

(1)

**CA - FINAL
GROUP II – PAPER 8
DIRECT TAX
May 2020 (Series 3)**

Roll No.

Date : 17.04.2020

Time Allowed: - 3 Hours

Maximum Marks: 100

=====

Division A : MCQ
Use OMR sheet for Objective answers.

=====

Pick out the correct answer out of the followings: Question 1 to 7

M/ The following are the particulars of income of three investment funds for P.Y.2019-20:

Particulars	A	B	C
	₹ in lakh		
Business Income		2	(2)
Capital Gains	16	14	(6)
Income from other sources	4	4	8

assuming that:

- (1) each investment fund has 20 unit holders each having one unit held by them for a period exceeding 12 months; and
- (2) income from investment in the investment fund is the **only income** of the **unit-holder**.

If Investment Fund C has the following income components for A.Y. 2021-22, what would be the total income of the fund and the unit holder for that year?

Business Income	₹ 2 lakh
Capital Gains	₹ 9 lakh
Income from Other Sources	₹ 8 lakh

In the light of the above facts, you are required to answer the following

- 1 Compute the total income of the investment funds of A for A.Y.2020 1**
(a) Nil (b) ₹ 1,56,000
(c) ₹ 2,00,000/- (d) ₹ 1,00,000/-
- 2. Compute the total income of the investment funds of B for A.Y.2020 1**
(a) Nil (b) ₹ 1,56,000
(c) ₹ 2,00,000/- (d) ₹ 1,00,000/-
- 3. Compute the total income of the investment funds of C for A.Y.2020 1**
(a) Nil (b) ₹ 1,56,000
(c) ₹ 2,00,000/- (d) ₹ 1,00,000/-
- 4. Compute the total income of the a unit holder of the Investment funds A for A.Y. 2020-21 1**
(a) Nil (b) ₹ 1,56,000
(c) ₹ 2,00,000/- (d) ₹ 1,00,000/-

5. **Compute the total income of the a unit holder of the Investment funds B. for A.Y. 2020-21** **1**
 (a) Nil (b) ₹ 90,000
 (c) ₹ 30,000/- (d) ₹ 1,00,000/-
6. **Compute the total income of the a unit holder of the Investment funds C. for A.Y. 2020-21** **1**
 (a) Nil (b) ₹ 1,56,000
 (c) ₹ 2,00,000/- (d) ₹ 30,000/-
7. **What would be chargeable to tax rate on total income of Investment Fund?** **1**
 (a) Tax @30% if the fund is a firm and @ 30%/25%, as the case may, if the fund is a company and at the maximum marginal rate) @ 42.744%, in any other case.
 (b) Tax @30% if the fund is a firm and @ 10%, as the case may, if the fund is a company and at the maximum marginal rate) @ 42.744%, in any other case.
 (c) Tax @10% if the fund is a firm and @ 30%, as the case may, if the fund is a company and at the maximum marginal rate) @ 42.744%, in any other case
 (d) Tax @30% if the fund is a firm and @ 10%, as the case may, if the fund is a company and at the @ 5%, in any other case
- Pick out the correct answer out of the followings: Question 8 to 11**
- Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2019 and came to India for the first time on 16.03.2019. She left for USA on 19.9.2019. She returned to India again on 27.03.2020. While in India, she had purchased a show room in Mumbai on 22.04.2019, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2019. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2020. She had received the following gifts from her relatives and friends during 1.4.2019 to 31.3.2020:
- From parents of husband ₹ 51,000
 - From married sister of husband ₹ 11,000
 - From two very close friends of her husband, ₹ 1,51,000 and ₹ 21,000 ₹ 1,72,000
- In the light of the above facts, you are required to answer the following**
8. **Determine her residential status for the Assessment Year 2020-21.** **1**
 (a) Resident and ordinary resident (b) Resident but not ordinarily resident
 (c) Non-resident (d) Non-citizen
9. **Compute the Income from house property chargeable for the Assessment Year 2020-21.** **1**
 (a) Nil (b) ₹ 90,000/-
 (c) ₹ 95,000/- (d) ₹ 1,00,000/-
10. **Compute the Income from other sources chargeable for the Assessment Year 2020-21.** **1**
 (a) Nil (b) ₹ 90,000/-
 (c) ₹ 1,72,000/- (d) ₹ 1,00,000/-
11. **Compute the amount of tax payable on such income for the Assessment Year 2020-21.** **1**
 (a) Nil (b) ₹ 90,000
 (c) ₹ 884/- (d) ₹ 1,00,000/

