

MAY 2011

PCE
GROUP II-PAPER 5
TAXATION

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 12

Time Allowed – 3 Hours

Maximum Marks – 100

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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 has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. 1 is compulsory.

Attempt any **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

- | | Marks |
|---|--------------------|
| 1. (a) Mr. Praveen engaged in retail trade, reports a turnover of ₹ 58,50,000 for the financial year 2010-11. His income from the said business as per books of account is computed at ₹ 2,90,000. Retail trade is the only source of income for Mr. Praveen. | 4×5
=20 |
| (i) Is Mr. Praveen eligible to opt for presumptive determination of his income chargeable to tax for the assessment year 2011-12 ? | |
| (ii) If so, determine his income from retail trade as per the applicable presumptive provision. | |
| (iii) In case, Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961 ? | |
| (iv) What is the 'due date' for filing his return of income, under both the options ? | |
| (b) Rahul holding 28% of equity shares in a company took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹ 4,00,000. The company is engaged in some manufacturing activity. | |
| (i) Is the amount of loan taxable as deemed dividend in the hands of Rahul, if the company is a company in which the public are substantially interested ? | |

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- (ii) What would be your answer, if the lending company is a private limited company (i.e.) a company in which the public are not substantially interested ?
- (c) Mr. Chandru transferred a vacant site on 28-10-2010 for ₹ 100 lakhs. The site was acquired for ₹ 9,99,300 on 30-6-2000. He deposited ₹ 50 lakhs in eligible bonds issued by Rural Electrification Corporation Ltd. (REC) on 20-3-2011. Again, he deposited ₹ 20 lakhs in eligible bonds issued by National Highways Authority of India (NHAI) on 16-4-2011.
- Compute the chargeable capital gain in the hands of Chandru for the assessment year 2011-12.

Financial year	Cost Inflation Index
2000 – 01	406
2010 – 11	711

- (d) ABC & Co. furnishes the following information for the half-year ended 31-03-2011 :
- (i) Amount received for services provided to UNICEF, (an international organization) ₹ 2,00,000.
- (ii) Advance money received from customers ₹ 4,00,600 in respect of which services were not rendered till 31-03-2011.
- (iii) Services billed during the half-year excluding item (i) and (ii) above, was ₹ 15,00,000 plus service tax and cess @ 10.3%.
- It consists of the following :
- (a) One customer 'X' to whom a bill of ₹ 2,20,600 plus service tax and cess @ 10.3% raised, did not pay service tax and cess.
- (b) Customer 'Y' to whom a bill was raised for ₹ 1,00,000 plus service tax and cess has not paid the amount till 31-03-2011.
- (c) The balance amounts billed during the year were realized fully.

Compute the value of taxable service on which service tax is payable.

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2. (a) Mr. Rajiv (aged 50 years) a resident individual and practicing Chartered Accountant furnishes you the receipts and payments account for the financial year 2010-11.

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Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1-4-2010)		Staff salary, bonus and stipend to articled clerks	1,50,000
Cash on hand and at Bank	12,000		
Fee from professional services	9,38,000	Other administrative expenses	48,000
		Office rent	30,000
Rent	50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium	24,000
Motor car loan from Canara Bank (@ 9% per annum)	2,50,000	Motor car (acquired in Jan. 2011)	4,25,000
		Medical insurance premium (for self and wife)	18,000
		Books bought of annual publications	20,000
		Computer acquired on 1-11-2010 (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31-3-2011)	
		Cash on hand and at Bank	15,000
	12,50,000		12,50,000

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Following further information is given to you :

- (1) He occupies 50% of the building for own residence and let 'out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 01-04-2010 are given below :

Furniture & Fittings = ₹ 60,000

Plant & Machinery = ₹ 80,000

(Air-conditioners, Photocopiers, etc.)

Computers = ₹ 50,000

Note : Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the assessment year 2011-12.

- (b) Ahmed & Co. of Srinagar rendered taxable services both within and outside the State of Jammu & Kashmir. It received ₹ 26,12,000 for the services rendered inside the State of Jammu & Kashmir and ₹ 18,00,000 for the services rendered outside the State of Jammu & Kashmir.

