

**GUJARAT NATIONAL LAW UNIVERSITY**  
**GANDHINAGAR**  
**Course: Income Tax: Theory, Practice and Management**  
**Semester-IV (Batch: 2018-23)**

**End Semester Online Examination: February 2021**

**Date: 10<sup>th</sup> February, 2021**

**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.

- Marks**  
(10)
- Q.1 Mr. Ramnath, aged 60 years, was working in a steel plant in Jamshedpur, Jharkhand. He was a private sector employee and was covered under the Payment of Gratuity Act, 1972. He retired on 31.03.2020 after serving 30 years. At the time of retirement, his monthly emoluments were: Basic Salary- Rs.50,000, Dearness Allowance- 100% of basic salary (100% for retirement benefits), and other allowances and perquisites as mentioned below.

1. Remote Area Allowance: Rs.500 p.m.	
2. Rent Free Accommodation: He is provided a furnished rent free accommodation where accommodation and furniture are owned by the employer and the cost of furniture to the employer is Rs.1,00,000.	
3. Children Education Allowance (for 2 children) is Rs.1,000 p.m. per child. Also, the children are studying in an educational institution owned by the employer. His younger brother's children are also studying in the same school free of cost. A similar school is charging Rs.2,000 p.m. per child.	
4. Employer's and Employee's contribution to Recognized Provident Fund is Rs.10,000 p.m. each. The lump sum amount received at the time of retirement is Rs.17,00,000. He doesn't fulfil all necessary conditions for exemption.	
5. Leave Encashment at the time of retirement [Leave entitled- 55 days per year, leave availed- 210 days for the entire tenure]	Rs.5,00,000
6. Commuted Pension (75% of the total pension was commuted)	Rs.15,00,000
7. Housekeeping Allowance	Rs.1,000 p.m.
8. Transport Allowance	Rs.2,000 p.m.
9. Sweat equity shares allotted to the wife of the employee by the employer for Rs.40,000. The fair market value of such shares is Rs.1,20,000.	
10. Gratuity received	Rs.10,00,000
11. Mobile or telephone facility is provided free of cost. The cost to employer is Rs.2,000 p.m. The employee is using it for both official and personal purposes without keeping record.	

12. Fixed Medical Allowance	Rs.1,000 p.m.
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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. Ramnath, for the A.Y. 2020-21.

- Q.2 Mr. Harish has an inherited family home in Udaipur, Rajasthan. He has also constructed another house in the same city. He is treating both the houses as self occupied. The assessing officer has objected to it. You may use reasonable assumptions and applicable laws to decide what is to be done. The rental values of houses are as follows. (10)

Valuation	Inherited House	Constructed House
Municipal Valuation	Rs.2,00,000	Rs.1,80,000
Fair Rental Value	Rs.2,20,000	Rs.2,00,000
Standard Rent	Rs.1,90,000	Rs.2,15,000

He has given both houses on rent. Constructed house is fully rented. A part of the inherited house is rented for home stays to visitors. Actual rent receivable is Rs.20,000 per month for the constructed house. Home stays can fetch up to Rs.30,000 p.m. (Rs.1,000 per day). Unrelaxed rent on an average has been 10% of the actual rent receivable from both the houses. The home stays accommodation remained vacant for 120 days during the year.

He has taken two loans. One loan is to beautify the part of inherited house for home stays and the 2<sup>nd</sup> loan is for construction of the other house. Loan amount is Rs.10,00,000 and Rs.40,00,000 respectively. Both loans are priced at 7% per annum. The outstanding balance on the loans are Rs.8,00,000 and Rs.33,00,000 respectively.

You are required to determine the income taxable under income from house property for Mr. Harish for the A.Y. 2020-21.

