

MOCK TEST PAPER 2
FINAL 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

Flip Inc., a Country X company, maintains an online web-platform through which it provides end user computer software through an End-user Licence Agreement (EULA). MNO Ltd., an Indian company, has entered into a contract for ₹ 5.7 crores with Flip Inc., for the Financial Year 2021-22.

The broad terms of the EULA between the two companies are as follows-

Grant of licence. Flip Inc. grants MNO Ltd. a limited non-exclusive licence to install, use, access, display and run the click wrap web-based Computer Software (CWCS) on a single local hard disk(s) or other permanent storage media of one computer. MNO Ltd. should not make CWCS available over a network where it could be used by multiple computers at the same time.

Reservation of rights and ownership. Flip Inc. reserves all rights not expressly granted to MNO Ltd. in this EULA. The CWCS is protected by copyright and other intellectual property laws and treaties. Flip Inc. owns the title, copyright and other intellectual property rights in the CWCS. The CWCS is licenced (only for use and not any other purpose), not sold.

Flip Inc. does not have any offices outside Country X.

Extract of Article 12 of India-Country X DTAA

Royalties and Fees for Technical Services

1. Royalties and fees for technical services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.
2. However, such royalties and fees for technical services may also be taxed in the Contracting State in which they arise and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the royalties or fees for technical services, the tax so charged shall not exceed 10 per cent.
3. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use :
 - (a) any copyright of a literary, artistic or scientific work, including cinematograph film or films or tapes used for radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience, including gains derived from the alienation of any such right, property or information

Based on the facts of the above case scenario, choose the most appropriate answer to Q.1 to Q. 4 below:

1. Is MNO Ltd., India required to deduct income-tax at source on the payment made to Flip Inc.? If yes, what amount of income-tax is required to be deducted at source on the said payment?
 - (a) Yes, MNO Ltd. is required to deduct income-tax at source of ₹ 2,41,86,240.
 - (b) No, MNO Ltd. is not required to deduct income-tax at source.
 - (c) Yes, MNO Ltd. is required to deduct tax at source of ₹ 60,46,560.
 - (d) Yes, MNO Ltd. is required to deduct tax at source of ₹ 2,37,12,000
2. Is equalisation levy attracted in respect of the consideration received by Flip Inc. Country X from MNO Ltd.? If so, in whose hands and at what rate?
 - (a) Flip Inc. has to pay equalisation levy @6% of the consideration
 - (b) MNO Ltd. is required to deduct equalisation levy @6% of the consideration
 - (c) MNO Ltd. is required to deduct equalisation levy @2% of the consideration
 - (d) Flip Inc. has to pay equalisation levy @2% of the consideration
3. Would MNO Ltd., India be required to deduct tax at source on the payment made to Flip Inc, if there was no DTAA between India and Country X? If so, what amount of tax is required to be deducted at source on the said payment?
 - (a) Yes, MNO Ltd. is required to deduct tax at source of ₹ 2,41,86,240.
 - (b) No, MNO Ltd. is not required to deduct tax at source, since such sum is not taxable in the hands of Flip Inc.
 - (c) Yes, MNO Ltd. is required to deduct tax at source of ₹ 60,46,560.
 - (d) Yes, MNO Ltd. is required to deduct tax at source of ₹ 2,37,12,000
4. Is equalisation levy attracted in respect of the consideration received by Flip Inc. Country X from MNO Ltd., if there is no DTAA between India and Country X? If so, in whose hands and at what rate?
 - (a) Flip Inc. has to pay equalization levy @6% of the consideration
 - (b) MNO Ltd. is required to pay equalization levy @2% of the consideration
 - (c) Flip Inc. has to pay equalization levy @2% of the consideration
 - (d) No, equalization levy is not attracted

(2 x 4 = 8 Marks)

Case Scenario II

The Assessing Officer surveyed Trupti Restaurant & Hotels, which was within his jurisdiction, at 11:30 p.m. on 15.8.2021 for the purpose of obtaining information which may be relevant to the proceedings under the Income-tax Act, 1961. The restaurant is kept open for business every day between 11 a.m. and 12 a.m.

On 25.8.2021, the Assessing Officer entered Ruchika Restaurant & Hotels which was also within his jurisdiction at 9:15 p.m. for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. This Restaurant is kept open for business every day between 7 am to 10:30 pm.

