

- NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.
(2) NEW QUESTION SHOULD BE ON NEW PAGE

Division A – Multiple Choice Questions

M.C.Q no. 1 to 10 carries 1 mark each

M.C.Q no. 11 to 20 carries 2 marks each

A business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the P.Y.2019-20:

- (i) Interest income from Z Ltd. – Rs. 10 lakh;
- (ii) Dividend income from Z Ltd. – Rs. 5 lakh;
- (iii) Short-term capital gains on sale of listed shares (STT paid both at the time of purchase and sale) of Indian companies – Rs. 4 lakh;
- (iv) Short-term capital gains on sale of developmental properties – Rs. 8 lakh
- (v) Interest received from investments in unlisted debentures of real estate companies – Rs. 1 lakh;
- (vi) Rental income from directly owned real estate assets – Rs. 20 lakh

Z Ltd. is an Indian company in which the business trust holds 100% of the shareholding.

Assume that the business trust has distributed the entire Rs. 48 lakh to the unit holders in the P.Y. 2019-20. Mr. X is a resident holder holding 100 units and Mr. Y is a non-resident holder holding 500 units. The total number of units subscribed to by all unit holders is 5,000.

Answer the following questions from question no.1 to 5 based on above case scenario

1. In respect of the component of interest income from Z Ltd. distributed by the business trust to unit-holders X and Y -
 - (a) No tax is deductible by the business trust, since such income is not taxable in the hands of unit holders.
 - (b) Tax is deductible@5% on Rs. 20,000 distributed to Mr. X and @5.2% on Rs. 1 lakh distributed to Mr. Y
 - (c) Tax is deductible@10% on Rs. 20,000 distributed to Mr. X and @5.2% on Rs. 1 lakh distributed to Mr. Y
 - (d) Tax is deductible@5% on Rs. 20,000 distributed to Mr. X and 10.4% on Rs. 1 lakh distributed to Mr. Y
2. In respect of short-term capital gains of Rs. 4 lakh on sale of listed shares of Indian companies and Rs. 8 lakh on sale of developmental properties -
 - (a) The business trust is liable to pay tax@15.6% and 31.2%, respectively
 - (b) The business trust is liable to pay tax@42.744%.

- (c) The business trust enjoys pass through status and hence, it need not pay any tax on such short-term capital gains; such income is subject to tax in the hands of unit-holders.
- (d) The business trust is liable to pay tax@15.6% and 42.744%, respectively.
3. The dividend component of income from Z Ltd., distributed to unit-holders -
- (a) would be subject to distribution tax in the hands of Z Ltd., hence exempt in the hands of the business trust and the unit holders.
- (b) is exempt in the hands of the business trust, and consequently, would be subject to tax in the hands of the unit holders
- (c) would be exempt from distribution tax in the hands of Z Ltd., and hence taxable in the hands of the business trust.
- (d) would be exempt from distribution tax in the hands of Z Ltd., and not taxable either in the hands of the business trust or in the hands of the unit holders.
4. Interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be -
- (a) Subject to tax in the hands of the unit holders
- (b) Subject to tax in the hands of the business trust@31.2%
- (c) Subject to tax in the hands of the business trust @42.744%
- (d) Subject to tax in the hands of the business trust at the average rate of tax
5. The rental component of income from real estate assets recived by the business trust and distributed to its unit holders X and Y would be –
- (a) Subject to tax in the hands of the business trust@42.744%
- (b) Subject to tax in the hands of the business trust@31.2%
- (c) Subject to tax in the hands of the unit-holder X@10% (on Rs. 40,000) and Y@ the rates in force (on Rs. 2,00,000); such tax has to be deducted at source by the business trust.
- (d) Subject to tax in the hands of the unit-holders X and Y; business trust has to deduct tax@10% on Rs. 40,000 distributed to X and at the rates in force on Rs. 2,00,000 distributed to Y.
6. Under which of the following methods, arm's length price shall be the arithmetical mean of all values included in the dataset, irrespective of the number of entries in the dataset. It may be assumed that the variation between the arm's length price computed and the transaction price is 5%.
- (a) Profit split method (b) Resale price method
- (c) Cost plus method (d) Transactional net margin method
7. The assessment of M/s. Epsilon Associates for A.Y.2018-19 was made u/s 143(3) on 28th July, 2020. The Assessing Officer added Rs. 3 lakh being 30% of Rs. 10 lakh, for non-deduction of tax at source and Rs. 4 lakh on account of unexplained investments. The assessee contested the addition on account of unexplained investments in appeal before Commissioner (Appeals). The appeal was decided against the assessee in December, 2020. What is remedy available to the assessee in respect of disallowance under section 40(a)?

