CA –Final Direct Tax Nov 2017 Test Solution

Answer 1(a)

Computation of total income and tax liability of PQR LLP for A.Y.2017-18
(Under the regular provisions of the Income-tax Act, 1961)

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Unit in SEZ	40,00,000	
Less: Deduction under section 10AA [See Note (1) below]	32,00,000	
Business income of SEZ unit chargeable to tax		8,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction under section 35AD [See Note (2) below]	97,50,000	
Business income of warehousing facility chargeable to tax		7,50,000
Total Income		**15,50,000**
Computation of tax liability (under the normal provisions)		
Tax@30% on Rs.15,50,000		4,65,000
Add: Education cess@2% and SHEC@1%		13,950
Total tax liability		**4,78,950**

Computation of adjusted total income of PQR LLP for levy of Alternate Minimum Tax

Particulars	Rs.	Rs.
Total Income (as computed above)		**15,50,000**
Add: Deduction under section 10AA		32,00,000
		47,50,000
Add: Deduction under section 35AD	97,50,000	
Less: Depreciation under section 32 On building @10% of Rs. 65 lakhs	6,50,000	91,00,000
Adjusted Total Income		**1,38,50,000**
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@12% (since adjusted total income > Rs.1 crore)		3,07,470
		28,69,720
Add: Education cess@2% and SHEC@1%		86,092
		29,55,812
Tax liability under section 115JC (rounded off)		**29,55,810**

Since the regular income-tax payable is less than the alternate minimum tax payable,

AMT Credit to be carried forward under section 115JEE	**Rs.**
Tax liability under section 115JC	29,55,810
Less: Tax liability under the regular provisions of the IT Act, 1961	4,78,950
	24,76,860

Answer 1(b)

(1) As per section 72A(6A), the LLP would be able to carry forward and set-off the unabsorbed depreciation and business loss of A Pvt. Ltd. as on 31.3.2016. However, if in any subsequent year, say previous year 2017-18, the LLP fails to fulfill any of the conditions mentioned in section 47(xiiib), the set-off of loss or depreciation so made in the previous year 2016-17 would be deemed to be the income chargeable to tax of P.Y.2017-18.

(2) As per section 115JAA(7), the credit for MAT paid by A Pvt. Ltd. cannot be availed by the successor LLP.

(3) In such a case, the depreciation allowable in the hands of A Pvt. Ltd. and the LLP would be calculated as given below –

In the hands of A Ltd

Nil

In the hands of the LLP

Plant and machinery	900000
Building	900000
Furniture	100000

(4) The cost of acquisition of land in the hands of the LLP would be the cost for which A Pvt. Ltd. acquired it, i.e., Rs. 50 lakh.

(5) The LLP would be eligible for deduction of Rs. 10 lakh each for the P.Y.2016-17, P.Y.2017-8 and P.Y.2018-19 under section 35DDA.

Answer 1(c)

In the present case, even though the firm was reconstituted without discontinuance of the business, the stocks have to be valued at net realisable value. Hence, the action of the Assessing Officer is correct.

Answer 1(d)

The Assessing Officer in treating Arihant Hotels Ltd. as an assessee-in-default for non deduction of tax at source on the amount of tips collected by it from the customers and distributed to its employees, is not correct.

Answer 2

Computation of Total Income of Parik Hospitality Ltd. for the A.Y.2017-18

Particulars	**Rs.**	**Rs.**
Profits and Gains from Business and Profession		
Net profit as per profit and loss account		1,52,00,000
Add:		
Payment to middleman for purchase of crab etc.	30,000	
Contribution towards employees' pension scheme	50,000	

Payment to transport contractor without TDS	Nil	
Expenses on foreign travel	10,00,000	
Fees paid to directors without deducting TDS	30,000	
		11,10,000
		1,63,10,000
Less:		
Profit on sale of plot of land to 100% subsidiary	12,00,000	
Contribution to IIT for scientific research	2,50,000	
Depreciation	5,00,000	
Additional compensation received from SG	10,00,000	
Dividend received from foreign company	5,00,000	
Interest paid during the year	2,00,000	
Purchases omitted to be recorded in the books	2,00,000	
		38,50,000
Income under the head "PGBP"		**1,24,60,000**
Income from Other Sources		
Dividend received from foreign company		5,00,000
Gross Total Income		**1,29,60,000**
Less: Deduction under Chapter VI-A		Nil
Total Income		**1,29,60,000**

Answer 3(a)

