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## P.E.S. College of Engineering, Mandya - 571 401

(An Autonomous Institution under VTU, Belgaum)

**Fourth Semester, Master of Business Administration (MBA)**

**Make-up Examination; July – 2016**

**Tax Management**

*Time: 3 hrs*

*Max. Marks: 100*

*Note: Answer any FOUR full questions from PART - A and PART - B (Case Study) is compulsory.*

### PART - A

- 1 a. Can you explain the meaning of Gross Total Income as per IT Act of India? 3
- b. Can you state or interpret in your own words the concept of Income as per Income Tax Act of India. 7
- c. X is a foreign national, furnishes the following particulars of his income relevant for the previous year 2014-15 :
- Profit on sale of plant at London (one third is received in India) Rs. 90000/-
- Profit on sale of plant at Delhi (one fourth received in London) Rs. 100000/-
- Salary from an Indian company received in London (one fifth is paid for rendering service in India) Rs. 120000/-
- Interest on UK Development Bonds (entire amount is received in London) Rs. 70000/-
- Income from property in London received there Rs. 10000/-
- Income from agriculture in London received there, half of which is used for meeting hostel expenses of 'X's son in England and remaining amount is later on remitted to India Rs. 50000/- 10
- Dividend received in London on May 6, 2014 from a company registered in India but mainly operating in UK Rs. 15000/-
- Profit from a business in Delhi managed from India Rs. 230000/-
- Rental income from a property in Nepal deposited by the tenant in a foreign branch of an Indian bank operating there Rs. 18000/-
- Gift in foreign currency received on September 20, 2014 from a friend (one-third of which is received in India and remaining amount is received outside India and utilized for meeting education expenses of X's son in USA) Rs. 900000/-. Determine the gross total income for the assessment year 2015-16, if he is, i) Resident and ordinarily resident
- ii) Resident but not ordinarily resident      iii) Non resident.

**OR**

- 2 a. Write a short note on Profit in lieu of salary as per the IT act. 6
- b. X (47 years) is employed by ABC Textiles Ltd., Surat. From the information given below find out net income and his tax liability of X for the assessment year 2015-16. 14

Contd...2

Basic salary is Rs. 46000/- p.m.

Commission at the rate of 10 per cent of sales made by X Rs. 90000/- for the period ending on December 31, 2014 and Rs. 45000/- for the period ending March 31, 2015.

Dearness Allowance Rs. 8000 p.m. (1/4 is part of salary for computation of pension but only 20 per cent is part of salary for computing other retirement benefits, like provident fund, gratuity, etc.)

House rent allowance Rs. 25000/- p.m.

Tiffin allowance Rs. 10000/- p.m. (but only w.e.f. February 1, 2015)

Besides he has been provided with amenities of gas, electricity and water, the expenses of which amounting to Rs. 18000 are paid by the employer. He resides in an rented accommodation at 32, Navsari Bazaar, Surat (rent being Rs. 21000/- payable every month to the landlord: D Ltd. Population of Surat is above 25 lakh). However, the employer-company has purchased this property from D Ltd. On December 31, 2014 and the same house is allotted s a rent-free unfurnished house to X without charging any rent. House rent allowance has been discontinued on the same day.

X contributes Rs. 6000/-p.m. towards recognized provident fund. Contribution by the employer company is not more than 12 per cent of salary. Provident fund interest is credited at the rate of 8 per cent which comes to Rs. 294000/- for the previous year 2014-15. X life insurance premium on the life of his married daughter (annual insurance premium since 2006 being Rs. 10000/-, sum assured Rs. 95000/-). Premium which becomes due on May 15, 2013 and May 15, 2014 are paid during the previous year 2014-15). Income of X from other sources Rs. 94000/-.

- 3 a. Name any three items which can be included under the head 'Income from other sources'. 3
- b. Explain the following: i) Dividends, ii) Bond Washing Transaction. 7
- c. Can you recall and explain in your own words the meaning of the following terms- Fair Rent, Standard Rent, Actual Rent, and Unrealized Rent. 10

**OR**

- 4 a. What do you understand by the term 'Capital Gain' used in the Income Tax Act? Explain any two rules regarding exemptions u/s 54 of capital gain. 10
- b. On September 2, 2014, X(49 years) a resident individual, transfers a plot of agricultural land situated near Delhi border for Rs. 50,00,000/- ( Value for stamp duty purpose is Rs. 98,00,000/-). The purchaser challenges the stamp duty value and appellant authority finally fixes stamp duty value at Rs. 96,00,000/-

