

TEST PAPER by BB

FINAL (NEW) COURSE: GROUP – II

PAPER – 7: DIRECT TAX LAWS AND INTERNATIONAL TAXATION

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 Questions in Division A, working notes are not required.

All questions relate to Assessment Year 2022-23, unless stated otherwise in the question.

Total Marks: 100 Marks

Time Allowed: 3 Hours

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.

Case Scenario I

Mr. Subhash is a retailer of car spare parts. He started his business in May, 2020. His turnover for the P.Y. 2020-21 was ₹ 10.50 crores. He generally purchases goods from Car accessories & Co. only. Car accessories & Co. manufactures and sells spare parts directly to the customers as well as through an e-commerce platform – CarParts.com. Car accessories & Co.'s turnover from the business for the P.Y. 2020-21 was ₹ 15 crores.

The relevant information of purchases made by Mr. Subhash in P.Y. 2021-22 is given hereunder:

Date of credit to account of Car accessories & Co.	Date of Payment to Car accessories & Co.	Value of spare parts without GST (₹)	GST @18%	Total value of spare parts/ payment
15.05.2021	02.06.2021	40,00,000	7,20,000	47,20,000
18.06.2021	30.06.2021	15,00,000	2,70,000	17,70,000
28.08.2021	17.08.2021	21,50,000	3,87,000	25,37,000
14.02.2022	28.02.2022	10,50,000	1,89,000	12,39,000

In addition to the above, Mr. Subhash also purchased spare parts of Car accessories & Co. for ₹ 12,00,000 inclusive of GST@18% through CarParts.com on 31.12.2021. The payment was made directly to Car accessories & Co. on 15.1.2022. PAN is duly furnished by Mr. Subhash, Car accessories & Co. and CarParts.com. The GST portion is indicated separately in the invoice of Car accessories & Co. but it is not shown separately when the goods are purchased through CarParts.com.

Based on the above facts, choose the most appropriate answer to Q. No. i to v -

1. Is Mr. Subhash required to deduct tax at source in respect of the purchase transactions made directly with Car accessories & Co. If yes, when and what is the amount of tax to be deducted?
 - (a) Yes; ₹ 2,150 on 17.08.2021 and ₹ 1,050 on 14.02.2022
 - (b) Yes; ₹ 2,537 on 17.08.2021 and ₹ 1,050 on 14.02.2022
 - (c) Yes; ₹ 500 on 18.06.2021, ₹ 2,150 on 17.08.2021 and ₹ 1,050 on 14.02.2022
 - (d) No, Mr. Subhash is not liable to deduct tax at source.
2. Is Car accessories & Co. required to collect tax at source in respect of the sale transactions with Mr. Subhash. If yes, when and what is the amount of tax to be collected?
 - (a) Yes; ₹ 500 on 30.06.2021, ₹ 2,150 on 17.08.2022 and ₹ 1,050 on 28.02.2022
 - (b) Yes; ₹ 1,490 on 30.06.2021, ₹ 2,537 on 17.08.2021 and ₹ 1,239 on 28.02.2022
 - (c) Yes; ₹ 1,490 on 30.06.2021
 - (d) No, Car accessories & Co. is not liable to collect tax at source.
3. Assume that Mr. Subhash has started the retail business of car spare parts in May, 2021. In such case, would the answer of MCQ i and ii be different? If yes, what would be the answer of MCQ i and ii?
 - (a) No, the answer of MCQ i and ii would be the same
 - (b) Yes, the answer of MCQ i would change to (d) but the answer of MCQ ii would be the same
 - (c) Yes, the answer of MCQ i would change to (d) and the answer of MCQ ii would change to (b)
 - (d) Yes, the answer of MCQ i would change to (d) and the answer of MCQ ii would change to (a)
4. Are the provisions of tax deduction/collection at source attracted in respect of the transactions with CarParts.com? If yes, who has to deduct/collect at source and at what rate?
 - (a) Mr. Subhash is required to deduct tax at source on ₹ 12 lakhs @0.1%.
 - (b) Car accessories & Co. is required to collect tax at source on ₹ 12 lakhs @0.1%.
 - (c) CarParts.com is required to deduct tax at source on ₹ 12 lakhs @0.1%.
 - (d) CarParts.com is required to deduct tax at source on ₹ 12 lakhs @1%.
5. If Mr. Subhash has not furnished his PAN to Car accessories & Co. but has furnished his Aadhar number, what would be the rate of TCS for the purpose of MCQ 2.
 - (a) 5%
 - (b) 1%
 - (c) 0.1%
 - (d) Car accessories & Co. is not liable to collect tax at source.