In both the above cases, the Assessing Officer impounded and retained in his custody for a period of 18 days (exclusive of holidays), books of account and other documents inspected by him, after recording reasons for doing so. The Assessing Officer, however, did not take prior permission from income-tax authority equivalent to Commissioner or above for doing so.

The owners of these restaurants claim that the Assessing Officer could not enter the restaurants after sunset and take away with him the books of account kept at the restaurants. The owners also claimed that the Assessing Officer ought to have obtained the prior approval of income-tax authority equivalent to Chief Commissioner or above before entering the restaurants.

Based on the facts of the above case scenario, choose the most appropriate answer to Q. 5 to 9 below:

5. Is the action of the Assessing Officer entering Trupti Restaurant & Hotels at 11:30 pm valid?
- (a) Not valid, since Assessing Officer entered the restaurant after the sunset.
 - (b) Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained for survey.
 - (c) Not valid, since prior permission of income-tax authority equivalent to Chief Commissioner or above is not obtained by the Assessing Officer though he entered during the hours at which such place is open for the conduct of business.
 - (d) Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above was not obtained.
6. Would your answer to Question no. 5 change if the Assessing Officer had surveyed Trupti Restaurant & Hotels only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?
- (a) The action of Assessing Officer is not valid, since he entered the place after sunset and permission of income-tax authority equivalent to Chief Commissioner or above is not obtained.
 - (b) The action of Assessing Officer is valid, since he entered the place during the hours at which such place is open for conduct of business and permission of Chief Commissioner or above authorities not required to be obtained.
 - (c) The action of Assessing Officer is not valid, since he has not obtained the permission of Chief Commissioner.
 - (d) The action of Assessing Officer is not valid, since he entered the place after 10 pm.
7. Is the action of the Assessing Officer entering Ruchika Restaurant & Hotels at 9:15 pm valid?
- (a) Not valid, since Assessing Officer entered the restaurant after the sunset.
 - (b) Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained.
 - (c) Not valid, since prior permission of Chief Commissioner or above is not obtained by the Assessing Officer though he entered the place during the hours at which such place is open for the conduct of business.
 - (d) Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above is not obtained.
8. Is the action of the Assessing Officer in impounding and retaining in his custody books of account and other documents of Trupti Restaurant & Hotels, after recording reasons for doing so, without taking prior permission from income-tax authority equivalent to Commissioner or above, valid?
- (a) The action of Assessing Officer is not valid, since prior approval of Commissioner or above authority is not obtained.
 - (b) The action of Assessing Officer is valid.
 - (c) The action of Assessing Officer is not valid, since prior approval of Joint Commissioner is not obtained.
 - (d) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents for a period exceeding 10 days.
9. Would your answer to Question no. 8 change if the Assessing Officer had surveyed Trupti Restaurant & Hotels only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?
- (a) The action of Assessing Officer is not valid, since prior approval of Commissioner or above is not obtained.

