

FINAL EXAMINATION

December 2023

P-16(DTI)  
Syllabus 2016

DIRECT TAX LAWS AND INTERNATIONAL TAXATION

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.  
Wherever required, the candidate may make suitable assumptions and  
state them clearly in the answers.*

*Working notes should form part of the relevant answers.*

*All questions relate to the Income-tax Act, 1961. All the questions relate to  
Assessment Year 2023-24, unless otherwise stated.*

*Answer to Question No. 1 which is compulsory and any five from  
Question No. 2 to Question No. 8.*

Section-A

1. Choose the most appropriate alternative and give justification in brief/brief working for your answer:

2×10=20

- (i) Royalty of ₹ 10 lakhs received by a foreign company from an Indian concern in pursuance of an agreement approved by the Central Government in the previous year 2022-23. How much is the income tax payable on royalty income for A.Y. 2023-24?
- (A) ₹ 2,08,000  
(B) ₹ 1,04,000  
(C) ₹ 52,000  
(D) ₹ 1,56,000
- (ii) Foreign Institutional Investor or a Qualified Foreign Investor made investments in municipal debt securities for which interest of ₹ 5,00,000 is payable. TDS to be deducted on such interest payments is
- (A) TDS u/s 194LC of ₹ 52,000  
(B) TDS u/s 194LD of ₹ 52,000  
(C) TDS u/s 194LC of ₹ 26,000  
(D) TDS u/s 194LD of ₹ 26,000

(iii) In the course of search operation under section 132 in May, 2022, Mr. Venkat makes a declaration under section 132(4) on the earning of income in respect of P.Y. 2022-2023 not disclosed in the books of accounts. Mr. Venkat explains the manner in which income was derived and pays the tax, together with interest in respect of such income. However, he does not disclose such income in his return of income filed on 31.07.2023. Is penalty leviable in this case, and if so, what is the quantum of penalty?

- (A) No Penalty is leviable since Mr. Venkat has made a declaration under section 132(4)
- (B) Yes; penalty @ 10% is leviable
- (C) Yes; penalty @ 30% is leviable
- (D) Yes; penalty @ 60% is leviable

(iv) Mr. Ajay (aged 50 year), a US football match referee, has earned income from football tournaments in India for A.Y.2023-2024. Are TDS provisions applicable while making payment to him and if so, under which section?

- (A) Yes, TDS @ 20.8% as per section 194E
- (B) Yes, TDS @ 5.2% as per section 194E
- (C) Yes, TDS under section 195
- (D) No, TDS provision are not applicable

(v) X Ltd. filed its return of income for A.Y.2023-24 on 30th September, 2023. The return is selected for regular assessment under section 143(3). The time limit for service of notice u/s 143(2) in this case is

- (A) 30.06.2024
- (B) 30.09.2024
- (C) 31.12.2024
- (D) 31.03.2025

(3)

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(vi) Kumar Industries is engaged in manufacture of leather products. It was set up in backward area and became eligible for subsidy @ 25% for the generator acquired by it for ₹ 12 lakhs on 15.12.2016. It received the subsidy in March 2017. The amount of depreciation for the year at the applicable rate would be

- (A) Nil
- (B) ₹ 90,000
- (C) ₹ 67,500
- (D) ₹ 1,80,000

(vii) BG (P) Ltd, a resident Indian company, received royalty ₹ 10 lakhs from a resident in India in respect of a patent developed and registered in India. The income-tax payable on the royalty shall be at (ignore cess and surcharge):

- (A) 10%
- (B) 15%
- (C) 20%
- (D) 30%

(viii) Where an APA is entered into by an eligible taxpayer on 13-1-2023, the roll back benefit will extend to which of the given years;

Serial No	Assesment Year	Return of income filed on
1	2022-23	21-3-2023
2	2021-22	14-8-2022
3	2020-21	19-10-2021
4	2019-20	21-2-2019

- (A) 2, 3 and 4
- (B) 1 only
- (C) 1 and 4
- (D) None of the given options

- (ix) Monetary limit of disposing of a case by a single member of ITAT u/s 255(3) is
- (A) ₹ 15 lakh  
(B) ₹ 20 Lakh  
(C) ₹ 50 lakh  
(D) ₹ 65 Lakh
- (x) Benefit of taxation of presumptive income under the Income tax Act, 1961 would not be available to Kabir, a non-resident, in A.Y. 2023-24, 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

**Section-B**

Answer any five questions from Question No. 2 to Question No. 8.