(5 x 2 = 10 Marks)

Case Scenario II

KK International Inc. is a company incorporated under the laws of Switzerland and is a tax resident of Switzerland. It operates specific website (i.e. Gupme.com) providing an online platform for sale of goods, provision of services as well as for facilitating the purchase and sale of goods and services of third parties to users based in India and outside India. It does not have any Permanent Establishment in India during the P.Y. 2021-22.

The modus operandi of the third party transactions undertaken through the such website operated by the assessee is as under:—

- Any seller is entitled to list its products for sale on such website. At the time of listing, the seller is required to provide various details regarding the product that is desired to be sold through the website, such as, photograph, description and price of the product.
- Any buyer can also register himself for buying of the goods through the assessee's website. While registering, the buyers are required to provide information, such as, their name, age and address. When the buyer accesses the website, he goes through various products listed by the sellers. Depending on his requirements, he chooses the product which he wants to purchase online, out of the variety of products available on website alongwith all the necessary details.
- The buyer is required to choose any of the payment methods for making payment of the product directly to the seller. Once the buyer clicks 'Buy Now' button after registering itself with the website and agreeing to the terms and conditions of sale as displayed by the seller on the website, an email is sent by the assessee to the seller confirming the sale of his product listed on the website.

Gupme.com also collects data of potential customers located in different parts of India and other South-East Asian Countries who are interested in holidaying in different countries of Europe and Asia. It sells these data to different tourism companies and hotels in Europe and Asia and earns revenue there from.

Assume that the gross receipts of KK International Inc. from e-commerce supply and services is ₹ 8 crore during the P.Y. 2021-22.

From the information given above, choose the **most appropriate answer** to the following questions -

6. Mr. Alex being a resident of UK, visited India during November 2021 and he ordered certain books worth ₹ 10,000 from online website Gupme.com during his stay in India. His books were delivered by BB Publication Pvt Ltd, a resident company of India located in Mumbai. Which of the following statements is correct?
- (a) Mr. Alex is required to withhold equalization levy of ₹ 200 and deposit the same with Indian tax authorities
 - (b) KK International Inc. is not required to charge equalization levy on such transaction since sale is made of good owned by person resident of India i.e. BB Publication Pvt. Ltd.
 - (c) KK International Inc. is not required to charge equalization levy on such transaction since it is a non-resident having any PE in India and Buyer is NR
 - (d) KK International Inc. is required to charge equalization levy of ₹ 200 and deposit the same with Indian tax authorities

7. What is the due date for payment of equalization levy charged in the month of March, 2022 by KK International Inc.?
- April 7, 2022
 - April 30, 2022
 - June 30, 2022
 - March 31, 2022
8. In which of the following cases, equalisation levy would be chargeable, assuming that the aggregate turnover of the E-Commerce operator is ₹ 2 crore during the P.Y. 2021-22?
- Where an E-Commerce operator, being a resident in India, sells goods of parties located in India to overseas customers
 - Where an E-Commerce operator, being a non-resident having PE in India and online sales is effectively connected with such PE in India
 - Where a E-Commerce operator, being a non-resident having PE in India, sells goods to non-resident customers
 - Where a E-Commerce operator, being a non-resident having no PE in India, provides access to online movies, TV Shows and other contents to Indian customers via its electronic platform
9. KK International Inc. collects data through website Gupme.com of potential customers located in different parts of India (Indian IP addressed used by customers) who are interested in holidaying in Singapore. Ltd. During November, 2021, it sells the data to Y Tourism P Ltd., Singapore for ₹ 1,00,000. Which of the following statements is correct?
- Equalisation levy of ₹ 2,000 is payable by KK International Inc.
 - Equalisation levy of ₹ 2,000 is deductible and payable by Y Tourism P Ltd.
 - Equalisation levy of ₹ 6,000 is deductible and payable by Y Tourism P Ltd.
 - Equalisation levy implications are not attracted in this case, since both KK International Inc. and Y Tourism P Ltd. are non-residents

(4 x 2 = 8 Marks)

