

Roll No.

FCE
GROUP II-PAPER 5
TAXATION

Total No. of Questions – 7

NOV 2012

Total No. of Printed Pages – 12

Time Allowed – 3 Hours

Maximum Marks – 100

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Answer 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.

Wherever required, suitable assumptions may be made by the candidates and stated clearly in the answer. Working notes should form part of the answer.

- | | Marks |
|---|--------------------|
| 1. (a) State with reasons whether the following transactions attract income-tax in India in the hands of recipients : | 4×5
=20 |
| (i) Salary paid by Central Government to Mr. John, a citizen of India ₹ 7,00,000 for the services rendered outside India. | |
| (ii) Interest on moneys borrowed from outside India ₹ 5,00,000 by a non-resident for the purpose of business within India say, at Mumbai. | |
| (iii) Post office savings bank interest of ₹ 12,000 received by a resident assessee say, Mr. Ram. | |
| (iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India. | |
| (v) Legal charges of ₹ 5,00,000 paid to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court. | |

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- (b) MNO Ltd., has one undertaking at Special Economic Zone (SEZ) and another at Domestic Tariff Area (DTA). Following are the details given to you for the financial year 2011-12 :

	₹ in lakhs	
	Unit in SEZ	Unit in Domestic Tariff Area (DTA)
Total Sales	200	100
Export Sales	150	80
Net Profit	40	10

Compute the quantum of eligible deduction under section 10AA for the assessment year 2012-13 in the following situations :

- (i) Both the units were set up and began manufacturing from 25-07-2006.
- (ii) Both the units were set up and began manufacturing from 10-04-2008.
- (c) Smt. Laxmi reports the following transactions to you :
- (i) Received cash gifts on the occasion of her marriage on 18-7-2011 of ₹ 1,20,000. It includes gift of ₹ 20,000 received from non-relatives.
- (ii) On 1-8-2011 being her birthday, she received a gift by means of cheque from her mother's maternal uncle. The amount being ₹ 40,000.
- (iii) On 1-12-2011 she acquired a vacant site from her friend for ₹ 1,05,000. The State stamp valuation authority fixed the value of site at ₹ 1,80,000 for stamp duty purpose.

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- (iv) She bought 100 equity shares of a listed company from another friend for 60,000. The value of share in the stock exchange on the date of purchase was ₹ 1,15,000.

Determine the amounts chargeable to tax in the hands of Smt. Laxmi for the Assessment year 2012-13.

Your answer should be supported by reasons.

- (d) ABC Ltd., rendering a taxable service furnishes you the following information for the month of January, 2012 :

	₹
(i) Total bills raised for which amounts were received	18,00,000
(ii) Advance received for services to be rendered for which bills were not raised	1,50,000

(services were actually rendered in the month of March 2012)

- (iii) Bills raised during the month of January 2012 given in (i) 1,80,000 above, includes services rendered in Jammu & Kashmir.

- (iv) Services rendered to associated enterprise in January 2012 50,000

(No bill was raised but accounting entries were made in the books of account)

Assume that the amounts given above are inclusive of service tax and cess at 10.30% wherever applicable.

Compute the value of taxable service and service tax liability (including cess) of ABC Ltd for the month of January 2012.

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2. (a) Mr. Vishal is a resident individual. His Profit & Loss Account for the year 12 ended 31st March, 2012 is given below :

	₹		₹
To Staff Salary	3,57,500	By Gross profit	13,55,500
To Office Rent	78,000	By Interest on Post Office Monthly Income scheme	98,400
To Administrative Expenses	2,14,000	By Bank F.D. interest (Net of TDS of ₹ 7,000)	63,000
To Income-tax	1,60,000	By Rent (on let out property)	66,000
To Depreciation	67,500	By Winning from lotteries (Net of TDS of ₹ 7,500)	17,500
To Net Profit	7,23,400		
	16,00,400		16,00,400

Following further information is given to you :

- During the financial year 2011-12, he deposited ₹ 85,000 in to his Public Provident Fund Account (i.e. on 27-3-2012)
- He received annual salary of ₹ 1,20,000 and annual Commission of ₹ 60,000 from a partnership firm in the capacity of working partner. It is fully chargeable to tax under section 28 (v).
- Received annuity pension of ₹ 72,500 from LIC of India.
- Paid medical insurance premium of ₹ 21,850. The medical insurance was on self. Mr. Vishal is not a senior citizen.
- Life Insurance Premium of ₹ 25,000 was paid on the policy standing in the name of his wife Sujatha.

