

**GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR**

Course: **Income Tax: Theory, Practice and Management**
Semester-IV (Batch: 2014-19)

End Semester Examination: April-May 2016

Date: 11th May, 2016

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 anything 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.**
- **Authorised Bare Act is permitted.**

Answer **any five** of the following

Marks

- Q.1 Mr. Samarth, aged 60 years, was a private sector employee, covered under the Payment of Gratuity Act, 1972, was working in Shimla, Himachal Pradesh. He retired on 31.03.2016 after serving 30 years. At the time of retirement, his monthly emoluments were: Basic Salary- Rs.30,000, Dearness Allowance-100% of basic salary (100% for retirement benefits), and other allowances and perquisites as mentioned below. (10)

1. House Rent Allowance received is 20% of Basic Salary plus Dearness Allowance. Rent paid is Rs.8,000 per month for the whole year.	
2. Motor Car: He has used a car (1.6 litres or 1600 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 all these the employer has recovered Rs.10,000 from the employee.	
3. Children Education Allowance	Rs.1,000 p.m. per child
4. Employer's and Employee's contribution to Recognized Provident Fund	Rs.10,000 p.m. each
5. Leave Encashment at the time of retirement [Leave entitled- 45 days per year, leave availed- 10 months for the entire tenure]	Rs.5,00,000
6. Commuted Pension (75% of the total pension was commuted)	Rs.15,00,000
7. Overtime Allowance	Rs. 40,000 for the year
8. Gratuity	Rs.10,00,000
9. At the time of retirement, he received Rs.5,00,000 maturity amount for the employer's contribution and interest accrued thereon. He also received Rs.5,00,000 maturity amount for employee's contribution and interest from the same recognized provident fund.	
10. He availed medical facility owned by the employer free of cost	Rs.30,000

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. Samarth, for the Assessment Year (A.Y.) 2016-17.

- Q.2 Gurmeet owns two houses in different locations. The first house is self-occupied for 10 months and remained vacant for 2 months during the Previous Year (P.Y.) 2015-16. The ownership of the same is disputed. For construction of the first house, after the house was completely constructed, he took a loan of Rs.25,00,000 at 10% interest rate p.a. from a scheduled bank on 25th June 2012. 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 on 1st April 2015, from a friend for renovation of the house. (10)

He lets out the second house which is mortgaged and earns Rs.20,000 p.m. composite rent (80% for building) from it. 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. After he purchased the house from a builder, he borrowed an amount of Rs.30,00,000 @ 15% interest on 1st April 2008 from a scheduled bank. Subsequently, he realized that the bank was charging higher interest rates, so he took a fresh loan to repay the original loan from another bank at 13% interest per annum on 1.4.2016 and paid total interest of Rs. 2,00,000 and Rs.1,00,000 towards principal of the loan for the PY 2015-16. He paid processing fees of Rs.20,000 for arranging the new loan. Compute income from house property of Gurmeet for the AY 2016-17.

- Q.3 From the following Profit and Loss Account of Hindustan Genetics Ltd. (HGL) for the year ended 31.03.2016 and the additional information, compute income under the head 'profit and gains of business and profession' for the A.Y. 2016-17. (10)

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Purchase of material	2,00,000	Sales	10,00,000
Salaries	80,000	Income from guest house	50,000
Expenditure on Scientific Research	60,000	Interest on Investment	30,000
Repairs to factory	30,000	Franchisee Commission	60,000
Sales Tax, Excise and Custom Duty	2,50,000	By Net Loss	2,00,000
Depreciation	1,10,000		
Insurance premium	30,000		
Income Tax and Wealth Tax	20,000		
Miscellaneous Expenses	10,000		
Advertisement Expenses	5,50,000		
	13,40,000		13,40,000

Additional Information:

- The material cost includes these items: Rs.30,000 of material was purchased from a company which was a subsidiary company of HGL and the fair value of these goods were assessed at Rs.20,000. Material worth Rs.5,000 was defective and returned to the supplier. For material worth Rs.4,000 payment was made through a bearer cheque. Material of Rs.8,000 was destroyed by fire and insurance company accepted 50% of the claim.
- Salary includes an item of payment of Rs.5,000 which was made to a foreign employee without deducting professional tax.
- Scientific Research expenses include: An annual lease rent of Rs.10,000 for R&D facility. Payment to an approved scientific research institute of Rs.20,000.
- Repairs include a capital item of installation of a fitting of Rs.5,000.
- Sales tax of Rs.3,000 is due but unpaid.

(f) Depreciation is chargeable on the following assets only:

Plant and Machinery (15% block)	WDV- Rs.200,000
Plant and Machinery (80% block)	WDV- Rs.80,000
Patents (25% block)	Acquired on 30.01.2016 for Rs.50,000
Machinery(15% block) purchased and put on standby mode	Acquired on 30.06.2015 for Rs.10,000

(g) Advertisement expenses include publication in the souvenir of an NGO for Rs.100,000 and a political party for Rs. 50,000.