10. Mr. A has taken two ULIPs. ULIP "X" is issued on 1.1.2021 and ULIP "Y" on 1.5.2021. The sum assured of ULIP "X" and ULIP "Y" is ₹ 30 lakhs and ₹ 40 lakhs, respectively. The annual premium paid by Mr. A during the P.Y. 2021-22 is ₹ 3 lakhs and ₹ 4 lakhs, respectively. What would be the taxability of the consideration received by Mr. A on maturity of both the ULIPs?
- Consideration received on the maturity of ULIP "X" would be exempt u/s 10(10D) while the profits and gains from receipt of consideration on the maturity of ULIP "Y" would be taxable.
 - Consideration received on the maturity of ULIP "Y" would be exempt u/s 10(10D) while the profits and gains from receipt of consideration on the maturity of ULIP "X" would be taxable.
 - Consideration received on the maturity of both ULIP "X" and ULIP "Y" would be exempt u/s 10(10D)
 - The profits and gains from receipt of consideration on the maturity of both ULIP "X" and ULIP "Y" would be taxable.

(2 Marks)

11. Alpha Ltd.'s total income of A.Y. 2022-23 has increased by ₹34 lakhs due to application of arm's length price by the Assessing Officer on transactions of purchase of goods from its foreign holding company in respect of a retail trade business carried on by it, and the same has been accepted by Alpha Ltd., then, -
- business loss of A.Y. 2018-19 cannot be set-off against the enhanced income
 - deductions under Chapter VI-A cannot be claimed in respect of the enhanced income

- (c) unabsorbed depreciation of A.Y. 2012-13 cannot be set-off against the enhanced income
- (d) Business loss referred to in (a), deductions referred to in (b) and unabsorbed depreciation referred to in (c) cannot be set-off against the enhanced income.

(1 Mark)

12. 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. 2021-22 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 From Mumbai airport to airport in Country B	₹ 20 lakhs	₹ 15 lakhs
Amount paid/payable in Country A/B on account of carriage of passengers: Shipped from Mumbai port to port in Country A From Mumbai airport to airport in Country B	₹ 5 lakhs	₹ 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 From airport in Country B to Mumbai airport	₹ 7 lakhs	₹ 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 From airport in Country B to Mumbai airport	₹ 22 lakhs	₹ 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	₹ 2.20 lakhs	₹ 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. 2022-23 is –

- (a) ₹ 2.20 lakhs and ₹ 1.20 lakhs, respectively, provided the books of accounts are audited under section 44AB of the Income-tax Act, 1961
- (b) ₹ 1.60 lakhs and ₹ 2.025 lakhs, respectively
- (c) ₹ 2.40 lakhs and ₹ 1.35 lakhs, respectively
- (d) ₹ 2.70 lakhs and ₹ 3.375 lakhs, respectively

(2 Marks)

13. M/s. X & Co. and M/s. Y & Co. are non-resident firms in receipt of fees for technical services of ₹ 20 lakhs each in the P.Y.2021-22 from an Indian company, A Ltd., in pursuance of an agreement with A Ltd. approved by the Central Government. M/s. X & Co. does not have any fixed place of profession in India whereas M/s. Y & Co. has a fixed place of profession in India and the contract is effectively connected with such fixed place of profession. The revenue expenditure incurred by M/s X & Co. to earn FTS is ₹ 2 lakhs. The following are the details pertaining to M/s Y & Co. -

Revenue expenditure incurred to earn FTS	₹ 3.50 lakhs
Expenditure wholly and exclusively connected with fixed place of profession in India (Out of the above amount)	₹ 3 lakhs
Amount paid by fixed place of profession to Head Office otherwise than towards reimbursement of actual expenses (not included in above amounts)	₹ 1 lakh
Books of account-maintained u/s 44AA	Yes
Books of account audited and audit report furnished with return of income	Yes

What is the tax liability in India of M/s. X & Co. and M/s. Y & Co. for P.Y.2021-22 in respect of fees for technical services?

- (a) ₹ 5,61,600 and ₹ 4,99,200
 (b) ₹ 1,87,200 and ₹ 5,30,400
 (c) ₹ 2,08,000 and ₹ 5,30,400
 (d) ₹ 1,87,200 and ₹ 1,76,800

(2 Mark)

14. Mr. B has been holding 10% units in Real Estate Investment Trust, 7.5% units in Securitisation Trust and 5% units in Investment Fund for more than 15 months. The following incomes were earned by the Trust/Fund during the P.Y. 2021-22:

Particulars	Investment Fund (₹)	Real Estate Investment Trust (₹)	Securitisation Trust (₹)
Rental Income from directly held real estate property	-	10,00,000	-
Interest income from Special Purpose Vehicle	-	8,00,000	-
Profit from Business	5,00,000	-	6,00,000
Other Income (not in the nature of dividend)	2,00,000	1,00,000	-
Long-term capital loss	(12,50,000)	-	-

What would be the total income of Mr. B for P.Y. 2021-22, assuming that apart from share in above income, Mr. B had only long-term capital gains of ₹ 2,70,000?

