

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 12

NOTE : 1. Answer **ALL** Questions.

2. All the references to sections in the Question Paper relate to the Income-tax Act, 1961 and relevant Assessment Year is 2021-22, unless stated otherwise.
3. Working notes should form part of the answer.

1. (A) Shipa Ltd. is engaged in the business of manufacturing fabrics since 1st April, 2012 and earned a profit of ₹ 750 lakh for the previous year ended 31st March, 2021 after debiting or crediting the following items :
- (a) Industrial power tariff concession of ₹ 4.80 lakh, received from Karnataka State Government was credited to Profit and Loss account.
 - (b) An amount of ₹ 52 lakh is charged as depreciation on the basis of useful life of assets as per the provisions of Indian Companies Act.
 - (c) An amount of ₹ 12 lakh being received as dividend from Domestic Company.
 - (d) The company has provided ₹ 18 lakh being sum paid to workers on agreement to be entered with the workers union towards periodical wage revision once in every three years.
 - (e) Loss of ₹ 17 lakh, due to destruction of a machine purchase cost worth ₹ 24 lakh by fire due to short circuit and ₹ 3 lakh received as scrap value. The insurance company did not admit the claim of the company on charge of gross negligence.

: 2 :

- (f) Long term capital gain of ₹ 3 lakh on sale of equity shares on which Securities Transaction Tax was paid at the time of acquisition and sale.
- (g) Provision for gratuity based on actuarial valuation was ₹ 320 lakh. Actual gratuity paid debited to gratuity provision account was ₹ 160 lakh.
- (h) Advertisement charges ₹ 2.30 lakh, paid by cheque for advertisement published in the souvenir of a political party registered with the Election Commission of India.
- (i) Interest given on advance money received from a buyer on 31st March, 2021 was ₹ 2 lakh, on which tax has not be deducted at source.

Additional Information :

- (i) Normal depreciation computed as per the Income Tax Rules is ₹ 71 lakh.
- (ii) GST ₹ 8 lakh collected from its customers was paid by the company on the due dates. On an appeal, the High Court directed the GST department to refund ₹ 3 lakh to the company. The company in turn refunded ₹ 2 lakh to the customers from whom it was collected and the balance ₹ 1 lakh is still lying under the head 'Current Liabilities'.

You are required to compute the Total Income for the assessment year 2021-22. Also explain the reasons for treatment of each item by applying the relevant provisions of Income-tax Law.

(13 marks)

: 3 :

(B) Keerthana Business Trust is registered under SEBI (Real Estate Investment Trusts) Regulations, 2014 provides the following particulars of its income for the previous year 2020-21 :

- (i) Rental income from directly owned real estate assets ₹ 2.50 crore.
- (ii) Interest income from Birla Ltd. ₹ 4 crore.
- (iii) Dividend income from Birla Ltd. ₹ 2 crore.
- (iv) Short-term capital gains on sale of listed equity shares of Birla Ltd. ₹ 1.5 crore.
- (v) Interest received from investments in unlisted debentures of real estate companies ₹ 10 lakh.
- (vi) Short-term capital gains on sale of developmental properties is ₹ 1 crore.

Birla Ltd. is an Indian company in which the business trust holds 70% of the shareholding. Discuss the tax consequences of the above income earned by the business trust in the hands of the business trust and the unit holders, assuming that the business trust has distributed ₹ 10 crore to the unit holders for the assessment year 2021-22. (Assume that the above income has been distributed from June, 2020 to March, 2021 and Birla Ltd. does not apply tax under section 115BAA.

(12 marks)

(C) Mr. and Mrs. Raju have 7 children. Their income under the head 'profits and gains from business or profession' of ₹ 3,00,000 and ₹ 4,00,000 respectively during the previous year 2020-21.

- (i) 1st child aged 26 years is a company secretary. His annual income from profession is ₹ 4 lakh. His income from house property for the P.Y. 2020-21 is ₹ 30,000. He has a son (4 years old) who has earned interest on fixed deposit of ₹ 5,000.

