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Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 8

Total number of printed pages : 8

NOTE : All references to sections mentioned in Part-A of the Question Paper relate to the Income-tax Act, 1961 and the relevant Assessment Year 2010-11 unless stated otherwise.

PART—A

(Answer Question No.1 which is compulsory and any three of the rest from this part.)

1. (a) Choose the most appropriate answer from the given options in respect of the following having regard to the provisions of the relevant direct tax laws :
 - (i) Which of the following income is agricultural income —
 - (a) Rent received from agricultural land
 - (b) Income from dairy farm
 - (c) Income from poultry farm
 - (d) Dividend from a company engaged in agriculture.
 - (ii) The term 'income' includes the following types of incomes —
 - (a) Legal
 - (b) Illegal
 - (c) Legal and illegal both
 - (d) None of the above.
 - (iii) Every year, the residential status of an assessee —
 - (a) May change
 - (b) Will certainly change
 - (c) Will not change
 - (d) None of the above.
 - (iv) Sneha is an employee in a private company. In the previous year she received salary Rs.1,80,000 and entertainment allowance Rs.12,000. She spent Rs.6,000 on entertainment. Under section 16(ii), she is entitled to deduction of —
 - (a) Rs.12,000
 - (b) Rs.6,000
 - (c) Rs.5,000
 - (d) Nil.

(v) In whose total income, the income of a minor child is included —

- (a) Father
- (b) Mother
- (c) Father and mother both
- (d) Parent whose total income is greater.

(1 mark each)

(b) State, with reasons in brief, whether the following statements are correct or incorrect :

- (i) An Indian company is always resident in India no matter where and to what extent its control and management is situated.
- (ii) Rent from house property let-out by an assessee to his employees when such letting is incidental to his main business, will be chargeable to tax under the head 'income from house property'.
- (iii) Income by way of winnings from lotteries in the hands of a dealer as a regular business activity is not chargeable to tax under the head 'profits and gains of business or profession'.
- (iv) Income from transfer of self-generated goodwill of a profession is not chargeable to tax under the head 'capital gains'.
- (v) Literary awards instituted by the Central Government are exempted from income-tax.

(1 mark each)

(c) Particulars of income received by Mrs. Sarita for the year ended 31st March, 2010 are as follows :

- (i) Family pension received from the Government of Madhya Pradesh Rs.15,000.
- (ii) Royalty received from a publisher Rs.42,700. She spent Rs.2,700 on books, stationery, typing, etc.
- (iii) Winnings from lotteries (*gross*) Rs.90,000.
- (iv) Winnings from horse race (*net*) Rs.35,000.
- (v) Interest from tax-free debentures of a public company (listed) Rs.18,000.
- (vi) Interest on tax-free notified government bonds Rs.10,000.
- (vii) Dividend received from a foreign company (*net*) Rs.8,000. Nothing has been paid to the Government of India out of tax deducted at source.

From the above information, compute income from other sources of Mrs. Sarita for the assessment year 2010-11.

(5 marks)

2. (a) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :
- (i) The maximum exemption limit under the Income-tax Act, 1961 in case of a woman who is less than 65 years of age and who is non-resident in India is Rs. _____.
 - (ii) The time limit for filing an appeal before the appellate tribunal on receipt of an appeal order from the Commissioner is _____ days.
 - (iii) Wealth-tax is charged at the rate of _____ % on net wealth in excess of Rs. _____ lakh under the Wealth-tax Act, 1957.
 - (iv) Business loss relating to illegal business is _____ as deduction.
 - (v) Marriage gift from a non-relative is _____ to tax.
- (1 mark each)*
- (b) Write short notes on **any two** of the following :
- (i) Belated return
 - (ii) Taxation of zero coupon bonds
 - (iii) Profit in lieu of salary.
- (3 marks each)*
- (c) Discuss the procedure for rectification of mistakes under the Income-tax Act, 1961.
- (4 marks)*
3. (a) An asset is transferred by a person to another person under a partly revocable transfer whereby a part of the asset will revert back to the transferor. Who shall be liable to pay tax in respect of income from the asset transferred as per section 61 ?
- (2 marks)*
- (b) Distinguish between **any three** of the following :
- (i) 'Mercantile system of accounting' and 'cash system of accounting'.
 - (ii) 'Free trade zone' and 'special economic zone'.
 - (iii) 'Exemption to capital gains under section 54G' and 'exemption to capital gains under section 54GA'.
 - (iv) 'Intra-head adjustment' and 'inter-head adjustment'.
- (2 marks each)*