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(vi) Administrative expenses include ₹ 5,000 being municipal tax on let out property.

(vii) Depreciation eligible as per Income-tax Act, amounts to ₹ 57,000.

Compute the total income of Mr. Vishal for the Assessment year 2012-13.

(b) Mr. Arvind furnishes you the following information :

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	₹
Opening stock of finished goods and raw materials	Nil
Purchase of raw material within State (excluding VAT @ 5%)	1,80,000
Purchase of raw material : inter-state (including CST @ 2%)	51,000
Manufacturing expenses	70,000
Sales (excluding VAT 5%)	4,00,000
Closing stock of finished goods and raw materials	50,000

Compute the VAT liability of Mr. Arvind.

3. (a) Honest Industry furnishes you the following details pertaining to the financial year 2011-12 :

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Description	Plant & Machinery	Building	Intangible assets (patents)
Rate of depreciation	15%	10%	60%
Opening balance as on 01-04-2011	₹ 14,50,000	₹ 25,00,000	₹ 15,00,000
Acquired before 30-09-2011	₹ 12,00,000	Nil	₹ 5,00,000
Acquired after 01-12-2011	₹ 4,00,000	₹ 18,00,000	Nil
Transferred in March 2012 one of the patents held for the past 2 years	-	-	₹ 3,00,000

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A machinery acquired in July 2011 original cost ₹ 1,50,000 was destroyed by fire and the assessee received compensation of ₹ 50,000 from the insurance company.

Newly acquired building given above includes value of land of ₹ 3,00,000.

Calculate the eligible depreciation claim for the assessment year 2012-13.

Note : Ignore additional / accelerated depreciation.

- (b) Mr. Paari, a resident individual acquired a plot of land at a cost of ₹ 75,000 in June, 1999. He constructed a house for his residence on that land at a cost of ₹ 1,25,000 in the financial year 2001-02.

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He transferred the house for ₹ 15,00,000 in May, 2011 and acquired another residential house in June, 2011 for ₹ 8,00,000.

He furnishes other particulars as under :

Insurance agency commission earned 45,000

(Net of TDS of ₹ 5,000)

Investment in NSC VIII issue 20,000

(i.e. on 20-3-2012)

Cost inflation index details are given below :

<u>Financial Year</u>	<u>Cost Inflation Index</u>
1999 – 2000	389
2001 – 2002	426
2011 – 2012	785

Compute the total income of Mr. Paari for the assessment year 2012-13.

- (c) Explain the meaning of the expression 'Pure Agent' in the context of service tax.

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4. (a) Mr. Alok a Government employee retired from service on 31-7-2011 after rendering service of 25 years and 7 months. He received gratuity of ₹ 7,00,000. 4

His salary at the time of retirement was as under :

Basic salary ₹ 16,000 p.m.

Dearness Allowance ₹ 8,000 p.m. (eligible for retirement benefits)

- (i) Compute the taxable portion of gratuity.
- (ii) If Mr. Alok is not a Government employee but covered by Payment of Gratuity Act, 1972 determine the taxable and exempt portion of gratuity.

- (b) Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and 1,08,000 (per annum) respectively. 8

During the Financial Year 2011-12, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. Remaining two-third portion was self-occupied by him. Municipal tax @ 11% of municipal value was paid during the year.

The construction of the house began in June 2004 and was completed on 31-5-2007.

Vikas took a loan of ₹ 1,00,000 on 1-7-2004 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the Assessment Year 2012-13.

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- (c) Compute the interest payable for the delayed payment of service tax by the service providers in the following cases : 4

Name of the service provider	XYZ Ltd.	Mr. Pravin
Service tax liability	₹ 1,23,600	₹ 2,16,000
Delay in payment of service tax	20 days	25 days

The aggregate value of taxable services rendered in the previous financial year 2011-12 by XYZ Ltd. was ₹ 40 lakhs and by the service provider Mr. Pravin was ₹ 62 lakhs.

Assume that the service tax liability and the delay given above relates to a period in the financial year 2012-13.

