

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Question in Division A, working notes are not required. All questions relate to Assessment Year 2020-21, unless stated otherwise in the question.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Mr. Prince aged 62 years leaves India for 1st time during the previous year 2019-20 on 7th April 2019 and didn't visit India during the year. He is engaged in business of growing and manufacturing tea in India. He earns profit of ₹ 10,00,000 during the year. Mr Prince owns house property outside India from which he earns rental income of ₹ 20,00,000 during the year which is credited to his bank account in India. He earns income from savings account maintain with bank in India amounting to ₹ 6,500.

From the information given above, choose the most appropriate answer to the following questions – (5 x 2 Marks = 10 Marks)

- (i) Determine his residential status during the PY 2019-20
- (a) Resident and ordinarily resident
 - (b) Resident but not ordinarily resident
 - (c) Non resident
 - (d) Data not sufficient
- (ii) Calculate Net total income of Mr. Prince during the year
- | | |
|---------------|---------------|
| (a) 18,00,000 | (b) 18,06,500 |
| (c) 24,06,500 | (d) 24,00,000 |
- (iii) Agriculture income is exempt u/s
- | | |
|------------|------------|
| (a) 10(20) | (b) 10(2A) |
| (b) 10(5) | (d) 10(1) |

(iv) Calculate final tax payable during the year

- (a) 4,50,000 (b) 4,68,000
(c) 5,32,500 (d) 5,53,800

(v) What will be the tax liability of Mr Prince if he is engaged in business of growing & curing coffee.

- (a) 4,50,000 (b) 4,68,000
(c) 5,32,500 (d) 5,53,800

2. In respect of any payment made to a person located in a Notified Jurisdictional Area (NJA), tax is deductible at higher of the rate specified in the Income-tax Act 1961 or rates in force or -

- (a) 10% (b) 15%
(c) 20% (d) 30%

(2 Marks)

3. M/s KD & Co pays interest to the partner's Karan & Dhawal amounting to ₹ 40,000 & ₹ 30,000 respectively. Mr Karan is resident in India during the PY whereas residential status of Mr Dhawal is non-resident. What will be the TDS implications from the point of view of Firm.

- (a) Firm is not required to deduct TDS
(b) Firm is not required to deduct TDS on Interest payment to Mr Karan whereas it is required to deduct TDS on interest payment to Mr Dhawal
(c) Firm is not required to deduct TDS on Interest payment to Mr Dhawal whereas it is required to deduct TDS on interest payment to Mr Karan
(d) Firm is required to deduct TDS on Interest payment to Mr Karan & Mr Dhawal

(2 Marks)

4. The excess money determined because of primary adjustments is required to be repatriated within the stipulated time and if not done so, then, the same is treated as an advance subject to charge of interest; where the international transaction is denominated in Indian currency the rate of interest to be charged on such advance amount shall be at LIBOR as on 30th September of the relevant previous year plus:-

- (a) 3.25% (b) 3%
(c) 2.75% (d) 2%

(2 Marks)

5. On the subject of BEPS Action Plans, match the BEPS Action Plans given in Column A with the description/examples given in Column B and choose the correct option:

(i)	Action Plan 1	(I)	Controlled Foreign Corporation Rules not incorporated in the Income-tax law
(ii)	Action Plan 2	(II)	Limitation of interest deduction incorporated in the Income-tax Act, 1961
(iii)	Action Plan 6	(III)	Special tax regime incorporated in the Income-tax Act, 1961 for taxation of royalty income from patents developed and registered in India
(iv)	Action Plan 4	(IV)	Limitation of Benefits Clause incorporated in select tax treaties for taxing capital gains on transfer of shares of an Indian company
		(V)	CBC Reporting requirement incorporated in the Income-tax Act, 1961
		(VI)	Preventing artificial avoidance of PE
		(VII)	Equalisation Levy introduced in Indian tax regime.
		(VIII)	Hybrid Mis Match arrangements

- (a) (i)→(VIII) (ii)→(V) (iii)→(IV) (iv)→(VII)
 (b) (i)→(III) (ii)→(I) (iii)→(V) (iv)→(II)
 (c) (i)→(VII) (ii)→(VIII) (iii)→(IV) (iv)→(II)
 (d) (i)→(III) (ii)→(V) (iii)→(VIII) (iv)→(IV)

(2 Marks)

6. Mr. S (aged 50 years), a Non-resident commentator, has earned income from cricket tournaments in India for Assessment Year 2020-21. What are the TDS provisions applicable while making payment to him?