- (a) The assessee can file an application for revision to the Commissioner under section 264
- (b) The assessee can file an application for rectification under section 154, if it is a mistake apparent from the record.
- (c) The assessee can opt for either (a) or (b)
- (d) The assessee can neither opt for remedy stated in (a) nor remedy stated in (b)
8. In the P.Y.2019-20, Mr. Ganguly, a resident individual aged 60 years, earned income from profession (computed) Rs. 1,45,000, winnings from card games Rs. 1,50,000 (gross). He also has interest of Rs. 40,000 on fixed deposit with banks and Rs. 9,000 on savings bank account with banks. He deposited Rs. 1,50,000 in PPF. What is the total income of Mr. Ganguly for P.Y.2019-20?
- (a) Rs. 1,45,000
- (b) Rs. 1,50,000
- (c) Rs. 1,85,000
- (d) Rs. 1,90,000
9. During the P.Y.2019-20, Mr. Aakash has Rs. 80 lakhs of short-term capital gains taxable u/s 111A, Rs. 70 lakhs of long-term capital gains taxable u/s 112A and business income of Rs. 90 lakhs. Which of the following statements is correct?
- (a) Surcharge@25% is leviable on income-tax computed on total income of Rs. 2.40 crore, since the total income exceeds Rs. 2 crore.
- (b) Surcharge@15% is leviable on income-tax computed on total income of Rs. 2.40 crore
- (c) Surcharge@15% is leviable in respect of income-tax computed on capital gains of Rs. 1.50 crore, since such income exceeds Rs. 1 crore but is less than Rs. 2 crore; in respect of business income of Rs. 90 lakhs, surcharge is leviable@25% on income-tax, since the total income exceeds Rs. 2 crore.
- (d) Surcharge@15% is leviable in respect of income-tax computed on capital gains of Rs. 1.50 crore, since such income exceeds Rs. 1 crore but is less than Rs. 2 crore; in respect of business income of Rs. 90 lakhs, surcharge is leviable@10% on income-tax, since such income exceeds Rs. 50 lakhs but is less than Rs. 1 crore.
10. Mr. X made a fixed deposit of Rs. 12,000 with a non – banking finance company (NBFC) on 1.4.2019 in cash. Thereafter, he made another fixed deposit of Rs. 7,500 with the same NBFC on 1.8.2019 by bearer cheque. On 31.3.2020, he made yet another fixed deposit of Rs. 8,000 with the same NBFC by an account payee cheque. Which of the following statements are correct?
- (a) Penalty under section 271D is attracted at the time of acceptance of first deposit on 1.4.2019.
- (b) Penalty under section 271D is attracted at the time of acceptance of second deposit on 1.8.2019