: 4 :

- (ii) 2nd child (aged 17 years old being a married daughter) who is a stage singer, earned income of ₹ 1 lakh during the P.Y. 2020-21 and earned interest on fixed deposit ₹ 8,000. Such fixed deposit has been made out of such singing income.
- (iii) 3rd child (aged 16 years) is suffering from disability specified u/s 80U (to the extent of 55% blind). He has received interest income of ₹ 40,000 for loan given to a private firm. He is dependent on Mrs. Raju.
- (iv) 4th child (aged 14 years) has earned income of ₹ 45,000 during the P.Y. 2020-21 out of his physical and mental effort. Expenditure incurred to earn such income is ₹ 15,000. His loss from house property is ₹ 30,000.
- (v) 5th child (aged 12 years) is a partner in a partnership firm from which he earned interest income of ₹ 40,000 and share of profit of ₹ 35,000. Other two partners of the firm are Mr. and Mrs. Raju.
- (vi) 6th child (aged 9 years) has 1,000 debentures of ₹ 100 each of a public sector company acquired through will of his grand father. Interest income on such debenture is ₹ 10,000. Expenditure incurred to collect such interest is ₹ 200. Such debenture was sold and long-term capital gain earned is ₹ 25,000.
- (vii) 7th child (aged 7 years) has earned interest on fixed deposit ₹ 500.

You are required to compute taxable income of Mr. and Mrs. Raju for the assessment year 2021-22.

(8 marks)

: 5 :

- (D) Kavi is earning a salary of ₹ 40,000 per month from Pranshul Ltd. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 p.m. at New Delhi. Advice Kavi whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of “Net Take Home Cash benefits”. Assume Kavi does not opt for the provision of section 115 BAC.

(7 marks)

2. (a) The following information is supplied to you in respect of four house properties for the previous year 2020-21.

| Particulars | House 1 | House 2 | House 3 | House 4 |
|-----------------------|---------------|---------------|---------------|--------------|
| Status at | Mumbai | Abu | Kolkata | Hyderabad |
| Purpose of usage | Self occupied | Self occupied | Self occupied | Own Business |
| Gross Municipal Value | ₹ 3,00,000 | ₹ 2,00,000 | ₹ 7,00,000 | ₹ 3,00,000 |
| Fair Rent | ₹ 2,00,000 | ₹ 2,00,000 | ₹ 8,00,000 | ₹ 1,20,000 |
| Standard Rent | ₹ 3,00,000 | ₹ 2,40,000 | ₹ 7,00,000 | ₹ 2,00,000 |
| Municipal Tax | 15% | 15% | 15% | 15% |
| Repairs | ₹ 12,000 | ₹ 4,000 | ₹ 8,000 | ₹ 8,000 |
| Ground Rent | ₹ 20,000 | Nil | Nil | ₹ 6,000 |
| Land Revenue | Nil | ₹ 10,000 | Nil | Nil |
| Interest on Loan | ₹ 40,000 | ₹ 1,00,000 | ₹ 2,10,000 | ₹ 20,000 |
| Loan taken on | 1998-99 | 1998-99 | 2017-18 | 1999-2000 |

You are required to compute income under the head “Income from House Property” for the assessment year 2021-22 and show the workings clearly.

(6 marks)

: 6 :

- (b) A, B and C are partners in a firm sharing profits and losses in the ratio of 1:1:2. They provide the following information from which you are required to compute net income of the firm assuming that salary and interest are not paid to partners.
- (i) Net income of the firm in assessment year 2020-21 is (-) ₹ 1,20,000. Out of which unadjusted depreciation is ₹ 40,000.
 - (ii) C retires on 31st May, 2020 from the firm and the other partners carry on the same business.
 - (iii) The income of the firm for the assessment year 2021-22 is ₹ 1,20,000 before adjusting the aforesaid loss and depreciation.

(6 marks)

3. (a) Narmada is an individual resident retired from the service of Prasar Bharati aged 61 years, is a well known dramatist deriving income of ₹ 2,20,000 from theatrical works played abroad. Tax of ₹ 11,000 was deducted in the country where the play's were performed. India does not have any Double Tax Avoidance Agreement under section 90 of the Income-tax Act, 1961, with that country. Her income in India amounted to ₹ 5,60,000.