- (b) The action of Assessing Officer is valid.
- (c) The action of Assessing Officer is not valid, since he cannot impound or retain books of accounts or other documents.
- (d) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents for a period exceeding 10 days. **(2 x 5 = 10 Marks)**
10. Ratan Motors Ltd., Pathankot, is a Maruti Cars dealer and also runs a service station. The sale of cars of Ratan Motors Ltd. for F.Y.2020-21 is ₹ 8.40 crores. The sale of spare parts and service station is ₹ 80 lakhs for F.Y.2020-21. M/s. ABC Ltd., dealing in textile manufacturing, bought three Maruti cars on 18.7.2021, 18.8.2021 and 15.12.2021 for ₹ 18 lakhs, 22 lakhs and ₹ 9.5 lakhs for business purposes. On 16.1.2022, M/s ABC Ltd. purchased five more cars valuing ₹ 8.9 lakhs each. The payment against each purchase made on the same date of invoice itself. The turnover of ABC Ltd. for the F.Y. 2020-21 is ₹ 15.5 crores.
- What is the amount of tax required to be collected or deducted at source on sale transaction entered between Ratan Motor Ltd. and ABC Ltd.?
- (a) Ratan Motors Ltd. is required to collect tax at source of ₹ 40,000 under section 206C(1F).
- (b) Ratan Motors Ltd. is required to collect tax at source of ₹ 40,000 under section 206C(1F) and ₹ 400 under section 206C(1H).
- (c) Ratan Motors Ltd. is required to collect tax at source of ₹ 40,000 under section 206C(1F) and ABC Ltd. is required to deduct tax at source of ₹ 400.
- (d) Ratan Motors Ltd. is required to collect tax at source of ₹ 94,000 under section 206C(1F). **(2 Marks)**
11. Mr. Jahan, a resident individual, starts a new business on 01-11-2021 for sale of designer suits. He obtained a valid PAN in his name and registers himself on Style.com (a Country M based website), an e-commerce operator, for sale of his products in India. Mr. Jahan sold goods worth ₹ 80 lakhs through Style.com upto 31-03-2022. E-commerce operator credited ₹ 35 lakhs on 31.12.2021, ₹ 12 lakhs on 1.1.2022 and ₹ 18 lakhs on 28.2.2022 payable to Mr. Jahan in its books of accounts. These amounts were paid to Mr. Jahan on 15.3.2022 after deducting a commission of 10% on gross sale proceeds.
- On 31.3.2022, remaining amount of ₹ 15,00,000 were directly credited in Mr. Jahan bank account through PayPal Wallet directly by Style.com. Who is liable to deduct tax at source on the above transactions? When and what amount of tax is deductible?
- (a) Style.com is required to deduct tax at source of ₹ 35,000, ₹ 12,000, ₹ 18,000 and ₹ 15,000 on 31.12.2021, 1.1.2022, 28.2.2022 and on 31.3.2022, respectively.
- (b) Style.com is required to deduct tax at source of ₹ 35,000, ₹ 12,000 and ₹ 18,000 on 31.12.2021, 1.1.2022 and on 28.2.2022, respectively.
- (c) Style.com is required to deduct tax at source of ₹ 80,000 on 15.3.2022.
- (d) Style.com is required to deduct tax at source of ₹ 65,000 on 15.3.2022. **(2 Mark)**
12. Mr. Arihant, a non-resident, received foreign currency equivalent to ₹ 85,000 from his friend, a resident Indian in January 2022. The same was paid by such resident from his bank account in Country X and was received by Mr. Arihant in his bank account in Country X. The friend also gifted a Gold Chain to Mr. Arihant in Country X. Fair Market Value of Gold Chain on the date of gift was ₹ 95,000. Are the gifts received by Mr. Arihant taxable in his hands under the Income-tax Act, 1961? Assume no DTAA exist between India and Country X.
- (a) Yes; ₹ 1,80,000 would be taxable as Income from other sources.
- (b) Partially; ₹ 85,000 received from resident friend would be taxable as Income from other sources.

