

QUESTION : 1 (M.C.Q)

M.C.Q NO. 1 TO 10 carries 1 mark each

M.C.Q NO. 11 TO 20 carries 2 marks each

1. A Ltd., an Indian company, has a wholly owned subsidiary in Sri Lanka, and it extends corporate guarantee to the said non-resident subsidiary. If the amount guaranteed is Rs.90 crore, the Assessing Officer has to accept the guarantee fee declared by A Ltd. for F.Y.2018-19, if the guarantee fee declared is –
 - (a) Rs.45 lakhs
 - (b) Rs.80 lakhs
 - (c) Rs.90 lakhs
 - (d) Either (a) or (b)

2. In order to claim relief under the tax treaty in India, a non-resident –
 - (a) Should have a business presence in India
 - (b) Should produce his Permanent Account Number
 - (c) Should produce Tax Residency Certificate (TRC)
 - (d) Should produce his income-tax return filed in the home country

3. In case where primary adjustment to transfer price is made suo moto by any Indian company, the time limit for repatriation of “excess money” is -
 - (a) 60 days from 30th September of the A.Y.
 - (b) 90 days from 30th September of the A.Y.
 - (c) 60 days from 30th November of the A.Y.
 - (d) 90 days from 30th November of the A.Y.

4. Where a person, resident in India, derives income from a nation with which India does not have a DTAA, such person is given credit in India in the following manner:
 - (a) Entire tax paid in the foreign country is allowed as deduction
 - (b) Tax paid in the foreign country on income which is doubly taxed, is allowed as deduction
 - (c) Tax paid on income which is doubly taxed, is allowed as deduction, at the Indian rate of tax only
 - (d) Tax paid on income which is doubly taxed, is allowed as deduction, at the Indian rate of tax or rate of tax of the foreign country, whichever is lower

5. Y is a foreign company having permanent establishment in India namely X. Z, a non-resident associated enterprise, has invested Rs.900 crore through debt in X. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of X during the financial year was Rs.150 crore. Compute the amount of interest allowable in respect of the debt assuming that the debt was invested on the first day of the financial year and the rate of interest is 10% per annum.
- (a) Rs.45 crore
 - (b) Rs.90 crore
 - (c) Rs.30 crore
 - (d) Rs.15 crore
6. Z Ltd., a company providing telecommunication service, obtains a telecom license on 01.04.2017 for a period of 10 years which ends on 31.03.2027 (license fee being Rs.27 lakh). Find out the amount of deduction allowable to Z Ltd. in respect of such license fee during the A.Y. 2019-20 if the entire amount of license fee is paid on 01.04.2018.
- (a) Nil
 - (b) Rs.27 lakh
 - (c) Rs.3 lakh
 - (d) Rs.2.7 lakh
7. On 05.04.2018, A (P) Ltd. issued 20,000 shares to X at Rs.40 per share. The face value per share is Rs.10 and fair market value of each share as determined u/s 56(2)(viib) is Rs.30 per share. X was not in India from the date of issue of shares to him up till 02.09.2018 but he came back to India on 03.09.2018. Whether any tax implications shall arise in the hands of A (P) Ltd. on account of the said transaction? If yes, compute the amount taxable in the hands of A (P) Ltd.?
- (a) No tax implications shall arise in the hands of A (P) Ltd. as X was non-resident in India at the time of issue of shares.
 - (b) The amount would be chargeable to tax in the hands of A (P) Ltd., irrespective of the residential status of X.
 - (c) Yes, the amount chargeable to tax in the hands of A (P) Ltd. as income from other sources shall be Rs.2,00,000
 - (d) Yes, the amount chargeable to tax in the hands of A (P) Ltd. as income from other sources shall be Rs.6,00,000
8. Mr. X acquired a house property at Mumbai from Mr. Y, a resident, for a consideration of Rs.90 lakhs, on 20.6.2018. On the same day, Mr. X made two separate transactions, thereby acquiring an urban plot in Kolkata from Mr. C for a sum of Rs.49,50,000 and rural agricultural land from Mr. D for a consideration of Rs.60 lakhs. Which of the following statements are correct?
- (a) No tax deduction at source is required in respect of any of the three payments.
 - (b) TDS@1% is attracted on all the three payments.
 - (c) TDS@1% on Rs.90 lakhs and Rs.49,50,000 are attracted. No TDS on payment of Rs.60,00,000 for acquisition of rural agricultural land
 - (d) TDS@1% on Rs.90 lakhs is attracted. No TDS on payments of Rs.49,50,000 and 60,00,000