Each question carries 16 marks.

16×5=80

2. (a) The following details are furnished:

Particulars	Mr.X	Mr.Y	A Co Ltd	B Co Ltd
Age	52	63	—	—
Option to pay tax	115BAC	Regular	115BA	115BAA
Income from Business	5,00,000	—	10,00,000	16,00,000
Income from Other sources	2,50,000	12,50,000	1,00,000	2,00,000
Advance tax paid	Nil	50,000	1,50,000	2,00,000
Due date for filing return	31.07.2023	31.07.2023	31.10.2023	31.10.2023
TDS / TCS credit	Nil	10,000	50,000	Nil
Date of filing the return	31.10.2023	31.12.2023	29.08.2023	02.12.2023

Compute interest under sections 234A and 234B payable.

(b) State with reason whether the following acts can be considered as (i) Tax planning; or (ii) Tax management; or (iii) Tax evasion.

(i) Aditya Ltd had to pay ₹ 60 lakh by way of income-tax consequent to scrutiny assessment under section 143(3) completed in May, 2023. It paid the amount of tax demand immediately and filed appeal before CIT (Appeals).

(ii) Julian Ltd contemplating to incorporate a 100% subsidiary company for treating bio degradable waste for generation of power.

(iii) Tohra (age 62) having own funds of ₹ 10 lakhs deposited it in Senior Citizen Savings Scheme and for the purpose of purchase of electric vehicle borrowed money from bank.

(iv) Rishabh Co Ltd selling its goods to Warner Ltd (its subsidiary) @90% of cost to enable Warner Ltd to earn profits. 8

3. MVR Co Ltd is engaged in manufacture of automobile goods for the past 10 years. It has reported a net profit of ₹ 280 lakh in the Statement of Profit and Loss for the year ended 31st March, 2023. It has arrived at the net profit after debit/credit of the following:

(i) Employees' contribution to EPF ₹ 5 lakhs for the month of March, 2023 was deposited on 20.05.2023.

(ii) Employer's contribution to EPF ₹ 6 lakh for the month of March, 2023 was also deposited on 20.05.2023.

(iii) Interest payment on machinery term loan debited ₹ 12 lakh. Interest for the period up to 30th June, 2022 was ₹ 4 lakh and the machinery was put to use from 1st July, 2022.

(iv) Payment made to a contractor ₹ 30 lakh without deduction of tax at source. The contractor has given invoice in which the cost of chemical was stated as ₹ 20 lakh and the balance as labour charges.

(v) A sundry creditor long pending of ₹ 32 lakh was settled through compromise by paying ₹ 26 lakh. The balance amount is credited to Statement of Profit and Loss.

(vi) Provision for gratuity debited ₹ 60 lakh. Actual amount of gratuity paid during the year ₹ 28 lakh.

(vii) Loss from derivatives (STT paid) ₹ 5 lakh.

(viii) ₹ 2 lakh paid by net banking towards advertisement in a souvenir of a political party.

- (ix) Bonus debited ₹ 20 lakh. It represents bonus relating to the financial year 2021-22 ₹ 8 lakh paid on 05.06.2022 and the balance ₹ 12 lakh relates to provision for the financial year 2022-23. The bonus relating to financial year 2022-23 was disbursed in September, 2023.
- (x) Industrial power tariff concession ₹ 6 lakh received from State Government is credited to Statement of Profit and Loss.
- (xi) ₹ 5 lakh was paid to a business consultant for opening a new line of business.
- (xii) Depreciation debited to Statement of Profit and Loss ₹ 70 lakh.

**Additional information:**

- (a) Plant and machinery opening WDV as on 01.04.2022 ₹ 200 lakh. Machinery acquired on 1st April, 2022 for ₹ 36 lakh and which was put to use from 1st July, 2022. Interest on term loan given in (iii) above pertains to machinery acquired during the year.
- (b) Computers acquired on 01.09.2022 for ₹ 30 lakh.
- (c) Depreciation on assets other than (a) and (b) above as per Income-tax Rules, 1962 amounts to ₹ 48 lakh.

