

LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034



M.Com.DEGREE EXAMINATION –COMMERCE

SECOND SEMESTER – APRIL 2018

17PCO2MC01– DIRECT TAX PLANNING AND MANAGEMENT

Date: 17-04-2018

Dept. No.

Max. : 100 Marks

Time: 01:00-04:00

SECTION –A

ANSWER ALL

(10 x 2 = 20)

1. What is an Assessment Year?
2. What do you mean by residential status?
3. What is meant by tax-free incomes?
4. What is meant by Gratuity?
5. How is the vacancy loss dealt with, while calculating Annual value?
6. Define the term 'Profession'.
7. What do you mean by Block of Assets?
8. State the meaning of short term capital gain.
9. What do you mean by income from other sources?
10. What is meant by set-off of losses?

SECTION – B

ANSWER ANY FOUR

(4 x 10 = 40)

11. Explain any 12 incomes exempt from income tax.
12. Who is an Assessing Officer? Explain his functions and powers.
13. For assessment year 2017-18, X (whose previous year is 2016-17) receives the following income:

	Rs.
Royalty received in Nepal but received on May 17, 2016 in India	96,000
Dividend from a foreign company received in India on July 1, 2016	1,05,000
Share of profit of a business situated in Sri Lanka, received in Dhaka on June 10, 2016 but controlled from India	82,000
Rent of 2016-17 of a house property situated in Sri Lanka and received thereon December 7, 2016	1,85,000
Speculation profit earned and received outside India on May 15, 2017	93,000

Determine the gross total income of X for the AY 2017-18 if he is

- a. Resident and ordinarily resident;
 - b. Resident but not ordinarily resident; and
 - c. Non resident
14. X (age: 67 years), a director of PQR Ltd, gives the following particulars of his income of the previous year ending March 31, 2017:
 - Basic salary: Rs. 1,45,000 pm.
 - Bonus: one month's basic salary.
 - Commission: two month's basic salary.
 - Entertainment allowance: Rs. 60,000 pa.
 - A rent-free unfurnished house has been provided in Mumbai, lease rent of the house: Rs. 5,12,000 pa.
 - Income from other sources: Rs. 1,57,000.

- Employer has provided free use of a 1798cc car with driver for official and personal purpose; expenses of the employer: Rs. 2,80,000 (30% of which is attributable towards official purposes and 20% is attributable towards the journey between office and residence). The employer also provides subsidised tea and snacks (expenditure incurred: Rs. 12,000) and pays mobile phone bills of X (total payment being Rs. 24,000; bill is in the name of employer and telephone is partly used for office purposes and partly for personal purposes)
- Employer's contribution towards recognised provident fund: 15% of basic salary.
- X's contribution towards provident fund Rs. 40,000 pa.
- Payment of insurance premium on life policy of Mrs. X Rs. 9,000 (sum assured of policy taken in May 2016: Rs. 40,000).
- During the year, X has invested Rs. 90,000 in debentures of a company which is engaged in operating an approved infrastructure facility and pays school fees of Rs. 17,000 of his daughter.

Determine the taxable income and tax liability of Mr. X for the AY 2017-18.

15. For the assessment year 2017-18, X (age: 46 years) submits the following information:

Income from business:	Rs. 7,37,000
Interest on debentures:	Rs. 2,25,000
Contribution to public provident fund:	Rs. 60,000
Investment in NSC IX issue:	Rs. 1,30,000
Property income:	

	House I (Rs.)	House II (Rs.)
Fair rent (FR)		
Municipal valuation (MV)	4,50,000	6,90,000
Annual rent	4,55,000	7,10,000
Municipal taxes paid	7,80,000	9,00,000
Standard rent (SR)	25,000	70,000
Repairs	4,23,000	12,00,000
Land revenue	37,000	74,000
Insurance	6,000	80,000
Unrealised rent of 2015-16	4,000	18,000
Unrealised rent of 2016-17	26,000	12,000
Interest on capital borrowed for purchase of house property	17,000	5,80,000
Repayment of loan taken from a friend for the purpose of purchasing House I	12,000	1,90,500
Vacant period (number of months)	3,000	Nil
Loss on account of vacancy	(2)	(3)
Nature of occupation	1,30,000	2,25,000
	Let out for residence of managing director of A Ltd.	Let out for profession.
Date of completion of construction	March 31, 2011	May 15, 1974

Determine the taxable income and tax liability of X for the assessment year 2017-18. Also calculate the amount of unrealised rent which can be claimed as deduction in the assessment year 2018-19.

