

**Paper 16 - Direct Tax Laws and International Taxation**

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**Full Marks: 100**

**Time allowed: 3 hours**

**The figures in the margin on the right side indicate full marks.  
Working notes should form part of the answer.**

**Section - A**

**1. Choose the correct alternative and also provide your justification: [10×2=20]**

- (i) Where a person whose total income does not exceed ₹ 5 lakhs, required to furnish a return of income u/s 139, fails to do so within the due date, he shall pay fee of:  
(a) ₹ 10,000  
(b) ₹ 5,000  
(c) ₹ 1,000  
(d) ₹ 2,000.
- (ii) Intimation of summary assessment must be send within \_\_\_\_\_ from the end of financial year in which return of income is filed.  
(a) 180 days  
(b) 1 year  
(c) 3 years  
(d) 30 days.
- (iii) The due date of installment for upto 45% of advance tax liability of the assessee other than the assesseees in respect of an eligible business referred to in sec. 44AD or 44ADA is:  
(a) On or before June 15  
(b) On or before September 15  
(c) On or before December 15  
(d) On or before March 15.
- (iv) When an assessee is in default or is deemed to be in default in making a payment of tax, the Tax Recovery Officer may proceed to recover from such assessee the amount specified in the certificate by one or more of the modes available. Which of the following is/ are correct?  
(a) attachment and sale of the assessee's movable property  
(b) attachment and sale of the assessee's immovable property  
(c) appointing a receiver for the management of the assessee's movable and immovable properties  
(d) All of the above.
- (v) The appellate authority, for the 2<sup>nd</sup> appeal made by the assessee or the Commissioner (or Principal Commissioner) of Income tax against the order of Commissioner (Appeals), will be:  
(a) High Court  
(b) Supreme Court  
(c) Income Tax Appellate Tribunal (ITAT)  
(d) CBDT.
- (vi) As per ICDS VII, the treatment of government grants related to the depreciable fixed asset will be:  
(a) The grant shall be deducted from the actual cost of the asset or from the written down value of block of assets  
(b) The grant shall be recognised as income of the period in which it is receivable

- (c) Grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate
- (d) None of the above.
- (vii)** When an assessee fails to furnish any information relating to a specified domestic transaction, the quantum of penalty as a percentage of value of the transaction would be —
- (a) 2%
- (b) 1%
- (c) 5%
- (d) 3%
- (viii)** As per section 178(3), the \_\_\_\_\_ of a company has to intimate the tax authority before he parts with any of the assets of the company or the properties in his hands and has to set aside the amount if any intimated to him by the tax authorities.
- (a) Managing Director
- (b) Manager
- (c) Chartered Accountant
- (d) Liquidator
- (ix)** A resident applicant, seeking advance ruling in relation to a transaction undertaken or proposed to be undertaken by him with a non-resident, may make an application stating the question on which the advance ruling is sought in Form No. \_\_\_\_\_.
- (a) 34C
- (b) 34D
- (c) 34DA
- (d) 34E
- (x)** If an assessee discovers any omission or wrong statement (bonafide in nature) in the return filed, he may file the revised return —
- (a) before the end of the relevant assessment year
- (b) before completion of regular assessment
- (c) before the end of the relevant assessment year or before completion of regular assessment, whichever is earlier
- (d) before the end of the relevant assessment year or before completion of regular assessment, whichever is later.

**Section – B**

**(Answer any five questions out of seven questions given)**

- 2.(a)** Mr. Sen is a businessman. Tax audit u/s 44AB is applicable. Due date of submission of return of income for the assessment year 2019-20 is September 30, 2019. Return, is however uploaded on September 25, 2019. Intimation u/s 143(1) is received by email on October 8, 2020. Date of intimation and date of grant of refund is October 6, 2020. Refund is calculated as follows:

	₹
Tax on income assessed	2,92,430
Add: interest u/s 234C	18,000
Total	3,10,430
Less: Credit for prepaid tax -	
— TDS, TCS and tax paid in advance	4,70,000
— Self-assessment tax paid on August 18, 2019	9,000

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Refund due	1,68,570
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Determine the amount of interest payable by the Government u/s 244A. **[8]**

- (b)** A company wants to raise capital of ₹ 40,00,000 for a project wherefrom earnings before tax would be 30% of the capital employed. The company can raise debt finance @ 12% p.a.

The following three alternatives for raising capital are available for the company:

- (i) ₹ 40,00,000 by equity capital
- (ii) ₹ 20,00,000 by equity capital and ₹ 20,00,000 by loans
- (iii) ₹ 8,00,000 by equity capital and ₹ 32,00,000 by loans.

