

**PARUL UNIVERSITY**  
**FACULTY OF COMMERCE**

**M.Com (Hons) Winter 2017 – 18 Examination**

**Semester: 1****Date: 09.12.2017****Subject Code: 16201103****Time: 10.30 am to 01.00pm****Subject Name: Direct Taxes****Total Marks: 60**

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**Instructions:**

1. Attempt all questions as directed.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.

**Q.1 (A) Do as directed (MCQ, True or False) (1 mark each. All Compulsory)****(12)**

1. Loss from a speculation business of a particular Assessment year can be set off in the same Assessment year from:
  - a) Profit and gains from any business
  - b) Profit and gains from any business other than speculation business
  - c) Income of speculation business
2. Uncommuted pension received by a Government employee is fully exempt from tax.
  - A. True
  - B. False
3. Mr. Karan Kapoor's Taxable Income is Rs.10,00,000. The tax amount will be
  - A. Rs. 1,00,000
  - B. Rs. 1,50,000
  - C. Rs. 2,00,000
  - D. None of the above
4. Income from letting of machinery, plant and furniture is -
  - A. always chargeable to tax under the head "Profits and gains of business and profession"
  - B. always chargeable to tax under the head "Income from other sources"
  - C. Chargeable under the head "Income from other sources" only if not chargeable under the head "Profits and gains of business and profession".
5. X Ltd. acquires an asset which was previously used for scientific research for 2, 75,000. The asset was brought into use for the business of X Ltd., after the research was completed. The actual cost of the asset to be included in the block of assets is -
  - A. Nil
  - B. Market value of the asset on the date of transfer to business
  - C. 2, 75,000 less notional depreciation under section 32 upto the date of transfer.
6. Mr. A gifts cash of 1,00,000 to his brother's wife Mrs. B. Mr. B gifts cash of 1,00,000 to Mrs. A. from the cash gifted to her, Mrs. B invests in a fixed deposit, income therefrom is 10,000. Aforesaid ` 10,000 will be included in the total income of .....
  - A. Mr. A
  - B. Mr. B
  - C. Mrs. B

**(B) Do as directed (Definitions / One-liners / Terms) (1 mark each. All Compulsory)**

1. Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

ABC Private Limited, a closely held company, issued 10,000 shares at 130 per share. (The face value of the share is 100 per share and the fair market value of the share is 120 per share).

2. State, with reasons, the allowability of the following expense under the Income-tax Act, 1961 while computing income from business or profession for the Assessment Year 2017-18:  
Salary payment of 2,00,000 outside India by a company without deduction of tax.
3. State with reasons, for the following sub-division, whether the following statement is true or false having regard to the provisions of the Income-tax Act, 1961:  
It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".
4. Y has built a house on a leasehold land. He has let out the property and claims that the income therefrom is chargeable under the head "Income from other sources". He has deducted expenses on repairs, security charges, and insurance and collection charges in all amounting to 40% of receipts. Is Mr. Y's claim valid?
5. Define Assessee.
6. Smt. Laxmi reports received cash gifts on the occasion of her marriage on 18-7-2016 of 1,20,000. It includes gift of 20,000 received from non-relatives. Determine the amounts chargeable to tax in the hands of Smt. Laxmi for the A.Y. 2017-18.

**Q.2 Answer the following. (4 mark each. All Compulsory) (4+4+4) (12)**

**A.** 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?
- (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)?

**B.** Raghav Industries Ltd. furnishes you the following information for the year ended 31-03-2017:

- (i) Scientific research expenditure related to its business 2,40,000 fully revenue in nature.
- (ii) Building acquired for scientific research (including cost of land 5,00,000) in June 2016 for ₹ 12,00,000.

Explain in brief how the above said items would be dealt with for the A.Y. 2017-18.

**C.** Mr. Verma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were 9,000 and 4,500 and of sons were 6,200 and ₹ 4,300, respectively. The daughter who has income of 4,500 was suffering from a disability specified under section 80U.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Verma.

**Q.3 Answer the following. (6 mark each. Any Three out of Four) (6+6+6) (18)**

**A.** XYZ Ltd. commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2016. The company incurred capital expenditure of ₹ 50 lakh during the period January, 2016 to March, 2016 exclusively for the above business, and capitalized the same in its books of account as on 1<sup>st</sup> April, 2016.

Further, during the P.Y.2016-17, it incurred capital expenditure of ` 2 crore (out of which ` 1.50 crore was for acquisition of land) exclusively for the above business. Compute the income under the head “Profits and gains of business or profession” for the A.Y.2017-18, assuming that XYZ Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI- A under the heading “C. – Deductions in respect of certain incomes”. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2017- 18 is ` 25 lakhs. Assume that the company also has another existing business of running a four-star hotel in Coimbatore, which commenced operations ten years back, the profits from which are ` 120 lakhs for the A.Y.2017-18.