- (a) TDS @ 20.8% as per section 194E
 (b) TDS @ 5.2% as per section 194E
 (c) TDS under section 195
 (d) No tax is deductible at source

(2 Marks)

7. Transfer pricing provisions apply to the Specified Domestic Transactions exceeding the following threshold
- (a) ₹ 20 crore (b) ₹ 10 crore
(c) ₹ 3.5 crore (d) ₹ 1 crore
- (1 Mark)**
8. The trigger of GAAR provisions may result in the following:
- (a) Characterization of debt into equity
(b) Denial of benefit of DTAA
(c) Disregarding the form of a transaction
(d) All of the above
- (1 Mark)**
9. Equalization levy shall be levied if:
- (a) Non-Resident rendering specified services has PE in India and services are effectively connected to PE.
(b) The aggregate consideration for specified services payable during the PY does not exceed 100,000.
(c) Where specified service is not for the purpose of carrying out any business or profession.
(d) Where Non-Resident rendering specified services has no PE in India.
- (2 Marks)**
10. Composition of AAR is as under:
- (a) A Chairman, Vice-Chairman and Revenue Member
(b) A Chairman, Vice-Chairman and Law Member
(c) A Chairman and such number of Vice-Chairman, Revenue Members and Law Members as the Central Government may, by notification, appoint.
(d) Chairman, Vice-Chairman, Law Member and Revenue Member
- (2 Marks)**
11. Mr Vishal aged 83 years earns income from winnings amounting to ₹ 4,00,000 during the year. He has no other income. Calculate his tax liability.
- (a) Nil (b) 1,11,800
(c) 1,24,800 (d) 1,20,000
- (2 Marks)**
12. Mr Ashish (Resident) aged 65 years earns interest on savings account ₹ 9,000, Interest on FD ₹ 40,000 & Interest of recurring deposit 30,000. Calculate his total income?
- (a) 29,000 (b) Nil
(c) 19,000 (d) 70,000
- (2 Marks)**

Division B – Descriptive Questions**Question No. 1 is compulsory****Attempt any four questions from the remaining five questions**

Q.1 Varun Co. Ltd. is engaged in the business of manufacture of chemicals since June, 2005. The Statement of Profit and Loss for the year ended 31.03.2020 shows a Net Profit of ₹ 35,60,000 and aggregate turnover which never exceeded ₹ 25 crores. The following additional information is provided:

- (a) Depreciation debited in the books ₹ 19,40,000 (it includes depreciation on revalued plant and machinery of ₹ 3,00,000). Amount of depreciation deductible under Income-tax Rules ₹ 13,15,000.
- (b) Interest payable to financial institutions ₹ 5,20,000 debited in the books but ₹ 3,90,000 was actually paid during the previous year and up to the date of filing the return of income u/s 139(1).
- (c) Provision for doubtful debts ₹ 8 lakhs being 5% on debtors debited to Statement of Profit and Loss.
- (d) Expenditure towards issue of bonus shares ₹ 2 lakhs and alteration of memorandum of association for increasing the authorized capital ₹ 1 lakh. Both have been debited in the books as expenditure.
- (e) Purchase of raw material for manufacture by making cash payment on 15.08.2019 ₹ 60,000 and on 26.01.2020 ₹ 40,000. Also, cash payments of ₹ 50,000 made for purchases of the previous year 2018-2019 on 03.05.2019.
- (f) Contract payments made during the year ₹ 5,10,000 to ABC Ltd., Chennai. Tax was not deducted at source in respect of the payments of ₹ 1,50,000.
- (g) Dividend from subsidiary company credited to Statement of Profit and Loss ₹ 90,000.
- (h) Provision for taxation ₹ 2 lakhs and proposed dividend ₹ 80,000 debited to Statement of Profit and Loss.

