



CBCS SCHEME

18MBAFM303

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Third Semester MBA Degree Examination, Aug./Sept.2020 Direct Taxation

Time: 3 hrs.

Max. Marks:100

- Note: 1. Answer any FOUR full questions from Q.No.1 to Q.No. 7.
2. Question No. 8 is compulsory.**

1.
 - a. Distinguish between tax planning and tax evasion. (03 Marks)
 - b. Explain what is included in and excluded from capital asset. (07 Marks)
 - c. X, a regular employee of A Ltd., gets the following emoluments during the previous year 2018-19. Basic salary = Rs.60,000 per month (which has been increased to Rs.70,000 per month from January 1, 2019), dearness allowance Rs.4000 per month (72 percent of which is part of salary for computing all retirement benefits), education allowance Rs.550 per month per child for 4 children, medical allowance Rs.400 per month, transport allowance Rs.1950 per month (out of which Rs.100 per month is used for covering the journey between office and residence and Rs.250 per month is used for other purposes). Besides, he gets Rs.20,000 per month as house rent allowance upto Nov. 30, 2018 (rent paid at Ghaziabad Rs.18,000 per month). With effect from December 1, 2018 he has been provided a furnished flat by the employer at Delhi (rent paid by employer: Rs.26000 per month, rent of furniture provided: Rs.12,780 rent recovered from X is Rs.900 per month). Find out the salary chargeable to tax for the assessment year 2019-20 on the assumption that with effect from January 1, 2019, he joins a part-time employment with B Ltd. (Salary Rs.18,000 per month) with the permission of A Ltd. (without leaving the job of A Ltd.) (10 Marks)

2.
 - a. Define perquisites V/S 17(2)(i). (03 Marks)
 - b. X, who is not covered by the Payment of Gratuity Act, 1972 retires on November 20, 2018 from ABC Ltd., and receives Rs.1,86,000 as gratuity after service of 38 years and 10 months. His salary is Rs.8000 per month upto July 31, 2018 and Rs.9000 per month from August 1, 2018. Besides, he gets Rs.500 per month as dearness allowance (69 percent of which is a part of salary for computing all retirement benefits but 100 percent of dearness allowance is considered for computing provident fund). What amount of gratuity will be exempt from tax? (07 Marks)
 - c. From the profit and loss account of X (age: 31 years) resident for the year ending March 31, 2019 ascertain his total income and tax liability for the assessment year 2019-20:

Particular	Amount	Particular	Amount
General expenses	13,400	Gross profits	4,15,500
Bad debts	22,000	Commission	8,600
Advance tax	2000	Brokerage	37,000
Insurance	600	Sundry receipts	2,500
Salary to staff	26,000	Bad debts recovered	11,000
Salary to X	51,000	(earlier allowed as deduction)	
Interest on overdraft	4,000	Interest on debentures	25,000
Interest on loan to Mrs. X	42,000	(i.e. net amount	
Interest on capital of X	23,000	Rs.22,500 + TDS Rs.2500)	
Depreciation	8,000	Interest on deposit with a company	13,000
Advertisement expenditure	7,000	(non-trade) (net interest:	
Contribution to employees RPF	13000	Rs.11,700 + TDS Rs.1,300)	
Net Profit	2,60,600		
	5,12,500		5,12,600

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and/or equations written eg, 42+8 = 50, will be treated as malpractice.

Other information:

- (i) The amount of depreciation allowable is Rs.37,300 as per the Income tax Rules. It includes depreciation on permanent sign board.
- (ii) Advertisement Expenditure includes Rs.3000 being cost of permanent sign board fixed on office premises.
- (iii) Income of Rs.4500 accrued during the previous year, is not recorded in the profit and loss account.
- (iv) X pays Rs.6000 as premium on own life insurance policy of Rs.70,000.
- (v) General expenses include (i.i) Rs.500 given to Mrs. X for arranging a party in honour of a friend who has recently come for Canada (i.ii) Rs.1000 being contribution to a political party.
- (vi) Loan was taken from Mrs. X for payment of arrears of income tax. (10 Marks)

- 3 a. What deductions are allowed U/S 24 from Annual Value, while computing taxable income from house property? (03 Marks)
- b. X is resident and ordinary resident in India for the assessment year 2019-20. He gives the following information in respect of his income for the previous year 2018-19.
- (i) Capital gain on sale of a house situated in Pune (sale consideration is received in Nepal) Rs.10,00,000.
 - (ii) Salary received in Srilanka for rendering service in Tamilnadu Rs.1,60,000.
 - (iii) Interest received from Government of India, it is paid to him in Srilanka Rs.2,56,000.
 - (iv) Royalty received from A Ltd. (a foreign company which is non-resident in India) outside India (royalty is paid for a manufacturing business situated outside India) Rs.92,00,000.

