

Sample Paper – Exam 4: Tax Planning and Estate Planning

SECTION – I

- 1) **Which of the following qualities of financial planners do you identify as distinguishing them from other financial advisors?**
(1 mark)
 - a) They excel in designing complex strategies to take the best advantage of mismatches often presented by market inefficiencies.
 - b) They assist their clients in executing their financial transactions.
 - c) They help their clients with their financial goals, and help them to stay on track with their financial strategies.
 - d) They customize general financial strategies which apply to a group of clients with common goals.

- 2) **When does a Finance Bill become a Finance Act?**
(1 mark)
 - a) On being signed by the President
 - b) On being presented in the Parliament
 - c) On being approved in the Lok Sabha
 - d) On being presented by the Finance Minister

- 3) **Manohar left India after November 2019 for a business trip. He was resident in India for 3 out of 10 previous years. For the immediately preceding 7 and 4 previous years, he stayed in India for 690 days and 345 days respectively. Determine his residential status for AY 2020-21.**
(2 marks)
 - a) Non-resident Indian
 - b) Resident and Ordinarily Resident
 - c) Resident but Not Ordinarily Resident
 - d) Deemed Resident

- 4) **A CFP practitioner voluntarily seeks counsel of an expert in a specialized discipline where he has limited competence. Which of the professional skills of a financial planner do you identify this with?**
(1 mark)
 - a) Practice
 - b) Communications
 - c) Cognitive
 - d) Professional Responsibility

- 5) **A person of Indian origin, now settled abroad, comes to India on a visit for 90 days in the previous year 2019-20. He has no stay in India prior to the previous year 2019-20. What would be his residential status for AY 2020-21?**
(1 mark)
 - a) Resident and Ordinarily Resident
 - b) Non-resident Indian
 - c) Deemed Resident Indian on account of his origin
 - d) Resident and Not Ordinarily Resident

- 6) **During the financial year 2019-20, Jeevan expects to earn gross interest of Rs. 27,200 on fixed deposits kept in Alexa Bank, and that of Rs. 63,500 on such deposits from Suburban Bank. What would be the amount of TDS deducted on such interest for AY 2020-21?**
(2 marks)
a) Rs. 9,070
b) Rs. 6,350
c) Rs. 2,350
d) Rs. 5,070
- 7) **Which of the following may not find mention in the Terms of Engagement letter that a CFP practitioner shares with a client?**
(2 marks)
a) Provisions for terminating the client engagement.
b) The client's responsibilities, including the full and timely disclosure of information.
c) Specific limitations on the use of client information.
d) The maximum liability of the practitioner against the client's claims and complaints.

SECTION – II

- 8) **Ramesh purchased 250 shares of M/s. ABC on 2nd April 2018 at Rs. 1,050. He sold the entire holding on 5th April, 2019 at Rs. 1,570. He did not have any other transaction in equity shares and equity mutual funds during the financial year 2019-20. What would be capital gains tax for AY 2020-21?**
(2 marks)
a) Nil
b) Rs. 13,520
c) Rs. 4,680
d) Rs. 3,120
- 9) **Up to what amount a parent is entitled for exemption in case income of minor child is clubbed with his/her income?**
(1 mark)
a) Rs. 1,500 for each child or income included whichever is less, subject to maximum of two children.
b) Rs.200 per month or income included whichever is less.
c) Rs.300 per month or income included whichever is less.
d) Rs.1,500 or income included whichever is less per child per annum with no cap on number of children.
- 10) **Rajasekhar retired after rendering service of 35 years and 2 months with an employer, which is covered under the Payment of Gratuity Act, 1972. He received gratuity of Rs. 12.57 lakh. On retirement, his monthly basic salary was Rs. 36,000 and dearness allowance Rs. 22,500. What will be the taxable portion of his gratuity?**
(3 marks)
a) Nil
b) Rs. 5,30,077
c) Rs. 75,750
d) Rs. 2,33,250
- 11) **Which product do you recommend your client to park his emergency fund?**
(1 mark)
a) Liquid or money market fund
b) Short term income fund
c) Government securities (Gilt) scheme
d) Tax saving fixed deposit scheme of banks

