Total No. of Questions-7 **VGFNLN** Total No. of Printed Pages- **14**

Time Allowed - 3 Hours 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)

A partnership firm consisting of three partners Weeks, Worrell and Walcott is engaged in the business of automobile trade. Its turnover for the Financial Year 2016-17 was Rs.95 lakhs and its Net Profit as per Books of Account is Rs. 11,20,000.

The partnership deed of the firm authorizes interest on capital at 15% on partners's capital contribution of Rs. 5 lakhs each.

The deed authorizes monthly working partner salary of Rs.10,000 to all the partners, not yet deducted while computing net profit.

The firm has brought forward business loss relating to Assessment Year 2013-14 of Rs. 4,00,000 and unabsorbed depreciation of the Assessment Year 2015-16 of Rs. 1,00,000.

The partners have omitted to get the accounts audited under Section 44AB before the due date specified in Section 139(1) i.e. 30.09.2017. They seek your advise as to whether they can:

i. Declare presumptive income under Section 44AD; or
ii. Admit income as per Books of Account which could attract penalty under Section 271B of the Income Tax Act, 1961.

You are requested to answer based on the cost-benefit analysis of filing the return of income, based on book results vis-a-vis the presumptive income under Section 44AD of the Income Tax Act, 1961.

You have to consider the benefit likely to accrue in future also, assuming the same rate of tax in future also.

[10 Marks]

Miracle Mantra ™

Question No. 1(b)

Thiruvikram & Co., is a partnership firm consisting of two partners L and M, with equal shares. During the earlier year, N was also a partner with equal share and he had retired from the firm with effect from 01-04-2016.

The firm has two units, one in SEZ and another in a DTA. The following details are available for the year ended 31-03-2017:

Particular	**(Rs. In lacs)**	
	DTA Unit	**Both units**
Export sales	150	420
Domestic sales	180	210
Net profit	50	200

The firm has given the following donations:

(i) Rs. 50,000 to Prime Minister's Relief Fund by account payee cheque;

(ii) Rs.25,000 in cash to a public charitable trust registered u/s 12 AA of the Income tax Act, 1961.

(iii) The unit in DTA is engaged in trading activities. The SEZ unit was set up on 18-9-2012 and is eligible for deduction u/s 10AA of the Income-tax Act, 1961.

Compute the total income of the firm and the tax payable, if brought forward losses/ allowances of the DTA unit relating to the assessment year 2016-17 are as under:

Business loss	Rs. 30 lacs
Depreciation	Rs. 20 lacs.

[5 Marks]

Question No. 1(c)

Mr. Rajesh has commenced the business of manufacture of paper on 01.04.2016. He employed 162 new employees during the P.Y.2016-17, the details of whom are as follows -

S No.	No. of employees	Date of employment	Regular/ Contractual	Total monthly emoluments per employee (Rs.)
(i)	42	01.04.2016	Regular	22,500
(ii)	37	01.06.2016	Regular	25,500
(iii)	55	01.08.2016	Contractual	25,500
(iv)	28	01.10.2016	Regular	22,500

The regular employees participate in recognized provident fund while the contractual employees do not.

Compute the deduction, if any, available to Mr. Rajesh for A.Y.2017-18, if the profits and gains derived from manufacture of paper that year is Rs. 82 lakh and his total turnover is Rs. 2.01 crore.

Would your answer change if Mr. Rajesh has commenced the business of manufacturing of apparel (and not paper) on 01.04.2016 and the above particulars related to such business?

