

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

**Course: Income Tax: Theory, Practice and Management  
Semester-IV (Batch: 2015-20)**

**End Semester Examination: April-May 2017**

**Date: 10<sup>th</sup> May, 2017**

**Duration: 3 hours**

**Max. Marks: 50**

**Instructions:**

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in line.
- Do not write any thing on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.
- **Use of calculator is permitted.**

**Marks**

- Q.1 (a) Jonathan, aged 60 years, was a private sector employee, covered under the Payment of Gratuity Act, 1972. He was working in Chennai. He retired on 31.01.2017 after serving 30 years 10 months. At the time of retirement, his monthly emoluments were: Basic Salary- Rs.30,000, Dearness Allowance- 120% of basic salary (100% for retirement benefits), and other allowances and perquisites as mentioned below.

(07)

|   |                         |
|---|-------------------------|
| 1. Rent Free Furnished Accommodation in Chennai   |                         |
| 2. Motor Car: He has used a car (1.5 litres or 1500 cc) owned by the employer partly for private and partly for official purposes. Maintenance cost and running expenses are borne by the employee. A chauffeur was also provided by the employer for free. |                         |
| 3. Children Education Allowance (One elder child and Two younger twin children)   | Rs.1,000 p.m. per child |
| 4. Leave Encashment at the time of retirement<br>[Leave entitled- 55 days per year, leave availed- 10 months for the entire tenure]   | Rs.5,00,000             |
| 5. Commuted Pension (75% of the total pension was commuted)   | Rs.15,00,000            |
| 6. Gratuity   | Rs.10,00,000            |

He paid Professional Tax of Rs. 2,400 for the entire year. From the above information calculate the income under the head salaries of Mr. Jonathan, for the A.Y. 2017-18.

- (b) Determine residential status of Manisha who is an Indian citizen, for the PY 2016-17 only, based on the facts that during financial years 2001-02 to 2016-17, she was present in India as follows,

(03)

| Previous Year | Days | Resident in any PY | Previous Year | Days | Resident in any PY |
|---------------|------|--------------------|---------------|------|--------------------|
| 2016-17       | 181  |                    | 2008-09       | 189  |                    |
| 2015-16       | 133  |                    | 2007-08       | 98   |                    |

|         |     |          |         |     |          |
|---------|-----|----------|---------|-----|----------|
| 2014-15 | 194 |          | 2006-07 | 130 |          |
| 2013-14 | 75  |          | 2005-06 | 140 |          |
| 2012-13 | 110 |          | 2004-05 | 210 | Resident |
| 2011-12 | 185 |          | 2003-04 | 105 |          |
| 2010-11 | 210 | Resident | 2002-03 | 55  |          |
| 2009-10 | 75  |          | 2001-02 | 160 |          |

OR

Q.1 Write short notes on **any ten** of the following:

(10x1

=10)

- Tax on foreign income of tourists who become residents of India during a previous year
- Residential status of a foreign company
- Taxability of awards received from a private company
- Rebate under section 89
- Holder of impartible estate
- Taxability of income earned from casual or non-regular sources
- Taxability of income of a beggar
- Income Tax Appellate Tribunal
- Taxability of not-genuine gifts from relatives
- Section 80 Deductions v. Section 10 Exemptions
- Section 80 CCID(1B)
- Allowance v. Perquisite

Q.2 Jayant owns two houses in different locations. The first house is self-occupied for 10 months and remained vacant for 2 months during the PY 2016-17. For construction, which was completed on 31<sup>st</sup> March 2016, he took a loan of Rs.25 Lakh at 10% interest rate p.a. from a scheduled bank on 1<sup>st</sup> June 2016. On 1<sup>st</sup> January 2017, he took a fresh loan to repay the original loan of Rs.25 Lakh from a private scheduled commercial bank at 9% interest rate p.a. He is not interested to claim any deduction for pre-construction period interest. The annual Municipal Valuation is Rs.1,05,000, the Fair Rent is Rs.1,04,000 and the Standard Rent is Rs.94,000. He paid Municipal Taxes @5% of the municipal valuation. He borrowed another amount of Rs.3,00,000 @ 15% interest p.a. on 1<sup>st</sup> March 2017, from a friend to beautify the house.

(10)

He lets out the second house, the title of which is disputed, and earns Rs.20,000 p.m. composite rent (80% for building) from it. The property remained vacant for 4 months. Rent for the last 2 months could not be realized in spite of fulfilling all the conditions. The annual Municipal Valuation is Rs.2,00,000, the Fair Rent is Rs.1,95,000 and the Standard Rent is Rs.1,96,000. He paid Municipal Taxes @10% of the municipal valuation. He borrowed an amount of Rs.30,00,000 @ 15% interest on 1<sup>st</sup> April 2016 from a scheduled bank, after he purchased the house from a builder. He realized that the bank was charging higher interest rates, so he took a fresh loan to repay the original loan from another scheduled bank at 13% interest per annum on 1<sup>st</sup> April 2017. He paid brokerage of Rs.20,000 for arranging the new loan. He received a gift worth Rs.45,000 from the bank manager who sanctioned the loan for availing the new loan. He doesn't have any intention to claim deduction for pre-construction period interest (if any). Compute income from house property of Jayant for the AY 2017-18.