- (a) ₹ 4,42,500
- (b) ₹ 4,67,500
- (c) ₹ 4,52,500
- (d) ₹ 5,05,000

(2 Marks)

15. PQ Ltd. is a company having two units – Unit P carries on specified business of setting up and operating warehousing facility for storage of agricultural produce and Unit Q carries on specified business of setting up and operating warehousing facility for storage of edible oil. Unit P commenced operations on 1.4.2020 and claimed deduction of ₹ 120 lakhs incurred in April, 2020 on purchase of two buildings for ₹ 70 lakhs and ₹ 50 lakhs (for operating warehousing facility for storage of agricultural produce) under section 35AD for A.Y.2021-22. However, in March, 2022, Unit P transferred its building costing ₹ 70 lakhs to Unit Q. What are the tax implications of such transfer in the hands of PQ Ltd.?

- (i) ₹70 lakhs would be deemed as business income in the hands of PQ Ltd. for A.Y.2022-23.
- (ii) ₹63 lakhs would be deemed as business income in the hands of PQ Ltd. for A.Y.2022-23.
- (iii) Actual cost of building for computing depreciation for P.Y. 2021-22 would be ₹70 lakhs.
- (iv) Actual cost of building for computing depreciation for P.Y. 2021-22 would be ₹ 63 lakhs.

Which of the above statements are correct?

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

(1 Mark)

16. BB Ltd. issued 1,00,000 Bonus shares to equity shareholders during PY 21-22. Face value per share is ₹ 10 and Fair Market Value is ₹ 80 per share. Accumulated profit of company on the date of allotment of shares is ₹ 85 lakhs. Which of the following statements is correct?

- (a) 80 lakhs treated as deemed dividend in hands of company and company required to pay distribution tax @ 23.296%
- (b) 80 lakhs treated as deemed dividend in hands of shareholders and shareholders required to pay tax under income from other sources at Normal Tax rates
- (c) 80 lakhs treated as Gift in hands of shareholders and shareholders required to pay tax under income from other sources at Normal Tax rates due to section 56(2)(x)
- (d) No tax implication in hands of company as well as shareholder in case of Bonus shares

(1 Mark)

17. Hari Ltd. commences business of manufacturing on 10th April, 2018 by acquiring goodwill of a business for ₹ 20,00,000. On the same day, it purchases three patents for ₹ 30,00,000. On 29th June, 2019, one patent is transferred for ₹ 24,00,000.

Calculate depreciation and capital gain if applicable for PY 20-21.

- (a) Depreciation for PY 20-21 – 3,37,500 and STCG – 1,12,500
- (b) Depreciation for PY 20-21 – NIL and STCG – 1,12,500
- (c) Depreciation for PY 20-21 – NIL and STCG – NIL
- (d) Depreciation for PY 20-21 – 3,37,500 and STCG – NIL

(1 Mark)

Division B – Descriptive Questions

Question No. 1 is compulsory

Attempt any **four** questions from the remaining **five** questions

Question 1

Karma Ltd. is engaged in multiple business. The net profit of the company as per the Statement of Profit and Loss for the financial year ended 31st March, 2022 shows a profit of ₹ 880 lakhs after debiting or crediting the followings items:

- (a) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 92 lakhs.
- (b) Contribution of ₹ 5.00 lakhs to a scientific research institute with a specific direction for use of the amount for scientific research programme.
- (c) Interest of 25 lakhs paid on loans taken specifically for purchase of plant and machinery. Out of this ₹ 10 lakhs is for up to the period till such machinery was commissioned.
- (d) Employer's contribution to EPF of ₹1 lakhs and Employees' contribution of 1.5 lakhs for the month of March, 2022 were remitted on 17th June 2022.
- (e) Expense of ₹40 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a brewery project to be set up. The negotiation did not succeed and the project was abandoned.
- (f) Payment of ₹ 6.50 lakhs towards transportation of various materials procured by one of its units to M/s Bansal Transport, a partnership firm, without deduction of tax at source. The firm opts for presumptive taxation under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.
- (g) Royalty income in respect of patents chargeable u/s 115BBF ₹15,00,000.
- (h) A debtor who owed the company an amount of ₹ 20 lakhs was declared insolvent and hence, was written off by debiting the Statement of Profit and Loss.
- (i) In order to expand its overseas business, the company planned online advertisement campaign for which it engaged Fastex Inc., a London based company not having any PE in India, and paid ₹ 7 lakhs for services availed. No tax/TDS was deducted by the company.
- (j) Goods and Service Tax demand paid includes an amount of ₹6,500 charged as penalty for delayed filing of returns and ₹15,750 towards interest for delay in deposit of tax.

Additional Information:

- (i) Normal depreciation computed as per Income-tax Rules on the book assets is ₹ 80 lakhs.
- (ii) Scientific research institute submitted the statement to PDGIT on 30th May 2022 and furnishes a certificate to Karma Ltd in form No. 10BE on 30th June 2022 for the contribution of ₹ 2.50 lakhs.
- (iii) Debenture of face value of 1800 lakhs having 5 years tenure were issued at a discount of 5% and were subscribed in full.
- (iv) The company received a bill for ₹ 6 lakhs on 31st March, 2022 from a supplier of footwear for supply made in March, 2022. The bill was omitted to be recorded in the books in March, 2022. Payment against the bill was made in April, 2022 and necessary entry was made in the books then. The same has been considered in closing inventory valuation during physical verification conducted on 31.03.2022.

Compute total business income of the company for A.Y. 2022-23 giving a brief explanation to each item of addition or deletion. Ignore MAT provisions and the provisions of section 115BAA.

(14 Marks)

Question 2

- (a) Maharaja charitable trust registered u/s 12AA/12AB runs a hospital and also a medical college. It furnishes you the following information for the year ended 31.03.2022

- Gross receipt from hospital ₹490 Lakhs
- Income from business – incidental to main objects ₹1.50 Lakhs
- Voluntary contributions received from public ₹22 Lakhs. It includes corpus donation of ₹4 Lakhs and anonymous donation of ₹6 Lakhs

Note: Voluntary contributions are included in Gross receipt given in (1) above

- Grant received from State Govt. ₹7.50 lakhs
- Hospital operational expenses incurred ₹180 Lakhs (This does not include capital expenditures and depreciation)
- Gross receipts given in (i) above includes a sum of ₹55 Lakhs which has accrued but not received. Further, a sum of ₹18 Lakhs was received only on 31.03.2022.
- The trust set apart ₹80 lakhs for acquiring a building to expand its hospital. But the amount was paid in December, 2022 when sale deed was registered in its name.
- In June 2021, the trust purchased and installed new computer software for ₹28 Lakhs. The rate of depreciation is 40% as per Income Tax Act, 1961
- The trust incurred ₹31 Lakhs towards purchase of laptop computers and printers for the hospital
- During the year, the trust availed a loan of ₹60 lakhs from bank and purchased machine out of the proceeds. Repayment of loan will commence from the next year.

Compute the total income of the trust for the A.Y. 2022-23 in order to avail maximum benefits within the four corners of law.

(6 Marks)

- (b) Mr. Dheeraj, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2022:

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 3,34,000. He has paid municipal taxes of ₹ 30,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from ICICI bank, he paid ₹ 1,80,000 as interest and ₹ 95,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2015.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 120 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 45 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2021-22. Out of 20 employees, 12 were employed on 1st May 2021 on monthly emoluments of ₹ 18,000 and remaining were employed on 1st August 2021 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹ 30,000 and ₹ 45,000 as interest on saving bank deposits and fixed deposits respectively.

- (vi) He also sold his vacant land on 01.12.2021 for ₹ 13 lakhs. The stamp duty value of land at the time of transfer was ₹ 14 lakhs. The FMV of the land as on 1st April, 2001 was ₹4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. This land was acquired by him on 15.9.1997 for ₹ 2.80 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.

The cost of inflation index for the financial year 2021-22 and 2001-02 are 317 and 100 respectively.