- (c) Partially; only ₹ 35,000, being cash gift in excess of ₹ 50,000, received from resident friend would be taxable as Income from other sources.
- (d) No; such gifts are not taxable in the hands of Mr. Arihant under the Income-tax Act, 1961, since they are received outside India. **(2 Marks)**
13. Which of the following deduction/exemption/set-off of losses are allowable while computing income under respective head of income and total income of an individual as per section 115BAC?
- Deduction for interest on housing loan in respect of self-occupied property
 - Deduction for Interest on housing loan in respect of let-out property
 - Exemption in respect of agricultural income
 - Exemption in respect of perquisite value of free food provided by employer through paid voucher
 - Set-off of loss under the head house property against income under other heads
 - Deduction under section 80JJAA
- The correct answer is –
- (ii), (iii) & (vi)
 - (i), (ii), (iii), (iv) & (vi)
 - (i), (ii), (iv) & (vi)
 - (i), (ii), (iv), (v) & (vi) **(2 Marks)**
14. Mr. Rajkumar, a resident Indian aged 61 years, has income of ₹ 45 lakhs under the head “Profits and gains of business or profession”. One of his businesses is eligible for deduction @100% of profits under section 80-IB for A.Y. 2022-23. The profit from such business included in the business income is ₹ 20 lakhs. What would be the tax liability of Mr. Rajkumar, assuming that he has no other income during the P.Y. 2021-22 and he does not opt to pay tax as per section 115BAC.
- ₹ 5,85,000
 - ₹ 5,82,400
 - ₹ 7,02,000
 - ₹ 8,65,800 **(2 Marks)**
15. Mr. X set-up a three-star hotel “Sky View” in Gwalior on 15.5.2009 and another three-star hotel “River View” in Indore on 1.4.2012. His brother Mr. Y is in the business of building and operating hospitals. He has set-up hospital “Lifeline” (with 50 beds capacity) in Indore which begins to operate on 1.8.2008 and another hospital “Arpit” (with 120 beds capacity) in Gwalior which begins to operate on 15.5.2016. For the previous year, 2021-22, Mr. X has profit from hotel “Sky View” of ₹ 80 lakhs and loss from hotel “River View” of ₹ 25 lakhs. Mr. Y has profit from Hospital “Lifeline” of ₹ 50 lakhs and loss from hospital “Arpit” of ₹ 15 lakhs for the P.Y. 2021-22. What would be the net business income of Mr. X and Mr. Y and also determine the loss to be carried forward?
- Business income of ₹ 55 lakhs in the hands of Mr. X and amount to be carried forward would be Nil. Business income of ₹ 50 lakhs in the hands of Mr. Y and ₹ 15 lakhs loss to be carried forward.
 - Business income of ₹ 80 lakhs in the hands of Mr. X and ₹ 25 lakhs loss to be carried forward. Business income of ₹ 35 lakhs in the hands of Mr. Y and no amount to be carried forward.
 - Business income of ₹ 55 lakhs in the hands of Mr. X and amount to be carried forward would be Nil. Business income of ₹ 35 lakhs in the hands of Mr. Y and no amount to be carried forward.
 - Business income of ₹ 80 lakhs in the hands of Mr. X and ₹ 25 lakhs loss to be carried forward. Business income of ₹ 50 lakhs in the hands of Mr. Y and ₹ 15 lakhs to be carried forward. **(2 Marks)**

Division B – Descriptive Questions

Question No. 1 is compulsory

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

1. Statement of Profit and Loss of Suraj Industries Ltd., engaged in production and marketing of diversified products, shows a net profit of ₹ 72,00,000 for the financial year ended 31st March, 2022 after charge of the following items:

A: Items debited to the Statement of Profit and Loss:

- (i) Depreciation as per Companies Act, 2013: ₹ 24,00,000
- (ii) Interest amounting to ₹ 60,000 for short payment of advance tax paid as per section 234B relating to the assessment year 2021-22.
- (iii) Interest and borrowing costs amounting to ₹ 9,50,000 and ₹ 7,00,000 though not meeting the criteria for recognition as a component of cost, included in cost of opening and closing inventory, respectively.
- (iv) Expenditure of ₹ 41,000 paid in cash comprising of ₹ 22,000 directly paid to producer of dairy farming products and ₹ 19,000 paid towards printing and stationery items to a trader.
- (v) ₹ 3,50,000 paid to a contractor for carrying out repair work at factory premises. Tax was not deducted at source on this payment.
- (vi) ₹ 35,000 towards expenditure for earning income from transfer of carbon credits.
- (vii) Contribution to electoral trust: ₹ 3,00,000 paid by way of cheque.
- (viii) Expenditure towards advertising charges in a brochure of a political party registered under section 29A of Representation of People Act, 1951: ₹ 40,000 paid by way of cheque.
- (ix) Interest on term loan obtained from Cooperative Bank not paid before the due date of filing of return of income ₹ 2,60,000
- (x) Actual contribution to the pension scheme of employees: ₹ 1,50,000

B: Items credited to the Statement of Profit and Loss:

- (i) Unrealised rent of ₹ 3,80,000 pertaining to financial year 2019-20 & 2020-21 recovered during the year in respect of a commercial property owned by the company, which was sold by the company on 23.03.2021.
- (ii) Dividends from a specified foreign company ₹ 1,60,000
- (iii) Profit of ₹ 3,00,000 received from hedging contract entered into for meeting out loss in foreign currency payments towards an imported printing machinery valued at ₹ 95 lakhs, installed on 15th December, 2021 and put to use from that date.
- (iv) Interest from banks on fixed deposits (net of TDS) at 10% ₹ 1,35,000

Additional Information:

- (1) Depreciation as per Income-tax Rules: ₹ 28,00,000 exclusive of depreciation on the imported printing machine referred to in item B (iii)
- (2) Expenditure pertaining to previous financial year allowed on due basis, but paid in current financial year in cash on 18.01.2022: ₹ 35,000
- (3) Audit fee for the previous year 2020-21: ₹ 75,000. TDS deducted but not paid in the relevant previous year. However, TDS was paid on 31.12.2021.
- (4) Income from transfer of Carbon Credits amounting to ₹ 4,00,000 included in Net Profit (before tax).