- (c) Penalty under section 271D is attracted at the time of acceptance of third deposit on 31.03.2020
- (d) Penalty under section 271D is not attracted.
11. Mr. Sanjay, a salaried individual, pays brokerage of Rs. 40 lakhs on 5.1.2020 to buy a residential house. His father, Mr. Hari, a retired pensioner, makes contract payments of Rs. 15 lakhs, Rs. 25 lakhs and Rs. 12 lakhs on 28.9.2019, 3.11.2019 and 15.2.2020 for reconstruction of residential house. With respect to the above payments made by Mr. Sanjay and Mr. Hari, which of the following statements is correct?
- (a) Neither Mr. Sanjay nor Mr. Hari is required to deduct tax at source, since they are not subject to tax audit, on account of being a salaried individual and pensioner, respectively.
- (b) Both Mr. Sanjay and Mr. Hari are required to deduct tax at source under the provisions of the Income-tax Act, even though they are not subject to tax audit.
- (c) Mr. Sanjay is required to deduct tax at source but Mr. Hari is not required to deduct tax at source.
- (d) Mr. Hari is required to deduct tax at source but Mr. Sanjay is not required to deduct tax at source.
12. Mr. A, aged 59 years, won Rs. 60 lakh and Mr. B, aged 50 years, won Rs. 8 lakh from lotteries. Tax deductible at source under section 194B was duly deducted. Assuming that this is the only source of income of Mr. A and Mr. B for A.Y.2020-21, are Mr. A and Mr. B liable to pay advance tax for that year?
- (a) No, Mr. A and Mr. B are not liable to pay advance tax as tax deductible at source under section 194B has been fully deducted.
- (b) Yes, Mr. A and Mr. B are liable to pay advance tax on the balance tax liability arising out of levy of higher education cess.
- (c) Mr. A is liable to pay advance tax but Mr. B is not liable to pay advance tax
- (d) Mr. B is liable to pay advance tax but Mr. A is not liable to pay advance tax
13. Mr. Rajesh, a resident Indian, is an employee of M/s. ABC Ltd., Bangalore. In addition to the salary income from M/s. ABC Ltd., he also earns interest from fixed deposits. M/s. PQR Inc., a foreign company not having permanent establishment in India, rendered online advertisement services to Mr. Rajesh, for which Mr. Rajesh made a payment of Rs. 2 lakhs in the F.Y.2018-19. Which of the statements is correct?
- (a) The transaction is subject to equalisation levy since payment exceeding Rs. 1 lakh has been made for online advertisement services by a resident to a non-resident not having permanent establishment in India.
- (b) Equalisation levy@6% has to be deducted from the consideration of Rs. 2 lakhs payable to M/s. PQR Inc.
- (c) Both (a) and (b)
- (d) The transaction is not subject to equalisation levy

14. Mr. Rajesh and Mr. Brijesh, resident individuals, received Rs. 12 lakhs each on 31.3.2020 on maturity of life insurance policy taken on 31.3.2012 and 1.4.2012, respectively, the sum assured of which is Rs. 10 lakhs. They had paid an annual premium of Rs. 1.10 lakhs each. Are provisions of tax deduction at source attracted on maturity proceeds received by Mr. Rajesh and Mr. Brijesh?

(a) Yes; Tax is deductible at source on maturity proceeds received by both Mr. Rajesh and Mr. Brijesh, since the annual premium is more than Rs. 1,00,000, being 10% of Rs. 10 lakhs.

(b) No; Tax is not deductible at source on maturity proceeds received by either Mr. Rajesh or Mr. Brijesh, since the annual premium is less than Rs. 1,20,000, being 10% of Rs. 12 lakhs

(c) No tax is deductible at source on maturity proceeds received by Mr. Rajesh. Tax is deductible at source on maturity proceeds received by Mr. Brijesh and the tax deductible at source is Rs. 12,000

(d) No tax is deductible at source on maturity proceeds received by Mr. Rajesh. Tax is deductible at source on maturity proceeds received by Mr. Brijesh and the tax deductible at source is Rs.16,000.

15. Mr. Ram Mohan, a non - resident, operates an aircraft between Malaysia and Cochin. He received the following amounts while carrying on the business of operation of aircrafts for the year ended 31.3.2020:

- (i) Rs. 2 crores in India on account of carriage of passengers from Cochin.
- (ii) Rs. 1 crore in India on account of carriage of goods from Cochin.
- (iii) Rs. 3 crores in India on account of carriage of passengers from Malaysia.
- (iv) Rs. 0.50 crore in Malaysia on account of carriage of passengers from Cochin.
- (v) Rs. 1.30 crores in Malaysia on account of carriage of passengers from Malaysia.
- (vi) Rs. 1.20 crore in Malaysia on account of carriage of goods from Malaysia.
- (vii) Rs. 0.50 crore in Malaysia on account of carriage of goods from Cochin.

The total expenditure incurred by Mr. Ram Mohan for the purposes of the business during the year ending 31.3.2020 was Rs. 3 crores. What is the income of Mr. Ram Mohan chargeable to tax in India under the head "Profits and gains of business or profession" for the A.Y.2020-21?

