

MAY 2010

PCE  
GROUP II-PAPER 5  
TAXATION

Roll No.....

Total No. of Questions—8]

[Total No. of Printed Pages—6

Time Allowed—3 Hours

Maximum Marks—100

### HOT

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, his answers in Hindi will not be valued.

Answer **all** questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

Marks

1. Answer the following with reasons having regard to the Provisions of the Income-tax Act, 1961 for the Assessment Year 2010-11 : 5×2  
=10
- (i) State the scope of total income in the case of an individual, whose residential status is 'non-resident' with reference to Section 5(2) of the Act.
- (ii) Mr. X a citizen of India received salary from the Government of India for the services rendered outside India. Is the salary income chargeable to tax ?
- (iii) Mr. Anil earned Rs. 5,00,000 from sale of Coffee grown and cured (processed) by him. He claims the entire income as agricultural income, hence exempt from tax. Is he correct ?
- (iv) What is the time limit for filing application seeking registration in the case of Charitable Trusts/Institutions under Section 12AA of the Act ?
- (v) In what status and tax rate Limited Liability Partnership (LLP) is taxed under the Act ?

HOT

P. T. O.

2. Mr. Raman (aged 70 years), Karta of a Hindu Undivided Family (HUF) furnishes the following information for the Financial Year 2009-10 : 20

- (i) Income from the business of Poultry farming Rs. 4,00,000.
- (ii) Income by way of winning from Horse race Rs. 30,000 (Horse race won on 28.2.2010)
- (iii) Net profit from the business of dealing in Equity shares Rs. 88,500. (Computed after deducting Securities Transaction Tax (STT) of Rs. 11,500).
- (iv) Brought forward business loss relating to discontinued automobile business Rs. 38,500 (relates to Assessment Year 2007-08).
- (v) Payment of Life Insurance Premium (on self) Rs. 22,500.
- (vi) Contribution to Pension Fund of LIC Rs. 17,500.
- (vii) Contribution made in the name of a member of HUF in Public Provident Fund Account Rs. 20,000.
- (viii) Interest income from Company deposits Rs. 15,100.
- (ix) Housing Loan principal repaid Rs. 30,000.
- (x) Interest on Housing loan Rs. 36,000 (actually paid Rs. 25,000).
- (xi) The HUF gave the right to receive furniture rent of Rs. 26,000 per annum by Mrs. Raman without transferring the ownership rights in her favour.

The HUF owns a residential property which has three identical residential units. Unit 1 and Unit 2 are self occupied by the members of the HUF for residential purpose. Municipal tax paid @ Rs. 5,000 per annum for each residential unit.

Unit 3 is let out for a rent of Rs. 8,000 per month. The tenant paid the Municipal tax in respect of Unit 3 as per agreement.

The Assessee realised Rs. 1,20,000 on 16.4.2009 as per court order towards arrear rent for the period from 1.1.2007 to 31.12.2008.

Compute the Total Income and tax payable for the Assessment Year 2010-11.

3. (a) Mr. John commenced a proprietary business in the year 2000. His capital as on 1.4.2008 was Rs. 6,00,000. 8

On 10.4.2008 his wife gifted Rs. 2,00,000 which he invested in the business on the same date.

Mr. John earned profit from his proprietary business as given below :

Previous year 2008-09 = Profit Rs. 3,00,000

Previous year 2009-10 = Profit Rs. 4,40,000

Compute the Income from business chargeable to tax in the hands of Mr. John for the Assessment Year 2010-11.

During the Financial Year 2009-10, he sold a vacant site which resulted in chargeable long-term capital gain of Rs. 5,00,000 (computed). The vacant site was sold on 20.12.2009.

Compute the total income and tax liability of Mr. John and the instalments of advance tax payable for the Financial Year 2009-10.

- (b) Mr. Prakash has the following Assets which are eligible for depreciation at 15% on Written Down Value (WDV) basis : 7

1.4.2006 WDV of plant 'X' and Plant 'Y' Rs. 2,00,000

10.12.2009 Acquired a new plant 'Z' for Rs. 2,00,000

22.1.2010 Sold Plant 'Y' for Rs. 4,00,000

Expenditure incurred in connection with transfer Rs. 10,000

Compute eligible depreciation claim/chargeable capital gain if any, for the Assessment Year 2010-11.