- Q.3 From the following Profit and Loss Account of Aditya Enterprises Ltd. (AEL), a manufacturing company, for the year ended 31.03.2017 and additional information, compute income under the head 'profit and gains of business and profession' for the A.Y. 2017-18. (10)

| Particulars                           | Amount<br>(Rs.)  | Particulars                   | Amount<br>(Rs.)  |
|---------------------------------------|------------------|-------------------------------|------------------|
| To Purchases                          | 10,00,000        | By Sales                      | 18,00,000        |
| To Expenditure on Scientific Research | 2,00,000         | By Commission                 | 1,00,000         |
| To Repairs to factory                 | 60,000           | By Interest                   | 2,00,000         |
| To Sales Tax, Excise and Custom Duty  | 3,00,000         | By Rent Received              | 50,000           |
| To Depreciation                       | 4,00,000         | By Discount Received          | 50,000           |
| To Advertisement Expenses             | 40,000           | By Winnings from Gambling     | 20,000           |
| To Insurance premium                  | 70,000           | By Rent from Hotel Business   | 50,000           |
| To Income Tax                         | 1,60,000         | By Gain on sale of a property | 1,30,000         |
| To General Expenses                   | 30,000           |                               |                  |
| To Net profit                         | 1,40,000         |                               |                  |
| <b>Total</b>                          | <b>24,00,000</b> | <b>Total</b>                  | <b>24,00,000</b> |

**Additional Information:**

- (a) Purchases include these items: Goods of Rs. 40,000 were purchased on trial basis which were subsequently returned. Goods of fair market value of Rs.100,000 could be purchased for just Rs.50,000 after intelligent negotiations (The accountant charged only Rs. 50,000 to the P & L A/c for this purpose). A free sample of Rs.10,000 was included in Purchases. Purchases also include gifts given to the Purchase Manager of Rs.20,000. It did not include a compensation received for a defective consignment of goods from a customer for Rs.10,000.
- (b) Scientific Research expenses include: A payment of Rs.50,000 for in-house research conducted for another company unrelated to the principal line of business of AEL. Payment was made to an approved social science research institute for Rs.20,000. A research project costing a revenue expense of Rs. 20,000 conducted in house did not succeed. Researchers went on a picnic which cost Rs.5,000 to the company.
- (c) Repairs include free exchange of a machinery of Rs.30,000. It also included erection of a concrete structure costing Rs.5,000 to place a machinery.
- (d) Sales tax, Income Tax, Excise of Rs.30,000, Rs.20,000 and Rs.10,000 respectively are due but unpaid.
- (e) General Expenses include fees for betting of Rs.1,000 and a gift of Rs. 5,000 to a officer for clearing a file for the company.
- (f) Depreciation is chargeable on the following assets only:

|                                    |   |
|------------------------------------|---|
| Plant and Machinery<br>(10% block) | WDV: Rs.1,00,000  |
| Plant and Machinery<br>(20% block) | WDV: Rs. 2,00,000<br>Rs.1,00,000 purchased on 31/12/2016 and used on the same day |
| Patents (25% block)                | Rs.60,000   |

- (g) Advertisement expenses does not include payment of Rs.30,000 to a celebrity. Advertisement expenses include bribe of Rs.20,000.

Q.4 From the following information, compute taxable capital gains for the A.Y. 2017-18. (10)

| The following assets were sold:          |              |                     |                  |                           |
|--|--------------|---------------------|------------------|---------------------------|
| Asset                                    | Date of Sale | Sale Proceeds (Rs.) | Date of Purchase | Cost of Acquisition (Rs.) |
| Residential House Property               | 05/04/2016   | 20,00,000           | 01/01/2016       | 19,00,000                 |
| Rural Agricultural Land                  | 10/12/2016   | 45,00,000           |                  |                           |
| Urban Agricultural Land                  | 19/03/2017   | 13,00,000           | 31/03/2000       | 3,00,000                  |
| Personal Furniture                       | 15/11/2016   | 50,000              | 16/08/1995       | 15,000                    |
| Plant and Machinery                      | 23/04/2016   | 5,00,000            | 14/07/2011       | WDV: 4,00,000             |
| Debentures                               | 04/10/2016   | 4,50,000            | 14/07/2012       | 2,00,000                  |
| TV Set (Personal)                        | 30/04/2016   | 60,000              | 12/01/2015       | 1,00,000                  |
| Personal Jewellery (Diamond)             | 03/04/2016   | 6,00,000            | 23/02/2002       | 30,000                    |
| The following new assets were purchased: |              |                     |                  |                           |
| Parents                                  |              |                     | 03/09/2016       | 3,00,000                  |
| Residential House Property               |              |                     | 18/08/2016       | 15,00,000                 |
| Commercial House Property                |              |                     | 13/03/2017       | 45,00,000                 |
| NILAI Bond                               |              |                     | 16/06/2016       | 15,00,000                 |
| Rural Agricultural Land                  |              |                     | 15/09/2016       | 10,00,000                 |
| The following new assets were sold:      |              |                     | Date of Sale     | Amount (Rs.)              |
| Patent                                   |              |                     | 30/09/2016       | 3,00,000                  |
| Rural agricultural land                  |              |                     | 31/01/2017       | 6,00,000                  |
| NHAI bonds                               |              |                     | 25/03/2017       | 5,00,000                  |