The agricultural land situated at Delhi border was purchased by X for Rs. 3,00,000/- in 1978. The fair market value of land on April 1, 1981 is Rs. 7,00,000/- Since the date of purchase, the land is used by X for agricultural purposes. X incurs an expenditure of Rs. 5,00,000/- for construction of boundary wall in 1996-97. 10

To avail exemption, X purchases on January 10, 2015 an agricultural land in a village (situated within the municipal limits of Delhi Municipal Corporation) for Rs. 4,00,000/- (stamp duty is, however, paid by X at the rate of 10 percent on Rs. 18,00,000/-).

This land is transferred on April 16, 2015 for Rs. 40,00,000 (stamp duty value is Rs. 49,00,000).

X also purchases a residential house property on February 1, 2015 for Rs. 5,00,000/- (Stamp duty is paid at the rate of 12% of Rs. 15,00,00/-). This new house property is transferred for Rs. 32,00,000/- on December 7, 2015 (stamp duty value is Rs. 32,00,000/-).

Determine the amount of Capital gain chargeable to tax for the assessment year 2015-16.

- 5 a. Explain any four deductions that are expressly allowed in computing the income from business under the Indian Income Tax Act, 1961. 10
- b. X (27 years) is a businessman. He maintains books of account on mercantile basis and his main source of income is commission agency. Profit and loss account of X for the year ending March 31, 2015 is given below:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Opening stock	320000	Sales turnover	8500000
Purchase of goods	5200500	Gifts received from friends at time of marriage of X	70000
Salary and wages	615000	Gift received from mother	68000
Rent of generator	300000	Sale price of van	415000
Rent of office owned by X's father	120000	FD interest (net of TDS)	90000
Rent of godown owned by Mrs. X	900000	TDS of FD interest	10000
Repairs	80000	Income tax refund (including interest of Rs. 9000)	27000
Income tax of X	47000	Closing stock	210000
Income tax paid on behalf of X's father	25000		
Wealth tax paid	17000		
Medical expenses of staff	18000		
Miscellaneous expenses	220000		
Depreciation of factory	17000		
Depreciation of van	72000		
Advance income tax paid	90000		
Interest for late payment of sales tax	8000		
Net profit	1340500		
<b>Total</b>	<b>9390000</b>	<b>Total</b>	<b>9390000</b>

Additional information:

- Salary, includes a contribution by X to unrecognized provident fund account of employee of Rs.65000/-
- Half of the office is used as residence of X.
- X purchased a van on May 10, 2014 for Rs. 500000/-. It used for office and personal purpose. Approximately, 15 per cent expenditure is attributable towards personal use of X and his family. Van is sold on March 24,2015 for Rs. 415000/-

- iv. Salary includes salary of driver of van of Rs. 48000/-.
- v. Miscellaneous expenses include maintenance expenditure of van of Rs. 60000/-.
- vi. He generates income from giving lectures of Rs. 315000 during the year which is not included in profit and loss account. Determine his income from Business as per IT rule.

**OR**

- 6 a. Can you explain in what circumstances are the following items allowed as deduction in computing income from business/profession, 10
- i) Repairs ii) Insurance Premium iii) Interest iv) Legal charges?
- b. X (40 years) is a chartered accountant in practice. Income and expenditure account of X for the ending March 31, 2015 is given below:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Salary to staff	600000	Audit fees	2715000
Advertisement Expenditure	30000	Tax consultancy fees	850000
Depreciation	210000	VAT consultancy fees	325000
Rent of office paid to Mrs. X	75000	Gift from mother-in-law	65000
Personal expenses	17000	Dividend of preference shares	
Donations to Prime Minister		from Indian Companies	87000
Relief Fund	20000	Dividend on equity shares	
Interest on loan taken to set up		received from foreign	
profession	3000	companies	236500
Income-tax, advance tax and penalty		Profit on sale of unquoted	
paid	8000	debentures purchased in 1987	84000
Car expenses including depreciation	90000	Refund of income-tax	
Miscellaneous expenses	130000	received on behalf of clients	
Excess of income over expenditure	3214500	but not remitted to them	35000
	4397500		4397500

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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. 210000/-. However, under section 32, it comes to Rs. 240000/-.
- iii. Car is partly used for official purposes and partly for personal purposes. Approximately, 10 per cent expenditure is attributable towards private use of the car.
- iv. Salary of staff includes salary of Rs. 5000/- per month paid to car driver for 3 months.
- v. Miscellaneous expenditure includes electricity bills of Rs. 25000/- paid on April 10, 2015.