- (a) Rs. 35 lakh
- (b) Rs. 30 lakh
- (c) Rs. 20 lakh
- (d) Rs. 47.50 lakh

16. Mr. Sanjay, a resident, and Mr. Andrew, a British citizen and a non-resident in India, are both sports commentators deriving income of Rs. 5 lakh from sports commentaries in India for A.Y. 2020-21.

- (i) Tax is deductible u/s 194J from remuneration payable to Mr. Sanjay
- (ii) Tax is deductible u/s 194E from remuneration payable to Mr. Andrew
- (iii) Tax is deductible u/s 195 from remuneration payable to Mr. Andrew

- (iv) Mr. Andrew is not required to file his return of income u/s 139, if tax deductible at source is fully deducted.
- (v) Mr. Sanjay is not required to file his return of income u/s 139, if tax deductible at source is fully deducted.

Which of the above statements are correct, assuming that this is the only source of income for Mr. Sanjay and Mr. Andrew ?

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

17. Kaveri Ltd. is an Indian Company in which Andes Inc., a Country A company holds 30% shareholding and voting power. During the previous year 2016-17, the Indian company supplied computers to the Country A based company @CAD 2200 per piece. The price of computer supplied to other unrelated parties in Country A is @CAD 2500 per piece. During the course of assessment proceedings relating to A.Y.2017-18, the Assessing Officer carried out primary adjustments and added a sum of Rs. 138 lakhs, being the difference between actual price of computer and arm's length price for 500 pieces and it was duly accepted by the assessee. The Assessing Officer passed the order, in which the primary adjustments were made, on 1.7.2019. On account of this adjustment, the excess money of Rs. 138 lakhs is available with Andes Inc, Country A. What would be the effect of this transaction while computing the total income of Kaveri Ltd. for the assessment year 2020-21, assuming that –

- (i) Kaveri Ltd. declared an income of Rs. 220 lakhs;
- (ii) the excess money is still lying with Andes Inc. till today,
- (iii) Kaveri Ltd. has not opted to pay additional income-tax on such excess money not repatriated; and
- (iv) the rate of exchange is 1 CAD = Rs. 92 and the six-month LIBOR as on 30.9.2019 is 10%. [CAD stands for Country A Dollars, which is the currency of Country A] –

- (a) Interest of Rs. 13.80 lakhs would be added to the total income of Kaveri Ltd
- (b) Interest of Rs. 13.455 lakhs would be added to the total income of Kaveri Ltd.
- (c) Interest of Rs. 10.35 lakhs would be added to the total income of Kaveri Ltd.
- (d) Interest of Rs. 8.97 lakhs would be added to the total income of Kaveri Ltd.

18. A Inc. and B Inc., incorporated in Country A and Country B, respectively, whose place of effective management is also in the said countries, are engaged in the business of operation of ships and aircraft, respectively. The details of receipts etc. during the P.Y.2019-20 are as follows –

Particulars	A Inc.	B Inc.
Amount paid/payable in Mumbai on account of carriage of passengers:		
Shipped from Mumbai port to port in Country A	Rs. 20 lakhs	
From Mumbai airport to airport in Country B		Rs. 15 lakhs
Amount paid/payable in Country A/B on account of carriage of passengers:		
Shipped from Mumbai port to port in Country A	Rs. 5 lakhs	
From Mumbai airport to airport in Country B		Rs. 4 lakhs
Amount received/deemed to be received in India on account of carriage of passengers:		
Shipped from port in Country A to Mumbai port	Rs. 7 lakhs	
From airport in Country B to Mumbai airport		Rs. 8 lakhs
Amount received/deemed to be received in Country A/B on account of carriage of passengers:		
Shipped from port in Country A to Mumbai port	Rs. 22 lakhs	
From airport in Country B to Mumbai airport		Rs. 18 lakhs
Profit (pertaining to Indian operations) computed as per books of account maintained by A Inc. and B Inc., after providing the deductions under the Income-tax Act, 1961	Rs. 2.20 lakhs	Rs.1.20 lakhs

The profits and gains of business of A Inc. and B Inc. chargeable to tax in India under the Income-tax Act, 1961 for A.Y.2020-21 is –

- a. Rs. 2.20 lakhs and Rs. 1.20 lakhs, respectively, provided the books of accounts are audited under section 44AB of the Income-tax Act, 1961
 - b. Rs. 2.025 lakhs and Rs. 1.15 lakhs, respectively
 - c. Rs. 2.40 lakhs and Rs. 1.35 lakhs, respectively
 - d. Rs. 2.70 lakhs and Rs. 3.375 lakhs, respectively
19. An investment fund's income for A.Y.2020-21 comprised of the following components: business income Rs. 5 crore and capital loss Rs. 3 crore. All the unit holders of the investment fund have held units in the investment fund for more than 12 months. What would be the tax treatment?
- (a) Business income of Rs. 5 crore is taxable in the hands of the investment fund. The capital loss of Rs. 3 crore has to be carried forward by the investment fund.