Q.5 (a) Jeevan is a salaried person. In the previous year 2016-17, his salary income is Rs.8,00,000. He earned Rs.50,000 from a lottery and Rs.40,000 as interest from a chit fund. To participate in the lottery, he deposited Rs.10,000 with the organizers. During the year, he got a motor bike of Rs.80,000 as a gift from a friend. He had occasionally let this motor bike on rent and earned Rs.30,000. He had unexplained receipts of Rs.2,00,000 in cash. Some unidentified person has deposited Rs.4,50,000 in one of his bank accounts during the demonetisation period in November 2016. He received family pension of Rs.30,000 for the year. He found a new Rs.2,000 currency note on the road. He spent Rs. 30,000 for his personal expenses. He paid wealth tax of Rs.5,000. On March 1, 2017, he purchased a painting from a friend for Rs.1,00,000. However, its market value is not less than Rs.3,00,000. On the same day, he purchased a second hand car for Rs.80,000 whose market value is not less than Rs.1,40,000. Find out the net income taxable under the head income from other sources for the A.Y. 2017-18. (5+5=10)

(b) Mr. Gyan earned the following income during the PY 2016 17. Determine the income chargeable to tax for the AY 2017-18 if, Mr. Gyan is a;  
(i) Resident & Ordinarily Resident,

- (ii) Resident but Not Ordinarily Resident,
- (iii) Non Resident.
  - (a) Income from a lawn in an agricultural land given to a club in India - Rs.20,000.
  - (b) Fees for technical services received from Astra Ltd. (A foreign company which is non-resident in India) outside India (payment is relatable to a business or profession or any other source carried by the payer in places other than India) - Rs.30,000.
  - (c) Income from sale of a cash crop from an agricultural land in India - Rs.20,000.
  - (d) Dividends received in Germany from Mysore based sandalwood company controlled from Brazil - Rs.23,000 in 2009-10, out of which Rs.2,500 were remitted to India in the PY 2016-17.
  - (e) Annual interest credited on fixed deposit by a foreign branch of a foreign bank - Rs.2,000.

OR

- Q.5 (a) What constitutes income under the head 'Income from other Sources' under section 56 of the Income Tax Act, 1961? Explain the issues concerned with taxability of gifts. (05)
- (b) State the taxability of the following retirement benefits: (05)
- o Statutory Provident Fund
  - o Recognized Provident Fund
  - o Unrecognized Provident Fund
  - o Public Provident Fund
  - o National Pension System (NPS)
- Under situations of:
- (i) Employer's contribution
  - (ii) Employee's contribution
  - (iii) Interest earned on employer's / employee's contribution
  - (iv) Withdrawal of lump sum at the time of retirement

**Note: Please turn over for Cost Inflation Index Numbers**

Cost Inflation Index Numbers

**Income Tax Department**  
Government of India

| Financial Year  | CII  |
|-----------------|------|
| Before 1/4/1981 | 100  |
| 1981-82         | 100  |
| 1982-83         | 109  |
| 1983-84         | 116  |
| 1984-85         | 125  |
| 1985-86         | 133  |
| 1986-87         | 140  |
| 1987-88         | 150  |
| 1988-89         | 161  |
| 1989-90         | 172  |
| 1990-91         | 182  |
| 1991-92         | 199  |
| 1992-93         | 223  |
| 1993-94         | 244  |
| 1994-95         | 259  |
| 1995-96         | 281  |
| 1996-97         | 305  |
| 1997-98         | 331  |
| 1998-99         | 351  |
| 1999-00         | 389  |
| 2000-01         | 406  |
| 2001-02         | 426  |
| 2002-03         | 447  |
| 2003-04         | 463  |
| 2004-05         | 480  |
| 2005-06         | 497  |
| 2006-07         | 519  |
| 2007-08         | 551  |
| 2008-09         | 582  |
| 2009-10         | 632  |
| 2010-11         | 711  |
| 2011-12         | 785  |
| 2012-13         | 852  |
| 2013-14         | 939  |
| 2014-15         | 1024 |
| 2015-16         | 1081 |
| 2016-17         | 1125 |

\*\*\*