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Compute its taxable service value and service tax liability.

In case, Ahmed & Co. was situated in Mumbai what would be value of its taxable service and service tax liability ?

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1. (a) Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2010-11 :

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(i) Medical facility given to his family in a hospital maintained by the company. The estimated value of benefit because of such facility is ₹ 40,000.

(ii) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).

In case, the company has employed the domestic servant, what is the value of perquisite ?

(iii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.

(iv) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.

(v) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.

State the taxability or otherwise of the abovesaid perquisites and compute the total value of taxable perquisites.

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(b) State whether filing of income-tax return is mandatory for the assessment year 2011-12 in respect of the following cases : 4

(i) Research association eligible for exemption under section 10(21) having total income of ₹ 2,10,000.

(ii) Registered trade union eligible for exemption under section 10(24) having following incomes :

Income from house property (computed) ₹ 60,000

Income from other sources (computed) ₹ 40,000

(iii) A charitable trust registered under section 12AA, having total income of ₹ 1,90,000.

(iv) A Limited Liability Partnership (LLP) with business loss of ₹ 1,30,000.

(c) State with reasons whether the following are liable for service tax : 4

(i) Services rendered to Reserve Bank of India.

(ii) Services rendered by a sub-contractor.

(iii) Services provided to developer of special economic zone.

(iv) Services rendered to associated enterprise.

4. (a) Decide the following transactions in the context of Income-tax Act, 1961 : 6

(i) Mr. B transferred 500 shares of Reliance Industries Ltd. to M/s. B Co. (P) Ltd. on 10-10-2010 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co (P) Ltd. because of the abovesaid transaction.

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- (ii) Ms. Chhaya transferred a vacant site to Ms. Dayama for ₹ 4,25,000. The stamp valuation authority fixed the value of vacant site for stamp duty purpose at ₹ 6,00,000. The total income of Chhaya and Dayama before considering the transfer of vacant site are ₹ 50,000 and ₹ 2,05,000 respectively. The indexed cost of acquisition for Ms. Chhaya in respect of vacant site is ₹ 4,00,000 (computed).

Determine the total income of both Ms. Chhaya and Ms. Dayama taking into account the abovesaid transaction.

- (iii) Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a cash gift of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AA) in December 2010 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chezian ?

- (b) Balamurugan furnishes the following information for the year ended 31-03-2011 :

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	₹
Income from business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	3,00,000
Speculation business income	1,00,000
Income by way of salary	60,000
Long term capital gain	70,000

Compute his total income, tax liability and advance tax obligations.

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- (c) A manufacturer sold goods to distributor for ₹ 20,000. The distributor sold the goods to the wholesaler for ₹ 24,000. The wholesaler sold the goods to the retailer for ₹ 30,000. The retailer sold the goods to the final consumer for ₹ 40,000. The VAT rate is 12.5% which is charged separately.

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Compute VAT liability under Invoice method. State why this method is preferable ?

5. (a) Mr. Chaturvedi having gross total income of ₹ 6,35,000 for the financial year 2010-11 furnishes you the following information :

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- (i) Deposited ₹ 50,000 in tax saver deposit in the name of major son in a nationalized bank
- (ii) Paid ₹ 25,000 towards premium on life insurance policy of his married daughter.
- (iii) Purchased approved long-term infrastructure bonds for ₹ 25,000 in January 2011.
- (iv) Contributed ₹ 10,000 to Prime Minister's National Relief Fund.
- (v) Donated ₹ 20,000 to a Government recognized institution for scientific research.

Note : Assume that the gross total income of Mr. Chaturvedi does not include any income under the head 'profits and gains of business or profession'.

Compute the total income of Mr. Chaturvedi for the assessment year 2011-12.

- (b) List any 5 instances where the tax deductible at source in terms of section 194A will not apply.

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- (c) When does e-payment and e-filing of service tax return become mandatory ? Explain.