- vi. Out of VAT consultancy fee, Rs. 35000/- is received on May 2, 2015.
  - vii. Gift from mother-in-law is received in cash. Determine Income from Profession.
- 7 a. Can you explain the conditions to be satisfied for claiming deduction of remuneration of partners under section 40(b)? 10
- b. X (28 years), Y (26 years) and Z (32 years) are three partners (1:2:3) of X Co., a LLP engaged in manufacturing leather goods. The profit and loss account of the firm for the year ending March 31, 2015 is as follows;

Cost of goods sold	5476000	Sales	7530000
Salary to staff	800000	Long-term capital gains	60000
Income tax	42000	Other business receipts	14000
Depreciation	80000	Net loss	10000
Remuneration to partners:			
X	400000		
Y	300000		
Z	200000		
Interest on capital to partners @18%p.a.:			
X	90000		
Y	120000		
Z	36000		
Other expenses	70000		
Total	7614000		7614000

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Other information-

- i. The firm has given donation of Rs. 300000/- to a notified public charitable trust which was not debited to the profit and loss account.
- ii. Salary and interest are paid to partners as per the partnership deed.
- iii. Depreciation allowable under section 32 is Rs. 72000/-.

Find out income from business of the firm for the assessment year 2015-16 on the assumption that conditions of section 184 and 40(b) are satisfied.

**OR**

- 8 a. Explain the meaning of 'Service' as per the section 65B (44). List out any Five activities specifically included in service under this section. 10
- b. Explain the different types of Custom Duty levied in India. 10

**PART - B**

**Case Study (Compulsory)**

9. X(62 year) submits the following information pertaining to the assessment year 2015-16 20

- i. X is a chartered accountant by profession and employed with a company as its Chief Accountant. He is paid a gross monthly salary of Rs. 80000 (inclusive of a house rent allowance of Rs. 10000). He contributes Rs. 8000 per month to a recognized provident fund to which his employer also contributes an equal sum.
- ii. With the permission of his employer, X teaches law at an evening collage for which he is paid a remuneration of Rs. 20000 per month along with the reimbursement of conveyance expenses of Rs. 3000 per month,
- iii. X lives in his own house, built by him in 2009 and occupied from October 1. 2010. The construction was financed by, among other things, loan taken by him from the Housing Development Finance Corporation Ltd., to whom he pays an installment of Rs. 15000 per month towards principal. The interest on the loan for the previous year works out to Rs. 46000/-- The annual value of the property, as assessed by the municipality, is Rs. 320000/- and the annual municipal taxes Rs. 25000/-.
- iv. In September 2014, he purchased for Rs. 1000 a ticket for a lottery conducted by the Government of Tamil Nadu and at the draw held in October 2014, this ticket won a prize money of Rs. 1000000/-. The Director of the Stale Raffles deducted Rs. 300000/- from this amount towards income tax and paid the balance to X.
- v. X paid in the year life insurance premia of Rs. 20000/- on policies of Rs. 80000/- taken on his life, Rs. 7500/- paid on a policy for Rs. 25000/- taken by him on his wife's life and Rs. 8000/- on an endowment policy for Rs. 20000/- taken on the life of his son who became a major on May 16, 2014. These policies were taken before 2009.
- vi. He paid in the year Rs. 9000/- as permia to effect an assurance on the health of his wife, his dependent children and himself. He also paid Rs. 20700/- on preventing check up of family.
- vii. During the year, he made the following deposits-
  - a. Rs. 80000/- as fixed deposit (eligible for deduction under section 80C) with a schedule bank.
  - b. Rs. 10000/- in saving accounts in the joint names of his wife and himself with Post Office.
  - c. Rs. 70000/- to the credit of a public provident fund account with the State Bank of India.
- viii. In the year, he earned interest on the following accounts:
  - a. Rs. 35500/- from the scheduled bank on his fixed deposits;
  - b. Rs. 18000/- form the Post Office on the savings account with ii;
  - c. Rs. 130000/- form the State Bank of India on the public provident fund account.
- ix. On April 1, 2014, X's minor son get a gift of Rs. 150000/- from a family friend who is non-resident in India. This amount is invested in a business and business income for the year ending March 31, 2015 is Rs. (-) 40000/-.

