

Total No. of Questions-7  
Time Allowed - 3 Hours

**VGFNLN**

Total No. of Printed Pages- **14**  
Maximum Marks - 100

## DIRECT TAX

### Question No. 1 is Compulsory

Attempt **any five** from the **remaining six** questions

Wherever required, suitable assumptions may be made by the candidate and stated clearly in the answer.

**Working notes should form part of the answer**

#### Question No. 1(a)

Mr. Ranjit, an individual resident in India aged 32 years, furnishes you the following particulars of income earned in India, Country P and Country Q for the previous year 2017-18. India has not entered into double taxation avoidance agreement with these two countries.

Particulars	Rs.
Income from profession carried on in India	6,20,000
Agricultural income in Country P (gross)	82,000
Dividend received from a company incorporated in Country Q (gross)	97,000
Royalty income from a literary book from Country P (gross)	5,20,000
Expenses incurred for earning royalty	30,000
Business loss in Country Q (Proprietary business)	70,000
Rent from a house situated in Country Q (gross)	3,20,000
Municipal tax in respect of the above house (not allowed as deduction in country Q)	12,000

#### Notes:

- 1) Business loss in Country Q not eligible for set off against other incomes as per law of that country.
- 2) Agricultural income is not exempt in Country P.
- 3) No statutory deduction is allowable against income from house property in Country Q. The rates of tax in Country P and Country Q are 12% and 15%, respectively.

Compute total income and tax payable by Mr. Ranjit in India for A.Y.2018-19.

**(7 Marks)**

## Question No. 1(b)

X Ltd transferred its fertilizer business to a new company Y Ltd by way of demerger with effect from appointed date of 01.04.2017 after satisfying the conditions of demerger. Further information given;

- i. WDV of the entire block of plant and machinery held by X Ltd as on 01.04.2017 is Rs. 100 crores;
- ii. Out of the above, WDV of block of plant and machinery of fertilizer division is Rs. 70 crore;
- iii. X Ltd has absorbed depreciation of Rs. 50 Lakhs as at 31.03.2017; On the above facts:

You are required to:

- a) Explain the provisions of the income tax as to the allowability of depreciation, post merger, in the hands of X Ltd and Y Ltd as at 31.03.2018 duly calculating the depreciation.
- b) State how the unabsorbed depreciation has to be dealt with for the assessment year 2018-19.

**(5 Marks)**

## Question No. 1(c)

PF consulting Ltd total income during the previous year ended 31.03.2018 is Rs.10,50,000. Tax deducted at source by different payers amounted to Rs. 24,450 and tax paid in foreign country on a doubly taxed income amounted to Rs. 10,000 for which the company is entitled to relief under section 90 as per the double tax avoidance agreement.

During the year the company paid advance tax as under

Date of payment	Advance tax paid (Rs.)
15.06.2017	40,000
12.09.2017	65,000
15.12.2017	1,00,000
15.03.2018	62,000

The company filed its return of Income for the Assessment Year 2018-19 on 15.10.2018.

Compute interest, if any payable by the company under section 234A, 234B and 234C. Assume the transfer pricing provision is not applicable.

**(5 Marks)**

## Question No. 1(d)

Mrs. Sharadha, wife of Mr. Sriram, is a partner in a firm. Her capital contribution to the firm as on 01-04-2016 was Rs. 10 lakhs, out of which Rs. 6 lakhs was contributed out of her own sources and Rs. 4 lakhs was contributed out of gift from her husband.

As further capital was needed by the firm, she further invested Rs. 3 lakhs on 01.06.2017 out of the funds gifted by her husband. She received interest on capital of Rs. 1,00,000 and share of profit of Rs. 1,20,000 for the financial year 2017-18 from the firm.

Advise Mr. Sriram as to the applicability of the provisions of section 64(1)(iv) and the manner thereof in respect of the above referred transactions.

**(3 Marks)**

## Question No. 2

XYZ is engaged in the manufacture of fertilizer since 04.04.2012. Its statement of profit and loss shows a net profit of Rs. 700 Lakhs after debit and credit of the followings items;

1. Depreciation calculated on the basis of useful life of assets as per provisions of the Companies Act, 2013 is Rs. 50 Lakhs.
2. Normal deprecation calculated as per Income Tax Rules is Rs. 80 Lakhs.
3. Employer contribution to EPF of Rs. 2 lakhs together with the Employee's contribution of Rs. 2 Lakhs for the month of March, 2018 was remitted on 08.05.2018
4. The company appended a note to its Income Statement that industrial power traffic concession of Rs. 2.5 Lakhs received from state government and treated as same as capital receipts.