Compute Total income and tax liability as per regular provision and u/s 115JB (MAT Provision) for the assessment year 2020-21.

Note: You have to deal with each and every item given above and provide brief reasons for treatment given.

(14 Marks)

Q.2 (a) Mr Sagar aged 40 years purchases house property worth ₹ 40,00,000 during PY 2003-04. Mr Sagar had taken a loan under registered mortgage deed against the house during the PY 2007-08. On death of Mr Sagar during PY 2015-2016 property is transferred to his wife Deepika as per his will. To obtain the clear title of the property Deepika paid the outstanding amount of loan on 14.04.2015 of 14,00,000. The property is transferred during the previous year 2019-20 for 2,00,00,000. Stamp duty value of property is 2,50,00,000 on the date of transfer. Value determined by Valuation Officer is 2,25,00,000. Calculate tax payable by Deepika during the PY 2019-2020. She has no other income during the year. She pays Mediclaim Insurance premium during the year amounting to ₹ 40,000 during the year.

Cost Inflation	Index
2003-04	109
2007-08	129
2015-16	254
2019-20	289

(6 Marks)

(b) Discuss, with reasons, whether the following statements are correct:
Mahesh, a resident and ordinarily resident in India and having a house property and a bank account outside India, is not required to file return of income for Assessment Year 2020-21, if his total income is below the maximum amount not liable to tax.

(2 Marks)

(c) The Assessing Officer accepted the returned income filed by RL Ltd. for a particular assessment year. However, the Assessing Officer initiated reassessment proceeding under section 147 as he had reason to believe that the income had escaped assessment due to claim and allowance of club fees, gifts and presents and provision for leave encashment and accordingly, he issued notice under section 148. However, after sufficient enquiries made by him, he came to the conclusion that no additions were required on account of these expenses. But instead he made additions on account of disallowances under section 14A and section 40(a)(ia) in respect of other expenses which were not the original "reason to believe" and passed his reassessment order under section 147. The Assessing Officer is of the opinion that Explanation 3 to section 147 permits him to assess the income which has escaped assessment and which comes to his notice subsequently in the course of proceeding under section 147, even though the said issues were not part of the reasons recorded in the notice under section 148. Is the action of the Assessing Officer valid?

(6 Marks)

Q.3 (a) Mr S, a resident Indian, has derived the following incomes for the previous year 2019-20

Particulars	₹
Income from Profession	5,00,000
Rent from house property in country X let out from 01.07.2019	10,000 per month
Municipal taxes paid	1,000 per month
Taxes paid in country X	7,800
Royalty on books from Country Y	10,00,000
Expenses incurred to earn Royalty Income	2,00,000
Income earned from Country Z which is not taxed in because of exemption provided under tax laws of Country Z	40,000

Note

1. Rent received in country X is fully taxable. No deduction is allowed for Municipal taxes or any other expenses
 2. India doesn't have DTAA with Country X, Y & Z.
 3. Expenses incurred to earn royalty income were allowed as deduction.
 4. Tax paid in country Y = 30%
 5. Tax rate applicable in country Z is 15% on all taxable Incomes.
- Compute tax payable in India.

(8 Marks)

(b) Explain meaning of specified service under the chapter of equalisation levy & the threshold limit for levy of same?

(3 Marks)

(c) List down the circumstances under in which authority of advance ruling will reject the application of assessee?

(3 Marks)

Q.4. (a) Assessment of Bhajan Ltd. was completed under section 143(3) with an addition of ₹ 15 lakhs to the returned income. The assessee-company preferred appeal before the Commissioner (Appeals) which is pending now.