12. Two enterprises shall be deemed to be associated enterprises if, at any time during the previous year, a loan advanced by one enterprise to the other enterprise constitutes not less than _____ of the book value of the total assets of the other enterprise. 1
 (a) 15% (b) 51%
 (c) 26% (d) 10%
13. "Arm's length price" means a price which is applied or proposed to be applied in a transaction 1
 (a) Between persons other than associated enterprises, in uncontrolled conditions.
 (b) Between persons other than associated enterprises, in controlled conditions.
 (c) Between associated enterprises, in uncontrolled conditions.
 (d) Between associated enterprises, in controlled conditions.
14. If any person fails to furnish a report from an accountant as required under section 92E of the Act, he shall be liable to a penalty u/s 271BA of 1
 (a) Rs. 1,00,000.
 (b) Rs. 1,50,000.
 (c) 2% of the value of international transaction.
 (d) 1% of the value of international transaction
15. During the P.Y.2019-20, Help Aid Charitable Trust registered under section 12AA received donations of ₹ 80 lakhs, out of which ₹ 10 lakhs were corpus donations and ₹ 20 lakhs were anonymous donations. The trust applied ₹ 40 lakhs towards its objects during the P.Y.2019-20. The tax liability of the trust for A.Y.2020-21 is - 2
 (a) ₹ 6,24,000 (b) ₹ 5,92,800
 (c) ₹ 5,30,920 (d) ₹ 5,97,220
16. A Inc. and B Inc., incorporated in Country A and Country B, respectively, whose place of effective management is also in the said countries, are engaged in the business of operation of ships and aircraft, respectively. The details of receipts etc. during the P.Y.2019-20 are as follows - 2

Particulars	A Inc.	B Inc.
Amount paid/payable in Mumbai on account of carriage of passengers: Shipped from Mumbai port to port in Country A From Mumbai airport to airport in Country B	₹ 20 lakhs	₹ 15 lakhs
Amount paid/payable in Country A/B on account of carriage of passengers: Shipped from Mumbai port to port in Country A From Mumbai airport to airport in Country B	₹ 5 lakhs	₹ 4 lakhs
Amount received/deemed to be received in India on account of carriage of passengers: Shipped from port in Country A to Mumbai port From airport in Country B to Mumbai airport	₹ 7 lakhs	₹ 8 lakhs

Amount received/deemed to be received in Country A/B on account of carriage of passengers: Shipped from port in Country A to Mumbai port From airport in Country B to Mumbai airport	₹ 22 lakhs	₹ 18 lakhs
Profit (pertaining to Indian operations) computed as per books of account maintained by A Inc. and B Inc., after providing the deductions under the Income-tax Act, 1961	₹ 2.20 lakhs	₹ 1.20 lakhs

The profits and gains of business of A Inc. and B Inc. chargeable to tax in India under the Income-tax Act, 1961 for A.Y.2020-21 is -

- (a) ₹ 2.20 lakhs and ₹ 1.20 lakhs, respectively, provided the books of accounts are audited under section 44AB of the Income-tax Act, 1961
- (b) ₹ 2.025 lakhs and ₹ 1.15 lakhs, respectively
- (c) ₹ 2.40 lakhs and ₹ 1.35 lakhs, respectively
- (d) ₹ 2.70 lakhs and ₹ 3.375 lakhs, respectively

17. In the course of search operations under section 132 in May, 2020, Mr. Hari makes a declaration under section 132(4) on the earning of income in respect of P.Y.2019-20 not disclosed in the books of account. Mr. Hari explains the manner in which income was derived and pays the tax, together with interest in respect of such income. However, he does not disclose such income in his return of income filed on 31.7.2020. Is penalty leviable in this case, and if so what is the quantum of penalty? 2
- (a) No penalty is leviable since Mr. Hari has made a declaration under section 132(4)
 - (b) Penalty@10% is leviable
 - (c) Penalty@30% is leviable
 - (d) Penalty@60% is leviable.