9. Mr. Ram, a resident individual aged 55 years, has not furnished his return of income for A.Y.2019-20. However, the total income assessed in respect of such year under section 144 is Rs.12 lakh. Determine the quantum of penalty leviable under section 270A?
- (a) Penalty leviable is Rs.1,79,400, being tax payable on total income of Rs.12 lakh
 - (b) Penalty leviable is Rs.89,700, being 50% of tax payable on Rs.12 lakh
 - (c) Penalty leviable under section 270A is Rs.53,300, being 50% of tax payable on under-reported income of Rs.9.50 lakhs (i.e., Rs.12 lakhs - basic exemption limit of Rs.2.50 lakhs)
 - (d) Penalty leviable under section 270A is Rs.1,06,600, being tax payable on under-reported income of Rs.9.50 lakhs (i.e., Rs.12 lakhs - basic exemption limit of Rs.2.50 lakhs)
10. ABC Ltd. an Indian company paid dividend distribution tax under section 115-O in respect of dividend distributed by it to its resident and non-resident shareholders. Mr. John, a shareholder of ABC Ltd. and a resident of Country X, has to pay tax in Country X on dividend received by him from ABC Ltd., as per the domestic tax laws of Country X. This is an example of:
- (a) Juridical double taxation
 - (b) economic double taxation
 - (c) territorial double taxation
 - (d) municipal double taxation
11. If ABC Ltd. has two Units, Unit 1 is engaged in power generation business and Unit 2 is engaged in manufacture of wires. Both the units were set up in Karnataka in the year 2014. In the year 2018-19, twenty lakh metres of wire are transferred from Unit 2 to Unit 1 at Rs.125 per metre when the market price per metre was Rs.180. Which of the following statements is correct?
- (a) Transfer pricing provisions would be attracted in this case
 - (b) Transfer pricing provisions would not be attracted in this case since Unit 1 and Unit 2 belong to the same company and are not associated enterprises.
 - (c) Transfer pricing provisions would not be attracted in this case as it is not an international transaction since both Units are in India. However, for the purpose of Chapter VIA deduction, the profits of power generation business shall, however, be computed as if the transfer has been made at the market value of Rs.180 per MT.
 - (d) Transfer pricing provisions would not be attracted in this case due to reasons mentioned in both (b) and (c) above.
12. Mr. Anjan, a property dealer, sold a flat in Mumbai, the stamp duty of which is Rs.2 crores for Rs.1.80 crores to his friend Mr. Ashwin, a college lecturer. Mr. Anjan had purchased the flat one year back for Rs.1.50 crores and the stamp duty value on that date was also Rs.1.50 crores. What are the tax implications of such sale?
- (a) Rs.50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin

- (b) Rs.50 lakhs would be taxable as business income in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin
- (c) Rs.50 lakhs would be taxable as business income in the hands of Mr. Anjan and Rs.20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin.
- (d) Rs.50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan and Rs.20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin.

13. ABC Ltd. took on sub-lease a building from Ms. Jhanvi with effect from 1.7.2018 on a rent of Rs.20,000 per month. It also took on hire machinery from Ms. Jhanvi with effect from 1.10.2018 on hire charges of Rs.15,000 per month. ABC Ltd. entered into two separate agreements with Ms. Jhanvi for sub-lease of building and hiring of machinery. Which of the following statements are correct with reference to ABC Ltd.'s liability to deduct tax at source, assuming that one-month's rent was received as security deposit, which is refundable at the end of the lease period?