In view of tax planning, she has deposited ₹ 1,30,000 in PPF and paid contribution to approved Pension Fund of LIC ₹ 45,000. She also contributed ₹ 27,000 to Central Government Health Scheme during the previous year and gave payment of medical insurance premium of ₹ 28,000 to insure the health of her mother a non-resident aged 85 years, who is not dependent on her.

Compute the tax liability of Narmada for the assessment year 2021-22, assuming that she does not opt for section 115BAC.

(6 marks)

: 7 :

- (b) P Ltd. is shifting its undertaking from Jaipur to Napasar (other than urban area). It has sold its 4 machineries and 2 sets of furniture during the previous year 2020-21 as under :

| Assets | Rate of Depreciation | Book Value (₹) | Sold for (₹) |
|-------------|----------------------|-------------------|-----------------|
| Machinery A | 15% | 2,00,000 | 3,00,000 |
| Machinery B | 15% | 3,00,000 | 8,00,000 |
| Machinery C | 15% | 5,00,000 | 6,00,000 |
| Machinery D | 30% | 6,00,000 | 5,00,000 |
| Furniture X | 10% | 1,00,000 | 2,00,000 |
| Furniture Z | 10% | 60,000 | 90,000 |

WDV of the Block of Asset is given under :

| Name of Block | Block consist of | WDV as on 1-4-2020 |
|---------------|------------------|--------------------|
| Machinery 15% | A, B & C | 11,00,000 |
| Machinery 30% | D | 9,00,000 |
| Furniture 10% | X & Z | 1,50,000 |

P Ltd. is seeking whether the above transactions shall be taxable as slump sale or not.

On 7.4.2021, assessee further purchased new machine worth ₹ 2,70,000; land worth ₹ 1,50,000 and new furniture worth ₹ 80,000 for the purpose of new industrial undertaking. Compute the taxable income from capital gain for the assessment year 2021-22.

(6 marks)

4. (a) An enterprise engaged in the business of manufacturing of steel balls discontinued its activities and decided to lease out its factory building, plant and machinery and furniture from 1st April, 2020 on a consolidated lease rent of ₹ 50,000 p.m. Following information is supplied for the previous year 2020-21 :

- (i) Brokerage paid on hundi loan taken ₹ 2,000
- (ii) Interest received on deposits ₹ 1,00,000
- (iii) Interest paid on hundi and other loans which were given as deposits on interest to others ₹ 75,000
- (iv) Expenses incurred on repairs of building, plant and machinery ₹ 15,000
- (v) Fire insurance premium of plant and machinery and furniture ₹ 12,000
- (vi) Depreciation for the year ₹ 1,47,500
- (vii) Legal fees paid to an advocate for drafting and registering the lease agreement ₹ 1,500
- (viii) Factory licence fees paid for the year ₹ 1,000
- (ix) The unabsorbed depreciation for assessment year 2020-21 is ₹ 2,75,000. The income tax return for assessment year 2020-21 is not filed before due date u/s 139(1).
- (x) Interest paid in (iii) above includes an amount of ₹ 25,000 remitted to a non-resident outside India on which tax was not deducted at source.

Compute the total income of enterprises for the assessment year 2021-22.

(6 marks)

: 9 :

- (b) Ascertain the capital gains/loss on transfer of listed equity shares and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the assessment year 2021-22 and also calculate tax liability, if any, payable thereon, in the following cases separately.

