Paper 7- DIRECT TAXATION

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Full Marks: 100 **Time allowed: 3 hours**

All questions relate to Income Tax Assessment Year 2020-21 and the provisions stated relate to the Income-tax Act, 1961, unless otherwise stated in the question

Answer Question No. 1, which is compulsory and any five from Question No.2 to 8.

1. (A) Choose the most appropriate alternative for the following: [10x1=10]

(i) Income from a house property located outside India is:
(a) Taxable in hands of all assessee
(b) Taxable in hands of non-resident assessee
(c) Taxable in hands of resident and ordinarily resident assessee
(d) Exempted from tax in India.

(ii) Deduction u/s 35AD is available in respect of expenditure on specified business provided such business commenced its operation on or after 01-04-2009 subject to an exception. The exception is:
(a) Business of industrial undertaking may be commenced at any time on or after 01-04-2007
(b) Business of laying and operating a cross-country natural gas pipeline network may be commenced at any time on or after 01-04-2007
(c) Business of cold chain facility may be commenced at any time on or after 01-04-2007
(d) All of the above

(iii) An assessee has incurred Rs. 1,00,000 on the cultivation of agricultural produce. 50% of the produce has been sold for Rs. 1,00,000 and the balance 50% has been used by the assessee for his self consumption, the agricultural income in this case shall be:
(a) Rs. 10,000
(b) Rs. 60,000
(c) Rs. 1,20,000
(d) None of the above

(iv) If goodwill of a profession which is self generated is transferred, there will:
(a) not be capital gain
(b) be any capital gain
(c) be a short term capital gain
(d) none of the above

(v) Which of the following income of a resident and ordinarily resident is taxable in India?
(a) Bank interest from State Bank of India, Delhi
(b) Bank interest from Bank of America, New York Branch
(c) Rental income from house property located in London
(d) All of the above

(vi) Deduction u/s 80IA for any undertaking or enterprises engaged in development of infrastructure facility shall be allowed to the extent of:
(a) 100% of the profits for first 5 years and 30% for subsequent 5 years.
(b) 50% of the profit for 10 years.
(c) 100% of the profits of such industrial undertaking or Enterprise for 10 years
(d) 100% of the profits of such industrial undertaking or Enterprise for a period of 15 years.

(vii) If no system of accounting is followed, interest on securities is taxable on:
(a) due basis
(b) receipts basis
(c) due or receipt basis at the option of the assessee
(d) none of the above

(viii) Rate of Interest accruing to a particular employee by virtue of his employer's contribution to Recognized Provident Fund is 12.5% p. a. In such a case:
(a) Total Interest accrued is taxable
(b) Total Interest accrued is exempt
(c) Only 10% Interest is taxable
(d) Only 3% of interest is taxable

(ix) Which of the following is not allowed as a deduction for computation of business Income?
(a) Loss incurred due to theft in factory after working hours
(b) Anticipated future losses
(c) Loss caused by white ants
(d) Loss due to accidental fire in stock-in-trade

(x) R, an individual, who is not carrying on a business has borrowed a sum of Rs. 1,00,000 on 01.04.2019 @18% p.a. from a finance company. R in this case should deduct tax on such interest paid amounting to:
(a) Rs. 1,800
(b) Rs. 1,872
(c) Rs. 2,060
(d) Nil

(B) Match the following (sufficient to give the corresponding item in column 3 for column 1 reproducing columns 2 and 4 are not required): [5x1=5]

1	2	3	4
(i)	Bonds Specified in Section 54EC	a.	Rounding off of tax
(ii)	Non Speculative business loss	b.	Threshold limit Rs. 30,000
(iii)	Sec. 288B	c.	Maximum Limit Rs. 50 Lakhs
(iv)	Sec. 143(1)	d.	Carry forward for 8 Years
(v)	Sec. 194J	e.	Intimation for return

(C) Say True or False for the following question: [5×1=5]

(i) Capital gain arising from compulsory acquisition of a property under law is taxable in the year of receipt of compensation or part thereof.

(ii) Expenses of purchasing lottery tickets are deducted out of winning from lottery under the head income from other sources.

(iii) For computing advance tax liability in case of an individual on its total income, agricultural income is not to be included.

(iv) Voluntary contribution received by electoral trust shall be exempt in all cases.

(v) "Profits in lieu of salary" shall be taxable under the head "Income from other sources.

(D) Fill in the blanks: **[5×1=5]**

(i) For claiming exemption u/s 54B, the asset transferred should be _____ (urban agricultural rural agricultural/urban non-agricultural/rural non-agricultural) land.

(ii) When unrealized rent of Rs.50,000 in respect of a let-out property is realized subsequently, the amount liable to tax would be Rs. _____.

