz. Mr. C (age 28) and Minor D (age 16). The HUF is assessed to income tax and has business income from the year 2010-11 onwards. The business income of HUF for the year ended 31.3.2017 is Rs. 5,00,000 (computed). Mr. Ram is employed in a private company and his salary income for the same period is Rs. 6,10,000 (computed).

You are requested to answer the following treating each of them as independent situations:

- (i) Mr. C gave cash gift of Rs. 1,00,000 to the HUF of Mr. Ram. What would be the total income of HUF?
- (ii) The HUF has one house property fetching rent of Rs. 10,000 per month and some movable assets. There is a proposal to make a partial partition of HUF by allotting the house property to Mr. C. Is it advisable to do a partial partition?
- (iii) Minor D earned Rs. 70,000 by use of his special skill and talent. How would his income be taxed?
- (iv) A car owned personally by Mr. Ram was blended with HUF during the year. It was leased out for a monthly rent of Rs. 10,000 from 1-10-2016. How would this income be taxed?

(6 Marks)

Question No. 4 (b)

X Ltd., an Indian company, entered into an agreement with Mr. M, a non-resident, on 1.7.2006 and pursuant to the agreement, fees for technical services (FTS) of Rs. 10 lakh, which is taxable under section 115A, is payable to Mr. M every year. Examine the tax consequence of the said transaction in the hands of Mr. M for the A.Y.2017-18, if –

- (i) Mr. M is a resident of a country with which India has no DTAA.
- (ii) Mr. M is a resident of a country, with which India has a DTAA, which provides for taxation of such FTS@8%.
- (iii) Mr. M is a resident of a country with which India has a DTAA, which provides for taxation of such FTS@12%.

(6 Marks)

Question No. 4 (c)

The following are the particulars in respect of a scheduled bank incorporated in India

	Particulars	Rs. in lakh
(i)	Provision for bad and doubtful debts under section 36(1)(viiia) upto A.Y.2016-17	100
(ii)	Gross Total Income of A.Y.2017-18 [before deduction under section 36(1)(viiia)]	800
(iii)	Aggregate average advances made by rural branches of the bank	300
(iv)	Bad debts written off (for the first time) in the books of account (in respect of urban advances only) during the previous year 2016-17	210

Compute the deduction allowable under section 36(1)(vii) for the A.Y.2017-18.

(4 Marks)

Question No. 5

Answer the following, your answers must be supported by Court Ruling covering Issue Involve, Provisions applicable and Conclusion

- a) Would rental income from the business of leasing out properties be taxable under the head "Income from house property" or "Profits and gains from business or profession"?
- b) In a case where payment of bonus due to employees is paid to a trust and such amount is subsequently paid to the employees before the stipulated due date, would the same be allowable under section 36(1)(ii) while computing business income?
- c) Can transport subsidy, interest subsidy and power subsidy received from

the Government be treated as profits “derived from” business or undertaking to qualify for deduction under section 80-IB?

- d) Can revision under section 263 be made on the ground that the order is passed without making inquiries or verification which should have been made?
(4 Marks Each)

Question No. 6 (a)

Discuss the correctness of the following statements with reference to the provisions of the Income-tax Act, 1961, as amended by the Finance Act, 2016 –

- (a) Non-compete fee received/receivable for not carrying on a profession is chargeable to tax under the head “Capital Gains”.
- (b) Additional depreciation in respect of new plant and machinery installed can be claimed by assessee engaged in the business of generation or generation and distribution of power but not by assessee engaged in the business of transmission of power.
- (c) Banks, public financial institutions, state financial corporations and state industrial investment corporations are eligible for deduction under section 36(1)(viii) in respect of provision for bad and doubtful debts; Non-banking Financial Companies are not eligible for such deduction.
- (d) Non-consideration of application for registration of trust within six months would tantamount to deemed registration under section 12AA.

(4 Marks)

Question No. 6 (b)

Mr. Akash sold his residential property on 2nd February, 2017 for Rs. 90 lakh and paid brokerage@1% of sale price. He had purchased the said property in May 2000 for Rs. 24,36,000. In June, 2017, he invested Rs. 75 lakh in equity of A (P) Ltd., a newly incorporated SME manufacturing company, which constituted 63% of share capital of the said company. A (P) Ltd. utilized the said sum for the following purposes –

- (a) Purchase of new plant and machinery during July 2017 – Rs. 65 lakh
- (b) Included in (a) above are Rs. 6 lakh for purchase of computers and Rs. 8 lakh for purchase of cars.
- (c) Air-conditioners purchased for Rs. 1 lakh, included in the (a) above, were installed at the residence of Mr. Akash.
- (d) Amount deposited in specified bank on 28.9.2017 – Rs. 10 lakh

Compute the chargeable capital gain for the A.Y.2017-18. Assume that Mr. Akash is liable to file his return of income on or before 30th September, 2017 and he files his return on 29.09.2017.

(4 Marks)

Question No. 6 (c)

ABC Ltd. is an Indian Company in which XYZ Inc., a French company, has 32% shareholding and voting power. Following transactions were effected between these two companies during the financial year 2016-17.