5. The company had provided an amount of Rs. 25 Lakhs being sum estimated as payable to workers based on agreement to be entered with the workers union towards periodical wage revision once in 3 years. The provision is based on a fair estimation on wage and probable revision.
6. The company had made a provision of 10% of its debtors towards bad and doubtful debts. Total sundry debtors of the company as on 31.03.2018 was Rs. 200 Lakhs.
7. A debtor who owed the company an amount of Rs. 40 crores was declared insolvent and hence, was written off.
8. Sundry creditor includes an amount of Rs. 50 Lakhs payable to A & Co. towards supply of raw materials, which remained unpaid due to quality issues. An agreement has been made on 31.03.2018 to settle the amount at a discount of 75% of the outstanding.
9. The opening and closing stock of the year were Rs. 200 lakhs and Rs.250 Lakhs respectively. They were overvalued by 10%.
10. Provision for gratuity based on actuarial valuation was Rs. 5 crores. Actual gratuity paid was Rs. 3 crore.
11. Commission of Rs. 1 Lakh paid to a recovery agent for realization of a debt. Tax has been deducted and remitted as per chapter XVIIIB of the Act.
12. The company has purchased 500 units of industrial paper as packing material at a price of Rs. 30,000/ton from PQR, a firm in which majority of the directors are partners. PQR's normal selling price in the market for the same material is Rs. 28,000/ton.

**Additional Information:**

- a. There was an addition to plant and machinery amounting to Rs. 50 Lakhs on 10.06.2017
- b. The company had credited a sub contractor an amount of Rs. 8 Lakhs on 31.03.2018 towards repairing machinery components. The tax so deducted was remitted on 31.10.2018.

- c. The company has collected Rs. 10 Lakhs as sales tax from its customers and paid the same on the due date. However on an appeal made high court directed the states tax department to refund Rs. 2 Lakhs to the customer from whom the amount was collected and the balance of Rs. 1 lakhs is still lying under the head "Current Liabilities".

Compute the total income and tax payable. Ignore MAT provisions.

**(16 Marks)**

### Question No. 3(a)

H Ltd., engaged in diversified activities, earned a net profit of Rs. 14,25,000 after debit/credit of the following items to its profit and loss account for the year ended 31.03.2018:

Particulars	Amount (Rs.)
<i>Items debited to Profit and Loss Account</i>	
Expenses on Industrial Unit exempt under section 10AA	2,10,000
Provision for loss of Subsidiary	70,000
Provision for Sales Tax Demand (paid before due date)	75,000
Provision for Income tax demand	1,95,000
Expenses on purchase / sale of equity shares	15,000
Depreciation	3,60,000
Interest on deposit credited to buyers on 31.3.2018 for advance received from them, on which TDS was deposited on 31.12.2018	90,000
<i>Items credited to Profit and Loss Account</i>	
Income on Industrial Unit exempt under section 10AA	2,70,000
Profit from 100% EOU	60,000
Long term capital gain on sale of equity shares on which securities transaction tax was paid	3,60,000
Income from units of UTI	75,000

The company provides the following additional information:

1. Depreciation includes Rs. 1,50,000 on account of revaluation of fixed assets.
2. Depreciation allowable as per Income tax Rules is Rs. 2,80,000.

3. Brought forward business loss / unabsorbed depreciation:

AY	Amount as per books		Amount as per Income Tax	
	Loss	Deprecation	Loss	Deprecation
2015-16	2,50,000	3,00,000	2,00,000	2,50,000
2016-17	Nil	2,70,000	1,00,000	1,80,000
2017-18	3,50,000	3,15,000	1,20,000	2,10,000

You are required to

Compute total income of the company for the assessment year 2018-19 giving the reason for treatment of items, and Examine the applicability of section 115JB of the Income Tax Act, and compute book profit and the tax credit to be carried forward.

**(7 Marks)**

**Question No. 3(b)**

Mrs X filed return of A.Y 2013-14 declaring an income of Rs. 3,25,000. She had been assessed under section 143(3) and the assessing officer made the following additions;

- Unexplained cash credit for want of confirmation from creditors Rs. 2,00,000.
- Disallowance in respect of travelling expenditure of Rs. 46,000 for tour to Chennai for effecting sales there, as Mrs X failed to establish that the expenditure had been incurred for the purpose of business.

At a later stage, he has been served with a notice under section 148 for income escaping assessment in respect of A.Y 2013-14. During the course of reassessment proceedings, the Assessing Officer sought to add unaccounted sales of Rs. 4,00,000 made at Chennai.