(iii) Shares given to the employee at free of cost or at concessional price under Employees Stock Option Plan are _____ (Taxable/Non-taxable) perquisite.

(iv) X Ltd., is a foreign company whose place of effective management is situated outside India. X Ltd. shall be _____ (resident/non-resident).

(v) A firm's business income is nil/negative. It shall still be allowed a deduction on account of remuneration to working partner to the extent of Rs. _____.

2. (a) What are the characteristics of Artificial Juridical Persons? State the difference between AOP and BOI. **[3+2=5]**

(b) Compute income under the head 'Income from house property' of Syam from the following information:

Particulars	H1	H2	H3	H4
Used for	Self occupied	Self occupied	Self occupied	Own Business
Situated at	Mumbai	Abu	Kolkata	Hyderabad
Gross Municipal Value	3,00,000	2,00,000	7,00,000	3,00,000
Fair Rent	2,00,000	2,00,000	6,00,000	1,20,000
Standard Rent	3,00,000	2,40,000	7,00,000	2,00,000
Municipal Tax	15%	15%	15%	15%
Repairs	13,000	4,000	8,000	8,000
Ground Rent	20,000	Nil	Nil	6,000
Land Revenue	Nil	10,000	Nil	Nil
Interest on Loan	40,000	1,00,000	2,10,000	20,000
Loan taken on	1998-99	1998-99	2016-17	1999-00

[10]

3. (a) Mr Jitin Ahuja is employed with a transport firm. He is member of an unrecoginsed provident fund. He has been drawing salary @ Rs. 32,000 p.m. since 01.01.2019. Dearness allowance, forming part of pay for superannuation benefits, is paid @ 10% of his salary. He gets house rent allowance Rs. 4,800 p.m. He pays rent of Rs. 8,000 p.m. He contributes @ 10% of his salary to the fund and employer contributes @ 20%.

The employer also reimburses his personal club bills amounting to Rs. 76,000. Besides, he is paid Rs. 1,600 p.m. as transport allowance.

He retires on 01.01.2020 after 28 years 9 months of service. He gets Rs. 3,18,000 as accumulated balance from the provident fund. It consists of Rs. 60,000 as his contribution and Rs. 46,000 interest there on. The employer's contribution is Rs. 1,22,000 and interest there on is Rs. 90,000. He also gets gratuity of Rs. 9,20,000.

After retirement he gets pension @ Rs. 12,000 p.m. on 01.03.2020 he surrenders one half pension for a consolidated amount of Rs. 4,80,000.

He has made the following payments/investments during the previous year 23019-20:

(i) Life insurance premium amounting Rs. 8,000 on the policy taken on the life of his married son.
(ii) Public Provident fund deposit Rs. 20,000.
(iii) Refund of Rs. 40,000 to the Life Insurance Corporation of India on account of loan taken for the purchase of a flat, allotted in March, 2005.
(iv) Purchase of National Savings Certificates, VIII issue, amounting to Rs. 12,000
(v) Contribution of Rs. 20,000 to Sukanya Samriddhi Account.

From the above information you are required to compute his total income for the assessment year 2020-21 and his tax liability. **[10]**

(b) Ashok, Surat furnishes you the following information for the previous year 2019-20

		Rs.
(i)	Income from coffee grown and cured in Coorg, Karnataka	3,00,000
(ii)	Income from tea grown and manufactured in Jorhat, Assam	2,50,000
(iii)	Income from Rubber estates in Kerala by sale of field latex obtained from rubber plants grown there	4,00,000
(iv)	Income from nursery by name "Soundarya Nursery", Chennai	2,00,000
(v)	Rent from a dwelling house in agricultural land in Coorg, Karnataka (It is occupied by the coffee estate laborers).	90,000

Compute the agricultural income of Ashok. **[5]**

4. (a) PD Ltd. who is carrying on the business of trading in shares submits the following information:

	Rs.
Opening inventory of shares which includes shares of Tata Industries amounting to Rs. 25,00,000	3,00,00,000
Purchase of shares of various companies during the year inclusive STT paid	1,40,00,000
Sale of shares during the year whose cost was Rs. 80,00,000	1,20,00,000

STT paid on the sale of such shares	12,000
Tata Industries share costing Rs. 20,00,000 were converted into capital asset on 05.05.2019 when the fair market value of such shares was rupees	45,00,000
Tata Industries shares which were converted into capital asset were sold on 08.11.2019	54,00,000
STT paid on the sale of shares	4,500

Compute the income under the head "business and profession" and "capital gain" of PD Ltd. for the previous year 2019-20**.** **[9]**

