

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

**Course: Law of Taxation I  
Semester-VII (Batch: 2017-22)**

**End Semester Online Examination: December 2020**

**Date: 20<sup>th</sup> December, 2020**

**Duration: 8 hours**

**Max. Marks: 50**

**Instructions:**

- The respective marks for each question are indicated in-line.
- Indicate correct question numbers in front of the answer.
- No questions or clarification can be sought during the exam period, answer as it is, giving reason, if any.

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| Q.1 | <p>Mr. Arthasashtri, an assessee having income under the heads of Profits and Gains of Business and Professions and Capital Gains has reported the following details of his transactions during the Previous Year 2019-20.</p> <ol style="list-style-type: none"><li>1. He has a business of manufacturing of small agricultural machine components.</li><li>2. His turnover (gross receipts) for the year 2019-20 is Rs. 10,00,00,000/-. This also includes some sales returns of Rs. 20,000/- for which he has agreed to refund the amount to the customers.</li><li>3. His other income includes receipt of rent from his staff accommodation of Rs. 50,000/-.</li><li>4. He also received interest on investment in a bank of Rs. 60,000/-. The Assessing officer has classified this income as income from other sources whereas, the assessee wishes to cover it under PGBP.</li><li>5. He has spent for advertising and promotion a huge sum of Rs. 1,00,00,000/-. The assessing officer claims that it is inadmissible as the amount is almost 10% of the total gross receipts. Further, the assessee is not able to show receipts/vouchers for some gifts presented to small farmers for sales promotion amounting to Rs. 30,00,000/- during an agricultural festival.</li><li>6. He has made donations to a religious trust of Rs. 3,00,000/-. The trust is an unregistered trust having objective of promotion of religious harmony among communities.</li><li>7. He has invested in employee development and training an amount of Rs. 5,00,000/-. All those employees have left his business.</li><li>8. He has made some donations to the PM CARES fund in June 2020, but he wishes to claim the same as deduction for the AY 2020-21.</li><li>9. He has donated to political parties to the tune of Rs. 20,00,000/- by way of advertisements in party souvenirs.</li><li>10. He has invested in scientific research conducted by CSIR an amount of Rs. 30,00,000/-. He purchased land of Rs. 2,00,00,000/- for developing a R&amp;D facility. He incurred an amount of Rs. 40,00,000/- for annual salary of research staff.</li></ol> | <p><b>Marks<br/>(12)</b></p> |
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11. He has got plant and machinery worth Rs. 3,00,00,000/- belonging to 20% block. The written down value of the same is Rs. 2,80,00,000/-. He wishes to avail depreciation and additional depreciation as per straight line method. The assessing officer objects to the method of straight line.
12. He has made payments of Rs. 30,000/- in cash to suppliers two times during the year.
13. He has sold the following assets during the PY.
  - a. Plant and Machinery of Rs. 50,00,000/- WDV at Rs. 35,00,000/-
  - b. Land of Original Cost of Acquisition of Rs. 30,00,000/- bought during 2003-04 and sold at Rs. 4,00,00,000/-. He filled the land with sand in 2009-10 spending Rs. 20,00,000/-.
  - c. He sold a factory land and building of Rs. 50,00,000/-. The cost of land in 2001-02 was Rs. 10,00,000/- and construction cost during that time was Rs. 5,00,000/-. He never availed depreciation benefits on the same.
  - d. He sold patents worth Rs. 40,00,00,000/-. The cost of development of the same was Rs. 10,00,000/- only. He has fully amortized/depreciated the development cost.
14. He has invested newly in the following during the previous year immediately after the sale of the above assets.
  - a. A residential building worth Rs. 1,00,00,000/-.
  - b. NHAI and REC bonds of Rs. 3,00,00,000/-.
  - c. Rural agricultural land of Rs. 10,00,00,000/-.

You are required to determine the income under PGBP and Capital Gains for the assessee during the PY 2019-20 using the abovementioned information and any valid assumptions in accordance with the facts and circumstances and the Income Tax Act, 1961 and amendments thereon in the best interest of the assessee.

- Q.2 Income tax is a charge on the assessee's income. The Income Tax Act, 1961 lays down the provisions for computing the taxable income on which tax is to be charged. Taxable income of an assessee and tax liability shall be calculated as per the provisions of the Act. Discuss basic principles for charging income tax. What are the steps and procedure involved for the purpose of levying of Income Tax? Explain with the help of provisions and suitable examples. (10)
- Q.3 The Assessee and the Director of Hotel Landmark entered into a lease agreement for the management of already grown Apple Trees within the premises of Hotel Landmark. By virtue of a clause in the agreement, Assessee is allowed to visit the premises for specific duration and also to take away the Apples. The Assessee also has exclusive right to sell the fruits. The Assessee sells the fruits during the relevant previous year for Rs Five Lakhs and treats the same as agricultural income and does not include in his taxable income under the Income Tax Act 1961. However, the Assessing Officer treats the same as business income and hence chargeable to income tax. (10)



Critically analyse the concept of agricultural income and whether this income in the hands of the assessee falls under section 2(1A) of the Income Tax Act, 1961; cite the relevant cases.

Q.4 As per the Income Tax Act, 1961, explain residential status of individual and discuss with reasons whether the following transactions will give rise to income which will be deemed to accrue or arise in India. (10)

- a) Mr. Jamuna Prasad, executive of a company had undertaken foreign trips several times for company work and was out of India for a total number of 225 days during the previous year ending on 31.03.2020. Mr. Prasad seeks advice for filing his return for assessment year 2020-21.
- b) Zero Pvt. Ltd., a foreign company having no Indian citizen/resident of India as share holder has shot a movie entirely on locations situated in India. The movie is to be released and telecast exclusively in foreign countries. But Zero Pvt. Ltd. has also agreed with Government of India to give right of telecast the movie in India, free of charge.

Q.5 Mr. Zubin, (Director) was in live-in relationship with Ms. Rochelle (Secretary) in the same business concern. He had transferred the shares of Company Bigbulls Pvt. Ltd. to Ms. Rochelle on the day of marriage and registered her as the owner of the shares after marriage was solemnised. During the relevant previous year, the shares earned dividend of Rs Four Lakhs. (8)

Decide the chargeability of the dividend in the hands of Mr. Zubin and critically analyse the relevant provisions of the Income Tax Act, 1961 in light of decided cases.

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