

Solved
Scanner

Appendix

CMA Inter Gr. I (New Syllabus)

(Solution of December 2014)

Paper - 7: Direct Taxation

Chapter - 2: Income from Salaries

2014 - Dec [2] (a), (b)

- (a)** According to the above section following incomes are treated as profit in lieu of salary and taxable in your hand as 'SALARY'.
- Compensation due or received by an assessee from his employer or former employer due to loss of employment or termination or resignation or for any other reason of losing employment.
 - Compensation accrued or received, due to modification of the employment terms.
 - Any payment received from an unrecognized provident or superannuation fund. Under this the employer and employee contribution, interest on there contribution will be taxable.
 - If the company has taken any key man insurance policy in your name and you have received any money from the insurance company due to this policy then that amount will be treated as your salary and income tax has to be paid on that.
 - Any payment received by the employee from the employer or former employer before joining of employment or sum received after the termination of employment.
 - Any other amount received from employer will be treated as profit in lieu of salary unless and until that particular amount is specifically exempted under any section of the income tax act.
- (b)** Retrenchment compensation is exempt upto ₹ 5,00,000.
Taxable retrenchment compensation is ₹ 3,75,000.

Chapter - 3 : Income from House Property**2014 - Dec [2] (c)**

GAV	7,500 × 8	60,000
Less: Municipal Taxes		<u>3,000</u>
	NAV	57,000
Less: Deduction u/s 24		
	Sec. 24 (a) Standard Deduction	19,000
	Sec. 24 (b) Interest on borrowed capital	
	$30,000 \times \frac{1}{5} + 16,000$	<u>22,000</u>
	Income from House Property	<u>16,000</u>

2014 - Dec [4] (b)

For computation of PGBP income of Anup properties, sale would be taken as ₹ 10 lac. In the hands of Ajay, purchase of immovable property at a cost lower than stamp duty valuation i.e. ₹ 4 lac shall be treated as Income from Other Sources.

Chapter - 4: Profits and Gains of Business or Profession**2014 - Dec [5] (b)**

- (i) No disallowance, as TDS need not be deducted on salary of working partner of a firm.
- (ii) No disallowance, as TDS need not be deducted on interest paid to bank.
- (iii) Disallowance, as demerger expenses are deductible in 5 equal installment.
- (iv) No disallowance, as expenditure on issue of bonus share shall be treated as revenue expenditure.

Chapter - 5: Capital Gains

2014 - Dec [3] (b) In the case of interest on compensation or enhanced compensation which is taxable under the head income from other sources, a deduction of a sum equal to 50% of such income shall be allowed to the assessee and no deduction shall be allowed under any other clause of Section 57.

2014 - Dec [4] (a)**Capital Gain**

Sale Consideration		15,50,000
Less: ICOA		
	$1,00,000 \times \frac{939}{281}$	<u>3,34,164</u>
		<u>12,15,836</u>

PGBP

Sale 12,00,000 × 5	60,00,000
Less: Cost of land 15,50,000 × $\frac{5}{8}$	9,68,750
Less: Cost of construction 6,00,000 × 5	30,00,000
	<u>20,31,250</u>

2014 - Dec [6] (a)**Sachin**

Income from Other Sources (Being SDV on the date of gift)	60,00,000
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Capital Gain

Sale consideration	90,00,000
Less: COA	60,00,000
Capital Gain	<u>30,00,000</u>

Chapter - 7: Clubbing of Income**2014 - Dec [5] (c)**

Interest income of ₹ 22,000 cannot be clubbed as relationship of spouse does not exist on day the amount on which interest is earned was gifted.

Chapter - 8: Set Off and Carry Forward of Losses

2014 - Dec [6] (b) (ii) Since, return is not filed before due date of filing return of income, loss of ₹ 12,00,000 cannot be carried forward, unabsorbed depreciation of ₹ 6,00,000 shall be carried forward.