Particulars	**Rs.**	**Rs.**
Net profit as per profit and loss account		15,25,890
Add: Items debited to profit and loss account, but to be disallowed		
Purchase price of Land used in in-house research and development	5,00,000	
Purchase price of building used in in-house research and development	Nil	
Expenditure incurred on notified agricultural extension project	1,50,000	
Expenditure incurred on notified skill development project -	2,00,000	
Expenditure incurred on notified skill development project -	2,50,000	
Expenditure incurred on advertisement in the souvenir published by a political	75,000	11,75,000
		27,00,890
Less:		
Purchase price of raw material used for in-house research and development qualifies for 200% deduction u/s 35(2AB).	1,80,000	
Expenditure incurred on notified agricultural extension project qualifies for 150% deduction under section 35CCC	2,25,000	
Expenditure incurred on training for skill development in a notified skill development project u/s 35CCD.	3,75,000	7,80,000
Profit and gains from business		**19,20,890**

Answer 3(b)

The amount to be disallowed under section 40(a)(ia) while computing business income for A.Y.2017-18 is as follows –

Particulars	Amount paid in Rs.	Disallowance u/s 40(a)(ia) @ 30%
Salary [tax is deductible under section 192]	12,00,000	3,60,000
Directors' remuneration [tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)		**3,68,400**

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.201 7-18 at the time of payment and remitted to the Government, the amount of Rs. 8,400 would be allowed as deduction while computing the business income of A.Y.2018-19.

Answer 3 (c)

(i) In this case, the search is conducted in the previous year 2016-17, the relevant assessment year for which is A.Y.2017-18. Therefore, notice can be issued for the six preceding assessment years i.e. for assessment years 2011-12 to 2016-17.

(ii) The assessments under section 143(3) for assessment years 2014-15 and 2015-16 and the reassessment proceeding under section 147 for assessment year 2013-14 shall abate.

(iii) The assessments under section 143(3) relating to assessment years 2014-15 and 2015-16 and the reassessment proceeding relating to assessment year 2013-14, which abated on initiation of search, shall stand revived.

Answer 4(a)

(i) Mr. C, being Mr. Ram's son, is a member of Ram's HUF, he is a relative of the HUF. Hence the total income of HUF would be Rs. 5 lakhs, being the business income computed.

(ii) The rental income in this case would continue to be assessed in the hands of the HUF, even after partial partition. Therefore, it is not advisable to do a partial partition.

(iii) Income of Rs. 70,000 earned by Minor D by use of his special skill and talent would be taxable in his individual hands. It will not be included in the hands of his parent by virtue of the exception to section 64(1A) contained in the proviso to section 64(1A).

(iv) There is no consideration in case of blending, the income from car computed in the prescribed manner, [which can be as per the presumptive provisions or lease rental of Rs. 60,000 (Rs. 10,000 × 6 months) less depreciation] would be deemed as the income of Mr. Ram.

Answer 4(b)

(i) The FTS would be taxable@10% as per section 115A, since India does not have a DTAA with the other country.

(ii) The FTS would be taxable@8%, being the rate specified in the DTAA, even though section 115A provides for a higher rate of tax, since as per section 90, the provisions of the DTAA would apply if they are more beneficial.

(iii) The FTS would be taxable@10% as per section 115A even though the DTAA provides for a higher rate of tax, since as per section 90, the provisions of the Income-tax Act, 1961 (i.e., section 115A, in this case) would apply if they are more beneficial.

Answer 4 (c)

Particulars	**Rs. in lakh**	**Rs. in lakh**
Bad debts written off (for the first time) in the books of account		210
Less: Provision for bad and doubtful debts under section 36(1)(viia) as on 31.3.2017		
Provision for bad and doubtful debts u/s 36(1)(viia) upto A.Y.2016-17	100	
Current year provision for bad and doubtful debts u/s 36(1)(viia) [7.5% of Rs. 800 lakhs + 10% of Rs. 300 lakhs]	90	190
Deduction under section 36(1)(vii) in respect of bad debts written off for A.Y.2017-18		**20**

Answer 5(a)

Rayala Corporation (P) Ltd. v. Asstt. CIT (2016) 386 ITR 500 (SC)

Supreme Court's decision: The Apex Court, thus, held that since the business of the company is to lease out its property and earn rent therefrom, the rental income earned by the company is chargeable to tax as its business income and not income from house property.

Answer 5(b)

Shasun Chemicals & Drugs Ltd v. CIT (2016) 388 ITR 1 (SC)

Supreme Court's decision: The payment in respect of bonus is allowable as deduction, as there is no dispute that the amount was paid by the assessee to its employees before the due date by which such payment is supposed to be made in order to claim deduction under section 36(1)(ii).

Answer 5(c)

Meghalaya Steels Ltd (2016) 383 ITR 217 (SC)

Supreme Court's Decision: There is a direct nexus between profits and gains of the undertaking or business, and reimbursement of such subsidies. The subsidies were only in order to reimburse, wholly or partially, costs actually incurred by the assessee in the manufacturing and selling of its products. Accordingly, these subsidies qualify for deduction under section 80-IB.

Answer 5(d)

Amitabh Bachchan (2016) 384 ITR 200 (SC)

Supreme Court's Decision: The Apex Court, accordingly, held that the order of the Tribunal setting aside the revisionary order on the ground that it went beyond the show cause notice was not sustainable. It further held that the High Court having failed to fully deal with the matter, its order was not tenable.