- 12) For how many years the loss under the head Capital Gains can be carried forward?**
(2 marks)
- A maximum of 8 assessment years beginning with the assessment year in which such respective loss occurs.
 - A maximum of 8 assessment years following the assessment year in which such respective loss occurs.
 - A maximum of 8 assessment years for long term capital gains beginning with the assessment year in which such respective loss occurs, no carry forward provision for short term capital gains.
 - A maximum of 8 assessment years for short term capital gains, and of unlimited period for long term capital gains following the assessment year in which such respective loss occurs.
- 13) Raveesh sold his house for Rs. 1.75 crore on 22nd May 2019 which he had bought in April 2005 for Rs. 42 lakh. He purchased NHAI bonds of Rs. 7.5 lakh on 27th April 2019, using the advance money received in the transaction. He purchased more such bonds of Rs. 25 lakh on 28th August 2019, Rs. 12.5 lakh on 30th October 2019 and Rs. 11.5 lakh on 27th November, 2019. Calculate the capital gains chargeable to tax after exemption u/s. 54EC for AY 2020-21. (Cost inflation index for FY 2005-06: 117, 2019-20:289).**
(4 marks)
- Rs. 33,75,641
 - Rs. 38,75,641
 - Rs. 26,25,641
 - Rs. 22,25,641
- 14) What is “reverse repo” rate determined by the Monetary Policy Committee?**
(1 mark)
- This is the rate at which RBI lends money to commercial banks.
 - This is the rate at which RBI borrows money from commercial banks.
 - This is the rate at which commercial banks borrow and lend money in overnight call.
 - This is the rate at which RBI borrows dollars in the global foreign exchange market.
- 15) Surendra lives in house valued at Rs. 1.56 crore today. The house was mortgaged to a bank 5 years ago against a loan of Rs. 60 lakh, out of which Rs. 44.56 lakh is outstanding today. His financial assets are worth Rs. 18.60 lakh. He was provided a soft loan of Rs. 10 lakh, at 3.5% p.a. interest-only for 10 years, by his employer a year ago to buy a car, which had cost him Rs. 13.5 lakh. The car has been insured this year at a declared insured value of Rs. 9.85 lakh. His credit cards have total outstanding amount today of Rs. 96,167. He fully discharges such outstanding when due. He has a bank locker which keeps gold jewelry worth 15 lakh, the locker has a mandated deposit of Rs. 1 lakh. He has cash of Rs. 1.2 lakh apart from an emergency fund of Rs. 8 lakh. How much net worth do you think Surendra has?**
(3 marks)
- Rs. 158.74 lakh
 - Rs. 148.69 lakh
 - Rs. 167.74 lakh
 - Rs. 154.13 lakh
- 16) Arhaan, aged 13 years has corporate bonds in his name. He is being maintained by her divorcee mother, who is now employed and is single. The bonds were out of money of Arhaan’s father prior to divorce granted to her mother in March 2015. How would the interest on bonds for FY 2019-20 be assessed to tax?**
(2 marks)
- In the hands of Arhaan’s mother.
 - In the hands of the parent whose income is greater.
 - In the hands of Arhaan.
 - In the hands of Arhaan’s father.

- 17) **Gobind, a resident Indian aged 83, gets a fixed pension of Rs. 55,500 per month. During FY 2019-20, he has the following other income: interest on 7.75% Government Securities of par value Rs. 20 lakh; dividend of Rs. 20,875 on equity shares; total interest of Rs. 75,780 from deposits kept with banks and post office. He has short term capital gains of Rs. 84,258 and long term capital gains of Rs. 1,23,527 from equity shares. He paid a premium of Rs. 62,600 towards medical insurance for himself. What is the tax liability of Gobind for AY 2020-21?**
(3 marks)
- a) Rs. 77,320
 - b) Rs. 75,240
 - c) Rs. 66,920
 - d) Rs. 85,640