4. (a) State with reasons, whether tax deduction at source provisions are applicable to the following transactions and if so, the rate of tax deduction : 8

(i) An Insurance Company paid Rs. 45,000 as Insurance Commission to its agent Mr. Hari.

(ii) X & Co. (Firm) engaged in wholesale business assigned a contract for construction of its godown building to Mr. Ravi, a contractor. It paid Rs. 25,00,000 to Mr. Ravi as contract payment.

(iii) AB Ltd. allowed a discount of Rs. 50,000 to XY & Co. (a firm) on prompt payment of its dues towards supply of automobile parts.

(iv) Y & Co. engaged in real estate business conducted a lucky dip and gave Maruti car to a prize winner.

Note : Assume that all the facts given above relate to Financial Year 2009-10.

(b) Mr. Banerjee furnishes you the following details for the year ended 31.3.2010 : 6

Income (loss) from house property	Rs.
House-1	36,000
House-2-Self occupied	(20,000)
House-3	60,000
Profits and gains from Business or Profession	
Textile Business	2,00,000
Automobile Business	(3,00,000)
Speculation Business	2,00,000
Capital Gains	
Long-term capital gain from sale of shares (STT paid)	1,50,000
Long-term capital gain from sale of vacant site	2,00,000
Short-term capital loss from sale of building	1,00,000

(Note : Assume that the figures given above are computed and arrived at after considering eligible deductions).

Other sources :

Gift from a Friend (non-relative) on 5.6.2009	60,000
Gift from Maternal Uncle on 25.2.2010	1,00,000
Gift from Grandfather's Younger Brother on 10.2.2010	1,00,000

Compute the total income of Mr. Banerjee for the Assessment Year 2010-11.

**HOT**

Marks

5. Answer the following with reference to Income-tax Act, 1961 : 4×4=16

- (i) Briefly explain the term 'Manufacture' defined in Section 2 (29BA).
- (ii) In whose hands the income from an asset is chargeable to tax in the case of transfer which is not revocable during the life time of the beneficiary/transferee ?
- (iii) List the conditions for deduction under Section 80-1D for hotels located in specified district having "World Heritage Site".
- (iv) State the provisions for self assessment prescribed under Section 140A of the Act.

6. Answer the following : 5×2=10

- (i) Is Service tax payable on free-service ?
- (ii) State the due dates for payment of Service tax in the case of an individual rendering taxable service.
- (iii) A Company located in the State of Jammu & Kashmir rendered service in Delhi. Is the service provided by the Company liable for Service tax ?
- (iv) Do you agree with the statement that 'Tax cannot be evaded under VAT system' ?
- (v) Mr. Raj rendered taxable service in February, 2010. The amount was however realised on 18.4.2010. What is the due date for payment of Service tax ?

7. X & Co. received the following amounts : 6

Date of receipt	Nature of receipt	Amount	Time of providing Service
20.4.2009	For service	Rs. 1,00,000	Services rendered in July, 2009
30.6.2009	Advance for service	Rs. 5,00,000	Services were rendered in July and August, 2009
5.8.2009	For service	Rs. 50,000	For services rendered in March, 2009
10.9.2009	Advance for service	Rs. 3,50,000	A sum of Rs. 50,000 was refunded in April, 2010 after termination of agreement. For the balance amount, service was provided in September, 2009.

**HOT**

P. T. O.

Compute :

- (i) The amount of taxable service for the first two quarters of the Financial Year 2009-10.
- (ii) The amount of Service tax payable.
8. (a) Compute the VAT liability of Mr. P Kapoor for the month of October, 2009, using the 'Invoice method' of Computation of VAT. 3×3  
=9

Purchases from the local market

(Includes VAT @ 4%)

Rs. 65,000

Storage cost incurred

Rs. 750

Transportation Cost

Rs. 1,750

Goods sold at a margin of 5% on the cost of such goods.

VAT rate on Sales 12.5%.

- (b) State briefly about Provisional payment of Service tax.
- (c) What are the three variants of VAT ? Which of these methods is most widely used and why ?