Compute the total income of MVR Ltd for the Assessment year 2023-24. Ignore MAT provisions and provisions of section 115BAA. 16

4. (a) State with reasons whether return of income is to be filed in the following cases for the A.Y. 2023-24:
- (i) Mr. Raj, aged 70 years, is a resident and ordinary resident in India for the A.Y. 2023-24. He owns a house property in Dubai, which he purchased on 30.04.2014 and he also has a bank account in the Bank of Dubai. His total income is ₹ 2,80,000 for the previous year 2022-23, comprising of income from house property and bank interest.
- (ii) Mrs. Radha, an Indian resident receives rental income of ₹ 30,000 p.m. from her residential house property. Mrs. Radha purchased a car worth ₹ 28,00,000 (ex-showroom price) on which TCS @ 1% was collected. Mrs. Radha has no other source of income for the previous year 2022-23. 8

(b) Following is the Balance Sheet of Amar (P) Ltd as on 31.03.2022:

Liabilities	Division		Total	Assets	Division		Total
	A	B			A	B	
	₹ in lakhs				₹ in lakhs		
Capital			100.00	Land	10.00	20.00	30.00
General reserve			30.00	Building	30.00	60.00	90.00
Sundry creditors	13.00	27.00	40.00	Stock	25.00	25.00	50.00
Loans			50.00	Debtors	30.00	30.00	60.00
Specific loan	15.00	15.00	30.00	Cash & Bank	5.00	15.00	20.00
			250.00		100.00	150.00	250.00

Note: Capital means share capital which consists of 1 lakh equity shares of ₹ 100 each.

Amar (P) Ltd decided to transfer Division B to Prem (P) Ltd (resulting company) by way of demerger on 01.04.2022. In consideration of the demerger Prem (P) Ltd issued equity shares of 100 each at par to the shareholders of Amar (P) Ltd.

Juhi having 2000 shares in Amar (P) Ltd acquired for ₹ 150 per share in April, 2021 received shares from Prem (P) Ltd. She sold all the shares of Amar (P) Ltd @ ₹ 200 per share and that of Prem (P) Ltd @ ₹ 150 per share in March, 2023.

You are required to compute the capital gain arising in the hands of Juhi for the Assessment year 2023-24. 8

5. (a) Answer the following with reference to applicable legal decisions. Citation is not required.

- (i) A Co Ltd took over a sick company by name X Co Ltd in a scheme of amalgamation in accordance with section 72A of the Income-tax Act. At the time of amalgamation X Co Ltd had accumulated loss of ₹ 3.60 crores. After amalgamation the creditors of erstwhile X Co Ltd waived their claim of interest to the extent of ₹ 1.10 crores. In the assessment, the Assessing Officer adjusted the deemed income under section 41(1) for the amounts waived by the creditors and permitted ₹ 2.50 crores as loss relating to X Co Ltd eligible for set off by A Co Ltd. State whether the deemed income of X Co Ltd would go to reduce its business loss for the purpose of set off by A Co Ltd.

- (ii) John Peter was employed in SCC Ltd as General Manager and retired on 28th February, 2023. His salary income (computed) amounts to ₹ 43,50,000. The employer did not deduct tax at source under section 192 of the Act. Interest under section 234B and section 234C were levied on the assessee. The assessee claims that the tax deduction at source out of salary income is the responsibility of the employer and therefore no interest is leviable. Decide the correctness of the contention of the assessee. 8

(b) Answer the following based on applicable legal provisions:

- (i) Akshay & Co (P) Ltd is engaged in jewellery business. A team of income tax department visited its premises at 11 a.m. on a working day for survey under section 133A. It was a few days before Diwali and the survey team pulled down the shutters of its showroom to stop entry and exit of persons including customers and did counting of physical stock. There was excess stock of gold ornaments weighing 3 Kgs (value ₹ 150 lakhs-approx.). The books of account were checked and the survey team stayed whole day and left the premises on next day morning. The regular business hours are 10 am to 10 pm on all days except Sunday. Based on these facts, answer the following:

- (I) Can the survey team suspend the business of the assessee for the purpose of survey under section 133A?
- (II) Can the survey exercise be extended whole night beyond regular business hours?
- (III) Can the excess stock be seized by the survey team in a survey under section 133A?
- (IV) Can the survey team impound books of account?
- (V) State the income-tax authority competent to authorize a survey under section 133A.