- (5) The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.

Compute the total income of Suraj Industries Ltd. for assessment year 2022-23 as per the normal provisions of the Income-tax Act, 1961. Give brief reasons for the treatment given to each of the items considered in computation of income of the company. Company does not want to opt for section 115BAA. **(14 Marks)**

2. (a) The profit and loss account of the Little Smiles & Associates, a partnership firm, showed a net profit of ₹ 80 lakhs after debiting/crediting of the following sums:
- (i) Interest on capital @13% - ₹ 7,15,000
 - (ii) Interest on loan taken from one of the partners@ 15% - ₹ 90,000
 - (iii) Interest on bank fixed deposits made out of surplus funds ₹ 35,000 (Gross)
 - (iv) Depreciation as per books of accounts ₹ 1,15,650
 - (vi) A building purchased in the year 2018 having a WDV as on 1.4.2021, of ₹ 36.45 lakhs was sold on 10.10.2021 for ₹ 90 lakhs. The differential amount was credited to profit and loss account. The building was the only asset in the block.

Additional Information:

- (a) The firm has four partners. Only 2 are working partners. Partnership deed authorises payment of interest to partners in the range of 12% - 16% and also payment of remuneration to all the four partners @ ₹ 20,000 per month.
- (b) It applied for establishing a unit in SEZ and the letter of approval was granted on 30.3.2020. However, it started the operation of SEZ only on 15.10.2020. The total turnover, export turnover and net profit for the year ended 31.3.2022 were ₹ 120 lakhs, ₹ 40 lakhs and ₹ 7.5 lakhs respectively. The net profit is included in the profit of ₹ 80 lakhs mentioned above.
- (c) Out of the amount received from sale of building, the firm invested ₹ 60 lakhs on 5.4.2022 in 5-years specified bonds of the National Highways Authority of India. The bonds were issued on 31.5.2022.
- (d) Depreciation as per Income-tax Rules, 1962 is Rs. 14,000 excluding depreciation on assets mentioned in (e) and (f) below.
- (e) WDV of Motor car as on 1.4.2021 (purchased and put to use on 1.1.2020) of Rs. 6,80,000.
- (f) Cost of mobile phones (purchased and put to use on 11.10.2021) Rs. 20,000

Compute the total income of the firm for the A.Y. 2022-23 giving reasons/explanations for the treatment of each item under the normal provisions of the Act. **(8 Marks)**

- (b) Compute the total income and tax payable after providing relief under section 91 by Mr. Guru Charan, aged 73 years for A.Y. 2022-23 from the following information in respect of income earned by him in various places for the previous year ended 31-03-2022:

India

Pension from State Government ₹ 3,90,000

Short term capital gains on sale of plot ₹ 2,10,000

Deposit in PPF Account ₹ 1,50,000

Speculative Income ₹ 1,16,000

Country M

Agricultural Income (gross) ₹ 90,000

Dividends from a company incorporated in Country M (gross) ₹ 64,000 [Exempt in Country M]

Country N

Business loss (proprietary business) ₹ 1,06,000 [Not eligible for set off against other incomes in Country N].

Gross rental income from a property ₹ 3,00,000 (No statutory deduction was available in Country N)

Municipal taxes paid in respect of the above property (not allowed as deduction in Country N) ₹ 20,000

Additional Information:

- (1) There is no agreement under section 90 for relief for avoidance of double taxation between India and Country M and Country N where the incomes have accrued or arisen.
- (2) Mr. Guru Charan is an individual resident in India, and he has paid applicable taxes on incomes earned in Country M and Country N, where the applicable tax rates are 10% and 5%, respectively.

Assume Mr. Guru Charan opts for section 115BAC.