During the course of hearing, the assessee produced confirmation from creditors and requested to delete the addition for unexplained cash credit of Rs. 2,00,000 and to allow deduction of travelling expenditure of Rs. 46,000.

Discuss the validity of the contention raised by the assessee.

**(3 Marks)**

## Question No. 3(c)

Quipro Ltd is an Indian Company engaged in the business of developing and manufacturing industrial components. Its Canadian Subsidiary Techpro Inc. supplies technical information and offers technical support to Quipro for manufacturing goods, for a consideration of Euro 80,000 per year. Income of Quipro Ltd is Rs. 70 Lakhs.

Determine Taxable Income of Quipro Ltd. if Techpro charges Euro 1,00,000 per year to others in India. What will be the answer if techpro charges Euro 50,000 per year to others. Rate per Euro =Rs. 60.

**(3 Marks)**

## Question No. 3(d)

Indico Pvt. Ltd. is a domestic company in India. Den Pvt. Ltd. is a company incorporated in Country 'X' and it is a non-resident in India. Den Pvt. Ltd. forms a company Zen Pvt. Ltd, its 100% subsidiary, in Country 'Y'. Zen Pvt. Ltd. and Indico Pvt. Ltd. form a joint venture company Revolution (P) Ltd. in India on 10.04.2017. There is no other activity in Zen Pvt. Ltd. As per the joint venture agreement, 49% of Revolution (P) Ltd's equity is allotted to Zen Pvt. Ltd. and 51% is allotted to Indico Pvt. Ltd.

Zen Pvt. Ltd. is also designated as a permitted transferee of Den Pvt. Ltd. Permitted transferee means that though shares of Revolution (P) Ltd. are held by Zen Pvt. Ltd, all rights of voting, management, right to sell etc., are vested in Den Pvt. Ltd.

On 28.02.2018, the shares of Revolution (P) Ltd. held by Zen Pvt. Ltd. are sold to C Pvt. Ltd., a company connected to the Indico Pvt. Ltd. group. The India-Country 'Y' tax treaty provides for non-taxation of capital gains in the Source Country and Country 'Y' charges no capital gains tax in its domestic law. So, as per the tax treaty with Country 'Y', capital gains arising to Zen Pvt. Ltd. are not taxable in India.

Examine, whether General Anti-Avoidance Rules (GAAR) can be invoked to deny the treaty benefit assuming that the other conditions prescribed for application of GAAR are satisfied.

**(3 Marks)**



## Question No. 4 (a)

VKS International Ltd, the assessee, has sold goods on 12.01.2018 to L Ltd. located in a Notified Jurisdictional Area (NJA). The sale price of identical goods sold to an unfamiliar customer in New York during the previous year was 11.5 crores. While the second sale was on CIF basis, the sale to L Ltd was on F.O.B basis. Ocean Freight and Insurance amount to Rs. 20 Lakhs.

India has a Double Taxation Avoidance Agreement with the USA. The Assessee has policy of providing After Sales Support Services to the tune of Rs. 14 Lakhs to all customers except L Ltd. The ALP worked out as per Cost plus Method for identical goods is Rs. 12.10 crores.

You are required to compute the ALP for the sales made to L Ltd and the amount of consequent increase, if any, in profits of the Assessee Company.

**(4 Marks)**

## Question No. 4(b)

XYZ Ltd. is a company engaged in the manufacture of paints. The company incurred preliminary expenses of Rs. 42 lakhs. The cost of the project was Rs. 400 lakhs and the capital employed in the business of the company was Rs. 700 lakhs. For the purpose of claiming deduction under section 35D, the company restricted the said expenditure to Rs. 35 lakhs, i.e., 5% of Rs. 700 lakhs, being the capital employed in the business of the company. For this purpose, the company treated share premium of Rs. 100 lakhs as part of the capital employed. For the A.Y.2018-19, it claimed deduction of Rs. 7 lakhs, being 1/5th of Rs. 35 lakhs, under section 35D. The Assessing Officer disallowed Rs. 1 lakh, being the portion relating to share premium (1/5th of 5% of Rs. 100 lakhs), contending that the same was not part of capital employed. Whether "premium" on subscribed share capital is "capital employed in the business of the company" under section 35D to be eligible for a deduction? Examine the correctness of contention of the Assessing Officer, with the aid of a case law.