- (b) Business income of Rs. 5 crore is taxable in the hands of the unit-holders. Capital loss of Rs. 3 crore can be carried forward only by the unit holders.
- (c) Business income of Rs. 5 crore is taxable in the hands of the investment fund. The capital loss of Rs. 3 crore cannot be carried forward by either the investment or the unit holders.
- (d) Business income of Rs. 5 crore is taxable in the hands of the investment fund. Capital loss of Rs. 3 crore can be carried forward only by the unit holders.
20. Alpha Ltd., an Indian company, provides contract R & D services relating to generic pharmaceutical drug, to Beta Inc., a Swiss company which guarantees 17% of the total borrowings of Alpha Ltd. The aggregate value of such transactions entered into in the P.Y.2019-20 is Rs. 40 crores and the operating expenses are Rs. 30 crores. Assuming that Alpha Ltd. has exercised a valid option for application of safe harbour rules, what is the minimum operating profit margin to be declared by it, which can be accepted by the income-tax authorities?
- (a) Rs. 5.4 crores
- (b) Rs. 6.30 crores
- (c) Rs. 7.20 crores
- (d) Rs. 9.60 crores

Division B – Descriptive Questions

Question No. 1 is compulsory

Attempt any four questions from the remaining five questions

QUESTION NO.1

Lambda Ltd. is engaged in the manufacture of fabrics since 01-04-2012. Its Statement of Profit and Loss for the previous year ended 31st March, 2020 shows a profit of Rs. 750 lakhs after debiting or crediting the following items:

- (a) Depreciation charged on the basis of useful life of assets as per Companies Act is Rs. 52 Lakhs.
- (b) Industrial power tariff concession of Rs. 4.80 lakhs, received from Maharashtra State Government was credited to Statement of profit and loss.
- (c) The company had provided Rs. 18 lakhs being sum fairly estimated as payable with reasonable certainty, to workers on agreement to be entered with the workers union towards periodical wage revision once in every three years.
- (d) Dividend received from a US company Rs. 12 Lakhs.
- (e) Loss Rs. 17 lakhs, due to destruction of a machine worth Rs. 24 lakhs by fire due to short circuit and Rs. 3 lakh received as scrap value. The insurance company did not admit the claim of the company on charge of gross negligence.
- (f) Provision for gratuity based on actuarial valuation was Rs. 320 lakhs. Actual gratuity paid debited to gratuity provision account was Rs. 180 lakhs.
- (g) The company has purchased 1000 bales of raw cotton at a price of Rs. 20,000 per bale from M/s. Omicron, a firm in which majority of the directors of Lambda Ltd. are partners. The firm's normal selling price of the same material in market is Rs. 18,000 per bale.

- (h) Advertisement charges Rs. 2.30 lakhs, paid by cheque for advertisement published in the souvenir of a political party registered with the Election Commission of India.
- (i) Long term capital gain Rs. 3 lakhs on sale of equity shares on which Securities Transaction Tax (STT) was paid at the time of acquisition and sale.

Additional Information:

- (i) Normal depreciation computed as per Income-tax Rules is Rs. 71 lakhs.
- (ii) GST Rs. 8 lakhs collected from its customers was paid by the company on the due dates. On an appeal, the High Court directed the GST department to refund Rs. 3 lakhs to the company. The company in turn refunded Rs. 2 lakhs to the customers from whom it was collected and the balance Rs. 1 lakh is still lying under the head "Current Liabilities".

Compute the total income of Lambda Ltd. for the A.Y. 2020 -21 by analyzing and applying the relevant provisions of income-tax law. Briefly explain the reasons for treatment of each item. Ignore the provisions relating to Minimum Alternate Tax. Assume that the company has not opted for section 115BAA.