- (vii) He paid insurance premium of ₹ 49,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute his total income and tax liability of Mr. Dheeraj for the Assessment Year 2022-23, in the manner so that he can make maximum tax savings. **(8 Marks)**

Question 3

- (a) Beta Limited has transferred its Unit Omega to Delta Limited by way of slump sale on December 31st, 2021. The summarised Balance Sheet of Beta Limited as on 31st December, 2021 is given below:

Liabilities	₹ in lakhs	Assets	₹ in lakhs
Paid up Capital	850	Fixed Assets:	
Reserve & Surplus	310	Unit Gamma	75
Trade Creditors:		Unit Sigma	75
Unit Gamma	20	Unit Omega	275
Unit Sigma	55	Debtors:	
Unit Omega	45	Unit Gamma	260
		Unit Sigma	195
		Unit Omega	400
Total	1,280	Total	1,280

Using the further information given below, compute the capital gain arising from slump sale of Unit Omega and tax on such capital gain.

- Cost inflation index for F.Y. 2010-11 and F.Y. 2021-22 are 167 and 317, respectively.
- Lump sum consideration on transfer of Unit Omega is ₹ 600 lakhs.
- Fixed assets of Unit Omega include land which was purchased at ₹ 30 lakhs in August 2012 and revalued at ₹ 45 lakhs as on 31st December, 2021. The stamp duty value of land as on 31st December, 2021 is ₹ 42 lakhs.
- Other fixed assets representing machinery are reflected at ₹ 230 lakhs (i.e. ₹ 275 lakhs less value of land) which represents written down value as per books. The written down value of machinery under section 43(6) of the Income-tax Act, 1961 on 31.12.2021 is ₹ 155 lakhs.
- Unit Omega was set up by Beta Limited in May, 2010.
- The company does not opt for section 115BAA.

(8 Marks)

- (b) Hero Ltd., the assessee, has sold goods on 12.01.2022 to L Ltd., located in notified jurisdictional area (NJA), for ₹ 10.50 crores. During the current financial year, Hero Ltd. charged ₹11.50 crores from AJ of New York and ₹12 crores from KP of London for sale of identical goods and both of which are neither associated enterprise of Hero Ltd. nor they are situated in any NJA. While sales to AJ and KP were on CIF basis, the sale to L Ltd., was on FOB basis, which paid ocean freight and insurance amounting to ₹ 20 lakhs on purchases from Hero Ltd.

India has a Double Taxation Avoidance Agreement with the U.S.A. and U.K. The assessee has a policy of providing after sales support service to the tune of ₹14 lakhs to all customers except L Ltd. which procured the same locally at a cost of ₹18 lakhs.

Compute the ALP for the sales made to L Ltd., and the amount of consequent increase, if any, in the profit the assessee-company. **(6 Marks)**

Question 4

- (a) The net profit of Moon Ltd. as per Profit and Loss Account for the previous year 2021-22 is ₹100 Lakhs after debiting/crediting the following items:
- (i) Provision for Income Tax: ₹15 Lakhs
 - (ii) Provision for Deferred Tax: ₹8 Lakhs
 - (iii) Proposed Dividend: ₹20 Lakhs
 - (iv) Depreciation debited to Profit and Loss account is ₹12 Lakhs. This includes depreciation on revaluation of asset to the tune of ₹2 Lakhs
 - (v) Profit from unit established in SEZ: ₹30 Lakhs
 - (vi) Provisions from permanent diminution in value of investments: ₹2 Lakhs

B/F losses and unabsorbed depreciation as per books of the company are as follows:

Previous Year	Brought Forward Loss (₹ in Lakhs)	Unabsorbed depreciation (₹ in Lakhs)
2018-19	2	5
2019-20	-	3
2020-21	10	2

Compute Book Profit of the company u/s 115JB for A.Y. 2022-23

(6 Marks)

- (b) Charlie Co. incorporates Chaplin Co. in a NTJ with equity of US\$250. Chaplin Co. has no reserves; it gives a loan of US\$250 to Charlie Co. at the rate of 10% p.a. which is utilized for business purposes. Charlie Co. claims deduction of interest payable to Chaplin Co. from the profit of business. There is no other activity in Chaplin Co. Can GAAR be invoked in such a case?

(4 Marks)

- (c) In respect of Mr. Hari, who is engaged in export of fabrics, information is flagged as per the risk management strategy formulated by the CBDT for A.Y.2017-18, A.Y.2018-19, A.Y.2019-20 and A.Y.2020-21. The income escaping assessment for these years aggregate to ₹ 42 lakhs.

In respect of Mr. Hari's friend Mr. Rajesh, who is engaged in trading of commodities, a search was initiated u/s 132 in April, 2021.