(6 Marks)

3. (a) The Balance Sheet of M/s Shanti Niketan Charitable Trust as on 31.1.2022, and its other information is given hereunder:

Particulars	₹ in lakhs
<u>Liabilities</u>	
Capital fund	800.00
Sundry creditors	<u>335.00</u>
Total	<u>1135.00</u>
<u>Assets</u>	
Land (purchased in the year 2009)	100.00
Land and buildings purchased in the year 2015	800.00
2000 equity shares of ₹ 1000 each in M/s XP Ltd. shares are listed in Bombay Stock Exchange (at face value)	20.00
Balance in current account of a nationalized bank	10.00
Balanced in fixed deposits with scheduled banks	200.00
Cash in hand	3.50
Tax Deducted at Source	<u>1.50</u>
Total	<u>1135.00</u>

The application for registration was made on 15-4-2012 and registration under section 12AA of the Income-tax Act, 1961 was granted on 1-7-2012 to M/s Shanti Niketan Charitable Trust. However, the registration was cancelled on 31-1-2022. An appeal was preferred against the order of cancellation, which was dismissed by the Appellate authorities. The order confirming the cancellation was received on 31-3-2022.

Additional Information:

- (1) Stamp duty value of the land (purchased in 2009) as on 31-1-2022 was ₹ 120.00 lakhs but if sold in the open market, the property would fetch ₹ 250 lakhs as per a registered valuer's certificate.
- (2) Land and building (purchased in 2015), if sold in the open market will fetch ₹ 1000 lakhs as per a registered valuer's certificate. Stamp duty value as on 31-1-2022 was ₹ 1050 lakhs.

- (3) The highest and lowest value per share of M/s XP Ltd. traded on 31-1-2022 was ₹ 1099 and ₹ 1051 respectively.
- (4) Sundry Creditors include ₹ 30 lakhs provided on estimated basis to contractors for which no bills are received.

Based on the above information, calculate the exit tax payable by the Charitable Trust and state the latest day on which the said tax has to be paid. Give working notes wherever necessary.

(8 Marks)

- (b) Twig Inc., a foreign company, headquartered at Malaysia, has a branch in India. For the financial year ended 31.03.2022, the branch has shown net profit of ₹ 28 lakhs after charge of the following expenses:
- (i) Depreciation for the current financial year of ₹ 15 lakhs.
 - (ii) Unabsorbed depreciation for previous financial year of ₹ 17 lakhs.
 - (iii) Capital Expenditure incurred for promoting family planning amongst its employees of ₹ 7 lakhs. ₹ 7 Lakhs is one fifth of the total expenditure incurred on promoting family planning.
 - (iv) Expenditure incurred for Scientific research ₹ 11 lakhs.
 - (v) Business loss brought forward for A.Y. 2021-22 of ₹ 25 lakhs.
 - (vi) Deductions under Chapter VI-A of ₹ 20 lakhs.
 - (vii) Head Office expenses of ₹ 120 lakhs allocated to the branch.

Compute income to be declared by the branch in its return for the Assessment Year 2022-23.

(6 Marks)

4. (a) Examine whether TDS provisions are attracted in the following cases:
- (i) K & Co LLP withdrew from its bank account ₹ 68 lakhs cash for buying agricultural produce, from farmers/agriculturists, being raw material required for manufacture of finished products by it and ₹ 58 lakhs for purpose of other business activities. It files return of income on time regularly.
 - (ii) Interest of ₹ 98,000 on Capital Gains Bond issued by Power Finance Corporation Ltd. to Mr. Amar (aged 52), a non-resident individual. **(2 x 2 = 4 Marks)**
- (b) The tax assessment of Mr. Balveer was completed on 25-12-2021 and the tax due was determined as ₹ 115 lakhs. The assessee has the following (i) Bank fixed deposit with Canara Bank ₹ 22 lakhs; (ii) Receivable from S & Co Ltd ₹ 27 lakhs. He gifted a land to his son (aged 45 years) 5 years ago whose present market value is ₹ 28 lakhs. He gifted a diamond necklace to his son's wife evidenced by a gift deed dated 05.10.2019. He owns a residential apartment in UK acquired 11 years ago.