- (c) Ram and Shyam are partners in Mozart Co., a partnership firm, which is engaged in manufacturing carpets. They share profits and losses in the ratio of 2:3. The profit and loss account of the firm for the year ended 31st March, 2010 is as follows :

<i>Liabilities</i>	<i>Rs.</i>	
Cost of goods sold		10,00,000
Depreciation		50,000
Salary to staff		1,00,000
Remuneration to partners :		
Ram	Rs.2,50,000	
Shyam	Rs.1,20,000	3,70,000
Interest on capital @15% :		
Ram	Rs.45,000	
Shyam	Rs.67,500	1,12,500
Sundry expenses		1,00,500
Net profit		7,35,200
		<u>24,68,200</u>
 <i>Assets</i>		
Sales		23,00,000
Dividends		28,200
Winnings from lotteries (Rs.2,00,000)		1,40,000
		<u>24,68,200</u>

Additional information :

- (i) The firm donated Rs.30,000 to National Defence Fund and this amount is included in sundry expenses.
- (ii) Depreciation admissible under the income-tax rules is Rs.68,000.
- (iii) The firm is evidenced by partnership deed.

Compute the taxable income and amount of tax liability of the firm for the assessment year 2010-11.

(7 marks)

4. (a) Raman has following assets and liabilities as on 31st March, 2010. Compute his net wealth and wealth-tax liability for the assessment year 2010-11 :

	<i>Market Value (Rs.)</i>
(i) Cash in hand	75,000
(ii) Cash at bank	10,00,000
(iii) Residential house (Loan taken to purchase this house Rs.5,00,000)	45,00,000
(iv) Land in rural area (it is within 5 kms. from Delhi)	48,00,000
(v) Land in urban area (construction not permitted under the law, loan taken to purchase this land Rs.3,00,000)	28,00,000
(vi) Motor car for personal use	14,00,000
(vii) Jewellery	6,00,000
(viii) Aircraft for personal use (Loan taken to purchase aircraft Rs.20,00,000)	1,00,00,000
(ix) Farm house situated within 20 kms. from local limits of municipality	24,00,000
(x) One let-out residential house given on rent throughout the year (Loan taken to construct this house Rs.2,00,000)	20,00,000
	<i>(5 marks)</i>

- (b) State the provisions regarding deduction of tax at source in respect of the following incomes :

- (i) Winnings from horse races.
- (ii) Payment by way of fees or royalty for professional or technical services.
- (iii) Payment of compensation on acquisition of immovable property.

(2 marks each)

- (c) Discuss the cases in which payment by way of loan/advance to the extent of accumulated profits by a closely held company is treated as dividend under section 2(22)(e).

(4 marks)

5. (a) Amit is a cloth merchant in Ghaziabad. From the following profit and loss account for the year ended 31st March, 2010, compute his taxable income and tax payable for the assessment year 2010-11 :

	<i>Rs.</i>		<i>Rs.</i>
Opening stock	1,00,000	Sales	40,00,000
Purchases	25,00,000	Closing stock	3,00,000
Reserve for bad debts	10,000	Gift from friend	70,000
Household expenses	20,000	Gift from brother	80,000
Advertisement	40,000		
Depreciation	20,000		
Salaries and wages	1,20,000		
Reserve for future losses	20,000		
Travelling expenses	15,000		
Expenditure on scientific research	50,000		
Net profit	15,55,000		
	<u>44,50,000</u>		<u>44,50,000</u>

Additional information :

- (i) Household expenses include an amount of Rs.5,000 paid for premium on life insurance policy of Amit.
- (ii) Depreciation admissible as per the income-tax rules is Rs.30,000.
- (iii) Advertisement costing Rs.10,000 appeared in a newspaper owned by a political party is included in the total amount spent on advertisement.
- (iv) Expenditure on air fare from Delhi to Bangalore and from Bangalore to Delhi of a sales manager costing Rs.10,000 is included in travelling expenses. The sales manager is otherwise entitled for a second class AC train where the expenditure would be Rs.4,000.
- (v) Expenditure on scientific research relates to the money spent by Amit on conducting research relating to the business of cement which he proposes to undertake in future.