SECTION – III

- 18) **What is the section and rule under the Income-tax Act, 1961 for deduction before arriving at the taxable income, in respect of the employee's regular contributions from salary to the National Pension System in a financial year?**
(1 mark)
- a) 10% of salary (basic + DA) is deductible u/s 80CCD(2) without any monetary limit in a financial year.
 - b) 10% of salary (basic + DA) is deductible u/s 80CCD(1) subject to Rs. 1.5 lakh overall limit u/s 80CCE in a financial year.
 - c) A maximum of Rs. 2 lakh is deductible from taxable income u/s 80CCD(1) in a financial year.
 - d) 12% of salary (basic + DA) is deductible u/s 80CCD(1), not exceeding Rs. 2 lakh in a financial year.
- 19) **What is the condition for a mutual fund scheme to be considered an equity-oriented scheme, under the Income-tax Act, 1961?**
(2 marks)
- a) It invests minimum 65% of investible funds in equity shares of domestic companies and overseas equity shares.
 - b) It invests up to 65% of average quarterly investible funds at any time during the previous 12 months in equity shares of domestic companies.
 - c) It invests minimum 65% of investible funds in equity shares of domestic companies, and minimum 25% in debentures/bonds of domestic companies.
 - d) It invests more than 65% of annual average of monthly averages of opening and closing figures of investible funds in equity shares of domestic companies.
- 20) **Which of the following terms do not necessarily have an association with the time value of money?**
(1 mark)
- a) Purchasing power
 - b) Earning potential
 - c) Systematic investment
 - d) Opportunity cost
- 21) **Namita's investment of Rs. 2.5 lakh in tax-saving cumulative fixed deposit in a bank has grown to Rs. 3,98,073 over five years. The average inflation during this period has been 5.5% p.a. If Namita is assessable in the tax slab of effective rate 31.2%, when deposit matures, what real return has she obtained after discharging tax liability?**
(3 marks)
- a) 1.49% p.a.
 - b) 1.15% p.a.
 - c) 2.77% p.a.
 - d) 3.65% p.a.

- 22) Kalpesh purchased 1,000 shares of a listed company M/s. ABC at Rs. 205 in November 2017. He had also invested Rs. 1,00,000 in the growth option of an equity scheme of a Mutual Fund in January 2007 in the scheme's new fund offering. He sold entire holding in M/s. ABC for Rs. 150 in January 2020 and all the units of the equity mutual fund scheme in March 2020 for Rs. 6,13,525. What will be taxable long term capital gains for AY 2020-21 on these transactions, if the highest quoted price on 31st January 2018 of M/s. ABC was Rs. 140 on the National Stock Exchange, and the NAV of equity mutual fund scheme on that date was Rs. 42.254?**
(4 marks)
- Rs. 1,35,985
 - Rs. 25,985
 - Rs. 1,25,985
 - Rs. 35,985
- 23) A university lecturer retired from service on 31st July 2019 on attaining 60 years of age. She is eligible to receive eligible gratuity, the University being under the Payment of Gratuity Act, 1972. She commuted one-half of Rs. 1.25 crore statutory pension funds and decided to receive pension from the rest @ 6.25% p.a. fixed annuity for 20 years every month in the beginning, first annuity payable on 1st September 2019. She will pay premium of Rs. 85,350 on her continued eligible life insurance policies and Rs. 34,560 on health policy until March 2020. What would be her tax liability for AY 2020-21?**
(4 marks)
- Nil
 - Rs. 4,97,300
 - Rs. 6,60,840
 - Rs. 5,93,500
- 24) Aakarsh invested Rs. 10 lakh in the new fund offering of a debt mutual fund in January 2008. He redeemed that investment in January 2020 at NAV of Rs. 29.1254. During FY2019-20, Aakarsh has realized Rs. 6,85,396 as short term capital loss on his investment in equity shares. What do you advise him on tax liability due to these transactions for AY 2020-21? (Cost inflation index for 2007-08: 129, 2019-20: 289).**
(3 marks)
- Long term capital gains of Rs. 6,72,230 taxable @20.8%; short term capital loss of Rs. 6,85,396 on equity allowed to be set off in 8 succeeding assessment years.
 - Net long term capital gains of Rs. 12,40,310 taxable @20.8%.
 - Net short term capital loss of Rs. 13,170 on equity allowed to be carried forward for set off in 8 succeeding assessment years.
 - Long term capital gains of Rs. 19,12,540 taxable @10.4%; short term capital loss of Rs. 6,85,396 on equity allowed to be set off in 8 succeeding assessment years.
- 25) Reena has made arrangement to let out her house for an annual rent of Rs. 2 lakh for 3 years. The payments are received in advance at half-yearly basis, the first payment is received today. She deposits the rent received in a bank fixed deposit which pays interest @6.5% on quarterly compounding basis.**
(4 marks)
- Rs. 6,72,689
 - Rs. 13,45,374
 - Rs. 6,71,636
 - Rs. 6,82,816

