

TAXATION

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** 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.

Marks
5X2=10

1. Answer any five of the following sub-divisions with regard to the provisions of the Income-tax Act, 1961 for the assessment year 2008-09 :
 - (a) Ms. Vasudha contends that sale of a work of art held by her is not exigible to capital gains tax; is she correct ?
 - (b) Will a charitable trust forfeit the exemption granted to it, if it holds shares in a public sector company?
 - (c) Deduction under Section 80CCD is available only to individuals employed by Central Government. Discuss the correctness of this statement.
 - (d) Mrs. Hemalatha has made payments of Rs. 5 lacs to a contractor (for business purposes) during the last two quarters of the year ended 31.3.2008. Her turnover for the year ended 31.3.2007 was Rs. 45 lacs. Is there any obligation to deduct tax at source?
 - (e) Can an individual who is not in India, sign the return of income from outside India? Is there any other option?
 - (f) Mr. Vatsan has transferred through a duly registered document the income arising from a godown, to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

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2. Ramesh is the karta of Ramesh (HUF) in which the other members are his wife Padma, major son Guru and a minor daughter Champaka. The following details of this HUF, resident in India, pertaining to the year ended 31st March, 2008 are made available to you
 - (a) Rent (at Rs. 10,000 per month) received from a flat in Salem is Rs. 1,10,000. Rent of Rs. 10,000 for the month of March, 2008 was received in April, 2008.
Property tax paid Rs. 10,000.
Bank loan of Rs. 10,00,000 was taken for construction of this interest at 10%. Rs. 8,000 interest is in arrears pertaining to this year which was paid by the HUF in May, 2008 only. Principal repayment was Rs. 48,000.
 - (b) Ramesh represents the HUF in a partnership firm M/s. Ashok & Co. engaged in turmeric business. The firm has paid interest of Rs. 1,80,000 to the HUF computed at 15%.
For the services rendered by Ramesh to this firm as the lone Working partner, the firm has paid him a remuneration of Rs. 1,50,000, as per the provisions of the partnership deed. The "book profit" of the firm in terms of Section 40 (b) is Rs. 1,35,000.
 - (c) The HUF is also running two businesses, as narrated below
 - (i) Retail trade in food grains
A rough account-book alone is maintained. Expense bills/voucher are not properly maintained. The total turnover is Rs. 38 lacs. The net profit as per the rough account is Rs. 1,41,000. This has been arrived at after considering a penalty of Rs. 8,000 levied by Sales-tax authorities for misuse of "C" Form.
 - (ii) Business of Civil construction
Cash received from contractee Rs. 31,00,000
Value of materials supplied by contractee Rs. 7,00,000
No books of account are maintained.
 - (d) The HUF has received dividend of Rs. 90,000 from shares held in a foreign company.
 - (e) Tuition fees of Rs.20,000 was paid for the purpose of part-time education of Ms. Champaka in an Indian college.
 - (f) The following sums have been paid by the HUF in respect of Life Insurance Premium:

Policyholder's name	Insurer	Premium (Rs.)	Late fee (Rs.)
Mrs. Padma	LIC	30,000	500
Guru	IRDA-approved private insurer	42,000	1,500

Part of the above premiums were paid from out of agricultural income of Rs. 60,000 derived from agricultural lands situated in Colombo.

You are required to compute the total income of Ramesh (HUF) for the assessment year 2008-09, showing clearly the computation under proper heads of income. You are also required to indicate with reasons, whether any item is to be considered in the hands of Ramesh (individual).

3. (a) M/s. Vivitha & Co., a partnership firm, with four partners A, B, C and D having equal shares, furnishes the following details, summarized from the valid returns of income filed by it:

Assessment year	Item eligible for carry forward and set off
2006-07	Unabsorbed business loss Rs. 1,20,000
2007-08	Unabsorbed business loss Rs. 1,90,000
2007-08	Unabsorbed depreciation Rs. 1,20,000
2007-08	Unabsorbed long-term Capital gains
	- from shares Rs. 1,10,000
	- from building Rs. 1,90,000

C who was a partner during the last three years, retired from the firm with effect from 1.4.2007.

The summarized results of the firm for the assessment year 2008-09 are as under

	Rs.
Income from house property	70,000
Income from business:	
Speculation	2,20,000
Non-speculation	(-) 50,000
Capital gains	
Short-term (from sale of shares)	40,000
Long-term (from sale of building)	2,10,000
Income from the other sources	60,000

Briefly discuss, how the items brought forward from earlier years can be set off in the hands of the firm for the assessment year 2008-09, in the manner most beneficial to the assessee. Also show the items to be carried forward. Computation of total income is not required.

- (b) Following benefits have been granted by Ved Software Ltd. to one of its employees Mr. Badri:

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(i) Housing loan @ 6% per annum. Amount outstanding on 1.4.2007 is Rs. 6,00,000. Mr. Badri pays Rs. 12,000 per month, on 5th of each month.

(ii) Air-conditioners purchased 4 years back for Rs. 2,00,000 have been given to Mr. Badri for Rs. 90,000.

Compute the chargeable perquisite in the hands of Mr. Badri for the assessment year 2008-09.

The lending rate of State Bank of India as on 1.4.2007 for housing loan may be taken as 10%.