- Q.3 Mr. Surya, an assessee having income under the heads of Profits and Gains of Business and Professions has reported the following details of his transactions during the Previous Year 2019-20. (10)

- He has a business of solar power generation.
- His turnover (gross receipts) for the year 2019-20 is Rs. 35,00,00,000. This also includes some arrears from customers to the tune of Rs.30,00,000.
- His other income includes investment in shares of other such companies to the tune of Rs.40,00,000.
- He also received dividend income of Rs.4,00,000. The Assessing officer has classified this income as income from other sources whereas, the assessee wishes to cover it under PGBP.
- He has given sponsorships for a solar energy festival a sum of Rs.5,00,000. The festival was organized without permission of the local administration.
- 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. The trust has been debarred from accepting foreign funds for irregularities.

- He has deposited an advance amount of Rs.10,00,000 with medicine distributor for vaccinating all his employees and their family members against COVID 19.
- He has made some donations of Rs.1,00,000 to the PM CARES fund in June 2020, but he wishes to claim the same as deduction for the AY 2020-21.
- He has purchased electoral bonds of a political party of Rs.3,50,00,000. The assessing officer claims that the expense is excessive and done with a purpose of lobbying to have a favourable policy in the solar energy sector.
- He has invested in scientific research conducted by ICMR an amount of Rs.30,00,000. He purchased land of Rs.2,00,00,000 for developing a R&D facility.
- He has got new plant and machinery worth Rs.20,00,000 belonging to 20% block and Rs.3,00,00,000 of old plant and machinery belonging to 10% 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.
- He has made reimbursements of employees of Rs.20,00,000 for foreign tours beyond RBI's permissible limits of Rs.5,00,000.
- He has made cash payments to a supplier of Rs.3,00,000 in cash.
- He is not able to explain a receipt of Rs.3,00,000 in his bank account deposited by a customer.

You are required to determine taxable income under the head PGBP for the A.Y. 2020-21.

**OR**

The issue of tax evasion by multinational companies under the garb of residential status is grave. However, Place of Effective Management (POEM) is a step in the direction. Still the system has several loopholes and lacunae. You are required to answer the following (within 600-750 words);

- a) What are the loopholes in the POEM framework which can still be exploited by corporate for tax evasion?
- b) What are the improvements brought in by the POEM framework over the earlier system?
- c) What are the international best practices to curb such possible loopholes?
- d) What are the possible amendments in rules to address these loopholes?

Q.4 He has sold the following assets during the Previous Year. (10)

- Plant and Machinery of Rs.1,00,00,000 WDV at Rs.85,00,000.
- Land of Original Cost of Acquisition of Rs.10,00,000 bought during 1996 and sold at Rs.4,00,00,000. He has spent for improvement Rs.30,000 during 1996. The fair market value of the same is Rs.20,00,000 on April 1, 2001.
- He sold a factory land and building of Rs.50,00,000. The cost of land in 2001-02 was 10,00,000 and construction cost during that time was Rs.5,00,000. He never availed depreciation benefits on the same.

- His wife has inherited gold worth Rs.50,00,000 as on April 1, 1981. The fair market value as on April 1, 2001 is 1,50,000. He has sold half of those gold ornaments at Rs.5,00,00,000.
- He has sold a residential house which he got under the urban development scheme paying Rs.10,00,000 in June 2010. After holding the building for the required period, he sold it during April 2019 at Rs.50,00,000.

Recently, he has invested in the following assets on January 01, 2020.

- A residential building worth Rs.1,00,00,000.
- NHAI and REC bonds of 3,00,00,000.
- Rural agricultural land of 10,00,00,000.

He has sold the following new assets on March 31, 2020.

- REC bonds worth Rs.50,00,000.
- NHAI bonds worth Rs.20,00,000.

You are required to determine the income under Capital Gains for the assessee during the Previous Year 2019-20 using the above mentioned 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.5 Should agricultural income be taxed in India? Give your views based on sound reasoning, case laws, legal developments, comparative agricultural taxation in other jurisdictions and prevailing socio-economic and political circumstances in India. (Within 800-1000 words) (10)

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