

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. Mr. Hari, a salaried individual, pays rent of Rs.55,000 per month to Mr. Raghav from June, 2018. Which of the following statement is correct?
 - (a) No tax is required to be deducted for F.Y.2018-19 since Mr. Hari is not subject to tax audit u/s 44AB
 - (b) Mr. Hari has to deduct tax@5% from rent paid every month
 - (c) Mr. Hari has to deduct tax@5% on the entire rent paid for F.Y.2018-19 from the rent payable for March, 2019
 - (d) Mr. Hari has to deduct tax of Rs.55,000 from rent payable for March, 2019
2. Fly Ltd., an Indian company, has to make secondary adjustment in A.Y. 2019-20, if the primary adjustment to transfer price, made by it *suo moto* in its return of income, is in respect of—
 - (a) A.Y. 2016-17 and the amount of primary adjustment is Rs.2 crore
 - (b) A.Y. 2018-19 and the amount of primary adjustment is Rs.1 crore
 - (c) A.Y. 2018-19 and the amount of primary adjustment is Rs.1.05 crore
 - (d) A.Y. 2019-20 and the amount of primary adjustment is Rs.1 crore
3. Dividend received by a real estate investment trust (REIT) from special purpose vehicle (SPV) and distributed to its unit holders is –
 - (a) exempt in the hands of both the REIT and the unit holders unconditionally
 - (b) exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt in the hands of unit holders only if taxable in the hands of REIT
 - (c) exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt in the hands of unit holders only if exempt in the hands of REIT
 - (d) exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt unconditionally in the hands of unit holders
4. Rental income earned from the business of letting out of properties is –
 - (a) always taxable as income from house property
 - (b) always taxable as business income
 - (c) taxable as business income or income from house property, at the option of the assessee. However, the practice should be followed consistently.
 - (d) taxable as business income only if the entire or substantial income of the assessee was from letting out of property. Otherwise, the same would be taxable as income from house property.

5. Mr. Arvind, engaged in the business of wholesale trade, has a turnover of Rs.90 lakhs for P.Y.2017-18 and Rs.210 lakhs for P.Y.2018-19. In the P.Y.2018-19, he paid salary of Rs.3 lakhs to Mr. Hari, a resident, without deduction of tax at source and commission of Rs.25,000 to Mr. Rajesh, a resident, without deduction of tax at source. The disallowance under section 40(a)(ia) while computing business income of A.Y.2019-20 would be –
- (a) Rs.3,25,000
 - (b) Rs.97,500
 - (c) Rs.90,000
 - (d) Nil
6. Salary paid by M/s AK & Co. to its partner falls within the limits prescribed under section 40(b)(v). Does AK & Co. have to deduct tax on salary paid to its partner?
- (a) Yes; tax is deductible at source under section 192 on salary paid to its partners
 - (b) No; salary paid to partner is not subject to tax deductible at source
 - (c) Yes; tax is deductible at source under section 192 on salary paid to resident partners but under section 195 on salary paid to the non-resident partner
 - (d) Salary paid to resident partner is not subject to tax deduction at source; but tax has to be deducted under section 195 on salary paid to the non-resident partner
7. The provision relating to limitation of interest deduction in respect of debt issued by a non-resident associated enterprise would not apply where the expenditure by way of interest or similar nature is –
- (a) Rs.2.10 crore
 - (b) Rs.2 crore
 - (c) Rs.1.50 crore
 - (d) Rs.1 crore
8. Benefit of presumptive taxation under the Income-tax Act, 1961 would not be available to Akash, a non- resident, in A.Y. 2019-20, in respect of the related Indian income, if he is engaged in the business of –
- (a) Operation of ships
 - (b) Operation of Aircraft
 - (c) Civil construction in connection with an approved turnkey project
 - (d) Plying, hiring or leasing of goods carriages
9. X Ltd., a company engaged in the business of manufacturing, paid Rs.2 lakh to IISc, Bangalore (an approved and notified institution) for scientific research. It also incurred capital expenditure (except building) of Rs.12 lakh (including cost of acquisition of land Rs.5 lakh) on in-house research and development facility as approved by the prescribed authority. The deduction under section 35 for A.Y.2019-20 would be
- (a) Rs.9,00,000
 - (b) Rs.13,50,000
 - (c) Rs.14,00,000
 - (d) Rs.10,00,000