18. Mr. Dheeraj has commenced the business of manufacture of paper on 1.4.2019. He employed 180 new employees during the P.Y.2019-20, the details of whom are as follows - 2

	No. of employees	Date of employment	Regular/ Contractual	Total monthly emoluments per employee (₹)
(i)	51	1.4.2019	Regular	23,000
(ii)	46	1.6.2019	Regular	26,000
(iii)	48	1.8.2019	Contractual	27,000
(iv)	35	1.10.2019	Regular	24,000

The regular employees participate in recognized provident fund while the contractual employees do not. The emoluments are paid by use of ECS through a bank account.

Compute the deduction, if any, available to Mr. Dheeraj for A.Y.2020-21, if the profits and gains derived from manufacture of paper that year is ₹ 74 lakh and his total turnover is ₹ 2.56 crore.

- (a) Nil
- (b) ₹ 1,40,76,000
- (c) ₹ 5734,800/-
- (d) ₹ 42,22,800/-

19. **XYZ Ltd. engaged in the business of manufacture of steel, claimed deduction under section 80-IB on the profits and gains of business which included transport subsidy, interest subsidy and power subsidy received from the Government and duty drawback receipts. XYZ Ltd. contended that all the above receipts are profits derived from the business of the industrial undertaking and are hence, eligible for deduction under section 80-IB. Is the contention of XYZ Ltd. correct?** 2
- (a) Yes; transport subsidy, interest subsidy, power subsidy and duty drawback are profits derived from the business of the industrial undertaking and hence, eligible for deduction under section 80-IB.
- (b) No; none of the above receipts can be treated as profits “derived” from the business of the industrial undertaking and hence, deduction under section 80-IB cannot be claimed in respect of any such receipt.
- (c) No; transport subsidy, interest subsidy and power subsidy received from Government are profits derived from the business of the industrial undertaking and hence, eligible for deduction under section 80-IB. However, duty drawbacks belong to the category of ancillary profits and hence, deduction under section 80-IB cannot be claimed in respect of such receipt.
- (d) No; transport subsidy, interest subsidy and power subsidy received from Government are ancillary profits and hence, deduction under section 80-IB cannot be claimed in respect of such receipts. However, duty drawbacks are profits derived from the business of the industrial undertaking and hence, deduction under section 80-IB can be claimed in respect of such receipt.
20. **Nandita, an individual resident retired employee of the Prasar Bharati aged 60 years, is a well-known dramatist deriving income of ₹ 1,10,000 from theatrical works played abroad. Tax of ₹ 11,000 was deducted in the country where the plays were performed. India does not have any Double Tax Avoidance Agreement under section 90 of the Income-tax Act, 1961, with that country. Her income in India amounted to ₹ 6,10,000. In view of tax planning, she has deposited ₹ 1,50,000 in Public Provident Fund and paid contribution to approved Pension Fund of LIC ₹ 32,000. She also contributed ₹ 28,000 to Central Government Health Scheme during the previous year and gave payment of medical insurance premium of ₹ 26,000 to insure the health of her father, a non-resident aged 84 years, who is not dependent on her. Compute the tax liability of Nandita for the Assessment year 2020-21.** 2
- (a) Nil (b) ₹ 13,936
 (c) ₹ 10,970/- (d) ₹ 11,000/-
21. **I Limited, an Indian Company supplied billets to its holding company, U. Limited, UK during the previous year 2019-20. I. Limited also supplied the same product to another UK based company, V. Limited, an unrelated entity. The transactions with U. Limited are priced at Euro 500 per MT (FOB), whereas the transactions with V. Limited are priced at Euro 700 per MT (CIF). Insurance and Freight amounts to Euro 200 per MT. Compute the arm's length price for the transaction with U. Limited** 2
- (a) Euro 900/- (b) Euro 700/-
 (c) Euro 500/- (d) Euro 200/-

