



FINAL CA – May 2018
DIRECT TAXATION

Test Code – F50
Branch: MULTIPLE Date: 04.02.2018

(50 Marks)

Note: All questions are compulsory.

Question 1 (10 marks)

Viraj Exports Limited, a domestic company, earned profit of ₹ 95 lakhs as per statement of Profit and Loss for the year ended 31.03.2018, after debiting or crediting the following items:

- | | | |
|---|--|-----------|
| (i) Items debited to statement of profit and loss : | | |
| (a) Provision for Income-tax (including interest of ₹ 50,000) | | 5,00,000 |
| (b) Sales tax liability | | 70,000 |
| (c) Depreciation | | 4,00,000 |
| (d) Interest to financial institutions unpaid before due date of filing of return of income | | 1,20,000 |
| (e) Reserves for currency exchange fluctuation | | 1,30,000 |
| (f) Penalty for infraction of law | | 60,000 |
| (ii) Items credited to statement of profit and loss: | | |
| (a) Dividend received on investment in Indian companies | | 1,40,000 |
| (b) Long term profit on sale of rural agricultural land | | 10,00,000 |
| (c) Profit on unit established in SEZ | | 8,00,000 |
| (d) Net agricultural income | | 6,00,000 |
| (e) Royalty received from patents developed and registered in India | | 40,00,000 |

Other Information:

- Depreciation as per the Income-tax Act, 1961 ₹ 3,50,000.
- Depreciation (as per books) includes ₹ 1,90,000 on account of revaluation of assets.
- Interest on borrowed capital ₹ 1,00,000 payable to Y, not debited to profit and loss account.
- Profit and Loss account in balance sheet on the assets side as at 31.03.2018 was ₹ 4,70,000 which included unabsorbed depreciation of ₹ 4,10,000.
- The company is an eligible assessee as per the provisions of section 115BBF of the Income-tax Act, 1961.

Compute the minimum alternate tax under section 115JB of the Income-tax Act, 1961.

Question 2 (5 marks)

Atlant Italy, a company incorporated in France, was engaged in manufacture, trade and supply equipment and services for GSM Cellular Radio Telephones Systems. It supplied hardware and software to various entities in India. Software licensed by assessee embodied the process which is required to control and manage the specific set of activities involved in the business use of its customers. Software was also made available to its customers, who used it to carry out their business activities. The Assessing Officer contented that the consideration for supply of software embedded in hardware is 'royalty' under section 9(1)(vi).
Examine the correctness of the action of the Assessing Officer.

Question 3 (4 marks)

Mr. Manas is a distributor of lottery tickets. He won 600000 as prize money on unsold lottery tickets. It was offered as business income. The assessing officer wants to tax the same as lottery winning at the rate prescribed under section 115BB. Is he justified?

Question 4 (5 marks)

In the context of transfer pricing provisions, read with rules, what are the factors to be considered while selecting the most appropriate method?

Question 5 (6 marks)

During the previous year 2017-18, Ms. Indu, a citizen of India is a resident of both India and a foreign country with which India has a Double Tax Avoidance Agreement (DTAA), which provides that "the income would be taxable in country where it is earned and not in other country, but would be included for computation of tax rate in such other country". Her income is ` 3,25,000 from business in India and ` 6,00,000 from business in foreign country. In foreign country, the rate of tax is 20%. During the year, she paid a premium of ` 32,000 to insure the health of her mother, a non-resident, aged 82 years, not dependent on her, through her credit card.

- (i) Compute the tax payable by Ms. Indu in India for the A.Y. 2018-19.
- (ii) Also, show the tax payable by Ms. Indu in India, had there been no DTAA with such foreign country.

Question 6 (4 marks)

A shareholder of a demerged Indian company receives shares from the resulting company in the scheme of demerger. The shareholder wants to transfer the said shares received subsequent to the demerger for a consideration. Your advice is sought on the tax consequence as to the shares received on demerger and sought to be transferred. Discuss.

Question 6 (6 marks)

M/s. XYZ commenced the business of manufacturing iron rods on 1st April, 2017. It had employed 200 workmen during the year which included the following:

Workman	No. of persons	Salary per month (in `)
Casual Labour	50	5,000
Workmen employed through contractor	25	7,500
Skilled labour	50	12,500
Semi-skilled labour	50	6,000
Skilled labour employed from 01-10-2015	25	12,500

Compute deduction available to M/s. XYZ if the profits derived during the financial year 2017-18 is ` 100 lakhs.

Question 7 (10 marks)

PQR LLP, a limited liability partnership set up a unit in Special Economic Zone (SEZ) in the financial year 2013-14 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2016-17, it has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ` 75 lakhs (including cost of land ` 10 lakhs). The warehouse became operational with effect from 1st April, 2017 and the expenditure of ` 75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2017-18 are as follows:

Particulars	`
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD).	1,05,00,000

Compute income tax (including AMT under Section 115JC) payable by PQR LLP for Assessment Year 2018-19.