[5 Marks]

Question No. 2(a)

Sanvitha Manufacturing Industries Ltd. reports a net profit of Rs. 15 lakhs for the year ended 31.03.2017 after debit/credit of the following items:

Items debited to Profit and Loss Account:

S. No.	Particular	Amount
(i)	Provision for income tax	5,00,000
(ii)	Expenditure towards amalgamation of Cochin Industries P Ltd., Cochin in December 2016	8,00,000
(iii)	Fees for technical services paid to foreign company without deduction of tax at source and no TDS was remitted till the date specified in Section 139(1).	1,00,000

(iv)	Provision for Bad and Doubtful Debts	6,00,000
(v)	Depreciation	40,00,000
(vi)	Cash payments for purchase of raw materials in excess of Rs. 20,000. Aggregate of such payments	7,00,000
(vii)	Bank term loan interest (actually paid during the year and up to the due date for filing the return specified in section 139(1) Rs. 3,00,000)	8,00,000
(viii)	Rent paid for a branch premises owned by one of the directors who has 22% stake in the company. (25% of the expenditure is excessive to the prevailing market rent).	12,00,000

Items credited to Profit and Loss Account:

(i) Revaluation reserve in respect of fixed assets 7,50,000

(ii) Agricultural income—net 3,50,000

(iii) Deferred tax liability 4,00,000

Additional Information:

(i) Depreciation debited to Profit and Loss Account given above includes Rs. 10,00,000 in respect of assets revalued.

(ii) The following amounts are brought forward as on 01.04.2016, relating to the Assessment Year 2016-17:

Particulars	**As per Books of Account Rs.**	**As per Income Tax assessment Rs.**
Business Loss	22,00,000	Nil
Unabsorbed Depreciation	17,00,000	35,00,000

You are required to compute for the Assessment Year 2017-18,—

(i) Income liable to tax under Section 115JB of the Income Tax Act, 1961; and

(ii) Total income chargeable to income tax, as per normal provisions.

[10 Marks]

Question No. 2(b)

The following is the balance sheet of VV Ltd. as on 31.03.2017, on which date the Fertilizer Division was transferred by way of slump sale for a consideration of Rs. 300 lakhs:

Liabilities	**Rs. in lakhs**	**Assets**	**Rs. in lakhs**
Paid up capital	1,000	Fixed Assets:	
Reserves	700	Cement Division	300
Liabilities:		Fertilizer Division	500
Cement Division	400	Steel Division	1,000
Fertilizer Division	500	Other Assets:	
Steel Division	600	Cement Division	200
		Fertilizer Division	400
		Steel Division	800
	3,200		3,200

Additional information:

(i) Fixed Assets of Fertilizer Division include land, which was acquired for Rs. 40 lakhs in 2007 and re-valued at Rs. 100 lakhs on 31.03.2017, just before slump sale.

(ii) Other Fixed Assets of Fertilizer Division represent their Written Down Values as per books. The written down value under Section 43(6) of the Income Tax Act is Rs. 320 lakhs.

(iii) Other Assets of Fertilizer Division reflected at Rs. 400 lakhs represent book value of non- depreciable assets.

(iv)The Fertilizer Division is operational from 1st January, 2012.

Compute the Capital Gain chargeable to income tax on the slump sale of Fertilizer Division, for the Assessment Year 2017-18. Also suggest a possible reinvestment for availing exemption from the resultant Capital Gains.

[6 Marks]

Question No. 3(a)
M/s Techno Ltd. furnishes the following information pertaining to the previous year 2016- 2017.

Description	Rs. in lakhs		
	Plant and Machinery	**Factory Building**	**Intangible Assets (Patents)**
Rate of depreciation	15%	10%	25%
Opening Written Down Value as on 1st April, 2016	14.50	30.00	15.00
Date of purchase/Acquisition 15th June, 2016—Plant and Machinery 29th September, 2016—Patent	12.00	Nil	5.00
Date of purchase/Acquisition 15th December 2016—Plant and Machinery 14th February 2017—Buildings	4.00	18.00	Nil
One out of the two patents sold on 29th March, 2017			3.00

Additional information:
One of the machineries purchased on 15th June, 2014 (original cost Rs. 1.50 lakhs) was destroyed by fire on 15th February, 2017 and the assessee received a compensation of Rs. 0.50 lakhs from the insurance company. Building acquired on 14th July, 2016 includes cost of land of Rs. 3.00 lakhs.