5. (a) State the conditions to be satisfied by an individual whose total income does not exceed ₹ 5,00,000 for availing exemption from filing of return of income for the Assessment Year 2012-13. 4
- (b) Raghav Industries Ltd furnishes you the following information for the year ended 31-03-2012 : 8
- Scientific research expenditure related to its business ₹ 2,40,000 fully of revenue in nature.
 - Building acquired for scientific research (including cost of land ₹ 5,00,000) in June 2011 for ₹ 12,00,000.
 - Amount paid to Indian Institute of Science, Bangalore for scientific research ₹ 50,000.
 - Demerger expenses incurred in financial year 2010-11 ₹ 5,00,000.

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- (v) Contribution to the account of employees as per pension scheme referred to in section 80CCD amounted to ₹ 30,00,000. Amount above 10% of the salary of employees is ₹ 7,00,000.
- (vi) Amount recovered from employees towards provident fund contribution ₹ 12,00,000 of which amount remitted upto the end of the year was ₹ 7,00,000 and the balance was remitted before the 'due date' for filing the return prescribed in Section 139(1).
- (vii) Tax on non-monetary perquisites provided to the employees, borne by the employer ₹ 4,50,000.
- (viii) Gain due to change in the rate of exchange of foreign currency ₹ 1,00,000 related to import of machinery. The machinery was acquired two years ago and put to regular use since then.

Explain in brief how the above said items would be dealt with for the Assessment year 2012-13.

Note : Computation of total income not required.

- (c) State with reasons whether the following are true or false in the context of service tax : **4**
- (i) Free after sales service is also liable for service tax.
- (ii) Service tax returns have to be electronically filed by all service tax assessees on mandatory basis.
- (iii) Service tax return need not be filed where no taxable services were rendered in the relevant half-year:
- (iv) Service tax return can be revised within 120 days after it was filed.

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6. (a) State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year. 4
- (b) Calculate the income-tax liability for the assessment year 2012-13 in the following cases : 4

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Resident	Non-resident	Resident	Non-resident
Total income other than long-term capital gain	2,40,000	2,30,000	5,90,000	4,80,000
Long-term capital gain	15,000 from sale of vacant site	10,000 from sale of listed shares (STT* paid)	60,000 from sale of agricultural land in rural area	Nil

*Security Transaction Tax.

- (c) Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2011-12 furnishes you the following information : 4
- (i) Stamp duty paid on acquisition of residential house (self-occupied) ₹ 50,000.
- (ii) Five year time deposit in an account under Post Office Time Deposit Rules, 1981 ₹ 20,000.
- (iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate.

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(iv) Interest on loan taken for higher education of spouse paid during the year ₹ 10,000.

(v) Investment in long-term infrastructure bonds of Life Insurance Corporation of India ₹ 40,000.

Compute the total income of Mr. Rajmohan for the Assessment year 2012-13.

(d) State the conditions to be satisfied for provisional payment of service tax. 4

7. (a) Mr. Balaji furnishes you the following information for the financial year ended 31st March, 2012 : 8

	₹
Pension from Central Government	2,47,000
Rent from let out property	2,40,000
Interest on moneys borrowed for let out property – paid	1,60,000
Interest on moneys borrowed for let our property – unpaid	12,000
Income from business in trade in grains and pulses	4,10,000
Loss from speculation in grains and pulses	50,000
Loss from speculation in Jewellery	80,000
Unabsorbed depreciation of discontinued textiles business of assessment year 2010-11	2,00,000

He let out a factory building with machinery for a monthly rent of ₹ 20,000.

The WDV of factory building as on 01-04-2011 was ₹ 8,10,000 (depreciation rate 10%) and WDV of machineries being ₹ 4,91,300 (depreciation rate 15%).

Compute the total income of Mr. Balaji for the Assessment year 2012-13.

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- (b) State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2011-12 : 4
- (i) Winning by way of jackpot in a horse race ₹ 1,00,000.
 - (ii) Payment made by a firm to sub-contractor ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2012.
 - (iii) Rent paid for plant and machinery ₹ 1,50,000 by a partnership firm having sales turnover of ₹ 20,00,000 and net loss of ₹ 15,000.
 - (iv) Payment made to Ricky Ponting an Australian cricketer by a newspaper for contribution of articles ₹ 25,000.

Either

- (c) Explain the 'invoice method' of computing tax liability under VAT system. 4

OR

Do you agree that VAT being a consumption tax is a burden on the poor than the rich ? Justify your view.

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