(h) Rs.50,000 provision for doubtful debts was created on 31.03.2016.

(i) Interest on Investment of Rs.30,000 was accrued.

Q.4 From the following information, compute taxable capital gains for the A.Y. 2016-17. (10)

The following assets were sold:				
Asset	Date of Sale	Sale Proceeds (Rs.)	Date of Acquisition	Cost of Acquisition (Rs.)
Residential House Property	05/04/2015	20,00,000	01/01/1993	1,00,000
Urban Agricultural Land	19/03/2016	13,00,000	31/03/2000	3,00,000
Wooden Furniture (Depreciable)	15/11/2015	50,000	16/08/1995	15,000
Plant and Machinery (Depreciable)	23/04/2015	5,00,000	14/07/2011	4,00,000
Shares in TCS Ltd.	04/10/2015	10,50,000	14/07/2001	2,00,000
Residential Land	30/03/2016	60,000	12/01/2014	1,00,000
Personal Jewellery (gold)	03/04/2015	6,00,000	23/02/2002	30,000
The following new assets were purchased:				
Patents	03/05/2015			3,00,000
Residential House Property	18/08/2015			15,00,000
Commercial House Property	13/03/2016			45,00,000
NHAI Bond	16/06/2015			15,00,000
Rural Agricultural Land	15/09/2015			10,00,000
The following new assets were sold:			Date of Sale	Amount (Rs.)
Patent			30/09/2015	3,00,000
Rural agricultural land			31/01/2016	6,00,000
NHAI bonds			25/03/2016	5,00,000
REC Bonds			04/05/2015	1,00,000

Additional Information: The Written Down Value (WDV) of wooden furniture and Plant and Machinery as on 01.04.2015 were Rs.35,000 and Rs.4,00,000 respectively.

Q.5 (a) Jeevan is a salaried person. In the PY 2015-16, his salary income is Rs 8,00,000. Apart from this, he earned Rs.50,000 from a lottery and Rs.40,000 from a chit fund. To participate in the chit fund, 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 (6+4=10)

Rs.2,00,000 in cash. He received family pension of Rs.30,000 for the year. He spent Rs.30,000 for his personal expenses. He paid wealth tax of Rs.5,000. On March 1, 2016, he purchased a painting from a friend for Rs.1,00,000 the market value of which 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. 2016-17.

- (b) Mr. Devi Prasad earned the following income during the PY 2015-16. Determine the income chargeable to tax for the AY 2016-17 if, Mr. Devi Prasad is a

- (i) Resident & Ordinarily Resident,
- (ii) Resident but Not Ordinarily Resident,
- (iii) Non Resident.

- a. Interest Accrued on government securities from Govt. of India - Rs.10,000
- b. Receipt of a gift from a friend in India in London- Rs.15,000
- c. License Fees from a copyright received across the World except in India- Rs.30,000
- d. Income from a venture capital fund in Liberia received in Ghana. The venture capital fund has invested funds in India widely-Rs.2,00,000

- Q.6 (a) Determine the residential status for the PY 2015-16, of Mr. Jeevan who is a foreign citizen, on the assumption that during financial years 2000-01 to 2015-16, he was present in India as follows, (3+7=10)

Previous Year	Days	Previous Year	Days	Previous Year	Days	Previous Year	Days
2015-16	166	2011-12	185	2007-08	98	2003-04	105
2014-15	210	2010-11	210	2006-07	130	2002-03	55
2013-14	75	2009-10	75	2005-06	140	2001-02	160
2012-13	110	2008-09	189	2004-05	102	2000-01	75

Additional Information: In the years 2014-15 and 2011-12, he was a resident in India. He has not been a resident in any of the remaining years.

- (b) Explain taxability/write short notes of **any seven** of the following with reasons:

- (i) Salary foregone
- (ii) House property held in stock in trade
- (iii) Loss due to vacancy
- (iv) Receipt of non-compete fees and exclusivity rights
- (v) Asset under hire purchase agreement
- (vi) Examples of Long term Capital Assets on the basis of holding for 12 months or more
- (vii) Ingenuine gifts from relatives
- (viii) Set off and carry forward of losses

- Q.7 (a) What items of incomes and expenses are included in and excluded from 'Full Value of Consideration', 'Expenditure on Transfer', 'Cost of Acquisition' and 'Cost of Improvement' to compute taxable amount of capital gains. (4+6=10)
- (b) Discuss taxability of **gifts** in accordance with the provisions of section 56 of the Income Tax Act, 1961. How are genuine and ingenuine gifts from relatives and non-relatives taxed?