- (ii) Gautam Co Ltd is a manufacturing company covered by section 115BA. It has total income for the year ended 31.03.2023 (computed) ₹ 60 lakhs. The book profit under section 115JB was ₹ 12 lakhs (computed). Calculate tax payable by the company for the assessment year 2023-24 and the amount of tax credit under section 115JAA. 5+3

6. (a) EXE Ltd, Mumbai is an Indian company engaged in manufacture of laptops and computers. 27% of its share capital is held by Trafford Ltd of UK. The total assets of EXE Ltd as on 01.04.2022 was ₹ 600 crores. It borrowed on 1st July, 2022 ₹ 400 crores for interest @ 9% per annum from Middleton Ltd of UK which was guaranteed by Trafford Ltd.

The Net Profit of EXE Ltd for the year ended 31st March, 2023 was ₹ 30 crores after debiting depreciation ₹ 10 crores, provision for taxation ₹ 8 crores and amortization of expenses ₹ 5 crores in addition to interest on loan due to Middleton Ltd.

You are required to state the reason for limiting the interest deduction in the hands of EXE Ltd and compute the amount of interest allowable in the hands of EXE Ltd. State briefly about the allowability of disallowed interest, if any. 8

- (b) Murari (age 43) is a resident individual who has not opted for section 115BAC. He furnishes the following details relating to financial year 2022-23:

	Particulars	₹
(i)	Income from business in India	12,00,000
(ii)	Income from business in Country X Note: Income-tax rate @25% flat without any basic exemption.	8,00,000
(iii)	Income by way of royalty in country Y (TDS 60,000) Note: It is not eligible for deduction under section 80QQB. Tax rate in Country Y @30% without any basic exemption limit	3,00,000
(iv)	Expenses incurred for royalty stated above	1,00,000

India has no DTAA both with Country X and Country Y. Compute total income and tax liability of Murari for the assessment year 2023-24. 8

7. (a) Rancho Inc. having its business in Singapore has advanced a loan of SD 1,50,000 to Rancho Ltd., Bhubaneswar. The book value of total assets of Rancho Ltd. was ₹ 120 lakhs and the market value ₹ 180 lakhs. Rancho Ltd. provides software backup support services to Rancho Inc. Rancho Ltd., has spent 30,000 man hours during the financial year 2022-23 for the services rendered to Rancho Inc. The cost to Rancho Ltd. is SD 80 / man-hour. Rancho Ltd. has billed Rancho Inc. at SD 85 / man-hour.

Macho Ltd. in Bhubaneswar which has a similar business model provides software back support to Beta Inc. in Penang, Malaysia.

Macho Ltd.'s cost and operating profits are as hereunder:

Particulars	Amount (in lakhs)
Direct costs	50
Indirect costs	100
Operating profits	100

(i) Calculate Arm's Length Price for the transaction between Rancho Ltd. and Rancho Inc. based on the above data of Macho Ltd. using the Transactional Net Margin Method. Assume 1 SD = ₹ 55. 8

(ii) Is any adjustment required to be made to the total income of Rancho Ltd 2

Note: SD = Singapore Dollars

(b) Alpha Ltd. is incorporated in Country X. It has a branch situated in Mumbai opened in April 2022. The Indian branch filed its return of income as per section 139 of the Income-tax Act for Assessment Year 2023-2024 disclosing total income of Rs. 75 lakhs. It paid tax @ 30% plus applicable cess as per provision of the double tax avoidance agreement between India and the Country X. The relevant article of DTAA reads as below.

"The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favorably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities in the same circumstances"

However, the Assessing Officer computed tax on the Indian branch at the rate applicable to a foreign company i.e. 40% plus applicable cess.

State whether the action of the Assessing Officer is correct.

6

8. Write short notes on any four of the following:

4×4=16

- (a) Scope of total undisclosed foreign income and asset.
  - (b) Compare ICDS I accounting policies with Accounting Standard 1.
  - (c) TDS on payment made to non-resident sportsman
  - (d) Cases of under-reporting of income.
  - (e) Key features of a jurisdiction being a tax haven.
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