Can the Assessing Officer issue notice under section 148 to Mr. Hari and Mr. Rajesh in April, 2021? If so, in respect of which assessment years can notice be issued? Is it necessary that they be provided an opportunity of being heard before issuance of notice? Examine.

(4 Marks)

Question 5

(a) Mr. Roy, aged 47 years, is a resident individual having income from the following sources:

- Income from a sole-proprietary business in Noida = ₹ 50 lakhs.
- Share of profit from a partnership firm in Gurgaon = ₹ 30 lakhs.
- Agricultural Income (gross) from coffee estates in Country A, a foreign country with which India has no DTAA, CAD 32000. Tax deducted on the above income CAD 8,000
- Brought forward business loss of F.Y.2020-21 in Country A was CAD 4,000 which is not permitted to be set off against other income as per the laws of that country.
- Mr. Shyam has deposited ₹ 1,50,000 in public provident fund and paid medical insurance premium of ₹ 30,000 by account payee cheque to insure his health. He has also paid ₹ 55,000 as insurance premium to insure the health of his mother and father, who are resident Indians aged 70 years and 75 years, respectively. He also incurred ₹ 50,000 on the medical treatment of his dependent sister, who is a person with disability. His sister does not claim deduction under section 80U.

Compute total income and tax liability of Mr. Roy for the A.Y. 2022-23, assuming that 1 CAD = ₹ 60. Ignore the provisions of section 115BAC.

(6 marks)

(b) Innovation Ltd. is an Indian Company involved in manufacturing and trading in cotton garments under the brand name "ICOTT". In order to expand its exports sale, it launched a massive publicity campaign in overseas market. For the purpose of online advertising, it hired the High Inc., a New York based company which has no permanent establishment in India and paid ₹25 lakhs for its services in the previous year 2021-22.

Discuss the tax and TDS implications of such transaction both in the hands of Innovation Ltd. and High Inc.

(3 marks)

(c) The Assessing Officer has made two additions in the assessment of Jatin & Co. (sole proprietorship firm):

- (i) Disallowance under section 40A(3) of ₹3 lakhs
- (ii) Unexplained cash credits of ₹65 lakhs.

The firm filed an appeal before CIT(A) with respect to the second addition only. The CIT(A) confirmed the addition. Further, the assessee has filed an appeal to the Appellate Tribunal w.r.t. addition of unexplained cash credit against the order of CIT(A). The Appellate Tribunal has also confirmed the addition. He then preferred the revision petition before Principal CIT under section 264 for disallowance under section 40A(3). The petition has been rejected on the ground that the assessment was subject matter of an appeal before the Appellate Tribunal. Is the petition maintainable?

(5 marks)

Question 6

- (a) LG Inc, a notified Foreign Institutional Investor (FII), derived the following in- comes from various sources for the financial year 2021-22:-

(1) Income in respect of securities: ₹25,00,000

Expenses incurred in respect thereof: ₹50,000

(The above income includes an interest of ₹16,00,000 received from an Indian Company on the investment in rupee denominated bonds)

(2) Capital Gains:

(i)	Long Term :	
	Sale proceeds on sale of securities on 15.01.2022:	₹52,00,000
	Purchase cost of securities on 25.05.2016 :	₹28,00,000
(ii)	Short Term:	
	Sale proceeds of equity shares of Company X (January 2022):	₹13,50,000
	(STT paid on Company X shares)	
	Cost of acquisition (August, 2021) :	₹5,50,000
	Sale proceeds of equity shares of Company Y (December,2021)	₹9,25,000
	Cost of acquisition (April, 2021) : (STT not paid on Company Y Shares)	₹4,85,000

Compute the taxable income of LG Inc and tax liability for the assessment year 2022-23 as per applicable provisions of the Income-tax Act, 1961, assuming that no other income is derived by LG Inc (FII) during the financial year 2021-22.

(6 Marks)

- (b) Pigeon Limited failed to furnish information and documents sought by the Transfer Pricing Officer (TPO). Can TPO levy penalty for such failure? How much would be the quantum of penalty imposable for the said failure?

(3 marks)

- (c) Compute the gross total income of Mr. Khan for the A.Y.2022-23 from the information given below—

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of shares	56,000
Long term capital loss from sale of property (brought forward from A.Y.2019-20)	(90,000)
Income from tea business (Growing & Manufacturing)	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	1,80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

(5 marks)