- (a) No tax needs to be deducted at source since rent for building does not exceed Rs.1,80,000 p.a. and rent for machinery also does not exceed Rs.1,80,000 p.a. Security deposit refundable at the end of the lease term is not rent for the purpose of TDS
- (b) Tax has to be deducted@10% on rent of Rs.2,00,000 (including security deposit) for building, but no tax needs to be deducted on rent for machinery (including security deposit), since the same does not exceed Rs.1,80,000.
- (c) Tax has to be deducted@10% on Rs.2,00,000 and @2% on Rs.1,05,000 (i.e. rent including security deposit)
- (d) Tax has to be deducted@10% on Rs.1,80,000 and @2% on Rs.90,000. Security deposit refundable at the end of the lease period is not rent.

14. Ms Geetha, born in USA, comes to India for the first time on 5.1.2019 and left India on 28.5.2019. She was born and brought up in the USA but her grandparents were born in Karachi before the year 1940. In December, 2015, she bought, in foreign currency, 500 Global Depository Receipts of PQR Ltd, an Indian Company, which were issued in accordance with the notified scheme of the Central Government against the initial issue of shares of PQR Ltd. In January, 2018, she sold 300 GDRs outside India to Mr. Frank, a citizen and resident of Country 'X' and 200 GDRs to Mr. Kamal, a Resident but not ordinarily resident in India. Comment on the tax consequences of such sale transaction under the Income-tax Act, 1961 –

- (a) Capital gains arising on sale of 500 GDRs shall be subject to tax @20% with indexation benefit in India
- (b) No capital gains would arise on sale of 500 GDRs in India, since the GDRs are purchased in foreign currency
- (c) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed in India @10% without indexation benefit
- (d) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed @20% with indexation benefit in India.

15. Mr. X took a loan from SBI on 31.03.2011 of Rs.10,00,000. During previous year 2018-19, interest actually paid on such loan was Rs.1,00,000. However, the amount of interest unpaid on such loan from 01.04.2011 upto 31.03.2019 is Rs.2,00,000. As Mr. X was making continuous defaults in making payment of interest, a restructuring arrangement was entered wherein the unpaid interest was converted into Funded Interest Term Loan (FITL) which is shown separately from the original loan and no interest is chargeable on FITL. This converted interest is to be paid 4 annual equal installments from 01.04.2022. Mr. X is of the view that for A.Y. 2019-20, the following deductions shall be allowed to him while computing his business income:

- Interest of Rs.1,00,000 on original principal of Rs.10,00,000.
- Converted interest of Rs.2,00,000.

Whether X's view is correct?

- (a) Correct, total deduction of Rs.3,00,000 shall be allowed to Mr. X in A.Y. 2019-20.
- (b) Incorrect, no deduction shall be allowed to Mr. X in A.Y. 2019-20.
- (c) Partially correct, interest of Rs.1,00,000 shall be fully allowed, however, proportionate amount of converted interest for the period 01.04.2018 to 31.03.2019 shall be allowed.
- (d) Incorrect, only deduction of Rs.1,00,000 shall be allowed to Mr. X in A.Y. 2019-20.

16. Delta Ltd., a domestic company, declared dividend of Rs.85 lakh for the year F.Y.2018-19 and distributed the same on 27.6.2019. Mr. Ganesh, holding 15% shares in Delta Ltd., receives dividend of Rs.12.75 lakh in June, 2019. Mr. Rajesh, holding 10% shares in Delta Ltd., receives dividend of Rs.8.50 lakh. Which of the following statements is correct?

- (a) Dividend distribution tax u/s 115-O is attracted in the hands of Delta Ltd. There would be no tax on dividend received by Mr. Ganesh and Mr. Rajesh in their individual hands.
- (b) Dividend distribution tax u/s 115-O is attracted in the hands of Delta Ltd. However, dividend received by Mr. Ganesh and Mr. Rajesh is also taxable in their individual hands
- (c) Dividend distribution tax is payable by Delta Ltd. u/s 115-O. Also, dividend received by Mr. Ganesh is taxable in his hands@10%.
- (d) Dividend distribution tax is payable by Delta Ltd. u/s 115-O. Also, Mr. Ganesh has to pay tax@10% on dividend of Rs.2.75 lakhs received by him.