26) Sarah invested Rs. 1 lakh in an equity mutual fund scheme at Rs. 14.625 per unit under dividend distribution option on 25th November 2018. The scheme declared a dividend of Rs. 3.15 per unit and fixed record date for the purpose as 15th December 2018. Sarah sold 5,000 units of the scheme at a price of Rs. 11.256 on 13th August 2019. She has no capital gains in the previous year 2019-20. What is the taxability of the above transaction for AY 2020-21?

(3 marks)

- a) Rs. 16,845 is the short term capital loss allowable to be carried forward for the next 8 assessment years.
- b) Short term capital gains of Rs. 4,693.
- c) Rs. 1,095 is the short term capital loss allowable to be carried forward for the next 8 assessment years.
- d) Rs. 22,182 is the short term capital loss allowable to be carried forward for the next 8 assessment years.

27) In which of the following situations, the effective rate of interest would be the highest?

(1 mark)

- a) A company offering 6% p.a. compounded monthly.
- b) A bank offering 6% p.a. compounded quarterly.
- c) A bond offering 6% p.a. compounded half-yearly.
- d) A debenture offering 6% p.a. payable at the end of a year.

SECTION – IV

28) Which of the following is not preferred in the estate planning for high net worth individuals?

(2 marks)

- a) To use trust structure for protecting the interests of beneficiaries, minors and those with special needs.
- b) To hold assets through offshore and domestic corporations to protect them from predators.
- c) To maintain complete privacy about the distribution of assets for avoiding unscrupulous elements.
- d) To transfer real ownership of assets to corporations to protect it from predators/creditors.

29) Which of the following is provided under the rules of conduct for CFP professionals?

(1 mark)

- a) Take all reasonable steps to ensure the client understands the recommendations to allow the client to make informed decisions.
- b) Take steps to immediately prevent the downside in urgent situations, and inform the client later.
- c) Implement the recommendations already made to the client, and inform the client of execution steps when complete.
- d) Allow the client, if so desired, to seek execution of recommendations through a third party, while also completely abstaining from any supervision/direction thereto.

30) Arpita created a Trust for her parents who are senior citizens, both with equal beneficial interest. Father gets a fixed monthly pension of Rs. 36,500 while mother gets a net annual value of Rs. 3.6 lakh from her let out property. The trust property has generated a net annual value of Rs. 5.80 lakh in FY 2019-20. Find the tax payable by the trustee as a representative assessee for AY 2020-21.

(3 marks)

- a) Rs. 68,330
- b) Rs. 78,730
- c) Rs. 89,020
- d) Nil

31) What is required of a CFP professional regarding the principle of Objectivity under Financial Planner Code of Ethics and Professional Responsibility?

(2 marks)

- a) To achieve all the objectives of the client as stated in the letter of engagement.
- b) To ensure a differential value proposition in servicing clients depending upon the capacity of engagement.
- c) To manage conflicts and exercise impartiality in arriving at sound professional judgment.
- d) To maintain exclusivity and a fair detachment between recommendations made and their actual implementation.