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6. (a) X Co. (P) Ltd., converted into a Limited Liability Partnership (LLP) by name All Trade LLP, with effect from 01-04-2010. 4

The following details are given to you :

Asst. year 2003-04 : Business loss brought forward ₹ 2,00,000

Asst. year 2010-11 : Business loss brought forward ₹ 5,00,000

(These are related to erstwhile X Co. (P) Ltd.)

Total income of All Trade LLP, for the financial year 2010-11 ₹ 6,00,000

(Before set off of brought forward business losses of erstwhile company i.e. X Co. (P) Ltd.)

Assume that all the conditions prescribed in section 47(xiiiib) were satisfied by X Co. (P) Ltd. at the time of conversion in to LLP.

- (i) Explain whether All Trade LLP can set off and carry forward the business loss of its predecessor i.e. X Co. (P) Ltd. ?
- (ii) State whether any change in partners of All Trade LLP, at a later date would have any tax consequence ?

- (b) Ramamurthy had 4 heavy goods vehicles as on 1-4-2010. He acquired 7 heavy goods vehicles on 27-6-2010. He sold 2 heavy goods vehicles on 31-5-2010. 4

He has brought forward business loss of ₹ 50,000 relating to assessment year 2007-08 of a discontinued business. Assuming that he opts for presumptive taxation of income as per section 44AE, compute his total income chargeable to tax for the assessment year 2011-12.

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- (c) Win Limited commenced the business of operating a three star hotel in Tirupati on 1-4-2010. 4

It furnishes you the following information :

- | | | |
|-------|--|-------------|
| (i) | Cost of land (acquired in June 2008) | ₹ 60 lakhs |
| (ii) | Cost of construction of hotel building | |
| | Financial year 2008-09 | ₹ 30 lakhs |
| | Financial year 2009-10 | ₹ 150 lakhs |
| (iii) | Plant and Machineries (all new) | |
| | acquired during financial year 2009-10 | ₹ 30 lakhs |

[All the above expenditures were capitalized in the books of the company]

Net profit before depreciation for the financial year 2010-11 ₹ 80 lakhs

Determine the amount eligible for deduction under section 35AD of the Income-tax Act, 1961, for the assessment year 2011-12.

- (d) How excess payment of service tax would be adjusted against service tax liability of subsequent periods ? State the applicable conditions. 4

7. (a) Answer any **three** sub-parts out of **four** sub-parts of the question. 3×4

=12

(i) What are the conditions to be satisfied for the allowability of expenditure under section 37 of the Income-tax Act, 1961 ?

(ii) Answer the following with reference to the provisions of the Income-tax Act, 1961 :

- (a) Bad debt claim disallowed in an earlier assessment year, recovered subsequently. Is the sum recovered, chargeable to tax ?

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- (b) Return of income of a company was signed by the Company Secretary. Is the return a valid return ?
- (c) Tax deducted at source on salary paid to employees not remitted till the 'due date' for filing the return prescribed in section 139. Is the expenditure to be disallowed under section 40a(ia) ?
- (d) X Co. Ltd. paid ₹ 120 lakhs as compensation as per approved Voluntary Retirement Scheme (VRS) during the financial year 2010-11.
How much is deductible under section 35 DDA for the assessment year 2011-12 ?

(iii) Ashwin doing manufacture and wholesale trade furnishes you the following information :

Total turnover for the financial year	₹
2009-10	45,00,000
2010-11	55,00,000

State whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2010-11 :

	₹
Interest paid to UCO Bank	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each)	24,000
Shop rent paid (one payee)	1,90,000
Commission paid to Balu	7,000

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(iv) Y Co. Ltd. furnishes you the following information for the year ended 31-3-2011 :

	₹
Total turnover of Unit A located in Special Economic Zone	100 lakhs
Profit of the business of Unit A	30 lakhs
Export turnover of Unit A	50 lakhs
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200 lakhs
Profit of the business of Unit B	20 lakhs

Compute deduction under section 10AA for the assessment year 2011-12.

7. (b) Briefly state the contents of VAT invoice (any 8 items).

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