In this backdrop, answer the following:

- (i) Based on fresh information that there was escapement of income for the same assessment year, can the Assessing Officer initiate reassessment proceedings when the appeal is pending before Commissioner (Appeals)?
- (ii) Can the Assessing Officer pass an order under section 154 for rectification of mistake in respect of issues not being subject matter of appeal?
- (iii) Can the assessee-company seek revision under section 264 in respect of matters other than those preferred in appeal?
- (iv) Can the Commissioner make a revision under section 263 both in respect of matters covered in appeal and other matters?

(8 Marks)

(b) Does the tax borne by employer on behalf of employee in respect of provision of nonmonetary perquisites constitute an income in the hands of employee? What are the tax implications of such payment in the hands of employer?

(2 Marks)

(c) NBR Medical Equipment's Inc. (NBR) of Canada has received an order from a leading UK based Hospital for development of a hi-tech medical equipment which will integrate the best of software and latest medical examination tool to meet varied requirements. The order was for 3,00,000 Euros. To execute the order, NBR joined hands with its subsidiary Precision Components Inc. (PCI) of USA and Bioinformatics India Ltd (BIL), an Indian Company. PCI holds 30% of BIL. NBR paid to PCI and BIL Euro 90,000 and Euro 1,00,000 respectively and kept the balance for itself. In the entire transaction, a profit of Euro 1,00,000 is earned. Bioinformatics India Ltd incurred a Total Cost of Euro 80,000 in execution of its work in the above contract. The relative contribution of NBR, PCI and BIL may be taken at 30%, 30% and 40% respectively. Compute the Arm's Length Price and the incremental Total Income of Bioinformatics India Ltd, if any due to adopting Arm's Length Price determined here under.

(4 Marks)

Q.5 (a) M/s. Harilal Industries, a partnership firm, submits the following profit and loss account for computation of its business income for the assessment year 2020-21:

Profit and loss account for the year ending 31.03.2020

Expenses	₹	Income	₹
To Salaries	4,23,000	By Gross Profit	7,47,3000
“ Rent	32,000	By Dividend from UTI	8,000
“ Printing & Stationery	5,600		
“ Telephone	3,700		
“ Conveyance	21,000		
“ Travelling	14,000		
“ Interest	72,000		
“ Depreciation	27,000		
“ Legal Fees	15,000		
“ Audit Fees	18,000		
“ PF Contribution	24,000		
“ Net Profit	1,00,000		
Total	7,55,300	Total	7,55,300

Additional information:

- (i) Salaries include ₹ 1,50,000 paid to working partner A and ₹ 1,00,000 to working partner B. (authorized by the partnership deed)
- (ii) Interest paid includes ₹ 54,000, being interest paid on loan given by partner B at the rate of 18% simple interest authorised by the partnership deed.
- (iii) Out of provident fund contribution debited to profit and loss account, ₹ 10,000 remains outstanding beyond the ‘due date’ of filing of return specified in section 139(1).
- (iv) The firm purchased goods by issuing account payee drafts except in the case of one bill for ₹ 80,000 for which payment has been made by cash. This has been debited to trading account as part of purchases.

(8 Marks)

(b) What are the consequences of not collecting tax at source (TCS) in respect of sale of scrap by a manufacturing company? State the circumstances under which the TCS provisions are not applicable in the above case.

(6 Marks)

Q.6 (a) X & Co Ltd. had made an application to the Settlement Commission. The issue in the said application related to cash credits in the books of account. The Commission passed an order making addition to the income on the basis of difference in gross profit rate adopted, which was neither an issue in the application nor in the report of the Commissioner of Income-tax. Discuss the validity of the order of the Settlement Commission.

(7 Marks)

(b) Maitri Jeans (P) Ltd. is in the business of manufacturing jeans. For the assessment year 2020- 21, it paid tax @ 15% on its book profit computed under section 115JB. The Assessing Officer though satisfied that it is liable to pay book profit tax U/s. 115JB, wants to charge interest under sections 234B and 234C as no advance tax was paid during the financial year 2019-20.

The company seeks your opinion on the proposed levy of interest. Advice.

(7 Marks)