17. A Pvt. Ltd., an Indian company, is engaged in the business of generation of power. It installed a Wind Power Project on 30.04.2016 and claimed a deduction of 100% of profits derived from generation of power in A.Y. 2017-18 and A.Y. 2018-19 u/s 80-IA of the Income-tax Act, 1961. During the previous year 2018-19, A Pvt. Ltd. got amalgamated with B Pvt. Ltd. which is also an Indian company. Determine whether B Pvt. Ltd. shall be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA? If yes, then for how many assessment years?

- (a) Yes, B Pvt. Ltd. shall be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA for the unexpired period of 8 consecutive assessment years.
- (b) Yes, B Pvt. Ltd. shall be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA for a fresh period of 10 consecutive assessment years.

(c) No, B Pvt. Ltd. shall not be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA as deduction u/s 80-IA is not allowed at all to an amalgamated company.

(d) No, B Pvt. Ltd. shall not be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA as deduction u/s 80-IA is not allowed to an amalgamated company if the amalgamation has taken place on or after 01.04.2007.

18. Written down value of 4 machines at the beginning of the previous year 2018-19 forming part of block of assets carrying 15% rate of depreciation was Rs.6,00,000. The following 3 machines of the same block were bought (not included in WDV above):

Machines	Date of Purchase	Date when put to use	Cost (Rs.)
A	5.1.18	14.1.19	50,000
B	5.4.18	15.5.18	1,00,000
C	15.5.18	31.1.19	2,00,000

Four machines of this block (other than those which were acquired and put to use for less than 180 days) were sold for Rs.4,00,000. Calculate the depreciation for A.Y. 2019-20. Ignore additional depreciation.

- (a) Rs.67,500
- (b) Rs.82,500
- (c) Rs.60,000
- (d) Rs.63,750

19. M/s. Atlanta Airlines, incorporated as a company in USA, operated its flights to India and vice versa during the year 2018-19 and collected charges of Rs.280 crores for carriage of passengers and cargo, out of which Rs.100 crores were received in US Dollars for the passenger fare from Atlanta to Delhi. Out of Rs.100 crores, US dollars equivalent to Rs.40 crores is received in India. The total expenses for the year on operation of such flights were Rs.11 crores. The effective rate of income-tax applicable on total income of M/s. Atlanta Airlines is

- (a) 42.432%
- (b) 43.68%
- (c) 43.26%
- (d) 42.024%

20. Mrs. Kavitha, wife of Mr. Sundar, is a partner in a firm. Her capital contribution of Rs.5 lakhs to the firm as on 1.4.2018 included Rs.3 lakhs contributed out of gift received from Sundar. On 2.4.2018, she further invested Rs.1 lakh out of gift received from Sundar. The firm paid interest on capital of Rs.60,000 and share of profit of Rs.50,000 during the F.Y.2018-19. The entire interest has been allowed

as deduction in the hands of the firm. Which of the following statements is correct?

- (a) Share of profit is exempt but interest on capital is taxable in the hands of Mrs. Kavitha
- (b) Share of profit is exempt but interest of Rs.40,000 is includible in the income of Mr. Sundar and interest of Rs.20,000 is includible in the income of Mrs. Kavitha
- (c) Share of profit is exempt but interest of Rs.36,000 is includible in the income of Mr. Sundar and interest of Rs.24,000 is includible in the income of Mrs. Kavitha
- (d) Share of profit to the extent of Rs.30,000 and interest on capital to the extent of Rs.36,000 is includible in the hands of Mr. Sundar

**QUESTION NO.1 IS COMPLUSORY AND ATTEMPT ANY FOUR OUT OF
REMAINING FIVE QUESTIONS.**

QUESTION : 1

X, Y and HUF of Z (represented by z) are partners with equal shares in profits and losses of a firm, M/s Popular Cine Vision, which is engaged in the production of TV serials and telefilms. In the previous year 2017 – 18, one partner “A’ retired, but his dues have been settled in the previous year 2018 – 19.