Calculate the eligible depreciation claim by M/s Techno Ltd. for the Assessment Year 2017-2018. (ignore additional depreciation).

[8 Marks]

Question No. 3(b)

Brett Lee gives you the following information for the previous year 2016-17:

S. No.	Particular	Rs.
(i)	Income from business (computed)	6,00,000
(ii)	Dividend income from shares in listed Indian companies	90,000
(iii)	Consultancy charges paid to investment consultant for investing in shares referred in (ii) above. This has been deducted while computing business income given in (i) above.	8,000
(iv)	Interest expenditure relating to both taxable and non-taxable income. The entire amount has been deducted while computing income from business given in (i) above.	1,00,000

Value of investments on the first and last days of various months of the previous year are as under: (In Rs. Lacs)

Month	Opening	Closing
April 16	0	12
May 16	12	14
June 16	14	8
July 16	8	0
August 16	0	20
September 16	20	5
October 16	5	0
November 16	0	2
December 16	2	10
January 17	10	12
February 17	12	6
March 17	6	0

Value of total assets appearing in Balance Sheet on the first and last day of the previous year are Rs. 40 lakhs and Rs. 50 lakhs respectively.

Brett Lee claims that no expenditure was incurred for earning exempt income during the year. The Assessing Officer is not satisfied with the claim of the assessee.

Compute the total income of Breet Lee for the assessment year 2017-18.

[8 Marks]

Question No. 4

Answer any **Four** out of the five following cases:

a) Mr. Singh's income tax assessment for the Assessment Year 2010-11 was made by the Assessing Officer on 30th November, 2012 after making certain disallowance under Section 40A(3). Mr. Singh preferred an appeal to the Commissioner (Appeals) contesting the disallowance and the Commissioner (Appeals) passed the order of appeal on 31st December, 2014. The Assessing Officer gave the appeal effect by passing an order on 1st February, 2015. Thereafter, Mr. Singh noticed that the Assessing Officer did not consider brought forward loss of Assessment Year 2010-11, though such loss was assessed by the Assessing Officer and duly claimed by Mr. Singh in the return of income for the Assessment Year 2010-11. Mr. Singh filed an application under Section 154 of the Income Tax Act on 1st January, 2016. The Assessing Officer rejected the application on the ground that such application was time-barred.

Explain with reasons, the correctness or otherwise of the contention of the Assessing Officer.

b) The assessee company was in the business of renting its properties and received rent which it claims as its business income chargeable under the head "Profits and Gains from business or profession". The Assessing Officer, however, brought to tax the rental income under the head "Income from house property". whether the action taken by Assessing Officer is valid under the law, justify your answer with the help of decided case Law.

c) The assessee-company and its employees union had a dispute as regard the quantum of bonus which led to labour unrest. Due to this reason, the workers refused to accept the bonus offered to them. However, in order to comply with the requirement of section 43B (i.e., deduction in respect of bonus would be allowable only if actual payment is made) the assessee made payment to a trust. The dispute with the workers was settled well in time and the bonus was paid to the workers on the very next day of deposit of the said amount in the trust that too, before the 'due date' by which such payment is supposed to be made in order to claim deduction under section 36.The Assessing Officer, however, took a view that since the payment was made from the trust and not made by the assessee directly to the employees, it is not allowable in view of the provisions of section 40A(9) of the Act. Justify action of Assessing Officer.

d) The assessee-company, engaged in the business of manufacture of steel and ferro silicon, claimed deduction under section 80-IB on the profits and gains of the business/undertaking which included transport subsidy, interest subsidy and power subsidy received from Government. The Assessing Officer was of the view that these subsidies were not eligible for deduction under section 80-IB(4) and hence, disallowed the same, contending that the source of the subsidies was the Government and not the business of the assessee, these subsidies have a close and direct nexus with the grants of the Government and not the business of the assessee. Hence, these subsidies, included in the profits, were "attributable to the business" but not "derived from" business to qualify for deduction under section 80-IB. Comment on the action taken by assessing officer.