32) Your client along with his wife holds 51% stake in a partnership firm (client's individual stake 30%). The firm is valued at Rs. 7.5 crore. He has a car purchased in firm's account at Rs. 42 lakh (depreciated value Rs. 32 lakh). He owns a car purchased for Rs. 18 lakh (market value Rs. 9 lakh). He has a house worth Rs. 3 crore in his name and a farm house worth Rs. 1.5 crore in his wife's name. He has stocks worth Rs. 1.6 crore in joint Demat account with his wife, he being primary holder. The Demat account of his wife where he is second holder has stocks/bonds worth Rs. 1.95 crore. The firm has a Keyman insurance of value Rs. 2.5 crore on his life. The client has a term insurance cover of Rs. 2 crore. What do you evaluate towards your client's estate?

(4 marks)

- a) Rs. 9.79 crore
- b) Rs. 11.79 crore
- c) Rs. 13.02 crore
- d) Rs. 9.69 crore

33) You are collecting information and examining circumstances related to Estate planning for your client who shall be retiring in the next 10-15 years. Which of the following is not essential at this stage?

(3 marks)

- a) Accounting for all assets, fixed and financial, and charges/lien made over them.
- b) Information of all financial liabilities and encumbrances, their gross and outstanding values, and whether covered by way of insurance.
- c) Value of retirement fund and whether client wishes to gift or bequeath a part of that.
- d) Details of division of the estate among the heirs and other dependents.

34) A CFP professional owes the client a duty of care consistent with that of a fiduciary. In which type of engagements of the financial planner is this applicable?

(1 mark)

- a) In all those engagements where the CFP professional is engaging in financial planning services.
- b) In all engagements where the CFP professional is holding out as a financial planner, regardless of employment arrangement.
- c) In all those engagements where the CFP professional is engaging in financial product sales.
- d) In all those engagements where the CFP professional is engaging in fee-only advisory services.

SECTION – V

35) Under which regulation of the Securities and Exchange Board of India (SEBI) does a CFP professional need to register for starting advisory services in investment products?

(1 mark)

- a) SEBI (Intermediaries) Regulations, 2008
- b) SEBI (Research Analyst) Regulations, 2014
- c) SEBI (Investment Advisers) Regulations, 2013
- d) SEBI (Certification of Associated Persons in the Securities Market) Regulations, 2007

36) Which one of the following features does not apply to Succession Planning via a Trust?

(2 marks)

- a) Trust creation helps in bypassing probate process.
- b) Trust creation helps in safeguarding interests of family members.
- c) Conditions can be attached to assets gifted to a Trust.
- d) Trust can be revoked when tax regime is found to be most beneficial.

37) In what conditions will the legal representatives of a deceased partner be liable for acts of a firm, done after the partner's death?

(1 mark)

- a) They are not liable for acts of a firm, done after the partner's death.
- b) If the firm is not dissolved as per contract.
- c) If the business is carried out in old firm's name.
- d) If the name of the firm also bears deceased partner's name/surname.

38) With regards to a Trust, which of the following would not be taxed at the maximum marginal rate?

(2 marks)

- a) The Trust is discretionary and has income from capital gains.
- b) The Trust is indeterminate, declared by the last Will of the testator and has income from business.
- c) The Trust is determinate and has income other than from business or profession.
- d) The Trust established is an oral Trust.

39) Which of the following is not correct in respect of a testamentary trust?

(1 mark)

- a) It exists only on the death of grantor/author.
- b) It is a kind of grantor trust where the author retains ultimate benefits.
- c) It gets all proceeds/ assets from the estate of the grantor.
- d) It gets tax advantages as the assets pass through probate in a pour-over will.

40) What happens in case of the intestate part of the estate in case of partial intestacy?

(2 marks)

- a) The intestate part goes to the exchequer, before legal heirs can lay their claims.
- b) Executor obtains Court approval to distribute the intestate part in the same proportionate values to the named beneficiaries as the testate portion.
- c) The distribution of intestate portion is strictly in accordance with the laws of inheritance based on the religion of the deceased person.
- d) Executor is granted probate to deal with the intestate part according to the rule of law.