The earlier partnership deed did not authorize payment of remuneration or interest to partners. The partnership deed was revised by the partners on 1st June, 2018 to authorize payment of remuneration of Rs. 1 lakh per month to each working partner and simple interest at 15% per annum on partners capital. X, Y and Z are actively associated with the affairs of the firm.

The Profit & Loss Account of the firm for the year ended 31st March, 2019 shows a net profit of Rs. 10 lakhs after debiting/ crediting the following :

- (a) Interests amounting to Rs. 5 lakhs each was paid to partners on the balances standing to their capital accounts from 1st June, 2018 to 31st March, 2019.
- (b) Remuneration to the partners including partner in representative capacity Rs. 30 lakhs.
- (c) Interest amounting to Rs. 2 lakhs paid to z on loan provided by him in his individual capacity at 16% interest.
- (d) Royalty of Rs. 5 lakhs paid to partner X, who is a professional scrip writer, for use of his scripts as per agreement between the firm and X. The same is authorized by partnership deed.
- (e) Two separate payments of Rs. 18,000 and Rs. 15,000 made in cash on 1st February, 2019 to Altaf, a hairdresser, against his bill for services rendered in January, 2019 and two payments of Rs. 9,000 and Rs. 10,000 made in cash on 1st February and 2nd February, 2019, respectively, to Priyam, an assistant cameraman, against her bill for services provided in January, 2019.
- (f) Amount of Rs. 5 lakhs provided in the books on 31st March 2019 as liability for remuneration to shreya, a film artist and a non – resident. Tax deducted at source under section 195 from the amount so credited was paid on 3rd June, 2019.

- (g) Amount of Rs. 6 lakhs provided as gratuity for the year on the basis of actuarial valuation. Gratuity actually paid to one retired employee during the year is Rs. 1.50 lakhs.
- (h) Interest of Rs. 1.20 lakhs received on income – tax refund under section 244(1A) in respect of A.Y.2015 – 16.

The firm has also provided the following additional information :

The amount due to A, an ex – partner, was Rs. 15 lakhs which was settled on 30th September, 2018 by transferring a plot of land purchased one year back having book value of Rs. 10 Lakhs. The difference of Rs. 5 lakhs was credited to partners' capital accounts in their profit sharing ratio. The value of plot for stamp duty valuation on the date of transfer was Rs. 16 lakhs.

Compute the total income of the firm for the assessment year 2019 – 20 stating the reasons for treatment of each item. **(14 MARKS)**

QUESTION : 2

(A) Mr. Patel, a resident of India & a senior citizen, gives you the following information :

1. He owns building in London. The same was on rent @ £ 12,500 p.m. Municipal taxes of £10,000 was paid in London on 12/02/2019.

He paid interest on loan taken for construction to HSBC UK of £ 13,000 p.a. Tax was deducted @ 10%.

Withholding tax @20% on rent as on 31/03/2019.

2. He had chain of departmental stores in India and a branch in London. He followed cash basis of accounting. Following information was provided :

Particulars	India (Amt. in Rs.)	UK Branch (Amt. in £)
Gross receipts	1.75 cr.	30,000
Expenditure	1.25 cr.	12500

Further, expenditure includes Rs. 5 Lakh paid to Mr. Charles, a UK resident for architect services rendered in relation to Indian stores on which tax was deducted @ 10% and paid.

Tax on business income in UK @ 40% was paid on 30/06/2019.

3. Mr. Patel had made investment in shares of companies in UK. Dividend received on 31/03/2019 is £ 2,500 (TDS @ 10% on date when dividend was paid)

You are required to calculate tax liability of Mr. Patel in India after providing FTC available.

