

## Module 5-Tax Planning & Estate Planning

- 1) **Your client is unsure of the meaning of the term 'codicil'. A codicil is:** (1)
- a) A document use to make an alteration to a will
  - b) A gift of land or real estate in a will
  - c) A term used to cover grants of probate to the legal personal representative
  - d) The statement made at the end of a will that it has been duly attested
- Solution (a)
- 2) **Your client Mr. Saxena expressed his intention to write his will in his own handwriting. Such a will which is wholly in the handwriting of the testator is known as:** (1)
- a) Holograph Will
  - b) Nuncupative Will
  - c) A handwritten Will is not allowed as establishing the authenticity of a handwritten document is difficult in the court of law.
  - d) Lithographic Will
- Solution (a)
- 3) **An investor holds shares in a company that is not listed. Such shares would qualify as long-term assets if held for \_\_\_\_\_.** (1)
- a) More than 24 months
  - b) 36 months or more
  - c) More than 12 months
  - d) More than 36 months
- Solution (c)
- 4) **Long-term capital gains tax rate on units of a debt-based Mutual Fund scheme is \_\_\_\_\_.** (1)
- a) 10% at all times
  - b) 10% on sale value minus cost or 20% of sale value minus indexed cost whichever is lower
  - c) 20% on indexed capital gains
  - d) Nil
- Solution (b)
- 5) **Mr. Billimoria, a chief executive of a company, finds that he had to undertake foreign tours for the company's work so often that he has remained out of India for as many as 300 days in FY 05-06. His residential status for previous year 05-06 would be \_\_\_\_\_.** (1)
- a) Foreigner
  - b) Resident but not Ordinarily Resident
  - c) Resident in India
  - d) Resident Outside India
- Solution (c)

**6) What is the main benefit of estate planning? (1)**

- a) Peace of mind
- b) To avoid probate
- c) To ensure property passes to intended person
- d) To plan health care treatment

Solution (c)

**7) For the Previous Year 04-05, XYZ Ltd., a domestic company, pays an interim dividend in October 2004 of 15% and a final dividend of 40%. The distribution tax is payable on \_\_\_\_\_.** (1)

- a) Both interim and final dividend
- b) On neither the interim nor the final dividend
- c) Only the final dividend
- d) Only the interim dividend

Solution (a)

**8) Foreign income is tax-free in the hands of \_\_\_\_\_.** (1)

- a) None of the above
- b) Non-Residents & Resident but not ordinarily residents
- c) Non-Residents only
- d) Residents and ordinarily residents

Solution (b)

**9) Mr. Das is an NRI working for a company in Dubai. The company desires to credit his monthly salary to his NRE account in India. Then such salary \_\_\_\_\_.** (1)

- a) Would be taxable in India since it is received in India.
- b) Would not be taxable in India since it is credited to the NRE account.
- c) Would not be taxable in India since it is earned by an NRI.
- d) Would not be taxable in India since it is earned from a foreign source.

Solution (a)

**10) Mr. Yadav owns a small business worth Rs. 4 crore. How should life insurance be held if Mr. Yadav is trying to benefit his minor grandson with the insurance policy?** (1)

- a) A revocable life insurance trust should be established for the grandchild
- b) An irrevocable trust should be set up with the grandchild as beneficiary
- c) Mr. Yadav's spouse should be the owner.
- d) The grandson should be the owner.

Solution (b)

11) What are parties to Power of Attorney called? (1)

1. Donor and Donee
2. Debtor and Receiver
3. Client and Attorney

- a) 1 only
- b) 3 only
- c) 1 & 3 only
- d) None of the above

Solution (a)

12) In the case of a Recognized Provident Fund, employer's contribution in excess of what percent is taxable? (1)

- a) 12%
- b) 8%
- c) 10%
- d) It is not taxable at all

Solution (a)

13) Vinod invests Rs. 1,50,000 in an equity oriented scheme on 1st December 2003 and receives a dividend of Rs. 25,000 on 31st March 2004, the record date. The investment is sold on 2nd June 2004 for Rs. 1,20,000. How much short-term loss, if any, arising out of this investment is allowable for set-off in FY 04-05? (2)

- a) It is a case of long-term Capital loss and not short-term loss
- b) Nil
- c) Rs. 30,000
- d) Rs. 5,000, since provisions of Sec. 94(7) will apply

Solution (c)

14) In an unfortunate incident, Mr. Charan's plant catches fire and the machinery gets destroyed. Luckily, Mr. Charan had insured the factory against fire. The WDV of the machinery was Rs. 2,68,000 and the replacement cost Rs. 5,00,000. The Insurance Company has paid compensation of Rs. 3 lakhs. What is the taxable amount? (2)

- a) Rs. 32,000 as capital gains.
- b) Rs. 32,000 as normal income.
- c) Rs. 2,00,000 as capital loss.
- d) Nil.