Chapter - 10: Incomes Exempt from Tax & Agricultural Income

2014 - Dec [6] (c) Condition to be specified by political party to avail income-tax exemption:

- Such political party keeps and maintains such books of account and other documents as would enable the Assessing Officer to properly deduce its income there from;
- In respect of each such voluntary contribution in excess of ₹ 20,000, such political party keeps and maintains a record of such contribution and the name and address of the person who has made such contribution; and
- The accounts of such political party are audited by a Chartered Accountant.

Chapter - 11: Return of Income, Assessment Procedure & Tax Administration

2014 - Dec [6] (b) (i) No, Mr. A is not required to file return of income as his income is below taxable limit i. e. ₹ 2,50,000.

Chapter - 14: Assessment of Firm, AOP, BOI & LLP**2014 - Dec [3] (a)****Income u/h PGBP**

Net Profit as per P/L A/c	25,50,000
Less: Interest on FD	5,00,000
Add: Excessive Interest on capital	
$\frac{1,40,000}{14} \times 2$	20,000
Less: Depreciation	25,000
Less: Refund of penalty	35,000
Add: Salary to Manager by bearer cheque	40,000
Add: Professional fee paid without deducting TDS	13,500
	<u>20,63,500</u>

Income from Other Sources

Add: Interest on Fixed Deposit	5,00,000
Total Income	<u>25,63,500</u>

Chapter - 15: Assessment of Companies, MAT & AMT**2014 - Dec [5] (a)**

Tax as per Normal Provision	
60,00,000 × 30%	18,00,000
+ EC & SHEC	54,000
	<u>18,54,000</u>
Adjusted total Income	
Total Income	60,00,000
+ Deduction u/s 80 JJAA	9,00,000
+ Deduction u/s 80 IE	8,00,000
	<u>77,00,000</u>
Alternate Minimum Tax = 77,00,000 × 19.055%	
	= 14,67,235
Tax Payable = 18,54,000	

Chapter - 19: Double Taxation Relief

2014 - Dec [9] (a) Yes, Mr. Murali can opt to be governed by the provisions of the DTAA.

However, if Mr. Murali is non-resident, he cannot opt to be governed by DTAA provisions.

2014 - Dec [10] (c)

PGBP

Income from business in India	3,80,000	
Commission from a company in Hong Kong	2,00,000	5,80,000
	<u> </u>	

TDS

Dividend from a company in Hong Kong	1,50,000	
Interest on fixed deposit with banks in India	1,80,000	3,30,000
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Total Income		<u>9,10,000</u>
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Tax on it		1,07,000
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Add: EC @ 2%		2,140
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Add: SHEC @ 1%		1,070
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Tax Payable		<u>1,10,210</u>
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Chapter - 20: Wealth Tax

2014 - Dec [7] (b)

Gross Maintainable Rent	3,00,000
- 15%	45,000
- Municipal Taxes	15,000
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Net Maintainable Rent	2,40,000
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X Capitalisation Rate	12.5
	<u> </u>

	30,00,000
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+ Premium for Unbuilt Area 40%	24,00,000
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Value of Immovable Property	<u>54,00,000</u>
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Chapter - 21: Taxation of International Transactions and Transfer Pricing**2014 - Dec [8] (a), (b), (c)**

(a) An avoidance arrangement is an impermissible avoidance arrangement if its sole or main purpose was to obtain a tax benefit and:

- (i) in the context of business:
 - it was entered into or carried out by means or in a manner which would not normally be employed for *bona fide* business purposes, other than obtaining a tax benefit; or
 - it lacks commercial substance, in whole or in part, taking into account the provisions of **Section 80C**;
- (ii) in a context other than business, it was entered into or carried out by means or in a manner which would not normally be employed for a *bona fide* purpose, other than obtaining a tax benefit; or
- (iii) in any context:
 - it has created rights or obligations that would not normally be created between persons dealing at arm's length; or
 - it would result directly or indirectly in the misuse or abuse of the provisions of this Act (including the provisions of this Part).

(b) Yes, multiple year data can be used now. The introduction of multiple year data concept for computing the margins is definitely a welcome move from taxpayer's perspective.