16. X Ltd. A sugar manufacturing company, owns the following assets on April 1, 2016:

Assets	WDV on April 1, 2016 Rs.	Rate of Depreciation
Plant A	4,20,000	15%
Plant B	17,80,000	15%
Plant C	8,70,000	15%
Plant D	1,23,000	40%

On March 25, 2017, it sells plant D for Rs. 4,97,000. On November 10, 2016, it acquires the following assets:

Assets	Costs Rs.	Rate of Depreciation
Plant E (second-hand)	95,000	40%
Plant F (foreign made car)	6,80,000	15%
Plant G (Indian car)	2,00,000	15%
Building A	40,00,000	10%
Know-how	21,00,750	25%
Plant H (office telephone system)	91,200	40%
Plant I (office machine)	18,000	100%
Computer	47,170	60%

Determine the amount of depreciation admissible for the assessment year 2017-18.

17. X submits the following particulars of income/loss for the assessment year 2017-18:

	Rs.
Profits of Business I carried on in India	8,00,000
Loss of Business II carried on in India	(-) 2,25,000
Profits of Business III carried on in Germany (though income is earned and received in Germany, business controlled from Bombay).	3,90,000
Loss of Business IV (exclusive of unabsorbed depreciation allowance mentioned below) carried on in Germany (though income is earned and received in Germany, business is partly controlled from Germany and partly from Canada).	(-) 86,000
Unabsorbed depreciation of the AY 2008-09:	
Business I	(-) 90,000
Business III	(-) 1,10,000
Business IV	(-) 2,70,000
Income from property situated in India	8,00,000
Income from property situated in Germany (rent is received in Germany)	11,55,000

Determine the net income of X for the assessment year 2017-18 on the assumption that he is :

- Resident and ordinarily resident in India,
- Resident not ordinarily resident in India, and
- Non-resident in India.

SECTION – C

ANSWER ANY TWO

(2 x 20 = 40)

18. Mr. X (40 years) is a Chartered Accountant in practice. Income and expenditure account of X for the ending March 31, 2017 is given below:

Particulars	Rs.	Particulars	Rs.
Salary of staff	6,00,000	Audit fees	27,15,000
Advertisement expenditure	30,000	Tax consultancy fees	8,50,000
Depreciation	2,10,000	VAT consultancy fees	3,25,000
Rent of office paid to Mrs. X	75,000	Gift from mother-in-law	65,000
Donation to Prime Minister Relief fund	20,000	Dividend of preference shares from Indian companies	87,000
Interest on loan taken to set up profession	3,000	Dividend on equity shares received from foreign companies	2,36,500
Income-tax, advance tax and penalty paid	8,000	Profit on sale of unquoted debentures purchased in 1987	84,000
Car expenses including depreciation	90,000	Refund of income-tax received on behalf of clients but not remitted to them	35,000
Miscellaneous expenses	1,30,000		
Excess of income over expenditure	32,14,500		43,97,500
Personal expenses	17,000		
	43,97,500		

Additional information:

- i. Advertisement expenditure is payment given to a magazine for classified advertisement. However, the magazine is owned by a political party.
- ii. Depreciation debited is Rs. 2,10,000. However, under section 32 it comes to Rs. 2,40,000.
- iii. Market rent of office taken from Mrs. is Rs.80,000. However, rent is paid without TDS. Out of Rs. 75,000, Rs. 35,000 is paid by a bearer cheque.
- iv. Car is partly used for official purposes and partly for personal purposes. Approximately, 10% expenditure is attributable towards private use of the car.
- v. Salary of staff includes salary of Rs. 5,000 pm paid to car driver for 3 months.
- vi. Miscellaneous expenditure includes electricity bills of Rs. 25,000 paid on April 10, 2017.
- vii. Out of the VAT consultancy fee, Rs. 35,000 is received on May 2, 2017.
- viii. Gift from mother-in-law is received in cash.
- ix. Dividend from foreign company is received outside India on July 24, 2016. The amount of dividend was US \$ 5,000. On July 24,2016, the telegraphic transfer buying rate of US dollar offered by SBI was Rs. 47.3. Amount recorded in books is Rs. 2,36,500 (US \$ 5,000 x Rs. 47.3). However, the telegraphic transfer buying rate of US dollar on March 31, 2017 is Rs. 43. This amount is deposited in a bank outside India with the permission of RBI and most probably it will be remitted during January 2018.
- x. Profit on sale of debentures is calculated after indexation. Without indexation it comes to Rs. 2,20,000.
- xi. X is of the view that refund of income-tax received on behalf of clients of Rs. 35,000 credited in the above income statement is not chargeable to tax under sec 41(1), as the same was not allowed ad deduction to X or his client when the payment was made. X is not likely to remit this amount to his clients.

xii. X maintains books of account on cash basis.