Find out the taxable income of X for the assessment year 2019-20. (07 Marks)

- c. X sells agriculture land situated in an urban area for Rs.10,31,000 (brokerage paid @ 2 percent) on March 31, 2019 (cost of acquisition: Rs.3,88,728 on March 1, 2008; it was used for agricultural purposes since 2009). On March 31, 2019, he owns one residential house property of April 6, 2019, he purchases the following assets: (i) Agricultural land Rs.1,10,000 (ii) A residential house property Rs.5,00,000. Find out the capital gains chargeable to tax for the assessment year 2019-20. (The cost inflation index in 2001-02 is 100; 2007-08 is 129; 2018-19 is 280) (10 Marks)
- 4 a. Differentiate between Profession and Vocation. (03 Marks)
- b. X, a foreign citizen (not being a person of Indian origin), leaves India for the first time in the last 20 years on Nov 20, 2016. During the calendar year 2017, he comes to India on September 1 for a period of 30 days. During the calendar year 2018, he does not visit India at all but comes to India on Jan 16, 2019. Determine the residential status of X for the assessment year 2019-20. (07 Marks)
- c. X (40 years) is a Government employee posted at Cochin. He has joined the Central Government on February 1, 2014. For the previous year 2018-19, he gives the following information:
- (i) Basic salary: Rs.3,15,000.
 - (ii) Allowances from Government chargeable to tax Rs.80,000.
 - (iii) Government's contribution towards National Pension Scheme (NPS) = Rs.32,700.
 - (iv) Contribution of X towards NPS = Rs.35,000.
 - (v) Gift received by X's minor sons on his birthday from friends Rs.45,000. (X's minor son has not received any other gift during the previous year 2018-19)
 - (vi) Minor daughter of X gets a Tagoer painting on her birthday from a family friend. Fair market value of the painting is Rs.8,76,500 (no other gift is received by her during the previous year 2018-19). Taxable income is Rs.8,75,000.
 - (vii) X deposits Rs.6000 in SBI fixed deposit account for the purpose of availing of deduction under section 80C.

(viii) X contributes Rs.1,05,000 in an approved annuity plan of LIC for the purpose of claiming deduction under section 80CCC.

(ix) X has taken a loan for the education of his nephew who is dependent upon him. The loan has been taken for the purpose of pursuing MBBS course. Interest on such loan for the year 2018-19 is Rs.32000. However, he has actually paid only Rs.13,500. Besides, he has paid Rs.72000 on account of repayment of loan.

Determine the amount of net income and tax liability of X for the assessment year 2019-20.

(10 Marks)

- 5 a. What do you mean by Block of Assets U/S 2(ii)? (03 Marks)
- b. Explain the provisions regulating compulsory maintenance of books of account U/S 44AA. (07 Marks)
- c. X (age: 26 years), a leading Tax Consultant, who maintains book of account on cash basis furnishes the following particulars of income and expenditure for the assessment year 2019-20.

Receipt and Payment Account for the year ending March 31, 2019

Receipts	Rs.	Payments	Rs.
Balance brought down	12,400	Purchase of typewriter	6,000
Fees from clients:		Car expenses	18,000
2018-19	7,30,500	Office expenses	40,000
2017-18	1,11,500	Salary to staff:	
2019-20	1,13,000	2018-19	32,000
Presents from clients	24,000	2019-20	11,000
Interest free loan from a client	2,38,000	Expenses in respect of let out	
for purchase of a car		Property (municipal tax	
Winnings from lottery	46,000	Rs.2000, repairs Rs.1000,	
Interest from UTI	12,000	insurance Rs.3000)	6,000
(received on Sept. 11, 2018)		Car purchased on Dec. 10, 2018	2,40,000
Rent of a let out property	60,000	Repairs of office	12,000
Share of income from a firm	15,000	Interest on loan	10,000
		Income-tax payment	2,000
		Life insurance premium	2,08,000
		Balance credit down	7,77,400
	13,62,400		13,62,400