(14 MARKS)

QUESTION NO.2

- A. Helpage is a charitable trust set up on 1.4.2010 with the object of providing relief of the poor. Later on, in April, 2012, it changed its object to medical relief. It applied for registration on the basis of its new object, i.e., medical relief, on 1.9.2012 and was granted registration on 1.2.2013.

On 1.4.2019, Helpage got merged with M/s. Medicare (P) Ltd, a pharmaceutical company not entitled for registration under section 12AA. All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. Medicare (P) Ltd. The trust appointed a registered valuer for the valuation of its assets and liabilities. From the following particulars (including the valuation report), calculate the tax liability in the hands of the trust arising as a result of such merger:

(i) **Land**

Location	Date of purchase	Stamp duty value on 1.4.2019	Value which the land would fetch, if sold in the open market on 1.4.2019	Book Value on 1.4.2019
		Rs.	Rs.	Rs.
Noida	1.9.2010	55 lakhs	58 lakhs	50 lakhs
Gurgaon	1.9.2013	100 lakhs	120 lakhs	110 lakhs

(ii) Shares

Type of shares	Date of purchase	Face value of each share	Purchase price of each share	Price at which each share is quoted on BSE as on 1.4.2019		Open market value as on 1.4.2019 #
				Highest price	Lowest price	
		Rs.	Rs.	Rs.	Rs.	Rs.
5000 Quoted equity shares of A Ltd.	1.5.2014	100	110	320	300	
2000 Preference shares of B Ltd.	1.9.2015	100	100	-	-	180

on the basis of report of Merchant Banker

(iii) Liabilities

Book value of liabilities on 1.4.2019 = Rs. 120 lakhs. This includes –

- (a) Corpus fund Rs. 12 Lakhs.
- (b) Provision for taxation Rs. 8 lakhs; and
- (c) Reserves and Surplus Rs. 18 lakhs

(8 MARKS)

B. Poullomi, a chartered accountant, is presently working in a firm in India. She has received an offer for the post of Chief Financial Officer from a company at Singapore. As per the offer letter, she should join the company at any time between 1st September, 2019 and 31st October, 2019. She approaches you for your **advice on the following issues to mitigate her tax liability in India :**

- (i) Date by which she should leave India to join the company :
- (ii) Direct company to credit of part of her salary to her bank account in Kolkata maintained jointly with her mother to meet requirements of her family.
- (iii) Period for which she should stay in India when she comes on leave.

(6 MARKS)

QUESTION NO.3

A. **Discuss the TDS/TCS implication** if any, for the following transactions. What is the amount payable to the payee :

- (i) X is a bookmaker and Mr. Y is a punter. On 22.01.2020, B has won Rs. 50,000 in Horse Race 1 and suffered a loss of Rs. 20,000 in Horse Race 2.
- (ii) Mr. Santosh has let out his house property on a monthly rent of Rs. 60,000 from 15.01.2020 to Mrs. Preeti.

- (iii) H. Ltd. a manufacturer of luxury cars sold 50 cars on 01.09.2019 to NMP Ltd. its dealer, each car cost Rs. 20 lakhs.
- (iv) AKL Ltd. a third – party administrator on behalf of an Insurance Company has settled medical bills of Rs. 5,00,000 submitted by Kay Hospitals Ltd. from a patient under a cashless scheme.

(8 MARKS)

- B. What are the differences between the OECD Model Convention and UN Model Convention in relation to the article on Permanent Establishment? Examine.

(6 MARKS)

QUESTION NO.4

- A. **Discuss the taxability or otherwise of the following transactions :**

- (i) Mr. A purchased 10 acres of agricultural land from Mr. B at the rate of Rs. 2 lakh per acre on 10.05. 2019. The guideline value of the land on the date of the transaction was Rs. 3 lakhs per acre. However, he had entered into an agreement for purchase of the land on 10.03.2019 when the guideline value was Rs. 2.20 lakhs per acre. He had paid a token advance of Rs. 1 lakh by account payee cheque.
- (ii) Mr. A received cash gift of Rs. 4.75 lakhs from B on the occasion of his 61st birthday which was celebrated like marriage as per tradition, and Rs. 25,000 from C. Both B and C are his distant relatives.
- (iii) Mr. Dileep contributed Rs. 2 lakhs to a Trust created for the purpose of marriage of his friend's daughter.