10. Samraat, resident in India, has earned an income of Rs.4 lakh by way of lump sum consideration for copyright of a book, being a work on literary from a publisher in Country E, with which India does not have a DTAA. The same has been taxed at a flat rate of 5% in Country E. In India, his gross total income is Rs.7 lakhs. The double taxation relief available is
- (a) Rs.20,000
 - (b) Rs.7,725
 - (c) Rs.1,931
 - (d) Rs.1,950
11. The total turnover of Sunshine Ltd. during the financial year 2017-18 was Rs.10 crore. It is liable to get its accounts audited u/s 44AB of the Income-tax Act, 1961 by 30.09.2018. However, due to some disputes between the directors, process of audit of accounts u/s 44AB will not be completed by 30.09.2018. Directors of the company have approached you to know the consequences of not complying with the provisions of Section 44AB. Which of the following are the consequences of the said non-compliance?
- (a) Fine may be charged, which shall be lower of Rs.1,50,000/- or 0.5% of the total turnover.
 - (b) Penalty may be charged, which shall be lower of Rs.1,50,000/- or 0.5% of the total turnover.
 - (c) Fine as per option (a) and imprisonment of directors responsible for the non-compliance.
 - (d) Penalty as per option (b) and imprisonment of directors responsible for the non-compliance.
12. 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
13. In case of Reema & Sons, a partnership firm, assessment proceedings were completed by the Assessing Officer u/s 148 of the Income-tax Act, 1961 at a total income of Rs.2,50,000 for A.Y. 2016- 17. Aggrieved by the assessment order, the Assessee preferred an appeal before CIT(A) which also confirmed the action of the Assessing Officer and provided no relief to the Assessee. Thereafter, the Assessee is desirous of filing an appeal against the order of the CIT(A) before the Hon'ble ITAT. Guide him regarding the amount of fee that is required to be paid by him in respect of the appeal to be filed before ITAT.

(a) Rs.500 (b) Rs.1,500 (c) Rs.2,500 (d) Rs.10,000

14. A notified infrastructure debt fund eligible for exemption under section 10(47) of the Income-tax Act, 1961 pays interest of Rs.5 lakhs to a company incorporated in a foreign country. The foreign company incurred expenditure of Rs.12,000 for earning such interest. The fund also pays interest of Rs.3 lakhs to Mr. Frank, who is a resident of Country A, a notified jurisdictional area. Which of the following statements are correct?
- (a) No tax deduction at source is required in respect of both the payments.
 - (b) No TDS is required in respect of payment of Rs.5 lakhs to the foreign company. However payment of interest to Frank attracts [TDS@31.2%](#)
 - (c) TDS@5.20% is attracted on Rs.4,88,000 to the foreign company. TDS@31.2% is attracted on interest payment of Rs.3 lakhs to Mr. Frank
 - (d) TDS@5.20% is attracted on interest payment of Rs.5 lakhs to the foreign company. TDS@31.2% is attracted on interest payment of Rs.3 lakhs to Mr. Frank
15. A search u/s 132 of the Income-tax Act, 1961 was carried out in the case of Mr. M on 20.12.2016. During the course of search, the assessee admitted the additional income of Rs.50 crore as additional sales for the financial year 2016-17. While filing his return of income in response to notice u/s 153A, M did not declare the said income. Determine the amount of penalty excluding surcharge and cess to be payable by M in respect of the said undisclosed income.
- (a) Rs.5 crore
 - (b) Rs.10 crore
 - (c) Rs.15 crore
 - (d) Rs.30 crore
16. At the time of computation of taxable income of Star Pvt. Ltd., its tax consultant found that the company won a lottery of Rs.5 crore on 20.12.2018. Apart from the lottery receipt, there were no other receipts in the hands of the company during the year 2018-19. The company follows mercantile system of accounting. The tax consultant was of the view that the income of the company for A.Y. 2019-20 shall be computed as per the provisions of ICDS IV which deals with Revenue Recognition. In light of these facts, which of the following statements is true?
- (a) The view of the tax consultant is correct as for computing the business income or income from other sources, any revenue is to be recognized as per the provisions of ICDS IV.
 - (b) The view of the tax consultant is incorrect as ICDS IV is not applicable on recognition of lottery receipts.
 - (c) The view of the tax consultant is correct as for any person following mercantile system of accounting, all ICDS are to be mandatorily followed for computing income.
 - (d) The view of the tax consultant is incorrect as ICDS are not applicable for FY 2018-19.
17. M/s Beautiful Homes, an interior decorator proprietorship concern, submitted the following details of three years immediately preceding the P.Y. 2018-19.