**B.** Neerja was carrying on the textile business under a proprietorship concern, Neerja Textiles. On 21.07.2016 the business of Neerja Textiles was succeeded by New Look Textile Private Limited and all the assets and liabilities of Neerja Textiles on that date became the assets and liabilities of New Look Textile Private Limited and Neerja was given 52% share in the share capital of the company. No other consideration was given to Neerja on account of this succession. The assets and liabilities of Neerja Textiles transferred to the company included an urban land which was acquired by Neerja on 19.7.2012 for ` 9,80,000. The company sold the same on 30.03.2017 for ` 15,00,000.

Discuss the tax implication of the above mentioned transaction and compute the income chargeable to tax in such case(s).

**C.** Check the taxability of the following gifts received by Mrs. Rashmi during the previous year 2016-17 and compute the taxable income from gifts for Assessment Year 2017-18:

- (i) On the occasion of her marriage on 14.8.2016, she has received ` 90,000 as gift out of which ` 70,000 are from relatives and balance from friends.
- (ii) On 12.9.2016, she has received gift of ` 18,000 from cousin of her mother.
- (iii) A cell phone worth ` 21,000 is gifted by her friend on 15.8.2016.
- (iv) She gets a cash gift of ` 25,000 from the elder brother of her husband's grandfather on 25.10.2016.
- (v) She has received a cash gift of ` 12,000 from her friend on 14.4.2016.

**D.** X Ltd. provided the following perquisites to its employee Mr.Y for the P.Y.2016-17 –

1. Accomodation taken on lease by X Ltd. for 15,000 p.m. ` 5,000 p.m. is recovered from the salary of Mr. Y.
2. Furniture, for which the hire charges paid by X Ltd. is ` 3,000 p.m.No amount is recovered from the employee in respect of the same.
3. A Santro Car which is owned by X Ltd. and given to Mr.Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.
4. A gift voucher of 10,000 on his birthday.

Compute the value of perquisites chargeable to tax for the A.Y.2017-18, assuming his salary for perquisite valuation to be ` 10 lakh.

**A (i).** The following are the details of the shares issued by the following closely held companies. Discuss the applicability of provisions of section 56(2)(viib) in the hands of these companies:

Co.	No. of shares	Face value of shares (₹)	FMV of shares (₹)	Issue price of shares (₹)
A (P) Ltd.	10,000	100	120	130
B (P) Ltd.	20,000	100	120	110
C (P) Ltd.	30,000	100	90	98
D (P) Ltd.	40,000	100	90	110

**(ii).** M/s. Dollar Ltd., a manufacturing concern, furnishes the following particulars:

		₹
(i)	Opening written down value of plant and machinery (1.4.2016)	5,00,000
(ii)	Purchase of plant and machinery (put to use before 01.10.2016)	2,00,000
(iii)	Sale proceeds of plant and machinery which became obsolete- the plant and machinery was purchased on 01-04-2014 for ₹	5,000

Further, out of purchase of plant and machinery:

- (a) Plant and machinery of ₹ 20,000 has been installed in office.
- (b) Plant and machinery of ₹ 20,000 was used previously for the purpose of business by the seller.

Compute depreciation and additional depreciation as per Income-tax Act, 1961 for the Assessment Year 2017-18.

**B (i)** Mr. Ram, an Indian citizen, left India on 22.09.2016 for the first time to work as an officer of a company in Germany.

Determine the residential status of Ram for the assessment year 2017-18 and explain the conditions to be fulfilled for the same under the Income-tax Act, 1961.

**(ii).** Discuss the provisions relating to determination of residential status of Hindu undivided family, partnership firm and company.

**C. (i).** A Ltd. furnishes the following particulars for the P.Y.2016-17. Compute the deduction allowable under section 35 for A.Y.2017-18, while computing its income under the head “Profits and gains of business or profession”

	<b>Particulars</b>	`
1.	Amount paid to Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house research and development facility as approved by the prescribed authority	
(a)	Revenue expenditure on scientific research	3,00,000
(b)	Capital expenditure (including cost of acquisition of land ` 5,00,000) on scientific research	7,50,000

**(ii).** In which of the following situations capital gains tax liability does not arise?

- (i) Mr. A purchased gold in 1970 for ` 25,000. In the P.Y. 2016-17, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ` 1,00,000.
- (ii) A house property is purchased by a Hindu undivided family in 1945 for ` 20,000. It is given to one of the family members in the P.Y. 2016-17 at the time of partition of the family. FMV on the day of partition was ` 12,00,000.
- (iii) Mr. B purchased 50 convertible debentures for ` 40,000 in 1995 which are converted in to 500 shares worth ` 85,000 in November 2016 by the company.