Answer 6(a)

(a) The statement is incorrect.
(b) The statement is incorrect.
(c) The statement is incorrect.
(d) The statement is correct

Answer 6(b)

Computation of taxable capital gains for A.Y.2017-18

Particulars	**Rs.**
Gross consideration	90,00,000
Less: Expenses on transfer	90,000
Net consideration	**89,10,000**
Less: Indexed cost of acquisition (Rs. 24,36,000 × 1125/406)	67,50,000
	21,60,000
Less: Exemption under section 54GB	14,54,545
Taxable capital gains	**7,05,455**

Deemed cost of new plant and machinery for exemption under section 54GB

Particulars	**Rs.**	**Rs.**
Purchase cost of new plant and machinery acquired in July, 2017		65,00,000
Less: Cost of office appliances, i.e., computers Cost of vehicles, i.e., cars Cost of AC installed at the residence of Mr. Akash	6,00,000 8,00,000 1,00,000	15,00,000
		50,00,000
Amount deposited in the specified bank before the due date of filing of return		10,00,000
Deemed cost of new plant and machinery for exemption under section 54GB		**60,00,000**

Note:

If you consider it a case of eligible start up Computer is eligible for exemption u/s 54GB in such assumption the exemption u/s 54GB will be Rs. 16,00,000 and Taxable Capital Gain be computed at Rs. 5,60,000/-

Answer 6(c)

In this case, from the information given, the arm's length price has to be determined taking the comparable uncontrolled price method to be the most appropriate method.

Particulars	**Rs. in Lakhs**
Amount by which total income of ABC Ltd. is enhanced on account of adjustment in the value of international transactions:	
(i) Difference in price of tie @ $ 1 each for 50,000 pieces sold to XYZ Inc. ($ 1 x 50,000 x 64)	32.00
(ii) Difference for excess payment of guarantee fee to XYZ Inc. for loan borrowed from foreign lender ($ 2,000 x 64)	1.28
(iii) Difference for excess payment for services to XYZ Inc. ($ 4,000 x 64)	2.56
	35.84

ABC Ltd. cannot claim deduction under section 10AA in respect of Rs. 35.84 lakhs, being the amount of income by which the total income is enhanced by virtue of the first proviso to section 92C(4).

Answer 6(d)

(i) **Eligible depreciation for the AY 2017-18**
= Rs. 5,00,000 x 40%
= Rs. 2,00,000

(ii) **Total Income u/s 44AD**
= (90Lacs @ 8%) + (30Lacs @ 6%)
= 9 Lacs

Answer 7(a)

In the above example, assuming that the amalgamated company is an Indian company, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as an exchange is not justified.

Answer 7(b)

Taxability in case of succession of Neerja Textiles by New Look Textile Private Limited

In the present case, all the conditions mentioned above are satisfied therefore, the transfer of capital asset by Neerja Textiles to New Look Textiles Private Limited shall not attract capital gain tax provided Neerja continues to hold 50% or more of voting power of New Look Textiles Private Limited for a minimum period of 5 years.

Taxability in case of transfer of land by New Look Textiles Private Limited

In the present case, the urban land shall be a long-term capital asset since it is held for more than 36 months by New Look Textile Private Limited and Neerja Textiles taken together. Cost of acquisition of land in the hands of the company shall be Rs. 9,80,000 i.e., the purchase cost of the land in the hands of Neerja.

Computation of capital gain chargeable to tax in the hands of New Look Textile Private Ltd.

Particulars	Rs.
Net Sale Consideration	15,00,000
Less: Indexed cost of acquisition 9,80,000× 1125/1125	9,80,000
Long-term capital gain	**5,20,000**

Answer 7(c)

Computation of taxable capital gains for A.Y.2017-18

Particulars	Rs.
Gross consideration	11,50,000
Less: Expenses on transfer	7,000
Net consideration	**11,43,000**
Less: Indexed cost of acquisition (Rs. 1,82,000 × 1125/182)	11,25,000
	18,000
Less: Exemption under section 54F	7,874
Taxable capital gains	**10,126**

Answer 7(d)

Computation of capital gain of Mr. C for the A.Y.2017-18

Particulars	Rs.	Rs.
Gross sale consideration		98,00,000
Less: Expenses on transfer		50,000
Net sale consideration		**97,50,000**
Less: Indexed cost of acquisition Rs. 4,50,000 × 1125/100 = Rs. 50,62,500	50,62,500	
Less: Indexed cost of improvement Construction of first floor in 1972-73 = Nil Construction of second floor in 1983-84 (i.e., Rs. 3,10,000 x 1125 / 116)= 30,06,465 Alternation/reconstruction in 1992-93 (i.e., Rs. 2,50,000 x1125/ 223)= 12,61,211	42,67,676	93,30,176
Long-term capital gain		**4,19,824**