- (c)**
- (i) They are not associated enterprises.
 - (ii) Since, guarantee is given for not less than 10% of total borrowing, they are associated enterprises.
 - (iii) Since, loan advanced is less than 51% of book value of total asset, they are associated enterprises.

2014 - Dec [9] (b), (c)

(b) Cross Border Transaction services means services related to transaction which involve two or more countries. In India there are two Acts which primarily seems to show concern when a person (Indian Resident or Foreign Resident) undertakes cross border transactions viz. Foreign Exchange Management Act, 1999 and Income Tax Act, 1961. Therefore, it is imperative that a person needs to deal with both the above mentioned Acts to enter into a Cross Border Transaction. Following are the detailed note on the above mentioned sub division of "Cross Border Services".

Advance Ruling Services: Term advance ruling means:

- the determination of a question of law or fact in relation to a transaction which has been undertaken or is proposed to be undertaken by a non-resident applicant and also includes the determination of the tax liability of a non-resident arising out of such transaction with a resident applicant;

- the determination or a decision on a question of law or fact relating to the computation of total income which is pending before any Income-tax authority or the Appellate Tribunal. We deeply analyse client's case to be placed before Advance ruling authority and prepare the necessary documents required to be filed with relevant authority. Our services also include representational services that involve representing client before ruling authority and post facto analysis of the dictated decision by the ruling authority.

(c)

Price per unit in Comparable Uncontrolled Transaction (55,000 - 20% × 55,000)	44,000
Add/ Less: Adjustment for Differences	
Add: Additional discount	1,000
Add: Freight & Insurance	1,000
Arm's Length Price	<u>46,000</u>

2014 - Dec [10] (a), (b)

- (a) In cases involving highly valuable intangible property, it may be difficult to find comparable uncontrolled transactions. It, therefore may be difficult to apply the traditional transaction methods and the transactional net margin method, particularly where both parties to the transaction own valuable intangible property or unique assets used in the transaction that distinguish the transaction from those of potential competitors. In such cases the profit split method may be relevant although there may be practical problems in its application.
- (b) A transactional profit method that identifies the combined profit to be split for the associated enterprises from a controlled transaction (or controlled transactions that is appropriate to aggregate) and then splits those profits between the associated enterprises based upon an economically valid basis that approximates the division of profit that would have been anticipated and reflected in an agreement made at arm's length.

2014 - Dec [11] {C} (a), (b), (c), (d), (e)

- (a) International transaction means a transaction between two or more associated enterprises, either or both of whom are non-residents, in the nature of purchase, sale or lease of tangible or intangible property, or provision of services, or lending or borrowing money, or any other transaction having a bearing on the profits, income, losses or assets of such enterprises and shall include a mutual agreement or arrangement between two or more associated enterprises for the allocation or apportionment of, or any contribution to, any cost or expense incurred or to be incurred in connection with a benefit, service or facility provided or to be provided to any one or more of such enterprises.

- (b) Any tax payer who has undertaken an international transaction or is contemplating to undertake an international transaction is eligible to file for an APA.
- (c) Filing of the Accountant's Report in Form No. 3CEB certifying the arm's length price.
- (d) (i) comparable uncontrolled price method
(ii) resale price method
(iii) cost plus method
(iv) profit split method
- (e) ALP is determined so as to know that tax base of India is not eroded.

Chapter - 22: Objective Questions

2014 - Dec [1] {C} (a), (b)

- (a) (i) 100
(ii) 10
(iii) deductible
(iv) exempt
(v) before
(vi) 20%
(vii) 30th November
(viii) 2 lac
- (b) (i) B
(ii) A
(iii) A
(iv) A
(v) D

2014 - Dec [7] (a)

- (i) **False:** Political party is excluded from the levy of wealth tax.
- (ii) **True:** One house is not included in wealth of an individual.
- (iii) **False:** Warehouse being commercial property is not asset under wealth tax.
- (iv) **False:** Guest house is included as asset under wealth tax in all cases.
- (v) **True:** Cash in excess of ₹ 50,000 is an asset for **HUF** even if it is recorded.

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