



BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

PROFESSIONAL COMPETENCE COURSE

GROUP – II

Model Test Paper – BOS/PCC/ Taxation – 2/2007

Time : 3 hours

Maximum Marks : 100

PAPER – 5 : TAXATION

Answer all questions

Part – I : Income-tax (75 marks)

1. State with reasons, whether the following statements are true or false [A.Y.2007-08] (Answer any five)
 - (i) The rate of surcharge applicable to foreign companies is 10% of tax on total income.
 - (ii) Furnishing return of income on or before due date is mandatory for claiming exemption under section 80-IB.
 - (iii) A legal practitioner who is entitled to practice in any civil court in India is qualified to be a tax return preparer.
 - (iv) The maximum permissible deduction under section 80CCC is Rs.1,00,000.
 - (v) Business loss can be set off against salary income arising during the year.
 - (vi) Section 10(38) exempts any capital gain on sale of equity shares of a company, if such transaction is chargeable to securities transaction tax. (5 x 2 = 10 Marks)
2. Pranav is the Karta of a HUF consisting of four members viz. Pranav, Pratyoosh, Anirudh and Arvind who share income equally. He furnishes the following information for the purpose of computing the total income and tax liability of the HUF and its members for the A.Y. 2007-08:

	<i>Particulars</i>	<i>Rs.</i>
1.	HUF's business income	6,00,000
2.	Capital gain on sale of shares through the National stock exchange. The shares were in the name of Pranav (purchased out of family funds) and were held for a period of 6 months before sale. Securities transaction tax has been paid on sale.	1,00,000
3.	Capital gain on sale of house owned by HUF, held by it for 7 years before sale	1,20,000
4.	Share of profit from a firm in which Pranav was a partner on behalf of the HUF	1,60,000
5.	Rental receipt from a let out joint family property	1,05,000
6.	Dividend from Indian company in respect of shares held in the name of Pranav (purchased out of family funds)	10,000
7.	Dividend from Indian company received by Pranav on shares purchased out of his own funds	18,000
8.	Short-term capital gains on sale of shares referred to in (7) above through the National Stock Exchange	75,000
9.	Receipt of remuneration by Anirudh on account of his professional qualification from a company in which shares are held by Pranav (shares are purchased out of family funds)	3,52,000
10.	Salary income of Pratyoosh	3,00,000
11.	Donation to Prime Minister's National Relief Fund (out of family funds)	35,000
12.	Deposit in PPF account in the name of Pranav (out of family funds)	50,000
13.	Medical insurance premium paid by cheque by the HUF for insuring the health of Arvind	8,000

(20 Marks)

3. (a) Mr. Ganesh is working in Amazon Ltd. and has given the details of his income for the P.Y. 2006-07. You are required to compute his gross salary from the details given below:

Basic Salary	Rs.12,000 p.m.
D.A. (40% forms part of retirement benefits)	Rs.6,000 p.m.
Commission as a percentage of turnover	2%
Turnover [P.Y.2006-07]	Rs.7,00,000
Bonus	Rs.55,000

Gratuity	Rs.32,000	
Ganesh's contribution to RPF	Rs.25,000	
Employer's contribution to RPF	18% of his basic salary	
Interest accrued in the RPF @ 14% p.a.	Rs.21,000	(8 Marks)