Find out the income and tax liability of X for the assessment year 2017-18, assuming that X pays life insurance premium of his major married son not dependent upon him of Rs. 1,80,000 (sum assured Rs. 7,00,000). This policy was taken by X's son in 2006 and till last year premium was paid by his son.

19. X (63 years), a resident individual, transfers the following long-term capital assets during the previous year 2016-17:

	Agricultural land in urban area	Silver	Debentures	Gold
Date of transfer	Apr 12, 2016	Oct 7, 2016	Jan 3, 2017	Feb 26, 2017
Sale consideration (in Rs.)	22,75,000	68,86,000	15,76,000	23,10,000
Indexed cost of acquisition (in Rs.)	19,32,000	56,10,000	7,76,276	11,78,000
Expenditure on transfer (in Rs.)	5,000	6,000	1,000	10,000

Debentures were purchased in 2012-13. Other assets were purchased before April 1, 2012. Indexed cost of acquisition is calculated by applying cost inflation index notified by the Government. On April 1, 2016, X owns only one residential house property which is used for his own residence. For acquiring this property, a loan was taken from a friend in 2015 and interest on loan for the year 2016-17 is Rs. 1,46,000.

X makes following investments:

1. A residential house property of Rs. 18,00,000 is acquired on April 14, 2015.
2. NHAI bonds of Rs. 4,10,000 are purchased on October 5, 2016.
3. REC bonds of Rs. 9,00,000 are purchased on June 1, 2017.

Determine the amount of capital gain chargeable to tax for the assessment year 2017-18. Cost of inflation index (CII) of 2012-13 is 852.

20. Mrs. X (age: 62 years) is a part-time lecturer in a college of Delhi University. The details of her salary and other income for the PY 2016-17 are as follows:

- Basic salary - Rs. 7,86,000
- Dearness allowance (forming part of salary) - Rs. 72,000
- Education allowance for two children (expenditure being Rs. 3,600) - Rs. 9,400
- Hostel expenditure allowance for one child (expenditure being Rs. 10,000) - Rs. 11,800.
- House rent allowance – Rs.96,000
- Remuneration from the Calcutta University for acting as examiner – Rs. 41,540.
- Allowances for research which is to be completed during January-April 2017 (actual expenditure incurred for completing the research: up to March 31, 2017: Rs. 2,500; during April 2017: Rs.700) – Rs. 10,000
- She is a member of statutory provident fund to which she contributes 13% of her salary and similar amount is contributed by the college. Besides, the college reimburses Rs. 17,000 being expenditure incurred by Mrs. X on medical treatment of her daughter in a private clinic. Bills are issued in the name of Mrs. X but paid by the employer.
- During the year she spent Rs. 3,000 on purchase of books for her teaching purposes. She has maintained a scooter for the whole year for office as well as private purposes. She has been living in a rented house and paying Rs. 15,000 pm as rent.
- For the year 2016-17, she paid Rs. 9,000 as insurance premium on his life policy taken in 2005, sum assured being Rs. 30,000 (date of payment: April 3, 2017).

Compute the total income and tax liability for the AY 2017-18 in case of Mrs. X is:

- Resident and ordinarily resident in India,
- Resident not ordinarily resident in India, and
- Non-resident in India.

21. X (age: 31 years) owns four houses (outside the jurisdiction of the Rent Control Act) particulars of which are as follows:

	House I Rs.	House II Rs.	House III Rs.	House IV Rs.
Municipal valuation	2,00,000	16,000	86,000	5,00,000
Fair rent	2,50,000	22,000	92,000	5,55,000
Rent (if property is let out throughout the year)	-	-	-	5,72,000
Unrealised rent	-	-	-	90,000
Municipal tax paid by X	17,000	800	3,000	45,000
Date of completion of construction	June 16, 1991	June 5, 1974	June 14, 1997	March 31, 1998
Repairs	Nil	2,000	950	Nil
Collection charges	-	-	-	400
Land revenue	800	-	230	900
Interest on capital borrowed for repairs of house property	2,000	800	810	10,000
Interest on capital borrowed for construction of house property	5,700	-	-	-
Interest on capital borrowed for payment of municipal taxes	-	-	-	-
Nature of occupation	200	-	600	100
	Self occupied for residence	Self occupied for business	Self occupied for residence	Let out for residence

House IV remains vacant for the month of January 2017. Business income of X for the previous year 2016-17 is Rs. 12,03,000 (it has been computed as per the provisions of Income-tax Act). Determine the taxable income and tax liability of X for the assessment year 2017-18 on the assumption that he could not occupy House III for 2 months during the previous year and X pays insurance premium of Rs.85,000 on his insurance policy of Rs. 9,00,000. He also deposits Rs. 50,000 in his public provident account.