(b) Simran furnished following details-

	Amount (Rs.)
Income from Business	
Business A (Readymade garments)	50,000
Business C (Processing bio-degradable wastes) (started during previous year)	25,000
Long term capital gain	25,000
Short term capital gain	65,000
Saving Bank interest	2,000
Interest on deposits with IDBI	1,000
Interest paid on loan taken for deposits in IDBI	1,200
Interest on NSC (including last year interest Rs. 1,500)	4,200
Investment in NSC	500
LIC premium paid on the life of dependent blind mother (Sum assured Rs. 1,00,000)	12,000
Investment in LIC annuity plan	8,000
Donation to National Defence Fund	12,500

Compute her total income and tax liability for Assessment Year 2020-21. **[6]**

5. (a) Mr. R furnishes the following information relevant for the assessment year 2020-21.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Office Expenses	15,000	Gross Profit	4,32,900
Sundry Expenses	10,000	Sundry receipts	10,000
Entertainment Expenditure	6,000	Bad debts recovered(not	
Audit fees	1,000	allowed as deduction earlier)	7,000
Legal charges/expenses	4,000	Customs duties recovered from Govt. (earlier allowed as deduction)	10,000
Depreciation on plant and machinery purchased during the year @15% p.a.	300	Gift received from father	18,000

for 6 months			
Salary to staff:		Dividend(gross) from Unit Trust Of India	4,000
Salary	58,000	Interest on FDR with bank	2,000
Bonus	4,000	Interest on Government Securities	3,000
Contribution towards Employee's Recognized Provident Fund	5,000		
Unapproved Gratuity Fund	4,000		
GST	8,000		
Provision for GST	15,000		
Payment to Mumbai University for carrying on scientific research	7,200		
Copyright purchased during the year	35,000		
Net Profit	3,14,400		
	4,86,900		4,86,900

Other Information:

(i) As shown in the P&L A/c Rs. 7,200 is paid to Mumbai University for the purpose of carrying on approved scientific research in natural sciences, not related to business of Mr. R.

(ii) Provision of GST represents an outstanding tax liability.

(iii) Copyrights were purchased on 06.07.2019

Ascertain the total income of Mr. R for the assessment year 2020-21 assuming that he deposited Rs. 10,000 in a PPF Account during previous year 2019-20. **[9]**

(b) Compute gross total income of Mr. Anand from following data-

Sources of Income	Amount
Income under the head 'Salaries'	2,60,000
Income from house property (A)	60,000
Income from house property (B)	(2,80,000)
Speculation income	20,000
Business income	(1,30,000)
Income from activity of owning and maintaining race-horses	(1,50,000)
Income from agricultural business	(1,25,000)
Short term capital gain	30,000
Long term capital gain	(1,00,000)
Income from lottery	10,000
Income from horse races	1,70,000
Dividend income from non-domestic company (shares purchased	(90,000)

out of borrowed money)	
Interest on securities	20,000

[6]

6. (a) The following particulars are submitted by Mr. Rahul Sharma, aged 61 years for the assessment year 2020-21.

Particulars	Amount (Rs.)
1/2 share of profit of firm	95,000
Income from House Property	1,35,000
Long term capital gains on transfer of equity shares sold on 02.12.2019 through a recognized stock exchange. (FMV as on 01.04.2001 & 31.01.18 was Rs. 12,000 & Rs. 46,000 respectively	40,000
Long term capital gain on transfer of house	1,30,000
Lottery winning(Net, after TDS)	11,200
Life insurance premium paid	25,000
Donation to National Children Fund	10,000
Royalty from books of literary nature	4,14,000

You are required to compute his total taxable income and his tax liability. **[9]**

(b) State the conditions to claim exemption to political parties u/s 13A. **[6]**

7. (a) Compute taxable income under the head Income from other sources of Mrs. X from the following data: [9]

Particulars	Amount
Private tuition fee received	10,000
Winning from lottery	2,000
Award from KBC (a TV show) [Gross]	3,20,000
Pension from employer of deceased husband	25,000
Interest on bank deposit	25,000
Directors fee (Gross)	5,000
Letting out of vacant land	25,000
Remuneration for checking the examination copy of employer's school	10,000
Remuneration for checking the examination copy of C.A	10,000
Income tax refund	5,000
Interest on income tax refund	100
Composite rent (related expenditures are Rs. 5,000)	10,000
Rent on sub-letting of house property (rent paid to original owner 12,000)	20,000
Income tax paid	2,000
Payment made for personal expenses	18,000
Payment made to LIC as premium	2,000

(b) Write a short note on TDS provision of commission, etc. other than Insurance commission [Sec. 194H]. **[6]**

8. Short Note: (any three) **[5x3=15]**

(a) Scheme for submission of return through Tax Return Preparers (TRP) [Sec. 139B]

(b) Method of calculation of relief [Rule 21A] when salary is paid in arrears or in advance.

(c) Scope and Disclosure requirement of ICDS VII.

(d) Rectification of Mistake by Income-tax authority [Sec. 154].