

PAPER-7
APPLIED DIRECT TAXATION

TEST PAPER – I/7/ADT/2008/T-4

Time Allowed: 3 Hours

Full Marks: 100

Answer Question No. 1 is compulsory and any two from the rest in this section.

Q1) (a) Choose the correct answer: 1* 8=8

- (i) The registration of a charitable trust can be cancelled under section 12AA of the Income-tax Act 1961 by;
- (a) Assessing officer;
 - (b) Commissioner of Income-tax;
 - (c) Chief Commissioner of Income-tax;
 - (d) Central Board of Direct Taxes.
- (ii) X Ltd has failed to remit the tax deducted at source from annual rent of Rs.6,60,000 paid to Mr. A for its office building. Said rent is
- (a) Fully allowable as a business expenditure
 - (b) Not allowable in view of section 40(a) (i);
 - (c) Allowable to the extent of 50%
 - (d) None of the above.
- (iii) In respect of listed shares held for 10 months sold on 12.8.2007, the rate of tax in respect of capital gains is;
- (a) 10%
 - (b) 20%
 - (c) 15%
 - (d) Not determinable, as the capital gains will form part of the total income whose other components are not known.
- (iv) In case of an investor in shares, in respect of shares sold, securities transaction tax paid (at the time of purchase of the said shares earlier)
- (a) To be added to the cost of acquisition;
 - (b) To be deducted as expenditure connected with transfer;
 - (c) Not deductible at all while computing capital gains;
 - (d) None of the above.
- (v) Expenditure incurred in carrying out illegal business is;
- (a) Not allowable as deduction in any case;
 - (b) Allowable as deduction, if gross total income is less than Rs.5 Lakhs;
 - (c) Allowable as deduction, in all cases;
 - (d) Allowable as deduction, if income from illegal business is offered.
- (vi) Any income chargeable under the head "Salaries" is exempt from tax under section 10(6) (viii), if it is received by any non-resident individual as remuneration for services rendered in connection with his employment in foreign ship where his total stay does not exceed a period of _____ days in that previous year;

- (a) 90
- (b) 182
- (c) 60
- (d) 120

(vii) Validity period of stay recovery granted by ITAT is;

- (a) 180 days;
- (b) One year;
- (c) Till final order is passed by the Tribunal;
- (d) Three years

(viii) In case of a rural hospital built after 31.3.2007 fulfilling the required conditions laid down in section 80IB (11), the profits and gains derived from running the hospital are;

- (a) Deductible in full;
- (b) Deductible to the extent of 50%;
- (c) Deductible to the extent of 75%;
- (d) Taxable in full,

(b) Please state regarding admissibility of the following expenditure in computing the business income:

- (i) Interest for late payment or non-payment of advance tax;
- (ii) Legal charges for obtaining loan from financial institutions;
- (iii) Expenses incurred in developing software programme;
- (iv) Additional depreciation on second hand machinery purchased.
- (v) Penalty paid for non-submission of VAT audit report in time;
- (vi) Annual listing fees paid to stock exchanges;
- (vii) Insurance premia paid by a firm on life insurance policies of its partners;
- (viii) Penalty of a compensatory nature paid for breach of a contract.

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(c) Write short notes

- 1) Section 43B
- 2) Special economic zone under Section 10A

2*2=4

- Q2)** (a) Discuss tax treatment of House Rent Allowance 2
- (b) An assessee had raised invoice of Rs. 20,000 in A.Y. 2002-03. He has not received the amount, but is very much hopeful of getting the amount. However, he has provided for that amount amount in 'provision for bad & doubtful debts', as three years are over. Can he claim deduction as a 'bad debts'? 2
- (c) Explain the terms 'Terminal Depreciation' & 'Balancing Charge' 4
- (d) What are the instances when income of previous year is charged in previous itself 8

Q3) Dr. Krishna furnishes you the following information :

Income & Expenditure Account for the year ended 31/03/08

Expenditure	in Rs.	Income	in Rs.
To Medicine Consumed	242,000	By Fees Receipts	
8,47,500			
To Staff Salary	1,65,000	By Rent	
27,000			

To Hospital Consumables	47,500	By Dividend from Indian Companies	
9,000			
To Administrative Expenses	60,000		
To Rent Paid	1,23,000		
To Net Profit	2,46,000		
	<u>8,83,500</u>		<u>8,83,500</u>

Additional Information:

- Rent paid includes rent for his residential accommodation of Rs. 30,000 (paid by cheque).
- Hospital Equipment (eligible for depreciation @15%)

01.04.07 Opening WDV	Rs.5,00,000
07.12.07 Acquired (Cost)	Rs.2,00,000
- Medicine consumed include medicines (cost) Rs. 10,000 used for Dr. Krishna's family
- Rent received relates to a property situated at Mysore (Gross Annual Value). The municipal tax of Rs. 2,000 paid in December 07 has been included in the "Administrative Expenses".
- He received Rs. 5,000 p.m. as salary from Full Care Hospital. This has not been included in the "Fee Receipts" credited to Income & Expenditure A/C.
- He sold a vacant site in July 06 for Rs 5,00,000. It was inherited by him from his father in January 2000. The site was acquired by his father in December 1992 for Rs. 1,50,000.

Compute Dr. Krishna's taxable income for the year ended 31/03/2008. 16

Q4) (a) From the following data furnished by R, determine the income of house property 31/03/2008 :

	Rs.
Annual value as per municipal records	1,60,000
Rent received from tenant	1,44,000
Municipal Tax paid by tenant on behalf of R	10,000
Interest on Borrowing Cost	10,000
Repairs on property paid by tenant	6,000
Refundable Deposit collected from tenant as a security deposit which does not carry any interest	3,00,000
The difference between unbuilt area & specified area is	10%

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(b) ABC is a partnership firm carrying on business, in which A,B&C are the partners sharing profits & loss equally-In respect of A.Y.2008-09, it furnishes the following particulars :

- Loss as per Profit & Loss Account after debiting remuneration to partners & sharing on their capital . Rs.2,50,000
- Remuneration to partners :A-90,000; B-60,000; C-30,000; in total 1,80,000
- Interest paid on capital :

	Capital as on 01/04/2007	Interest
A	Rs. 1,00,000	Rs. 20,000

B Rs. 1,00,000 Rs. 20,000
C Rs. 1,00,000 Rs. 20,000

You are required to workout the income of the firm & of the partners A, B & C assuming that the partners have no others income

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Q5) Mr. X came to India for the first time on 1st November, 2007. During his stay in India up to 30th October, 2008 he stayed at Bombay up to 10th May, 2008 and thereafter remained in Bangalore till his departure from India. Determine his residential status for the Assessment Year 2009 –10.

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Q6) X (36 Years) received the following emolument during the previous year 2008 – 09

Basic Pay	Rs.52,000
Commission	Rs.26,000
Free car facility for X and his family member only for private use (expenditure of the employer including normal wear and tear Rs.21,000)	Rs. 21,000
Entertainment allowance	Rs. 3,000

On October 1, 2008 the employer gives a housing loan of Rs. 170000 at 11per cent per annum(repayable in 15 years)

He contributes Rs. 6000 towards recognized provision fund his income from other sources is Rs. 100000.

Determine the taxable income and tax liability for the assessment year 2009 – 10 if :

- (a) X is an employee of POR, a partnership firm
- (b) X is an of Haryana Government since 1964.

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Q7) X purchased the following capital assets

	Year of purchase	Cost Rs.	Fair market value on April 1, 1981 Rs.
Gold	1974-75	20,000	60,000
Shares in Atul Ltd. (unlisted)	1979-80	1,10,000	70,000

X dies on August 5, 1997 and as per his will these assets are transferred to his son B.B sells these assets on June 5, 2008 for a total consideration of Rs. 11,50,000 (gold: 740000, shares: Rs. 4,10,000). Find out the amount of capital gains chargeable to tax for the assessment year 2009-10.

Q8) X, a resident individual, submits the following information, relevant for the previous year ending March 31, 2009:

Particular	Rs.
Income from salary (computed)	30,000
Income from house property	
House I	6,000
House II	(-)25,000
House III (self computed)	(-)5,000
Profit and Gains of business or profession	
Business I	8,000

Business II	(-)6,000
Business III (speculative)	(-)32,000
Business IV (speculative)	18,000
Capital gains	
Short – term capital loss	(-) 30,000
Long – term capital gains on transfer of preference shares	27,000
Income from other sources	
Income from card games	13,000
Income from betting	12,000
Loss on maintenance of race horses	(-)23,000
Income from owning and maintaining race camels	90,000

Determine the net income for the assessment year 2009-10.

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