22. Mr. Q, a non-resident, operates an aircraft between Singapore and Chennai. He received the following amounts while carrying on the business of operation of aircrafts for the year ended 31.3.2020: 2
- (i) ₹ 2 crores in India on account of carriage of passengers from Chennai.
 - (ii) ₹ 1 crore in India on account of carriage of goods from Chennai.
 - (iii) ₹ 3 crores in India on account of carriage of passengers from Singapore.
 - (iv) ₹ 1 crore in Singapore on account of carriage of passengers from Chennai.
- The total expenditure incurred by Mr. Q for the purposes of the business during the year ending 31.3.2020 was ₹ 6.75 crores.
- Compute the income of Mr. Q chargeable to tax in India under the head "Profits and gains of business or profession" for the assessment year 2020-21.
- (a) 70,00,000/-
 - (b) ₹ 35,00,000/-
 - (c) ₹ 52,50,000/-
 - (d) ₹ 25,00,000/-

Division "B" : Descriptive Questions
Question No. 1 is compulsory.
Attempt any four questions from the rest.

Marks 70

- 1(a)** Hyper Ltd., engaged in diversified activities, earned a profit of ₹ 14,25,000 after debit/credit of the following items to its statement of profit and loss for the year ended on 31.3.2020: **14**

(a) Items debited to Statement of Profit and Loss	₹
Provision for loss of subsidiary	70,000
Provision for income-tax demand	1,05,000
Expenses on purchase/sale of equity shares	15,000
Depreciation	3,60,000
Interest on deposit credited to buyers on 31.3.2020 for advance received from them, on which TDS was deducted in April 2020 and was deposited on 31.7.2020	1,00,000
(b) Items credited to Statement of Profit and Loss	
Long term capital gain on sale of equity shares on which securities transaction tax was paid at the time of acquisition	3,60,000
Income from units of UTI	75,000

The company provides the following additional information:

- (i) Depreciation includes ₹ 1,50,000 on account of revaluation of fixed assets.
- (ii) Depreciation allowable as per Income-tax Rules is ₹ 2,80,000.

Brought forward Business Loss/ Unabsorbed Depreciation:

F.Y.	Amount as per books		Amount as per Income-tax	
	Loss ₹	Depreciation ₹	Loss ₹	Depreciation ₹
2015-2016	2,50,000	3,00,000	2,00,000	2,50,000
2016-2017	Nil	2,70,000	1,00,000	1,80,000
2017-2018	3,50,000	3,15,000	1,20,000	2,10,000

You are required to:

- (i) compute the total income of the company for the assessment year 2020-21 giving the reasons for treatment of items and
- (ii) examine the applicability of section 115JB of the Income-tax Act, 1961, and compute book profit and the tax credit to be carried forward.

Assume the tax rate applicable to Hyder Ltd for the P.Y. 2019-20 is 30%. Ignore the provisions of section 115BAA

- 2(a)** X Limited has transferred its Unit N to Y Limited by way of slump sale on November 30, 2019. The summarised Balance Sheet of X Limited as on that date is given below:

8

Liabilities	₹ (in lakhs)	Assets	₹ (in lakhs)
Paid up capital	1,700	Fixed Assets :	
Reserve & surplus	620	Unit L	150
Liabilities:		Unit M	150
Unit L	40	Unit N	550
Unit M	110	Other Assets:	
Unit N	90	Unit L	520
		Unit M	800
		Unit N	390
Total	2,560	Total	2,560

Using the further information given below, compute the capital gain arising from slump sale of Unit N and tax on such capital gain.