**(4 Marks)**

## Question No. 4(c)

Aadarsh HUF holds 35% shares of M/s. Best Fertilizers (P.) Ltd., a closely held company. During the P.Y.2017-18, it received loans and advances from the company. Its return was scrutinized by the Assessing Officer who treated the loans and advances as deemed dividend under section 2(22)(e). As per the company's annual return, the HUF is the shareholder. However, the share certificates were issued in the name of the HUF's Karta, Mr. Aadarsh. Thus, there was some dispute as to who was the shareholder - the Karta, Mr. Aadarsh or the HUF, as share certificates were issued in the name of the former but the annual return mentioned the latter. Aadarsh HUF contended that as a HUF



cannot be a registered or beneficial shareholder of a company, the amount of loan cannot be taxed as deemed dividend.

Examine whether the loan given by a closely held company to a HUF is chargeable to tax as deemed dividend under section 2(22)(e).

**(4 Marks)**

**Question No. 4(d)**

ABC Ltd., engaged in development of housing projects, filed its return of income for A.Y.2018-19 after claiming deduction of Rs. 25 lakhs under section 80-IBA. The return was selected for scrutiny. In the assessment, a sum of Rs. 12.60 lakhs, being 30% of Rs. 42 lakhs, towards sub-contract payment was disallowed for non-deduction of tax at source by invoking section 40(a)(ia). The Assessing Officer, however, limited the deduction under section 80-IBA to the original amount claimed by ABC Ltd. ABC Ltd. contended that it was eligible for a higher deduction of Rs. 37.60 lakhs under section 80-IBA consequent to disallowance under section 40(a)(ia). Examine the correctness of contention of ABC Ltd.

**(4 Marks)**

**Question No. 5(a)**

Mysore Co-operative Society derives income during financial year 2017-18 from the following sources:

S. No.	Particular	Amount
1	Income from processing with the aid of power	Rs. 40,000
2	Income from collective disposal of labour of its members	Rs. 20,000
3	Interest from another co-operative society	Rs. 12,000
4	Income from house property (Computed)	Rs. 75,000
5	Income from other business	Rs. 72,000
6	Income by way of dividend from another co-operative society	Rs. 15,000

Determine the total income of Mysore Co-operative Society for the A.Y.2018-19.

**(6 Marks)**

**Question No. 5(b)**

Examine the tax consequence for Assessment Year 2018-19 in respect of fees for technical services (FTS) received by Mr. Tom Sawyer, a non-resident, from Ganga Ltd., an Indian company, in pursuance of an agreement approved by the Central Government, if -

- a) India has no Double Tax Avoidance Agreement (DTAA) with Country A
- b) India has a DTAA with Country A, which provides for taxation of such FTS @5%.
- c) India has a DTAA with Country A, which provides for taxation of such FTS @15%.

The technical services are utilised by Ganga Ltd. for its business in Calcutta. Assume that Tom Sawyer is a resident of Country A and he has no fixed place of his profession in India.

Would your answer change if he has a fixed place of his profession in India and he renders technical services through that place? Examine, in a case where India has no DTAA with Country A.

**(6 Marks)**

## **Question No. 5(c)**

Delta Ltd., a domestic company, declared dividend of Rs. 85 lakh for the year F.Y.2016-17 and distributed the same on 27.6.2017. Mr. Ganesh, holding 15% shares in Delta Ltd., receives dividend of Rs. 12.75 lakh in June, 2017. Mr. Rajesh, holding 10% shares in Delta Ltd., receives dividend of Rs. 8.50 lakh. Discuss the tax implications in the hands of Delta Ltd., Mr. Ganesh and Mr. Rajesh, assuming that Mr. Ganesh and Mr. Rajesh have not received dividend from any other domestic company during the year.

**(4 Marks)**

## **Question No. 6(a)**

Discuss the correctness or otherwise of the following statements with reference to the provisions of the Income-tax Act, 1961–

- a) Non-compete fee received/receivable for not carrying on a profession is chargeable to tax under the head “Capital Gains”.
- b) Additional depreciation in respect of new plant and machinery installed can be claimed by assessee engaged in the business of generation or generation and distribution of power but not by assessee engaged in the business of transmission of power.

- c) Banks, public financial institutions, state financial corporations and state industrial investment corporations are eligible for deduction under section 36(1)(viiia) in respect of provision for bad and doubtful debts; Non-banking Financial Companies are not eligible for such deduction.
- d) Non-consideration of application for registration of trust within six months would tantamount to deemed registration under section 12AA.

