



FINAL CA – May 2018 DIRECT TAXATION

Test Code – F43
Branch: MULTIPLE Date: 28.01.2018

(50 Marks)

Note: All questions are compulsory.

Question 1 (4 marks)

D, an individual, filed his return of income for the assessment year 2018 -19, erroneously offering for taxation, interest received from notified Relief Bonds exempt under section 10(15), in the said return. The Assessing Officer completed the assessment under section 143(3) on 20.12.2018 accepting the income returned by D. D had furnished complete particulars relating to the interest income in the return of income. D approaches you for advice regarding the steps to be taken to secure exemption of the income. Advise D about the various remedies available under the Income -tax Act, 1961 for the redressal of his grievance.

Question 2 (6 marks)

Is it valid to rectify an assessment order under section 154 due to subsequent change of law on retrospective basis? Also, state whether a supreme court judgement would warrant a rectification under section 154 in respect of an order passed earlier by the assessing officer

Question 3 (10 marks)

Alpha Ltd. has two industrial undertakings. Unit 1 is engaged in the production of television sets and unit 2 is engaged in the production of refrigerators. The company has, as part of its restructuring program, decided to sell unit 2 as a going concern, by way of slump sale for ₹ 300 lakhs to a new company called Beta Ltd., in which it holds 85% equity shares. The following are extracted from the balance sheet of Alpha Ltd. as on 31st March, 2018:

	₹ in lakhs)	
	Unit-1	Unit-2
Fixed assets	112	158
Debtors	88	68
Inventories	85	22
Liabilities	33	65

	₹ in lakhs)
Paid-up share capital	231
General Reserve	160
Share premium	39
Revaluation reserve	105

The company had set up unit 2 on 1st April, 2012. The written down value of the block of fixed assets for tax purpose as on 31st March, 2018 is ₹ 130 lakhs out of which ₹ 75 lakhs are attributable to Unit 2.

(i) Determine what would be the tax liability of Alpha Ltd. on account of this slump sale;

(ii) How can the restructuring plan of Alpha Ltd. be modified, without changing the

amount of consideration, in order to make it more tax efficient?

Question 4 (16 marks)

Statement of Profit & Loss of BM Private Ltd., a resident company engaged in manufacturing, shows net profit of ₹ 90,00,000 for the financial year ended on 31st March, 2018 after debit/credit of the following items.

A. Credited to the Statement of Profit and Loss:

- (i) Rent received from vacant land ₹ 1,20,000
- (ii) Rent received (gross) from a commercial property owned by the company ₹ 2,50,000 (Tax deducted by tenant @ 10%)
- (iii) Interest received on income tax refund ₹ 1,00,000
- (iv) Profit on sale of unused land ₹

10,00,000. B. Debited to the Statement of Profit

and Loss:

- (i) Depreciation charged to the Statement of Profit and Loss ₹ 12,00,000.
- (ii) Donation of ₹ 1,00,000 paid to Swachh Bharat Kosh.
- (a) Contribution to Political Party amounting to ₹ 2,00,000 paid in cash.
- (b) Payment made to transporter ₹ 1,00,000 by account payee cheque, but no tax has been deducted at source. (Transporter is having PAN and furnished declaration that he is covered under section 44AE and not having more than 10 goods carriages at any time during the previous year).
- (c) Bonus to employees ₹ 2,00,000 provided. However, payment was made on the occasion of Diwali festival on 18th October, 2018.
- (d) Provision made for income tax ₹ 3,00,000 (including interest of ₹ 50,000 thereon)
- (e) Contribution of ₹ 1,00,000 to a University approved and notified under section 35(1)(ii)
- (f) Loss of ₹ 2,50,000 incurred by way of trading in futures and options (derivatives) in stocks in a recognized stock exchange.

Additional information:

- (i) Depreciation as per Income-tax Act, 1961 ₹ 20,00,000. However, while calculating such depreciation, rate applicable to computers has been adopted for (i) accessories like printers and scanners, and (ii) EPABX. The written down value of these items as on 01.04.2017 is given below:

Printers and Scanners ₹ 3,00,000

EPABX ₹ 5,00,000

- (ii) Additional depreciation on plant and machinery purchased for ₹ 20,00,000 on 15th October, 2017 has not been considered while calculating depreciation as per Income-tax Act, 1961 as above.
- (iii) Provision for audit fee ₹ 1,00,000 was made in the books for the year ended on 31st March, 2017 without deducting tax at source.

Such fee was paid to auditors in September 2017 after deducting tax at source under Section 194J and tax so deducted was deposited on 6th October, 2017.

- (iv) The company during the financial year 2014-15 made a provision for an outstanding bill of ₹ 1,00,000 for purchase of raw material. Out of such outstanding amount, the company has paid ₹ 50,000 in cash on 15th September, 2017.
 - (v) During the year, the company has issued 1,00,000 equity shares of face value of ₹ 10 each at premium of ₹ 90 each. The fair market value is ₹ 60 per share at the time of issue of shares.
 - (vi) Unused land which was sold during the year for ₹ 50,00,000 was acquired by the company in the financial year 2013-14 for ₹ 40,00,000.
- (7) Cost Inflation Index – FY 2013-14: 220; FY 2017-18: 272

Compute total income of the company for the Assessment Year 2018-19 stating reasons for treatment of each item. Ignore provisions relating to Minimum Alternate Tax.

Question 5 (10 marks)

KDS Realty Trust., a business trust registered under SEBI (Real Estate Investment Trusts) Regulations, 2014 provides the following particulars of its income for the previous year 2017-18:

- (i) Rental income ₹ 3 crore, from the directly owned real estate assets;
- (ii) Short term capital gain ₹ 1.5 crore, on sale of listed shares of Brahma Ltd., an Indian company in which KDS Realty Trust holds controlling interest through holding 60% of the shareholding of Brahma Ltd.
- (iii) Short term capital gain ₹ 2 crore, on sale of development properties;
- (iv) Interest ₹ 1 crore, received from investments in unlisted debentures of real estate companies;
- (v) Dividend ₹ 3.5 crore from Brahma Ltd.

Other Information:

KDS Realty Trust has distributed ₹ 10 crore to its unit holders in the previous year 2017-18.

Discuss the tax implications (including TDS implications) based on the above income earned by KDS Realty Trust, both in the hands of KDS Realty Trust and its unit holders in the previous year 2017-18.

Question 6 (4 marks)

An advance ruling can become void. Discuss.