e) The assessee company, engaged in the business of owning, operating and managing hotels, allowed its employees to receive tips from customers. In case of credit card payments by the customers, the employer company collected the tips which were later on disbursed to its employees. The Assessing Officer treated the receipt of tips as income under the head "Salaries" in the hands of the employees and contended that the assessee was liable to deduct tax at source from such payments under section 192. As the assessee company had not deducted tax at source on the tips disbursed to the employees, the Assessing Officer treated the assessee as assessee in default under section 201(1). Justify the action taken by assessing Officer.

[4 Marks each]

Question No. 5(a)

Vimala & Co., a partnership firm, which suffered business loss of Rs. 5 lakhs and unabsorbed depreciation of Rs. 6 lakhs, filed its return of income for the assessment year 2016-17 in June, 2016. The firm originally consisted of five equal partners of which two partners retired from the firm on 01.04.2016. The firm has income of Rs. 8 lakhs for the previous year 2016-17.

You are required to compute the Income for Assessment Year 2017-18 and Losses including Unabsorbed Depreciation to be carried forward to Assessment Year 2018-19 if any.

[4 Marks]

Question No. 5(b)

Ganesh had placed a deposit of Rs.15,00,000 in a bank on which he received interest of Rs.95,000. He had also borrowed Rs.10,00,000 from the same bank on the security of the deposit and was liable to pay Rs.65,000 by way of interest to the bank. He therefore offered the difference between two amounts of Rs.30,000 as Income from Other Sources. Is this correct?

[4 Marks]

Question No. 5(c)

Net Profit of W Ltd., an Indian company, as per Profit and Loss A/c for the year ended 31st March, 2017 is Rs.9,37,000. Advertisement expenditure debited to the Profit and Loss A/c is Rs.3,00,000 out of which Rs.1,30,000 is in respect of advertisement which is appeared in a magazine owned by a political party. Determine the Net Income of the company.

Will your answer be different if, in the above case, the assessee is W Inc. which is a foreign company?

[4 Marks]

Question No. 5(d)

What would be the penalty leviable under section 270A in case of the following assessees, if none of the additions or disallowances made in the assessment or reassessment qualify under section 270A(6) and the under-reported income is not on account of misreporting?

S No.	Particulars of total income of A.Y.2017-18	M/s. Alpha, a resident firm	Beta Ltd., an Indian company
		(Rs.)	(Rs.)
(1)	As per the return of income furnished u/s 139(1)	35,00,000	(12,00,000)
(2)	Determined under section 143(1)(a)	45,00,000	(6,00,000)
(3)	Assessed under section 143(3)	62,00,000	(2,00,000)
(4)	Reassessed under section 147	81,00,000	6,00,000

[4 Marks]

Question No. 6(a)

Mrs. Vimala, a resident individual aged 41, furnishes the following data relating to the year ended 31-03-2017:

Particular	**Rs.**
Loss from self occupied house property	(2,10,000)
Interest on capital at 15% from A & Co., a partnership firm	3,00,000
Salary received as working partner from above firm	5,40,000
Long-term capital gains from sale of listed shares in recognised stock exchange	2,40,000
Winnings from lotteries (Net)	70,000
Lottery tickets purchased for	2,000
Current year's business loss	(3,00,000)
Unabsorbed losses of assessment year 2016-17:	
Business loss	1,20,000
Depreciation	80,000
Return of income filed on 15-12-2016	
Housing loan principal repayment to bank	70,000

Compute the total income of the assessee and tax payable. In the hands of the firm A & Co., remuneration relating to assessee allowed u/s 40(b) was Rs. 4,80,000.