Additional information:

Car is partly used for official purpose (40%) and partly for private purposes (60%). Compute his income from profession for the assessment year 2019-20. (10 Marks)

- 6 a. What do you mean by tax holiday as per Income Tax Act? (03 Marks)
- b. Mention any seven incomes chargeable to tax Under the head "Income from other source". (07 Marks)
- c. X Ltd. owns the following assets on April 7, 2018.

Assets	Actual cost (Rs.)	Written down value on April 1, 2018 (Rs.)	Rate of Depreciation (percent)
Building			
A	30,00,000	13,50,000	10
B	6,00,000	2,25,000	10
C	8,00,000	40,000	5
Plant			
A	1,70,000	45,100	15
B	3,10,000	68,000	15
C	30,000	7,000	40
D	50,000	31,000	40

The company acquires the following assets after April 1, 2018:

Asset	Cost (Rs.)	Date of Acquisition	Date when the asset is put to use	Rate of depreciation (percent)
Building D	6,00,000	May 28, 2018	June 1, 2018	10
Building E	4,00,000	June 8, 2018	June 8, 2018	10
Plant E	4,90,000	August 12, 2018	Sept. 1, 2018	15
Plant F	2,10,000	Sept. 18, 2018	Sept. 19, 2018	15
Plant G	1,50,000	Sept. 19, 2018	Oct. 30, 2018	40
Building F	2,00,000	May 10, 2018	May 10, 2018	10
Plant H	1,30,500	June 5, 2018	July 6, 2018	15

The company sells the following assets after April 1, 2018:

Assets	Date of Sale	Sale Consideration (Rs)
Building A	May 11, 2018	13,00,000
Plant B	May 16, 2018	20,000
Plant D	December 18, 2018	2,15,000
Plant C	December 8, 2018	32,000

Determine the amount of depreciation for the assessment year 2019-20 on the assumption that additional depreciation is not available. (10 Marks)

- 7 a. What is Minimum Alternate Tax U/S 115JB? (03 Marks)
- b. Briefly explain the provisions relating to set-off and carry forward of losses. (07 Marks)
- c. X (age: 36 years), a resident individual, has income of Rs.7,40,000 (i.e. Rs.4,45,000 from a business in Delhi and Rs.2,95,000 from a property in Bombay) during the previous year 2018-19. Find out his net income and tax liability for the assessment year 2019-20 taking into consideration the following payments:
- Life insurance premium on own life (policy since 2011) paid by X in cash on March 31, 2019 (sum assured Rs.2,00,000): Rs.33,334
 - Contribution towards pension fund of LIC : Rs.11000
 - Mediclaim insurance premium on the life of dependent father (age: 64 yrs): Rs.39,000
 - Mediclaim insurance premium on the life of dependent handicapped brother paid by cheque on April 26, 2018 : Rs.7000
 - Medical treatment of dependent brother (being a person with disability) : Rs.20,000
 - Deposit with LIC for the maintenance of the dependent brother (being a person with disability) : Rs.20,000

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Compulsory:

From the information given below compute the tax payable by MN and Co. keeping in view the provisions of MAT U/S 115-JB for the Assessment year 2019-20.

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To, Expenses related to sales	20,00,000	By, Sales	23,00,000
To, Security transaction tax paid relating to LTCG	6,000	By, LTCG [exempt U/S 10(38)]	3,00,000
To, Depreciation	1,70,000	By, Interest on Govt. Securities	30,000
To, Proposed dividend	2,60,000		
To, Income Tax	1,20,000		
To, Net Profit	5,74,000		
	31,30,000		31,30,000

Adjustments:

- The company revalued its assets from Rs.2,00,000 to Rs.4,00,000. The depreciation allowable under the Income Tax Act is Rs.1,00,000.
- B/F loss as per books of account Rs.2,50,000.
- B/F depreciation as per books of account Rs.60,000.
- B/F unabsorbed depreciation Rs.1,10,000.

(20 Marks)