(Note : Guide line value means Assessable stamp duty value)

(8 MARKS)

- B. **Examine with reasons whether the two enterprises referred to in the independent situations given below can be deemed to be associated enterprises under the Indian transfer pricing regulations:**

- (i) Kingston Inc, a US company having its place of effective management also in the USA, has advanced a loan equivalent to Rs. 130 crores to Ganga Ltd., an Indian company on 10-4-2019. The total book value of assets of Ganga Ltd. is Rs. 250 crores. The market value of the assets, however, is Rs. 300 crores. Ganga Ltd. repaid Rs. 22 crores before 31-3-2020.
- (ii) Charles plc., a UK company having its place of effective management also in the UK, has the power to appoint 4 of the directors of Andes Ltd, an Indian company, whose total number of directors in the Board is 9.
- (iii) Total value of raw materials and consumables of Kaveri Ltd., an Indian company, is Rs. 720 crores. Of this, supplies to the tune of Rs. 650 crores are by Aurubis GmbH, a German company having its place of effective management in Germany, at prices and terms decided by the German company.

(6 MARKS)

QUESTION NO.5

- A. ABC Limited was amalgamated with XYZ Limited on 01.04.2019. All the conditions of section 2(1B) were satisfied. ABC Limited has the following carried forward losses as assessed till the Assessment Year 2019-20:

	Particulars	Rs. (in lacs)
(i)	Speculative Loss	4
(ii)	Unabsorbed Depreciation	18
(iii)	Unabsorbed expenditure of capital nature on scientific research	2
(iv)	Business Loss	120

XYZ Limited has computed a profit of Rs. 140 lacs for the financial year 2019-20 before setting off the eligible losses of ABC Limited but after providing depreciation at 15% per annum on Rs. 150 lacs, being the consideration at which plant and machinery were transferred to XYZ Limited. The written down value as per Income-tax record of ABC Limited as on 1st April, 2019 was Rs. 100 lacs.

The above profit of XYZ Limited includes speculative profit of Rs. 10 lacs.

Compute the total income of XYZ Limited for Assessment Year 2020-21 and indicate the losses/ other allowances to be carried forward by it.

(8 MARKS)

- B. Mr. Anil, aged 49 years, a resident individual furnishes the following particulars of income earned by him in India and Country N for the previous year 2019 -20. India does not have a double taxation avoidance agreement (DTAA) with Country N.

Particulars	Amount (Rs.)
Income from profession carried on in Mumbai	8,50,000
Agricultural Income in Country N	1,30,000
Dividend from a company incorporated in Country N	85,000
Royalty income from a literary book from Country N	6,25,000
Expenses incurred for earning royalty	75,000
Business loss in Country N	1,10,000

The domestic tax laws of Country N does not permit set-off of business loss against any other income. The rate of income-tax in Country N is 18%. Compute total income and tax payable by Mr. Anil in India for A.Y. 2020-21, assuming that he satisfies all conditions for the purpose of section 91.

(6 MARKS)

QUESTION NO.6

- A. M/s. A Ltd. has received a notice under section 148 for the Assessment Year 2016 - 17 on 02.02.2020. They also anticipate similar notices for the Assessment Year 2014 – 15 and 2015 – 16 for which they have already furnished return of income. On examination of the books of account produced, you have noticed huge amounts of concealed income. As a consultant, what is your advice to A Ltd. ?

(4 MARKS)

- B. Alpha 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. 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)

- C. Examine the following cases and state whether the same are liable for penalty as per the provisions of the Income-tax Act, 1961.

- (I) Harish & Associates had made payment in excess of the limits prescribed to the contractors for carrying out labour job work at various sites, but had not deducted tax at source as per section 194C.
- (II) Sunshine Hotels were asked by Income-tax Officer (CIB) to furnish details of all such tourists who stayed in their hotels and had paid bill amount in excess of Rs. 10,000. They have not furnished the requisite information in spite of various reminders.

(4 MARKS)

- D. Explain section 278C applicable in respect of offences committed by Hindu undivided families.

(2 MARKS)