- (i) Lump sum consideration on transfer of Unit N is ₹ 880 lakhs.
(ii) Fixed assets of Unit N include land which was purchased at ₹ 60 lakhs in August 2007 and revalued at ₹ 90 lakhs as on March 31, 2019.

Other fixed assets are reflected at ₹ 460 lakhs (i.e. ₹ 550 lakhs less value of land) which represents written down value of those assets as per books. The written down value of these assets under section 43(6) of the Income-tax Act, 1961 is ₹ 410 lakhs. Unit N was set up by X Limited in July, 2007.

Cost inflation index for financial year 2007-08 and financial year 2019-20 are 129 and 289, respectively.

- 2(b)** Mr. Anil, aged 49 years, a resident individual furnishes the following particulars of income earned by him in India and Country N for the previous year 2019 -20. India does not have a double taxation avoidance agreement (DTAA) with Country N

6

Particulars	Amount (₹)
Income from profession carried on in Mumbai	8,50,000
Agricultural Income in Country N	1,30,000
Dividend from a company incorporated in Country N	85,000
Royalty income from a literary book from Country N	6,25,000
Expenses incurred for earning royalty	75,000
Business loss in Country N	1,10,000

The domestic tax laws of Country N does not permit set-off of business loss against any other income. The rate of income-tax in Country N is 18%. Compute total income and tax payable by Mr. Anil in India for A.Y. 2020-21, assuming that he satisfies all conditions for the purpose of section 91.

- 3(a)** The books of account maintained by a National Political Party registered with Election Commission for the year ended on 31.3.2020 discloses the following receipts: **8**

		(₹)
(a)	Rent of property let out to a departmental store at Chennai	6,00,000
(b)	Interest on deposits other than banks	5,00,000
(c)	Contribution from 100 persons (who have secreted their names) of ₹ 21,000 each	21,00,000
(d)	Contribution from 10 persons by way of electoral bonds of ₹ 25,000 each	2,50,000
(e)	Cash contribution @ ₹ 2,100 each from 1,000 members (recorded in books of account)	21,00,000
(f)	Net profit of cafeteria run in the premises at Delhi	3,00,000

Compute the total income of the political party for the assessment year 2020-21, with reasons for inclusion or otherwise.

- 3(b)** Arif is a resident of both India and another foreign country in the previous year 2019-20. He owns immovable properties (including residential house) in both the countries. He earned income of ₹ 50 lacs from rubber estates in the foreign country during the financial year 2019-20. He also sold some house property situated in foreign country resulting in short-term capital gain of ₹ 10 lacs during the year. Arif has no permanent establishment of business in India. However, he has derived rental income of ₹ 6 lacs from property let out in India and he has a house in Lucknow where he stays during his visit to India. **6**

Article 4 of the Double Taxation Avoidance Agreement between India and the foreign country where Arif is a resident, provides that “where an individual is a resident of both the Contracting States, then, he shall be deemed to be resident of the Contracting State in which he has permanent home available to him. If he has permanent home in both the Contracting States, he shall be deemed to be a resident of the Contracting State with which his personal and economic relations are closer (centre of vital interests)”.

You are required to examine with reasons whether the business income of Arif arising in foreign country and the capital gains in respect of sale of the property situated in foreign country can be taxed in India.

- 4(a)** What would be the penalty leviable under section 270A in case of the following assessee, if none of the additions or disallowances made in the assessment or reassessment qualify under section 270A(6) and the under-reported income is not on account of misreporting? **8**

	Particulars of total income of A.Y.2020-21	M/s. Alpha, a resident	Beta Ltd., an Indian company
		(₹)	(₹)
(1)	As per the return of income furnished u/s	35,00,000	(12,00,000)
(2)	Determined under section 143(1)(a)	45,00,000	(6,00,000)
(3)	Assessed under section 143(3)	62,00,000	(2,00,000)
(4)	Reassessed under section 147	81,00,000	6,00,000

Note – Beta Ltd. is a trading company. The total turnover of Beta Ltd. for the P.Y.2017-18 was ₹ 401 crore and the company has not exercised option under section 115BAA.

