



# Examiners' report

F6 Taxation (IND)  
December 2008

## General comments

As prescribed by the syllabus, the question paper consists of 5 questions – all of which have to be answered within the allotted time of three hours.

The pattern of the question paper is well laid out – questions 1 and 2 are computational problems carrying 55 marks out of 100; the other 3 questions carry 15 marks each and even here, the general attempt is to make the questions computational in nature. In this exam session, questions 3 and 5 in the paper were computational, with the result that only question 4 carrying was fully on the theory aspects of the subject.

Performance of the candidates this time was satisfactory. In answering questions 1 and 2, the candidates have shown a better awareness of the requirements and the quality of answers were found to be good.

Due to a better approach and exhibition of knowledge, the percentage of passes this term has been very good.

A detailed analysis – question wise follows :-

### Question 1

This called for the computation of total income and income tax payable of a non-corporate tax payer viz., a firm. This question tested the knowledge of the students on the concepts of assessment of a registered firm when a change in its constitution takes place, the distribution of profits, the allowance of interest on capital of the partners and the allowability or otherwise of remuneration paid by the firm to its partners (both capital and working). Knowledge was also required of some claims and deductions in the determination of the total income of the firm.

Many candidates could work the problem correctly. In some cases there appeared to be uncertainty about the taxable entity – the change in the partners does not affect the firms' taxable status in view of the continuation of the other partners.

The examiner was satisfied with the quality of the answers.

### Question 2

This computational question related to a company, which was engaged in civil construction business. The candidates' awareness of the provision of section 44AD was tested in this case – where in the case of contract values of less than Rs.40,00,000, a tax payer can choose to get taxed on "presumptive income" basis – where the income is determined at 8% of the receipts. The tax payer can opt for this procedure even if the actual profits per the actual accounts exceeded this. The provisions of law exempt such persons from the compulsory maintenance of account books and the tax audit – which are powerful incentives provided by the Income Tax Act.

Many of the answers provided did not mention the advantages of not going for a tax-audit.

Adjustments to be made were mainly in the area of depreciation claims on assets – non user of some machinery, treatment of insurance claims received on loss of machinery etc. Though many candidates showed an awareness of these issues, their final answers were not completely correct. The insurance recoveries are treated as short term capital gains and many answers pointed to a tax rate of 10% on such gains – overlooking the fact that short terms capital gains on sale / transfer of business assets, under law, are taxed at the same rate as business profits.

Another area where some difficulty arose was the one concerning the authority who can sign an income tax return. The Indian law is very clear on the subject that only a Managing Director can sign it and not the

Secretary of the company. In the absence of the Managing Director, the income tax return can be signed by any other director.

The answer to this question called for two calculations of business income – one by the regular method on the basis of books of accounts maintained and the other by “presumptive” income basis. The answer had to clearly specify the advantages of either method, however this particular step was not completed by some candidates.

### **Question 3**

This question was on the determination of capital gains and their tax treatment in different hands. The issues to be noticed in this case were:

- the property succeeded to the sons of the deceased and then belonged to each of the sons in equal shares
- the terms of holding the property goes back to the original owner
- cost inflation index will be applicable to the property and
- such inflation index has to be applied to the market value of the property as on 01.04.1981.

In this case students had to ascertain or estimate the value of the property as on 01.04.1981 and then apply the inflation index. This particular aspect of problem caused difficulty, and some of the answers merely referred to the gains relating to a long term asset and applied the cost inflation index on the original value of the property.

The second aspect to notice in this case is that in the case of a person having no other income or income lower than the taxable limit, the basic exemption has to be taken out of the capital gains.

Barring these two aspects, the general quality of the answer was found to be good.

### **Question 4**

The only theory question was divided into 3 parts with a view to covering more topics. Application of the basic tenets of income tax law in the areas of clubbing of income, levy of interest for non payment of advance taxes, ex-parte assessment and the protection of the law against high pitched estimates etc., are the issues covered by these questions.

In many cases, the examiner found good and complete answers to these issues. The performance of the students was very good in these areas.

### **Question 5**

This was a question on the computation of fringe benefits and tax payable thereon. The problem involved the determination of the fringe benefits, the percentage of the expenses to be brought to tax and the actual application of the tax.

Many of the candidates were found to have calculated the percentage of the notified expenses to be treated as fringe benefits. No difficulty was perceived on the application of the income tax rate though some candidates struggled to classify the expenses to be treated as fringe benefits.

Overall, the quality of answers to this question was found to be very good.

In conclusion, the examiner feels that the general level of performance and the quality of answers to the questions set this term were pleasing and better than expected.