TT Buying Rate :

28/02/2019 – 1£ = Rs. 62

31/03/2019 - 1£ = Rs. 60

31/05/2019 = 1£ = Rs. 65

India has DTAA with UK.

(10 MARKS)

(B) Mr. Q, a non – resident, operates on aircraft between Singapore and Chennai. He received the following amounts while carrying on the business of operation of aircrafts for the year ended 31.3.2019 :

- (i) Rs. 2 crores in India on account of carriage of passengers from Chennai.
- (ii) Rs. 1 crore in India on account of carriage of goods from Chennai.
- (iii) Rs. 3 crores in India on account of carriage of passengers from Singapore.
- (iv) Rs. 1 crore in Singapore on account of carriage of passengers from Chennai.

The total expenditure incurred by Mr. Q for the purpose of the business during the year ending 31.3.2019 was Rs. 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 2019 -20.

What would be your answer in case the business was carried on by a foreign company, Q Airlines (P) Ltd. ?

(4 MARKS)

QUESTION : 3

(A) Mr. A acquired land from a builder. The details of the same are as follows : Lease hold land cost Rs. 10 Lakhs; The following further details are also provided :

1. Construction Cost – Rs. 8 lakhs on such lease hold land (incurred by Mr. A) (Separate agreement was entered in respect of the same from the builder).
2. Date of agreement – 11.06.14 (for both land and building)
3. Date when the house property was registered : 11.09.16
4. Date of conversion of lease hold land to free hold land : 1.03.18
5. Date of sale of property : 1.1.19
6. Sale consideration : Land – Rs. 15 lakhs & Building – Rs. 12 lakhs (Sale consideration is higher than stamp duty valuation]

The sale proceed towards transfer of house property was utilized by the assesee towards purchase of a new house property in the name of his wife. **Compute the amount of Capital Gains.**

(8 MARKS)

(B) Amar P Ltd., Bangalore is engaged in IT Enabled services. It is the subsidiary of ABC Inc in US. It also provides similar services to a company SAK Ltd. at Singapore. Its billings and other information is as given hereunder r:

- (i) Billings per month to ABC Inc. - USD 85000
- (ii) Billings per month to SAK Ltd. - USD 70000
- (iii) ABC Inc has provided a loan of USD 1,00,000 to Amar P Ltd. towards purchase of hardware for executing its project. Rate of interest charged for the said loan is at 3% p.a.

- (iv) Direct and Indirect cost incurred are USD 100 and USD 200 per hour, respectively.
- (v) Amar P Ltd. works 9 hours per day for 15 days to execute the projects for ABC Inc and 8 hours per day for 15 days to execute projects for SAK Ltd. Services was provided by the company to both its customers throughout the year.
- (vi) Warranty was provided to SAK Ltd. for a period of 2 years. Cost of warranty is calculated at 1% of direct cost incurred. The cost of warranty is neither included in the direct nor indirect cost.

Assume conversion rate 1 USD = Rs. 64. **Compute Arm's Length Price as per the cost – plus method and the amount to be added**, if any, to the income of Amar P Ltd.

(6 MARKS)

QUESTION : 4

(A) Examine in the following cases the obligation of the person paying the income in respect of tax deduction at source and indicate the due date for payment of such tax, wherever applicable:

- (i) MNO Ltd., the employer, credited salary due for the financial year 2018 -19 amounting to Rs. 3,40,000 to the account of Q, an employee, in its books of account on 31.3.2019. Q has not furnished any information about his income/loss from any other head or proof of investments/ payments qualifying for deduction under section 80C.
- (ii) T, an individual whose total sales in business during the year ended 31.3.2018 was Rs.2.20 crores, paid Rs. 9 lacs by cheque on 1.1.2019 to a contractor (an individual), for construction of his factory building. No amount was credited earlier to the account of the contractor in the books of T.
- (iii) BCD Ltd. credited Rs.28,000 towards fees for professional services and Rs.27,000 towards fees for technical services to the account of HG in its books of account on 6.10.2018. The total sum of Rs.55,000 was paid by cheque to HG on 18.12.2018.