Previous Year	Gross Receipts	Income from Profession	Total Income
2015-16	Rs. 1,39,000	Rs. 91,000	Rs. 3,10,000
2016-17	Rs. 2,02,000	Rs. 1,35,000	Rs. 4,07,000
2017-18	Rs. 3,85,000	Rs. 2,49,000	Rs. 6,83,000

Comment upon the applicability of section 44AA and Rule 6F regarding the maintenance of books of account and documents for P. Y. 2018-19

- (a) The assessee is required to maintain books of account as per section 44AA(1) as interior decorator is a notified profession and consequentially under Rule 6F also
- (b) The assessee is not required to maintain books of account as per section 44AA(1) and hence not covered under Rule 6F
- (c) The assessee is required to maintain books of account as per section 44AA(1), but, is exempted under Rule 6F since his gross receipts do not exceed Rs.1,50,000 in P.Y. 2015-16
- (d) Rule 6F shall be applicable, even though assessee does not meet the criteria for gross receipts/income from business/total income, as the case may be, as per section 44AA

18. P is a salaried employee. On 01.06.2018, he gets a gift of house property situated in Mumbai (stamp duty value Rs.80,00,000) from Q. On 02.08.2018, P gets a gift of house property in Pune (Stamp duty value Rs. 50,000) from R. On 03.09.2018, P also gets a gift of house property in Delhi from R, the stamp duty value of which is Rs.1,00,000. What will be the tax implications in the hands of P, Q and R.

- (a) Rs.81,00,000 shall be chargeable to tax in the hands of P as income from other sources and capital gains shall arise in the hands of Q and R respectively on account of transfer of capital asset.
- (b) Rs.81,50,000 shall be chargeable to tax in the hands of P as income from other sources and capital gains shall arise in the hands of Q and R respectively on account of transfer of capital asset
- (c) Rs.81,00,000 shall be chargeable to tax in the hands of P as income from other sources and no capital gains shall arise in the hands of Q and R respectively as gift does not constitute "transfer".
- (d) Rs.81,50,000 shall be chargeable to tax in the hands of P as income from other sources and no capital gains shall arise in the hands of Q and R respectively as gift does not constitute "transfer".

19. Mr. Hari has income of Rs.52 lakhs under the head "Profits and gains of business or profession". One of his businesses is eligible for deduction @100% of profits under section 80-IB for A.Y. 2019-20. The profit from such business included in the business income is Rs.20 lakhs. The tax payable by Mr. Hari (rounded off), assuming that he has no other income during the P.Y.2018-19, is –

- (a) Rs.8,03,400
- (b) Rs.10,89,950
- (c) Rs.9,90,860
- (d) Rs.11,00,530

20. If an Indian company has entered into an advance pricing agreement (APA) in respect of its international transaction with associated enterprise for the P.Y. 2018-19. The company decides to make an application for roll back of the said APA. However, rollback provision shall not be available in respect of the said transaction for a rollback year, if –

- (i) Such application has the effect of reducing total income declared in the return of income of the said year
- (ii) Determination of the arm's length price of the said transaction for the said year has been the subject matter of appeal before Commissioner (Appeals) and the Commissioner (Appeals) has passed an order disposing of such appeal at any time before signing of the agreement
- (iii) Determination of the arm's length price of the said transaction for the said year has been the subject matter of appeal before Appellate Tribunal and the Appellate Tribunal has passed an order disposing of such appeal at any time before signing of the agreement
- (iv) Return of income for the relevant rollback year has been furnished by the company under section 139(4)

The most appropriate answer is –

- (a) (i) and (ii) above
- (b) (i) and (iii) above
- (c) (i), (ii) and (iv) above
- (d) (i), (iii) and (iv) above

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

QUESTION : 1

Mr. Gopal, aged 50 years, is a resident individual having income from the following sources:

- (i) Income from a sole-proprietary business in Pune Rs. 75 lakhs.
- (ii) Share of profit from a partnership firm in Mumbai Rs. 25 lakhs.
- (iii) Agricultural Income (gross) from tea gardens in Country G, a foreign country with which India has no DTAA, CGD 45000. Withholding Tax on the above income CGD 9,000
- (iv) Brought forward business loss of F.Y.2015-16 in Country G was CGD 5,000 which is not permitted to be set off against other income as per the laws of that country.
- (v) Mr. Gopal has deposited Rs. 1,50,000 in public provident fund and paid medical insurance premium of Rs. 28,000 by account payee cheque to insure the health of himself and his wife.

