

PCC NOV 07 (TAXATION)

Answer all Questions

1. Answer any five out of the following six sub-divisions, with reference to the provision of the Income-tax Act, 1961 for the assessment year 2007-08:
- (a) X, Ltd. follows mercantile system of accounting. After negotiations with the bank, interest of Rs.4 lakhs (including interest of Rs.1.2 lakhs pertaining to year ended 31.03.2007) has been converted into loan. Can the interest of Rs.1.2 lakhs so capitalized be claimed as business expenditure?
 - (b) Can a Primary Cooperative Agricultural and Rural Development Bank claim deduction under Section 80P in respect of income derived from the business of banking?
 - (c) The total income of a University without giving effect to exemption under Section 10(23C) is Rs.46 lacs. Its total income however is nil. Should the University file its return of income?
 - (d) Discuss with brief reasons, whether true or false
 - (i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.
 - (ii) Tax on fringe benefits provided for employment is payable by all employers.
 - (iii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a resident as rent or royalty, will result in disallowance while computing the business income.
(5x2= 10 marks)

2. Ramdin working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.07:

➤ Basic Salary	Rs. 15,000 PM
➤ DA (50% of it is meant for retirement benefits)	Rs. 12,000 PM
➤ Commission as a percentage of turnover of the Company	0.5%
➤ Turnover of the Company	Rs. 50 lacs
➤ Bonus	Rs. 50,000
➤ Gratuity	Rs. 30,000
➤ Own Contribution to R.P.F.	Rs. 30,000
➤ Employer's contribution to R.P.F.	20% of basic salary
➤ Interest credited in the R.P.F. account @ 15% P.A.	Rs. 15,000
➤ Gold Ring worth Rs.10,000 was given by employer on his 25 th wedding anniversary.	
➤ Music System purchased on 02.04.06 by the Company for Rs. 85,000 and was given to him for personal use.	
➤ Two old heavy goods vehicles owned by him were leased to a transport company against the fixed charges of Rs. 6,500 p.m. Books of account are not maintained.	
➤ Received interest of Rs. 5,860 on bank FDRs, Dividend of Rs.1,260 from shares of Indian Companies and interest of Rs.7,540 from the debentures of Indian Companies.	
➤ Made payment by cheques of Rs.15,370 towards premium on Life Insurance policies and Rs. 12,500 for Mediclaim Insurance policy.	
➤ Invested in 6 years NSC Rs.30,000 and in FDR of SBI for 7 years Rs.50,000.	
➤ Donations of Rs.11,000 to an institution approved u/s 80G and of Rs.5,100 to Prime Minister's National Relief Fund were given during the year.	

Compute the total income and tax payable thereon for the A.Y.2007-08.
(20 marks)

(20 marks)

3.

- (a) Vivitha Bio-medicals Ltd. is engaged in the business of manufacture of bio-medical items. The following expenses were incurred in respect of activities connected with scientific research:

Year ended	Item	Amount (Rs.)
31.04.2004	Land	10,00,000
(Incurred after 1.9.2003)	Building	25,00,000
31.03.2005	Plant and machinery	5,00,000
31.03.2006	Raw materials	2,20,000
31.03.2007	Raw materials and salaries	1,80,000

The business was commenced on 01.09.2006.

In view of availability of better model plant and machinery, the existing plant and machinery were sold for Rs.8,00,000 on 1.03.2007.

Discuss the implications of the above for the assessment year 2007-08 along with brief computation of deduction permissible under Section 35, assuming that necessary conditions have been fulfilled. You are informed that the assessee's line of business is eligible for claiming deduction under Section 35 at 150% on eligible items.
(7 marks)

- (b) Mrs. Malini Hari shifted her industrial undertaking located in corporation limits of Faridabad, to a Special Economic Zone (SEZ) on 1.12.2006:

The following particulars are available:

	Rs.
(a) Land: Purchased on 20.01.2002	4,26,000
Sold for	22,00,000
(b) Building [Construction completed on 14.03.2004]	
WDV of building as on 01.04.2006	8,20,000
Sold for	11,89,000
(c) WDV of cars as on 01.04.2006	7,40,000
Sold for	6,00,000
(d) Expenses on shifting the undertaking	1,15,000
(e) Assets acquired for the undertaking in the SEZ (on or before 25.06.2007):	Rs.
(i) Land	3,00,000
(ii) Building	5,00,000
(iii) Computers	1,00,000
(iv) Car	4,20,000
(v) Machinery (Second hand)	2,00,000
(vi) Furniture	50,000

There is no intention of investing in any other asset in this undertaking. Compute the exemption available under Section 54GA for the assessment year 2007-08. Cost inflation indices are:

Financial Year	Index
2001-02	426
2006-07	519

(8 marks)

EITHER

4.