- 4(b)** Mr. David, a citizen of India, serving in the Ministry of External Affairs in India, was transferred to Indian Embassy in Canada on 31.03.2019. He did not visit India any time during the previous year 2019-20. He has received the following income for the Financial Year 2019-20

6

S.No.	Particulars	₹
(i)	Salary (Computed)	5,00,000
(ii)	Foreign Allowance	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Pakistan	2,00,000
(v)	Income from house property in Pakistan	2,50,000

Compute his gross total income for Assessment Year 2020-21.

- 5(a)** Examine the liability for tax deduction at source in the following cases for the assessment year 2020-21:

3

- Wings Ltd. has paid amount of ₹ 15 lacs during the year ended 31-3-2020 to Airports Authority of India towards landing and parking charges.
- Omega Ltd., an event management company, organized a concert of international artists in India. In this connection, it engaged the services of an overseas agent Mr. John from UK to bring artists to India. He contacted the artists and negotiated with them for performance in India in terms of the authority given by the company. He did not take part in event organized in India. The company made the payment of commission equivalent to ₹ 1 lac to the overseas agent.
- Ramesh gave a building on sub-lease to Mac Ltd. with effect from 1-7-2019 on a rent of ₹ 20,000 per month. The company also took on hire machinery from Ramesh with effect from 1-11-2019 on hire charges of ₹ 15,000 per month. The rent of building and hire charges of machinery for the year 2019-20 were credited by the company to the account of Ramesh in its books of account on 31-3-2020.
- ₹ 2,45,000 paid to Mr. X on 01-02-2020 by Karnataka State Government on compulsory acquisition of his urban land. What would be your answer if the land is agricultural land?

- 5(b)** ABC Ltd, a software giant in India, set up a 100% subsidiary company by name SHD Inc. in Switzerland on 1st April, 2019. The subsidiary company, SHD Inc., is mainly engaged in the software services, hardware services and data backup services in three different countries viz., Switzerland, Sweden and India. The following information is furnished by SHD Inc., for FY 2019-20 **6**

Particulars	In Switzerland	In Sweden	In India
Value of assets as per books of account (₹ in crores)	24	12	24
Number of employees working (in thousands)	30	10	28
Pay roll expenditure (₹ in crores)	4	2.6	5.4
Total aggregate income earned	₹ 80 crores		

Other Information:

- I. Break up of total income:
 - ₹ 28 crores derived from the transactions where purchases are made from associated enterprises and sold to non-associated enterprises;
 - ₹ 24 crores derived from the transactions where both purchases and sales are made from/to associated enterprises;
 - ₹ 16 crores derived from the transactions where purchases are made from non-associated enterprises and sold to associated enterprises;
 - ₹ 8 crores by way of income from capital gains on trading of shares;
 - ₹ 4 crores by way of interest from non-associated enterprises;
 - II. During FY 2019-20, total 5 board meetings were held, 2 in India, 1 in Sweden and 2 in Switzerland.
- Based on the above information, determine the residential status of SHD Inc., applying the provisions of POEM for the A.Y.2020-21

- 6(a)** An assessee, who is aggrieved by all or any of the following orders, is desirous to know the available remedial recourse and the time limit against each order under the Income-tax Act, 1961: **4**
- (i) passed under section 143(3) by the Assessing Officer.
 - (ii) passed under section 263 by the Commissioner of Income-tax.
 - (iii) passed under section 272A by the Director General.
 - (iv) passed under section 254 by the ITAT.
- 6(b)** Does the Settlement Commission have the power to reduce or waive interest levied under sections 234A, 234B and 234C of the Income-tax Act? Discuss. **4**
- 6(c)** What is the General Rule of Interpretation under Vienna Convention of Law of Treaties? **3**
- 6(d)** The Authority for Advance Rulings has the powers of compelling the production of books of account – Examine the correctness or otherwise of this statement. **3**