Discuss against which of the movable/immovable property the Tax Recovery Officer can proceed against for recovery of tax. **(4 Marks)**

- (c) Examine with reasons, whether the following transaction/(s) attract income tax in India, in the hands of recipients under section 9 of Income-tax Act, 1961:
- (i) A firm of solicitors in Bhopal engaged a barrister in Australia for arguing a case before Madhya Pradesh High Court. A payment of 6500 Australian Dollars was made as per terms of professional engagement.
 - (ii) A non-resident German company, which did not have a permanent establishment in India, entered into an agreement for execution of electrical work in India. Separate payments were made to the German Company towards drawing & designs, which were described as "Engineering Fee". The assessee contended that such payment should be taxable in Germany

as there is no business connection within the meaning of section 9(1)(i) of the Income tax Act, 1961.

- (iii) TPL Engineering, a non-resident foreign company, entered into a collaboration agreement on 25.06.2021, with an Indian company and was in receipt of 8% debentures of ₹ 12 lakhs, issued by Indian company, in consideration of providing technical know-how utilised in its business in Delhi during previous year 2021-22. **(6 Marks)**

5. (a) XYZ Ltd. received the draft order from the Assessing Officer as per section 144C of the Income-tax Act, 1961 due to variations determined by the Transfer Pricing Officer in the arm's length price. But XYZ Ltd. did not prefer to file the objection against the draft order before the Dispute Resolution Panel, instead, he prefer to do appeal before the CIT appeals under section 246A against the final order received from the Assessing Officer.

You are required to advise XYZ Ltd., whether his contentions are tenable? Discuss the issue with reference to provisions of section 144C of the Income-tax Act, 1961. **(4 Marks)**

- (b) During search conducted on premises of an assessee, some gold bars were seized by the department from lockers of assessee. Assessee voluntarily disclosed some income during course of search. Assessee moved an application before Assessing Officer, for adjustment of tax liability on income surrendered during search by sale of seized gold bars. However, said application was turned down by the Assessing Officer. Explain whether action of the AO is justified, in light of relevant case laws? **(4 Marks)**
- (c) Describe the three-tier structure for transfer pricing documentation mandated by BEPS Action Plan 13. Which provisions under the Income-tax Act, 1961 dealt with Master File and CbC reporting. **(6 Marks)**

6. (a) M/s Trimurthy & Co. is a partnership firm carrying on trading activity. It has filed all its returns promptly up to the Assessment Year 2020-21. The firm suffered losses year after year due to covid lockdown and some of its major debtors defaulted in payment of their dues. It was decided by the partners on 28-6-2021, when the scrutiny assessment for the Assessment Year 2019-20 was in progress, that the business of the firm should be discontinued and a notice of discontinuance of business was given to the Assessing Officer on 10-7-2021. In these circumstances, you are required to advise on the tax implications for the firm. **(4 Marks)**

- (b) Sun Ltd., a pharmaceutical company incorporated in year 2000-01, purchased a new plant and machinery for ₹ 12 lakhs on 01-04-2021. The total income of the company for Assessment Year 2022-23 before allowing additional depreciation in respect of new plant and machinery is ₹ 22 lakhs. Sun Ltd. has not opted for the concessional tax regime under section 115BAA or 115BA so far.

Compute the tax liability of Sun Ltd. in most beneficial manner for A.Y. 2022-23 assuming its turnover for the previous year 2019-20 was ₹ 338 crores. Ignore the provisions of MAT. **(4 Marks)**

- (c) ETI Ltd., the assessee, has sold goods on 12.01.2022 to LP Ltd., located in notified jurisdictional area (NJA), for ₹ 9.50 crores. During the current financial year, ETI Ltd. charged ₹ 10.50 crores from TP Inc. of Country X and ₹ 11 crores from MN Inc. of Country Y for sale of identical goods and both of which are neither associated enterprise of ETI Ltd. nor they are situated in any NJA. While sales to TP Inc. and MN Inc. were on CIF basis, the sale to LP Ltd., was on FOB basis, which paid ocean freight and insurance amounting to ₹ 20 lakhs on purchases from ETI Ltd. If sale to TP Inc. and MN Inc. are made on FOB basis, the cost of freight, insurance would amount to ₹ 18 lakhs.

India has a Double Taxation Avoidance Agreement with the Country X and Country Y. The assessee has a policy of providing after sales support service to the tune of ₹ 13 lakhs to all customers except LP Ltd. which procured the same locally at a cost of ₹ 17 lakhs.

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