Compute total income and tax liability of Mr. Gopal for the A.Y. 2019-20,
assuming that 1 CGD = Rs. 70.

(14 MARKS)

QUESTION : 2

- A. M/s. HIG, a firm, consisting of three partners namely, H, I and G, carried on the business of purchase and sale of television sets in wholesale and manufacture and sale of pens under a deed of partnership executed on 1.4.2012. H, I and G were partners in their individual capacity.

The deed of partnership provided for payment of salary amounting to Rs. 1,25,000 each to H and G, who were the working partners. A new deed of partnership was executed on 1.10.2018 which, apart from providing for payment of salary to the two working partners as mentioned in the deed of partnership executed on 1.4.2012, for the first time provided for payment of simple interest @ 12% per annum on the balances standing to the credit of the Capital accounts of partners from 1.4.2018.

The firm was dissolved on 31.3.2019 and the capital assets of the firm were distributed among the partners on 20.4.2019. The net profit of the firm for the year ended 31.3.2019 after payment of salary to the working partners and debit / credit of the following items to the profit and loss Account was Rs. 1,50,000:

- (i) Interest amounting to Rs. 1,00,000 paid to the partners on the balances standing to the credit of their capital accounts from 1.4.2018 to 31.3.2019
- (ii) Interest amounting to Rs. 50,000 paid to the partners on the balances standing to the credit of their current accounts from 1.4.2018 to 31.3.2019
- (iii) Interest amounting to Rs. 20,000 paid to the Hindu undivided family of partner H @ 18% per annum.
- (iv) Payment of Rs. 25,000 towards purchase of television sets made by crossed cheque on 1.11.2018.
- (v) Rs. 30,000 being the value of gold jewellery received as gift from a manufacturer for achieving sales target.
- (vi) Depreciation amounting to Rs. 15,000 on motor car bought and used exclusively for business purposes, but not registered in the name of the firm.
- (vii) Depreciation under section 32(1)(ii) amounting to Rs. 37,500 of new machinery bought and installed for manufacture of pens on 1.11.2018 at a cost of Rs. 5,00,000.
- (viii) Interest amounting to Rs. 25,000 received from bank on fixed deposits made out of surplus funds.

The firm furnishes the following information relating to it :

- (a) Closing stock – in – trade was valued at Rs. 60,000 as per the method of lower of cost or net realizable value consistently followed by it. The net realizable value of the closing stock – in – trade was Rs. 65,000.
- (b) Brought forward business loss relating to the assessment year 2018 – 19 was Rs. 50,000.
- (c) The fair market value of the capital assets as on 31.3.2019 was Rs. 20,00,000 and the cost of their acquisition was Rs. 15,00,000.

Compute the total income of M/s. HIG for the assessment year 2019 – 20.

You are **required to furnish explanations** for the treatment of the various items given above.

(10 MARKS)

- B. Mr. Sakshat, a non-resident, made an application to the Authority for Advance Rulings on 3.7.2018 in relation to a transaction proposed to be undertaken by him. On 10.8.2018, he decides to withdraw the said application. **Can he withdraw the application on 10.8.2018? Examine.** (4 MARKS)

QUESTION : 3

- A. Mr. Thomas, aged 65 years, is a resident and ordinarily resident in India for the A.Y. 2019 – 20. He owns a house property in Abu Dhabi, which he purchased on 1.2.2010, and he also has a bank account in the Bank of Abu Dhabi.
- (a) Mr. Thomas contends that since his total income of Rs. 2,95,000 for the P.Y. 2018 – 19, comprising of Income from house property and bank interest, is less than the basic exemption limit, he need not file his return of income for A.Y. 2019 – 20.
- (b) Mr. Thomas also contends that the notice issued by the Assessing Officer under section 148 in April, 2019 for A.Y. 2010 – 11 is not valid due to the following reasons –
- (i) There is no escaped income relating to that year ; and
- (ii) The time period prescribed in section 149 for issuing notice under section 148 for A.Y. 2010 – 11 has since lapsed.

Discuss the correctness of the above contentions of Mr. Thomas.