Assume that the company would distribute the entire amount of profits as dividend. The tax rate is 30% and dividend distribution tax rate is 20%. (Ignore surcharge and cess)

Work out which one of the above three alternatives should the company opt to minimise its tax liability? **[8]**

- 3.** On April 1, 2018, X Ltd. commences the operation of a warehousing facility in Andhra Pradesh for storage of agricultural produce. The following information is available from the records of company—

Expenses incurred prior to April 1, 2018

	₹
Purchase of land for warehouse	50,00,000
Construction cost of warehouse	8,10,000
Purchase of know-how for warehouse	10,00,000
Salary to staff	68,000
These expenses are capitalized on March 31, 2018.	
Expenses incurred during 2018-19:	
Construction cost of warehouse	60,00,000
Purchase of old plant and machinery (from domestic market)	2,00,000
Purchase of old plant and machinery (from Germany)	4,00,000
Purchase of new plant and machinery	9,00,000
Purchase of goodwill	3,50,000

Profit and loss account for the year 2018-19:

	₹		₹
Depreciation of building (@ 5%)	3,40,000	Amount collected from persons using warehouse	78,00,000
Depreciation of machinery (@ 23.333%)	3,50,000		
Cost of know-how (amount written off)	10,00,000		
Other operating expenses	7,51,000		
Donation to a political party	10,000		
Net profit	53,49,000		
	78,00,000		78,00,000

Out of other operating expenses, a payment of ₹ 40,000 is made in cash. Other operating expenses are deductible under section 37. Find out the taxable income of X Ltd. for the

assessment year 2019-20 on the assumption that X Ltd. has the following income from other sources –

- income from the business of commission agency: ₹ 10,14,000 (computed under the provisions of the Income-tax Act) and
- dividend from a foreign company: ₹ 65,000. **[16]**

**4.(a)** List the persons who should apply for allotment of Permanent Account Number. **[7]**

**(b)** Fruits Ltd. wants to amalgamate with Veggie Ltd. on June 30, 2018. You are required to find out the tax implication in respect of the following losses/allowances of Fruits Ltd. in the assessments of Fruits Ltd. (i.e., amalgamating company) and Veggie Ltd. (i.e., amalgamated company).

Unabsorbed depreciation allowance of the previous year 1999-2000: ₹ 34,000; brought forward business loss of the previous year 2010-11: ₹ 10,20,000; unabsorbed scientific research expenditure : ₹ 12,000; bad debts: ₹ 20,000 ; capital gain arising on transfer of assets to Veggie Ltd. : ₹ 2,50,000 and brought forward capital loss ₹ 40,000. Also discuss whether Veggie Ltd. can claim deduction under section 80-IA or 80-IB in respect of industrial undertaking taken over from Fruits Ltd. **[9]**

**5.(a)** During the previous year relevant to the assessment year 2019-20, X exported tobacco to Japan and France where it was sold through non-resident assessees — A, a Japanese company and B, a French concern. A and B were operating as X's agents and were to be paid commission on sales effected through them. X received the entire sale proceeds in India. X made credit entries in his books of account in respect of commission payable to A and B and remitted the same to them subsequently. State whether A and B are chargeable to tax in respect of commission on the basis of receipt of income (actual or constructive) in India and whether it can be said that they have received or are deemed to have received commission when their accounts were credited. Justify. **[8]**

**(b)** XYZ Ltd. has constructed 50 sheds in an industrial estate and leased these out to selected and qualified entrepreneurs, who would manufacture some of the ancillaries for the assessee-company. Besides, the assessee-company also provides several facilities to the ancillary units such as free technical advice for the setting up of units, training of workers for nominal charge, inspection and other services at cost and supply of raw material at cost including overheads. The lessee have agreed to permit the assessee-company's agents, security staff and workers to enter the premises at any time to view the condition thereof. Discuss whether the income earned by the assessee-company on letting out the sheds should be assessed as income from property or from business. **[8]**

**6.(a)** What is Permanent Establishment in the context of Double Taxation Avoidance Agreement? Mention the items which are excluded from the list of Permanent Establishment. **[4+5=9]**

**(b)** Delta Ltd., an Indian company, is a subsidiary company of Fox Inc., a company registered in the Netherlands. It purchases raw materials from Fox Inc. Purchase prices

of raw material determined under CUP method (being the most appropriate method) for the previous year 2018-19 are ₹ 9,200, ₹ 10,500, ₹ 10,100 and ₹ 10,300 per unit. Delta Ltd., however, pays to Fox Inc. ₹ 1,04,50,000 (i.e., 950 units at the rate of ₹ 11,000 per unit). Net profit as per statement of profit and loss for the year ending 31<sup>st</sup> March, 2019 is ₹ 9,40,000. Determine arm's length price and net income of Delta Ltd. for the assessment year 2019-20. Delta Ltd. is not a "wholesale trader". **[7]**

**7.(a)** In case of determination of Arm's Length Price u/s 92C, how resale price method is used? Write down the steps which are involved in application of this method. **[5+5=10]**

**(b)** Amar, an individual, resident of India, receives the following payments after TDS during the previous year 2018-19:

(i) Professional fees on 17.08.2018 ₹ 2,40,000.

(ii) Professional fees on 04.03.2019 ₹ 1,60,000.

Both the above services were rendered in Pakistan on which TDS of ₹ 50,000 and ₹ 30,000 respectively have been deducted. He had incurred an expenditure of ₹ 2,40,000 for earning both these receipts / income. His income from other sources in India is ₹ 3,00,000 and he has made payment of ₹ 70,000 towards LIC. Compute the tax liability of Amar and also the relief u/s 91, if any, for A.Y.2019-20. **[6]**

**8. Write short note (any four):**

**[4×4=16]**

**(a)** Forfeiture of exemption of Trust.

**(b)** Return of Loss.

**(c)** Interest for failure to deduct and pay tax at source.

**(d)** Disclosure requirement of ICDS X.

**(e)** Tax Authorities as per Black Money and Imposition of Tax Act.