Solution (a)

- 15) Harish's father has given him general power of attorney. What does that mean? (2)
- a) He has disinherited Harish, but Harish has the right to decide who will inherit his father's estate
  - b) He has given Harish the immediate right to make decisions in all matters and take action on his behalf
  - c) He has given Harish the right to appoint himself as the sole beneficiary of estate
  - d) He has given Harish the right to make decision in all matters and take action on his behalf should he become incompetent
- Solution (b)
- 16) On 1st November 2004, Mr. Kapil, a professional cricketer, got an award of Rs. 40,000 from his sports club for his fine performance during the season. His other taxable income is above Rs. 4 lakhs. How much amount of the award would be taxable in Kapil's hands? (2)
- a) Rs. 15000
  - b) Rs. 35000
  - c) Rs. 40000
  - d) Nil.
- Solution (c)
- 17) Mohit purchased equity shares of M Ltd. on a recognized stock exchange on 14th of April 2005. The cost of the shares was Rs. 50,000. The Securities Transaction Tax that Mohit would be liable to pay would be \_\_\_\_\_. (2)
- a) Rs. 37.50
  - b) Rs. 50
  - c) Rs. 75
  - d) Nil
- Solution (a)
- 18) Mohan purchased units of an open-ended equity oriented scheme from the Mutual Fund paying a total of Rs. 1,00,000. The Securities Transaction Tax that Mohan would be liable to pay would be \_\_\_\_\_. (2)
- a) Rs. 100
  - b) Rs. 200
  - c) Rs. 50
  - d) Nil
- Solution (d)
- 19) X purchased equity shares in Y Ltd a constituent of BSE-500 Index on Mumbai Stock Exchange on March 1, 2004. He sold these shares on March 4, 2006 at a loss of Rs 10,000. He wants to set off the loss against other long-term capital gains of Rs 15000 during the year. Both purchase and sale transactions were entered into on a recognized stock exchange. Whether such set-off is permissible? (4)
- a) Yes, upto the extent of Rs 5,000
  - b) Yes, upto the extent of Rs 10,000
  - c) Yes, upto the extent of Rs 15,000
  - d) No
- Solution (b)  
Loss under the head " Capital gains (i.e. short term or long term capital loss)(Sec 74)

20) Mr. Navnit is working as a manager in private sector bank. His remuneration consists of a consolidated salary of Rs25, 000 per month plus an HRA of Rs10, 000 per month. He stays in a rented accommodation paying a rent of Rs 6, 000 per month. Calculate the amount of HRA exempt from tax \_\_\_\_\_.

(4)

- a) Rs.1, 20,000
- b) Rs.42, 000
- c) Rs.48, 000
- d) Rs.72, 000

Solution (b)

Least of the following will be exempt u/s 10(13A): -

- a. 40%/ 50%( as the case may be ) of Salary of the employee (Salary=Basic + D.A +commission based on fixed percentage on turnover achieved)
- b. H.R.A
- c. Rent for the period for which house is taken on rent

21) X, a lady received the following gifts during the year ending march 31,2006: Rs 30,000 from her elder sister, Rs 50,000 from the daughter of her elder sister on 01-Feb-2006 and Rs 1,25,000 from various friends on the occasion of her marriage on 10-March-2006. Calculate the amount of gift taxable in the hands of X.

(4)

- a) Rs 30,000
- b) Rs 1,25,000
- c) Rs 1,75,000
- d) Rs 50,000

Solution (d)

For P.Y 2005-06, Sum of money received without consideration on or after September 1, 2004 is not taxable upto Rs 25,000, provided it has been received by a relative defined u/s 56(2)(v)

22) Within two years of purchase of his flat, Vaibhav entered into an agreement to sell the same to Mihir for Rs. 8,00,000. Vaibhav had bought the flat for Rs. 5,50,000. Mihir pays Vaibhav earnest money of Rs. 50,000 in respect of the transaction with the balance money payable within a month. However, for some unavoidable reason, Mihir could not make the rest of the payment and in terms of the agreement between the two, Vaibhav forfeited the earnest money paid. Subsequently, within a month Vaibhav sold the flat to another buyer for Rs. 9,00,000. Compute Vaibhav's taxable income under capital gains.

(4)

- a) Long-term capital gains of Rs. 4,00,000
- b) Short-term capital gains of Rs. 4,00,000
- c) Short-term capital gains of Rs. 4,50,000
- d) Short-term capital gains of Rs. 5,00,000

Solution (b)

In computing cost of acquisition, where any capital asset was, on any previous occasion, subject to negotiations for its transfer, any advance or other money received and forfeited by the assessee in respect of such negotiation is to be deducted from the cost for which the asset was acquired [Sec 51]