Assuming that there are the only transactions covered under section 112A during the previous year 2020-21 in respect of these assesses :

- (i) Prasad purchased 300 shares in A Ltd. on 20th May, 2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31st May, 2020 at a price of ₹ 1,200 each. The price at which these shares were traded in NSE on 31st January, 2018 is as follows :
- Highest Trading Price ₹ 700
 - Average Trading Price ₹ 680
 - Lowest Trading Price ₹ 660
- (ii) Verma purchased 200 units each of equity oriented funds, Fund A and Fund B on 1-2-2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1-1-2018 and units of Fund B were listed on 1-2-2018 on the NSE. Verma sold all the units on 3-4-2020 for ₹ 900 each. The details relating to quoted price on NSE and net asset value of the units are given below :

| Particulars | Fund A | Fund B |
|----------------------------------|----------------------|---------------------|
| Highest Trading Price | ₹ 750 (on 31-1-2018) | ₹ 800 (on 1-2-2018) |
| Average Trading Price | ₹ 700 (on 31-1-2018) | ₹ 750 (on 1-2-2018) |
| Lowest Trading Price | ₹ 650 (on 31-1-2018) | ₹ 700 (on 1-2-2018) |
| Net Asset Value on 31-01-2018 | ₹ 800 | ₹ 950 |

(6 marks)

5. (a) Ayush Motors Limited an Indian Company declared income of ₹ 300 crore computed in accordance with Chapter IV-D but before making any adjustments in respect of the following transactions for the previous year 2020-21.

(i) 10,000 cars sold to Rida Ltd., US company, which holds 30% shares in Ayush Motors Ltd. at a price which is less by \$ 200 each car than the price charged from Shingto Ltd. an independent buyer.

(ii) Royalty of \$ 1,20,00,000 was paid to Kyoto Ltd. a US Company, for use of technical know-how in the manufacturing of car. However, Kyoto Ltd. has provided the same know-how to another Indian company for \$ 90,00,000. Kyoto Ltd. is the sole owner of technology used by Ayush Motors Ltd. in its manufacturing process.

(iii) Loan of EURO 1000 crores carrying interest @ 10% p.a. advanced by Dorf Ltd., a German company, was outstanding on 31st March, 2021. The total book value of assets of Ayush Motors Ltd. on the date was ₹ 90,000 crores. The said German company had also advanced a loan of similar amount to another Indian company @ 9% p.a. Total interest paid for the year was EURO 100 crores.

Explain in detail the provisions of the Act affecting all these transactions and compute the income of the company chargeable to tax for assessment year 2021-22 keeping in mind that the value of 1 \$ and of 1 EURO was ₹ 63 and ₹ 84, respectively, throughout the year.

(6 marks)

: 11 :

- (b) Rama aged 65 years is Karta of his HUF, which consists of himself, his wife and two sons viz., C of 28 years and Minor D aged 16 years. The HUF is assessed to income tax and has business income from the year 2010-11 onwards. The business income of HUF for the year ended 31st March, 2021 is ₹ 5,00,000. Rama is employed in a private company and his salary income for the same period is ₹ 6,10,000 (computed).

You are required to answer the following treating each of them as independent situations :

- (i) C gave cash gift of ₹ 1,00,000 to the HUF of Rama. What would be the total income of HUF ?
- (ii) The HUF has one house property fetching rent of ₹ 10,000 per month and some movable assets. There is a proposal to make a partial partition of HUF by allotting the house property to C on 1st July, 2020. Is it advisable to do a partial partition ? In whose hand the rental income is taxable after the partial partition of HUF.
- (iii) A car owned personally by Rama was blended with HUF during the year. It was leased out for a monthly rent of ₹ 10,000 from 1st October, 2020. How would this income be taxed ?

(2 marks each = 6 marks)

6. Murugan is an individual age 48 years set up a unit in SEZ during the financial year 2017-18 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-Tax Act, 1961. During the financial year 2020-21, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakh (including cost of land ₹ 10 lakh). The warehouse became operational w.e.f. 1st April, 2021 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the previous year 2020-21 are furnished as follows :

- (i) Profit of unit located in SEZ ₹ 40,00,000
- (ii) Export sales of above unit ₹ 80,00,000
- (iii) Domestic sales of above unit ₹ 20,00,000
- (iv) Profit from operation of warehousing facility (before considering deduction u/s 35AD) ₹ 1,05,00,000.

Compute income-tax liability of Murugan for the assessment year 2021-22 both as per regular provisions of the Income-Tax Act, 1961 and as per section 115BAC. Advise Murugan whether he should opt for section 115BAC?

(12 marks)

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