- (b) Raghav owns a house in Bangalore. During the previous year 2006-07, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of Rs.5,000 p.m. Municipal value of the property is Rs.2,00,000 p.a., fair rent is Rs.1,80,000 p.a. and standard rent is Rs.2,20,000. He paid municipal taxes @10% of municipal value during the year. A loan of Rs.15,00,000 was taken by him during on 1.1.2005 for acquiring the property. Interest due on loan during the previous year 2006-07 was Rs.80,000. Compute Raghav's income from house property for the A.Y. 2007-08. (7 Marks)
4. (a) A proprietary business was started by Mrs.Sridhar in the year 2004. As on 1.4.2005, her capital in the business was Rs.4,00,000.
Mr.Sridhar gifted Rs.3,00,000 on 3.4.2005, which amount Mrs. Sridhar invested in her business on the same date. Mrs. Sridhar earned profits from her proprietary business for the P.Y.2005-06, Rs.3,50,000 and P.Y.2006-07, Rs.4,90,000. Compute the income to be clubbed in the hands of Mr.Sridhar for the A.Y.2007-08. (7 Marks)
- (b) Mrs. Smita Mishra is a citizen of India residing in France for the past 11 years. During the previous year 2006-07, the particulars of her income are as follows:
- (i) She owns a residential house in Calcutta which she has rented out. Her rental income is deposited in her bank account in Calcutta.
 - (ii) She also owns some agricultural land near Kanpur from which she earns agricultural income. This is remitted to her in France every year.
 - (iii) She works with a company in France and earns salary of 1000 € per month.
 - (iv) She owns shares in ABC Ltd., an Indian company and receives dividend every year. These cheques are deposited in her bank account in Calcutta.
- She has some fixed deposits in her bank in France, the interest from which is credited to her account in the same bank. This income is however remitted by her to her Calcutta bank account regularly. During the P.Y.2006-07, she has remitted Rs.35,000.
- She visits India for the first time in March 2007 after she went abroad. She is under the impression that since she is an Indian citizen, she is liable to income-tax in India. She seeks your advice in this regard. You are required to guide her regarding the taxability of her income under the provisions of the Income-tax Act, 1961. (7 Marks)

5. Write short notes on any **four** of the following -
- (a) Components of income-tax law
 - (b) Marginal relief
 - (c) Profits in lieu of salary
 - (d) Authorised signatories to the return of income in case of a company
 - (e) Deduction of tax at source from payment of compensation on acquisition of immovable property (4 x 4 = 16 Marks)

PART – II : SERVICE TAX AND VAT (25 marks)

6. (a) Answer the following questions:
- (i) Which administrative unit coordinates between Central Board of Excise and Customs and Central Excise Commissionerates?
 - (ii) Which method of computation of VAT is being adopted in India? (2 x 2 = 4 Marks)
- (b) Answer any **three** of the following with reference to the Finance Act, 1994 as amended relating to applicability of service tax:
- (i) Use of the precincts of a religious place as a mandap.
 - (ii) Disinfecting services provided in relation to agriculture.
 - (iii) Excavation services provided in relation to construction of a dam.
 - (iv) Construction services provided to a city's municipal corporation in respect of shops for the purpose of letting them out. (2 x 3 = 6 Marks)
7. (a) Secure Services Ltd., a security agency, provides security services to Delta Ltd. for an agreed amount of remuneration of Rs.1,24,000 per annum. Delta Ltd. has clearly indicated that it will not pay any extra amount than the agreed remuneration. Secure Services Ltd. is not a small service provider for the purpose of *Notification No.6/2005 ST, dated 01.03.2005*.
Do you think any service tax is payable by Secure Services Ltd.? If yes, then compute the service tax liability. (3 Marks)
- (b) Mr. Ramesh, a chartered accountant, agrees to accept Rs.25,000 as statutory audit fee from one of his clients, Alpha Packers. Alpha Packers provides packaging services. Mr. Ramesh utilises the services of Alpha Packers while shifting his residence. Alpha Packers normally charges Rs.10,000 for such services. Mr. Ramesh has raised a bill of Rs.15,000 against Alpha Packers.
Do you think the action of Mr. Ramesh is correct? Compute the service tax liability of

Mr. Ramesh.

(Assume Alpha Packers to be a small service provider under *Notification No.6/2005 dated 01.03.2005*. Mr. Ramesh is not eligible for the benefit of the above notification.) (3 Marks)

8. Answer any **three** of the following:
- (a) State the conditions necessary for availing the exemption on goods and materials sold by the service provider to the recipient of service vide *Notification No. 12/2003 ST, dated 20.06.2003*.
 - (b) Write a brief note on due dates for payment of service tax.
 - (c) Briefly discuss the provisions of the Finance Act, 1994 as amended relating to service tax with respect to pandal or shamiana services.
 - (d) How does VAT help in controlling tax evasion? (3 x 3 = 9 Marks)