- (i) ABC Ltd. sold 50,000 pieces of tie at \$ 2 per tie to XYZ Inc. The identical ties were sold to unrelated party namely PQR Inc., at \$ 3 per tie.
- (ii) ABC Ltd. borrowed \$ 1,50,000 from a foreign lender based on the guarantee of XYZ Inc. For this, ABC Ltd. paid \$ 8,000 as guarantee fee to XYZ Inc. From an unrelated party for the same amount of loan, XYZ Inc. collected \$ 6,000 as guarantee fee.
- (iii) ABC Ltd. paid \$12,000 to XYZ Inc. for getting various potential customers details to improve its business. XYZ Inc. provided the same service to unrelated parties for \$ 8,000.

Assume the rate of exchange as 1 \$ = Rs. 64

ABC Ltd. is located in a Special Economic (SEZ) and its income before transfer pricing adjustments for the year ended 31st March, 2017 was Rs. 900 lakhs.

Compute the adjustments to be made to the total income of ABC Ltd. State whether it can claim deduction under section 10AA for the income enhanced by applying transfer pricing provisions.

(4 Marks)

Question No. 6 (d)

Answer the following:

- (i) ABC Limited opted for the benefit of 115BA having opening WDV of computer as on 01-04-2016 Rs. 5,00,000/- compute eligible depreciation for the AY 2017-18.
- (ii) PR and Associates a Partnership firm engaged in the business of Trading of Garments having turnover of Rs. 120 Lac out of which Rs. 30 Lac received through account payee cheque. Compute income u/s 44AD:

(4 Marks)

Question No. 7 (a)

M held 2000 shares in a company ABC Ltd. This company amalgamated with another company during the previous year ending 31-3-2017. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by Rs. 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax Rs. 50,000 as capital gain. Is he justified?

(4 Marks)

Question No. 7 (b)

Neerja was carrying on the textile business under a proprietorship concern, Neerja Textiles. On 21.07.2016 the business of Neerja Textiles was succeeded by New Look Textile Private Limited and all the assets and liabilities of Neerja Textiles on that date became the assets and liabilities of New Look Textile Private Limited and Neerja was given 52% share in the share capital of the company. No other consideration was given to Neerja on account of this succession.

The assets and liabilities of Neerja Textiles transferred to the company included an urban land which was acquired by Neerja on 19.7.2011 for Rs. 9,80,000. The company sold the same on 30.03.2017 for Rs. 15,00,000.

Discuss the tax implication of the above mentioned transaction and compute the income chargeable to tax in such case(s).

(4 Marks)

Question No. 7 (c)

From the following particulars, compute the taxable capital gains of Mr.D for A.Y.2017-18-

Particulars	Rs.
Cost of jewellery [Purchased in F.Y.1990-91]	Rs. 1,82,000
Sale price of jewellery sold in January 2017	Rs. 11,50,000
Expenses on transfer	Rs. 7,000
Residential house purchased in March 2017	Rs. 5,00,000

(4 Marks)

Question No. 7 (d)

Mr. C purchases a house property for Rs. 1,06,000 on May 15, 1963. The following expenses are incurred by him for making addition/alternation to the house property:

S. No.	Particulars	Rs.
(a)	Cost of construction of first floor in 1972-73	1,35,000
(b)	Cost of construction of the second floor in 1983-84	3,10,000
(c)	Reconstruction of the property in 1992-93	2,50,000

Fair market value of the property on April 1, 1981 is Rs. 4,50,000. The house property is sold by Mr. C on August 10, 2016 for Rs. 98,00,000 (expenses incurred on transfer: Rs. 50,000). Compute the capital gain for the assessment year 2017-18.

(4 Marks)

Cost Inflation Index

F. Year	Index	F. Year	Index
1981-82	100	1999-00	389
1982-83	109	2000-01	406
1983-84	116	2001-02	426
1984-85	125	2002-03	447
1985-86	133	2003-04	463
1986-87	140	2004-05	480
1987-88	150	2005-06	497
1988-89	161	2006-07	519
1989-90	172	2007-08	551
1990-91	182	2008-09	582
1991-92	199	2009-10	632
1992-93	223	2010-11	711
1993-94	244	2011-12	785
1994-95	259	2012-13	852
1995-96	281	2013-14	939
1996-97	305	2014-15	1024
1997-98	331	2015-16	1081
1998-99	351	2016-17	1125

UPCOMING BATCHES

CA-FINAL: (REGULAR COURSES) MAY 18

Subject	Mode	Start	End	Timings	Fees
Paper 6: International Taxation: 100 Marks)	Face to Face	29.01.18	24.02.18	07:00 AM to 11:00 AM (Mon to Sat)	Rs. 15,000/-
Paper 7: Direct Tax Laws: 70 Marks & International Taxation: 30 Marks (earlier Direct Tax Laws: 100 Marks)	Face to Face	04.12.17	03.02.18	07:00 AM to 11:00 AM (Mon to Sat)	Rs. 15,000/-
Paper 8: Indirect Tax Laws (GST: 75 Marks, Custom & FTP: 25 Marks)	Face to Face	04.12.17	31.01.18	07:00 AM to 11:00 AM (Mon to Sat)	Rs. 15,000/-

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