(5 MARKS)

(B) Mr. Rajiv is a retail trader and his total income for the last few years ranged between Rs. 8 lakh to Rs. 10 lakh. He celebrated his 25th wedding anniversary on a large scale on 2nd December, 2018 by hosting a cruise party in the luxury cruise liner "Ocean Princess", for which he had spent Rs. 30 lakhs. The Assessing officer, in the course of scrutiny assessment of Mr. Rajiv, asked him to explain the source of such expenditure. The explanation offered by Mr. Rajiv that the same was out of his savings for the last few years, was not found satisfactory by the Assessing Officer, since a couple of years ago, he had spent to tune of Rs. 60 lakh on the grand wedding celebrations of his daughter at Vijayaseshmahal in Chennai, **You are required to examine the tax consequences.**

(5 MARKS)

(C) What is Most Favoured Nation (MFN) Clause ?

(4 MARKS)

QUESTION : 5**(A)** Ms. Janaki submits the following information for the A.Y. 2019 – 20

Particulars	Amount (Rs.)
Salary income taxable	48,000
House property income	
House 1 income	37,000
House 2 Loss	(27,000)
Textile Business (discontinued on 10.10.2018)	(20,000)
Brought forward loss of textile business for A.Y. 2016 – 17	(80,000)
Chemical Business (discontinued on 15.03.2018)	
- b/f loss of PY 2017 – 18	(25,000)
- unabsorbed depreciation of PY 2016 – 17	(15,000)
- Bad debts earlier deducted recovered in July 2018	40,000
Leather Business	62,000
Interest on securities held as stock in trade	10,000

Determine the gross total income for A.Y. 2019 – 20 and also compute the amount of loss that can be carried forward to the subsequent years. (9 MARKS)

(B)

(i) An Indian company, X Ltd., is a closely held company and it is a subsidiary of company Y Ltd. incorporated in country C1. X Ltd. was regularly distributing dividends but stopped distributing dividends from 1.4.2003, the date when dividend distribution tax was introduced in India. X Ltd. allowed its reserves to grow by not paying out dividends. As a result, no DDT was paid by the company. Subsequently, buyback of shares was offered by X Ltd. to its shareholder company Y Ltd.

Y Ltd. paid taxes on the capital gains arising on buyback of shares at the applicable rate. **Can GAAR be Invoked on the ground that there is a deferral of tax liability by X Ltd., the Indian Company ?**

(ii) In the above case (a), let us presume, there is a DTAA between India and Country C1 which provides that capital gains arising in India to a resident of country C1 shall not be taxed in India provided that the resident incurs \$2,00,000 annually as operating expenditure. The shareholder Y Ltd. incurs an operating expenditure above that limit and is entitled to the treaty benefit. Y Ltd. therefore does not pay any tax on capital gains.

Can GAAR be invoked on the ground that accumulation of profits by company X Ltd. and subsequent buyback is an arrangement mainly to obtain tax benefit ?

(5 MARKS)**QUESTION : 6****(A)** The following are the particulars of investments & payments made by Mr. M, employed with MAC Ltd., during the PY 2018 – 19 :

- Deposited Rs. 1,20,000 in PPF
- Paid Life insurance premium of Rs. 15,000 on the policy taken on 1.5.2014 to insure his life (Sum Assured – Rs. 1,20,000)

- Deposited Rs. 30000 in a 5 year term deposit with bank.
- Contributed Rs. 1,80,000 being 15% of his salary to the NPS of Central Govt. A matching contribution was made by MAC Ltd. **Compute the deduction available to Mr. M under chapter VIA for AY 2019 – 20. Would your answer be different If Mr. M contributed Rs. 1,20,000 (being, 10% of his salary) to NPS of CG ?**

(8 MARKS)

- (B)** “Tax Recovery Officer, can recover the arrear demands from the assessee in default out of sale proceeds of the property attached after making a proclamation”. How can such proclamation be made under the Act ?

(6 MARKS)