(7 marks)

- (b) Explain with the help of suitable illustration how capital gains are computed under section 45(2) in case of conversion of capital asset into stock-in-trade.

(4 marks)

- (c) Describe the powers of Central Board of Direct Taxes (CBDT) under the Income-tax Act, 1961.

(4 marks)

6. (a) Naveen owns a house at Indore. Its municipal valuation is Rs.24,000. He incurred the following expenses in respect of the house property :
- Municipal tax @ 20%, fire insurance premium Rs.2,000 and land revenue Rs.2,400. He took a loan of Rs.25,000 @16% per annum on 1st April, 2006. The whole amount is still unpaid. The house was completed on 1st April 2009. Find out the income from house property for the assessment year 2010-11 in respect of the following options :
- If the house is used by the assessee throughout the previous year for his residential purpose; and
 - If the house is let-out for residential purposes on monthly rent of Rs.2,000 from 1st April, 2009 to 31st January, 2010 and self-occupied for the remaining period.
- (6 marks)*
- (b) What are the due dates of payment of advance tax in the case of corporate and non-corporate assesseees ?
- (3 marks)*
- (c) How is the liability to advance tax computed as per provisions of section 210 ?
- (3 marks)*
- (d) Explain the deductions which are available to an assessee under section 57 while computing taxable income chargeable under the head 'income from other sources'.
- (3 marks)*

PART—B

7. Attempt **any four** of the following :
- (a) As per rule 2(1)(d) of the Service Tax Rules, 1994, who is the person specified to be liable for paying service tax in respect of the following services —
- Telecommunication services.
 - Services in relation to general insurance business.
 - Services in relation to any taxable service or service to be provided by any person from a foreign country to any person in India.
 - Business auxiliary service of distribution of mutual fund by a mutual fund distributor or an agent, as the case may be.
 - Sponsorship services provided to any body corporate or firm located in India.
- (1 mark each)*
- (b) (i) Which category of persons must mandatorily obtain registration under Chapter V of the Finance Act, 1994 ?
- (3 marks)*
- (ii) What are the time limits for making application for registration and granting registration for service tax under Chapter V of the Finance Act, 1994 ?
- (2 marks)*

- (c) (i) When is an assessee registered under service tax required to surrender the registration certificate ?
- (ii) On which amount — amount of bill raised on the client or amount actually received from the client, service tax is payable ?
- (iii) If an assessee pays service tax on the billed amount but he gets less amount from his customers, can he get refund from the government ?
- (iv) If the service provider fails to recover service tax on a bill of Rs.12,000 where service tax is not shown separately in the invoice, what will be the amount of service tax ?
- (v) When will the small service provider claiming exemption from paying service tax apply for registration under service tax ?

(1 mark each)

- (d) Comment on the following statements —

(i) “Service tax is payable as soon as advance is received even if the service is provided later.”

(2 marks)

(ii) “Excess service tax collected is to be paid to the Central Government.”

(3 marks)

- (e) Discuss the exemption available to small service providers from paying service tax.

(5 marks)

PART—C

8. Attempt **any four** of the following :

- (i) “As a result of introduction of value added tax (VAT), the central sales tax will be phased out.” Explain the statement.
- (ii) Discuss in what respects VAT system as adopted in India is deficient in the direction of getting maximum benefits of VAT.
- (iii) “VAT liability of a dealer is calculated by deducting input tax credit from tax collected on sales during the payment period.” Discuss with the help of a suitable illustration.
- (iv) Discuss the cases of purchases in respect of which generally no input tax credit is available.
- (v) Explain the various methods of computation of VAT liability.

(5 marks each)

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