[8 Marks]

Question No. 6(b)

Mr. Harivallabh, a resident individual, furnished the following details relating to sale of an office building in the previous year 2016-17:

Particular	Rs.
Land purchased on 12-6-2011 for	12,00,000
Registration expenses and stamp duty for above	1,08,000
Office building completed on 30-01-2013 for	32,00,000
Sale of land and building made on 12-03-2017:	
Land portion	30,00,000
Office building portion for	27,00,000
Guideline value for above, as per SDV authority were as under:	
Land portion	32,00,000
Office building portion	23,00,000

In August, 2014, one buyer made an advance of Rs. 50,000 for buying this property from the assessee. However, the transaction did not take place and the advance was forfeited.

Compute the capital gain chargeable to tax and enumerate in brief, the exemptions available to the assessee, where he wants to reduce his tax liability.

[8 Marks]

Question No. 7(a)

Explain whether tax has to be deducted at source, as per the provisions of the Income Tax Act, 1961 under the following situations, each being independent of the other. If yes, the rate of tax and the amount of TDS should be stated (Provisions of DTAA may be ignored):

a) Rent of Rs. 2,00,000 paid by Govindaya Tubes LLP to Mr. Naresh, who has been living in Singapore for the last 12 years and has never visited India during such period. The building is used for training purposes.

b) Mrs. Sarawathi purchased a house property for Rs. 48 lakhs on 12.01.2017 from Mrs. Lakshmi, a resident. The value adopted by the stamp valuation authority was Rs. 55 lakhs.

c) Divya & Co., a partnership firm, has paid lorry freight of Rs. 3 lakhs on 12.03.2017 to Mr. Govinda, a lorry fleet owner having 11 Lorries and having PAN.

d) Vaasu & Co., a partnership firm pays following amounts as interest to the partners in the firm X Rs. 43,000, Y Rs. 9,000. X is resident in India, Y is a non-resident and he is resident of Country J with which India has no DTAA.

e) Barun Pvt. Ltd., has paid Rs. 35,000 as sitting fees to D, who is a director not employed with the company.

[5 Marks]

Question No. 7(b)

Decide with justification of allowability/non-allowability of the following expenses:

a) Rs. 50,000 paid as secret commission to a Government department official, an unidentified person. The payment has been approved by the Board as a normal trade practice.

b) Rs. 2 lakhs incurred towards issue of convertible debentures, the debentures being convertible into equity shares after one year from the date of issue.

c) Rs. 1 lakh paid to a local gang for rescuing an executive director who was kidnapped.

[3 Marks]

Question No. 7(c)

Strawberries Pvt. Ltd., a domestic company, has derived income from India, as well as from Country Y, with which India does not have a DTAA. The following details of income earned during the year ended 31-3-2017 are made available:

Type of Income	Earned in India (Rs.)	Earned in Y (Rs.)
Gross rental income from house property	12,00,000	6,00,000
Municipal taxes paid	40,000	30,000
Own business income	7,20,000	11,20,000
Share in profits of firm	2,50,000	3,00,000
Agricultural income	4,00,000	2,41,000

In country Y, municipal taxes are not allowed as deduction and the gross rentals are taxed. Agricultural income and share income from firm in Country Y are exempt in that nation. The Income tax rate in Y is flat 25%. Ascertain the income-tax payable by the assessee.

[4 Marks]

Question No. 7(d)

The basic salary of Mr. A (aged 65 years) is Rs. 45,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer contribute 15% of basic salary to the pension scheme referred to in section 80CCD.

Mr. A has made the following investments/payments during the F.Y.2016-17 –

S.No.	Particulars	Rs.
(1)	Contribution to PPF	80,000
(2)	Payment of tuition fees to DPS for education of his daughter studying in Class X	35,000
(3)	Repayment of housing loan taken from Corporation Bank	20,000
(4)	Contribution to approved pension fund of LIC	15,000

Compute the total income and tax thereon of Mr. A for A.Y. 2017-18.

[4 Marks]

COST INFLATION INDEX

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