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4. (a) Ms. Vasumathi purchased 10,000 equity shares of Rejesh Co. Pvt. Ltd. on 28.2.2004 for Rs. 1,20,000. The company was wound up on 31.7.2007. The following is the summarized financial position of the company as on 31.7.2007:

Liabilities	Rs.	Assets	Rs.
60,000 Equity shares	6,00,000	Agricultural lands	42,00,000
General reserve	40,00,000	Cash at bank	6,50,000
Provision for taxation	2,50,000		
	48,50,000		48,50,000

The tax liability (towards dividend distribution tax) was ascertained at Rs. 3,00,000, after considering refund due to the company. The remaining assets were distributed to the shareholders in the proportion of their shareholding. The market

value of 6 acres of agricultural land (in an urban area) as on 31.7.2007 is Rs. 10,00,000 per acre.

The agricultural land received above was sold by Ms. Vasumathi on 29.2.2008 for Rs. 15,00,000.

Discuss the tax consequences in the hands of the company and Ms. Vasumathi. Cost inflation indices are:

Financial year	Index number
2003-04	463
2007-08	551

- (b) Mr. Narendra, who retired from the services of Hotel Samode Ltd., on 31.1.2008 after putting on service for 5 years, received the following amounts from the employer for the year ending on 31.3.2008:

- Salary @ Rs. 16,000 p.m. comprising of basic salary of Rs. 10,000, Dearness allowance of Rs. 3,000, City compensatory allowance of Rs. 2,000 and Night duty allowance of Rs. 1,000.
- Pension @ 30% of basic salary from 1.2.2008.
- Leave salary of Rs. 75,000 for 225 days of leave accumulated during 5 years @ 45 days leave in each year.
- Gratuity of Rs. 50,000.

Compute the total income of Mr. Narendra for the assessment year 2008-09.

OR

4. (a) Mr. Dhaval and his wife Mrs. Hetal furnish the following information:

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	Rs.
(i) Salary income (computed) of Mrs. Hetal	4,60,000
(ii) Income of minor son, 'B' who suffers from disability specified in Section 80U	1,08,000
(iii) Income of minor daughter 'C' from singing	86,000
(iv) Income from profession of Mr. Dhaval	7,50,000
(v) Cash gift received by 'C' on 2.10.2007 from friend of Mrs. Hetal on winning of singing competition	48,000
(vi) Income of minor married daughter 'A' from company deposit	30,000

Compute the total income of Mr. Dhaval and Mrs. Hetal for the assessment year 2008-09.

- (b) Mr. Kalpesh borrowed a sum of Rs. 30 lakhs from the National Housing Bank towards purchase of a residential flat. The loan amount was disbursed directly to the flat promoter by the bank. Though the construction was completed in May, 2008, repayments towards principal and interest had been made during the year ended 31.3.2008.

In the light of the above facts, state:

- (i) Whether Mr. Kalpesh can claim deduction under Section 24 in respect of interest for the assessment year 2008-09;
- (ii) Whether deduction under Section 80C can be claimed for the above assessment year, even though the construction was completed only after the closure of the year.

5. Answer any **four** of the following five sub-divisions with regard to the provisions of the Income-tax Act, 1961:

4X4=16

- (a) How is advance salary taxed in the hands of an employee? Is the tax treatment same for loan or advance against salary?
- (b) Briefly discuss about the interest chargeable under Section 234A for delay or default in furnishing return of income.
- (c) List six items of expenses which otherwise are deductible shall be disallowed, unless payments are actually made within the due date for furnishing the return of income under Section 139(1). When can the deduction be claimed, if paid after the said date?
- (d) What are the due dates of instalments and the quantum of advance tax payable by companies?
- (e) Briefly explain the term "substantial interest". State any two situations in which the same assumes importance.

6. Answer any **five** of the following :

5x2=10

- (a) Briefly explain the nature of Service tax.
- (b) A particular service has been brought into the Service tax net with effect from 1.6.2007. Mr. Vignesh has provided this service on 20.5.2007; the payment for the same was received on 10.6.2007. Is Service tax payable on the same?
- (c) Mr. Saravanan has collected a sum of Rs. 15,000 as service tax from a client mistakenly, even though no service tax is chargeable for such service. Should the amount so collected be remitted to the credit of the Central Government?
- (d) Who are the persons liable to File Service tax returns?
- (e) Briefly explain the income variant of VAT.
- (f) What is the demerit of VAT from the view point that it is a form of consumption tax?

2+4

7. Ms. Priya rendered a taxable service to a client. A bill for Rs. 40,000 was raised on 29.4.2007; Rs. 15,000 was received from the client on 1.5.2007 and the balance on 23.5.2007. No service tax was separately charged in the bill. The questions are:

- (a) Is Ms. Priya liable to pay service tax, even though the same has not been charged by her?
- (b) Is case she is liable, what is the value of taxable service and the service tax payable?

8. Answer any **three** of the following:

3x3=9

- (a) Briefly explain about the charge of service tax.
- (b) Mr. Vasudevan has rendered freely, a service to a client which is taxable, but has not charged or received any fee from the client. Is service tax payable on such free service?
- (c) What are the different stages of VAT? Can it be said that the entire burden falls on the final consumer?
- (d) Briefly explain, how VAT helps in checking tax evasion and in achieving neutrality.