- (a) Mr. Thomas inherited a house in Jaipur under will of his father in May, 2002. The house was purchased by his father in January, 1980 for Rs.2,50,000. He invested an amount of Rs. 7,00,000 in construction of one more floor in this house in June, 2004. The house was sold by him in November, 2006 for Rs.37,50,000. The valuation adopted by the registration authorities for charge of stamp duty was Rs.47,25,000 which was not contested by the buyer, but as per assessee's request, the Assessing officer made a reference to Valuation officer. The value determined by the Valuation officer was Rs.47,50,000. Brokerage @ 1% of sale consideration was paid by Mr.Thomas to Mr.Sunil. The market value of house as on 01.04.1981 was Rs.2,70,000.

You are required to compute the amount of capital gain chargeable to tax for A.Y. 2007-08 with the help of given information and by taking CII for the F.Y. as 2006-07 519 and for F.Y.2004-05 as 480. (9 marks)

- (b) Mr.Ghose has four minor children consisting 2 daughters and 2 sons. The annual income of 2daughters was Rs.7,500 and Rs.5,000 and of sons was Rs.5,500 and Rs.1,250 respectively. The daughter who was having income of Rs.5,000 was suffering from a disability specified u/s 80U. Work out the amount of income earned by minor children to be clubbed in the hands of Mr.Ghose. (5 marks)

(Or)

- (a) Mr. B.A. Patel, a non-resident, operates an Aircraft between London to Ahmedabad. For the Financial year ended on 31st March, 2007, he received the amounts as under:
- (i) For carrying passengers from Ahmedabad Rs.50 lacs.
 - (ii) For carrying passengers from London Rs.75 lacs received in India.
 - (iii) For carrying of goods from Ahmedabad Rs.25 lacs.

The total expenditure incurred by Mr.B.A. Patel for the purposes of the business for the Financial year 2006-07 was Rs.1.40 crores.

Compute the income of Mr.B.A. Patel under the head "Profits and Gains from business or profession" for the Financial year ended on 31st March, 2007 relevant to assessment year 2007-08 (8 marks)

(Or)

- (b) Comment on the allow ability of the following claims made by the assessee:
- (i) Mr.Achal, an hotelier, claimed expenditure on replacement of Linen and carpets in his hotel as revenue expenditure. (2 marks)
 - (ii) Mrs.Hetal, an individual engaged in the business of Beauty Parlour, has got her books of Account for the Financial year ended on 31st March 2007, audited U/s 44AB. Her total income for the assessment year 2007-08 is Rs.1,35,000. She wants to furnish her return of income for assessment year 2007-08 through a tax return preparer. (4 marks)

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

- (a) Enumerate eight transactions for which quoting of Permanent Account Number is mandatory.
- (b) Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.
- (c) How is exemption granted by Section 10(10C) in respect of Income-tax paid by employer?
- (d) Discuss in brief the provisions relating to set off and carry forward of losses in speculation business.
- (e) Briefly explain the provisions of Section 197 in respect of obtaining certificate for deduction of tax at a lower rate. (4x4 = 16 marks)

6. Answer any five out of the following:

- (a) Where a service provider maintains books of accounts on mercantile basis relating to taxable services provided by him, will service tax be payable on accrual basis?
- (b) What are the documents to be submitted alongwith service tax return?
- (c) What are the due dates for filing of service tax returns?
- (d) Is a service provider allowed to pay service tax on a provisional basis?
- (e) Does the VAT system bring certainty to a great extent?
- (f) Can VAT be said to be non-beneficial as compared to single stage-last point system?
(5X2 = 10 marks)

7.

- (a) J.C. Professionals, a partnership firm, gives the following particulars relating to the services provided to various clients by them for the half-year ended on 30.09.06:
 - (i) Total bills raised for Rs.8,75,000 out of which bill for Rs.75,000 was raised on an approved International Organisation and payments of bills for Rs.1,00,000 were not received till 30.09.06.
 - (ii) Amount of Rs.50,000 was received as an advance from XYZ Ltd. on 25.09.06 to whom the services were to be provided in October, 06.

You are required to work out the:

 - (a) taxable value of services
 - (b) amount of service tax payable. (3 marks)

- (b) Compute the invoice value to be charged and amount of tax payable under VAT by a dealer who had purchased goods for Rs.1,20,000 and after adding for expenses of Rs.10,000 and of profit Rs.15,000 had sold out the same.
The rate of VAT on purchases and sales is 12.5% (3 marks)

8. Answer any three of the following:

- (a) Who is liable to pay service tax in relation to services provided by a goods transport agency?
- (b) What are the due dates for payment of service tax?
- (c) Briefly explain the Invoice method of computing tax liability under the VAT system. What are its other names?
- (d) What are the different variants of VAT, and how is deduction available for tax paid on inputs including capital inputs? (3X3 = 9 marks)