(8 MARKS)

- B. Examine the following transactions and discuss whether the transfer price declared by the following assessee, who have exercised a valid option for application of safe harbour rules, can be accepted by Income-tax authorities - Mercury Ltd., an Indian company, provided data processing services to Venus Inc., which is a specified foreign company in relation to Mercury Ltd. The aggregate value of such international transactions entered into in the P.Y.2018 - 19 is Rs. 105 crores. It declared an operating profit margin of Rs. 16 crores. Its operating expenses were Rs. 80 crores.

(6 MARKS)

QUESTION : 4

- A. Mr. Garib gave loan to Mr. Amir of Rs. 15,000 on 1st May, 2018 through account payee cheque and another Rs. 17,000 on 4th January, 2019 in cash.

Mr. Amir has repaid Rs. 16,500 towards Principal & Interest against first loan through bearer cheque on 4th July, 2019 and Rs. 18,500 on towards Principal & Interest against second loan through A/c. payee draft on 25th January, 2020.

Discuss the violation of Income Tax Provision if any and consequential penalty for each transaction. Will it make any difference if loan was given on joint name with Ms. Aiyashi, sister of Mr. Amir, while repaying back in cash or bearer in cash or bearer cheque ?

(5 MARKS)

- B. The assessment of Mr. Hari for A.Y. 2011 – 12 was made on 28.3.2013 making on addition of Rs. 3,25,000 for a certain income received during the P.Y. 2010 – 11. The assessee contested the addition before Commissioner (Appeals) but lost the case. The Appellate Tribunal passed an order on 26.2.2018 holding that the said income was not taxable in the P.Y. 2010 – 11 but the same was taxable in the year of accrual, being P.Y. 2005 – 06 relevant to A.Y. 2006 – 07. The Assessing Officer issued notice under

section 148 for A.Y. 2006 – 07 in March 2018 bringing to tax the sum of Rs. 3,25,000. **Is the notice valid ?**

Would your answer change if in the said case, the assessment order for A.Y. 2011 – 12 was made on 4.4.2013 instead of 28.3.2013 ?

(5 MARKS)

- C. An Income-tax authority did not file an appeal to the Income-tax Appellate Tribunal against an order of the Commissioner (Appeals) decided against the Income-tax department on a particular issue in case of one assessee, Bela for assessment year 2018-19 on the ground that the tax effect of such dispute was less than the monetary limit prescribed by CBDT. In assessment year 2019-20, similar issue arose in the assessments of Bela and her sister Tara, which was decided by the Commissioner (Appeals) against the Department. **Can the Income-tax department move an appeal to the Tribunal in respect of A.Y. 2019-20** against the orders of the Commissioner (Appeals) for Bela and her sister Tara?

(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. Which action plan of BEPS requires introduction of Limitation of Benefits clause in a tax treaty? Has India introduced Limitation of Benefits clause in its tax treaties in line with the BEPS Action Plan? Discuss.

(5 MARKS)

QUESTION : 6

- A. The following are the particulars of Healthcare Trust relevant for the previous year ended 31st March, 2019. Healthcare Trust running hospitals is registered under section 12AA.
- Income from running of hospitals Rs.108 lakhs.
 - Income from medical college (gross receipts Rs.95 lakhs) Rs.24 lakhs
 - Donation received (including anonymous donation Rs.3 lakhs) Rs.8 lakhs.

- d. Amount applied for the purposes of hospital Rs.93.50 lakhs.
- e. The trust had accumulated Rs.20 lakhs under section 11(2) in the financial year 2012-13 for a period of five years for extension of one of its hospitals. The trust has spent Rs.15 lakhs for the said purpose till 31st March, 2018. No amount was spent in the year 2018 -19.

You are required to **compute taxable income and tax liability of the trust for A.Y.2019-20.**

(8 MARKS)

B. Discuss and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31st March, 2019.

- (i) On 17.6.2018, a commission of Rs. 50,000 was retained by the consignee 'ABC Packaging Ltd.' and not remitted to the consignor 'XYZ Developers.', while remitting the sale consideration. Examine the obligation of the consignor to deduct tax at source.
- (ii) Mr. S won a motor car in a lucky draw held by 'P' marketing. The market price of car was Rs. 4,00,000. P marketing erroneously gave the car to Mr. S without deducting tax at source. Examine the liability of P marketing to make such payment, if any.

(6 MARKS)