**(4 Marks)**

**Question No. 6(b)**

Mr. Ram gifted a sum of Rs. 12 lakhs to his brother Mr. Lakshman's wife on 18-8-2017. On 23-8-2017, his brother, Mr. Lakshman gifted a sum of Rs. 10 lakhs to Mr. Ram's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Ram and Mrs. Lakshman on 01-9-2017 at 8% interest. Discuss the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Ram and his brother, Mr. Lakshman.

**(4 Marks)**

**Question No. 6(c)**

Mr. Hari, an individual, was carrying on a business as sole proprietor. On his death, his legal heirs decide to continue the same business by forming a firm. At the time of death, Mr. Hari had a determined business loss of Rs. 5 lacs, under the provisions of the Income-tax Act, 1961 to be carried forward. Does the firm, consisting of all the legal heirs of Mr. Hari, get a right to have this loss adjusted against its current income? Discuss.

**(4 Marks)**

**Question No. 6(d)**

Phi Ltd. is engaged in commercial production of mineral oil. It claimed deduction under section 80-IB in respect of profits and gains derived by it from such business, including transport subsidy, interest subsidy and power subsidy received from the Government towards reimbursement of elements of cost relating to commercial production of mineral oil. The Assessing Officer disallowed the deduction in respect of these three subsidies contending that such subsidies were not "derived" from the business of commercial production of mineral oil but belonged to the category of ancillary profits and hence do not qualify for deduction under section 80-IB. Discuss the correctness of the action of the Assessing Officer.

**(4 Marks)**

## Question No. 7(a)

Discuss the correctness of the following statements, with reference to the provisions of income-tax law –

- a) "The Commissioner may, if he objects to any direction issued by the Dispute Resolution Panel under section 144C(5) in pursuance of which the Assessing Officer has passed an order completing the assessment or reassessment, direct the Assessing Officer to appeal to the Appellate Tribunal against such order".
- b) "The Appellate Tribunal may rectify any mistake apparent from the record in its order at any time within four years from the date of the order"

**(4 Marks)**

## Question No. 7(b)

Mr. Kishore, a resident individual of the age of 47 years, has not furnished his return of income for A.Y.2016-17. However, the total income assessed in respect of such year under section 143(3) is Rs. 21 lakh. Is penalty under section 270A attracted in this case, and if so, what is the quantum of penalty leviable?

**(4 Marks)**

## Question No. 7(c)

Mr. Anand, Senior Vice President of Oberoi Bank, sold his house property in Bangalore as well as his rural agricultural land for a consideration of Rs. 72 lakh and Rs. 18 lakh, respectively, to Mr. Sundar, a wholesale trader of spices, on 18.11.2017. Mr. Anand had purchased the house property and rural agricultural land in February 2016 for Rs. 58 lakh and Rs. 9 lakh, respectively. The stamp duty value on the date of transfer, i.e., 18.11.2017, is Rs. 90 lakh and Rs. 23 lakh for the house property and rural agricultural land, respectively.

- a) Determine the tax implications in the hands of Mr. Anand and Mr. Sundar, if the date of agreement for sale of house property and rural agricultural land is 10.8.2017 and the stamp duty value on the said date was Rs. 85 lakh and Rs. 20 lakh, respectively. On the said date, Mr. Sundar made payment of Rs. 12 lakh by way of account payee cheque to Mr. Anand for purchase of house property. Also, discuss the TDS implications, if any, in the hands of Mr. Sundar, assuming that both Mr. Anand and Mr. Sundar are resident Indians.

- b) Would your answer be different if Mr. Anand is a property dealer and sold the house property in the course of his business?

**(4 Marks)**

**Question No. 7(d)**

Discuss the following issues in the context of the provisions of the Income-tax Act, 1961, with specific reference to clarification given by the Central Board of Direct Taxes -

- (i) Moon TV, a television channel, made payment of Rs.50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

- (ii) Mudra Adco Ltd., an advertising company, has retained a sum of Rs. 15 lakhs, towards charges for procuring and canvassing advertisements, from payment of Rs. 1 crore due to Cloud TV, a television channel, and remitted the balance amount of Rs. 85 lakhs to the television channel. Would the provisions of tax deduction at source under section 194H be attracted on the sum of Rs. 15 lakhs retained by the advertising company?


**(4 Marks)**



## COST INFLATION INDEX TABLE

Financial Year	CII	Financial Year	CII
2001-02	100	2010-11	167
2002-03	105	2011-12	184
2003-04	109	2012-13	200
2004-05	113	2013-14	220
2005-06	117	2014-15	240
2006-07	122	2015-16	254
2007-08	129	2016-17	264
2008-09	137	2017-18	272
2009-10	148		

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