

**MOCK TEST PAPER 1**  
**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 Question in Division A, working notes are not required.*

*All questions relate to Assessment Year 2020-21, unless stated otherwise in the question.*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

**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. An investment fund (Investment Fund I) incorporated in India in the form of a LLP has 35 unit holders each holding 2 units.

The particulars of income of Investment Fund I for the P.Y.2019-20 is as follows:

- (i) Business income - Rs.14 lakh;
- (ii) Long-term capital gains - Rs.21 lakhs; and
- (iii) Income from other sources - Rs.7 lakhs.

Another investment fund (Investment Fund II) incorporated in India in the form of a company has 50 unit holders each holding 4 units. All unit holders have held the units for a period of more than a year.

The particulars of income of Investment Fund II for the P.Y.2019-20 is as follows:

- (i) Business loss – (Rs.10 lakh);
- (ii) Long-term capital losses - (Rs.20 lakhs); and
- (iii) Income from other sources - Rs.6 lakhs.

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

**(4 x 2 Marks = 8 Marks)**

|     |   |   |
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| (i) | With respect to income of Investment Fund I for the P.Y.2019-20 -   |   |
|     | (a)   | Rs.42 lakhs is taxable in the hands of the investment fund  |
|     | (b)   | Rs.1,20,000 is taxable in the hands of each unit holder   |
|     | (c)   | Rs.21 lakh is taxable in the hands of the investment fund; Rs.60,000 is taxable in the hands of each unit holder. |
| (d) | Rs.14 lakh is taxable in the hands of the investment fund; Rs.80,000 is taxable in the hands of each unit holder. |   |

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| (ii) | What is the applicable rate of tax on the component(s) of income of Investment Fund I for the P.Y.2019-20 in the hands of Investment Fund I? |   |
|      | (a)  | The entire income of Rs.42 lakhs is taxable@30% (plus cess@4%).                         |
|      | (b)  | N.A., since Investment Fund I enjoys pass through status for all its income components. |

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| (c) | Long-term capital gains is taxable@20% (plus cess@4%) and other income@30% (plus cess@4%) |
| (d) | Business income of Rs.14 lakhs is taxable@30% (plus cess@4%)                              |

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| (iii) | With respect to income of Investment Fund II for the P.Y.2019-20 -  |
| (a)   | Income of Rs.6 lakhs from other sources is taxable in the hands of the investment fund and losses of Rs.30 lakh can be carried forward by the investment fund.  |
| (b)   | Losses of Rs.24 lakh, arrived at after set-off of business loss against income from other sources, can be carried forward by the investment fund.   |
| (c)   | Business loss of Rs.4 lakh can be carried forward by the investment fund; capital loss of Rs.40,000 can be carried forward by each unit holder  |
| (d)   | Income of Rs.6 lakhs from other sources is taxable in the hands of the investment fund and business loss of Rs.10 lakh can be carried forward by the investment fund; long-term capital loss of Rs.40,000 can be carried forward by each unit holder. |

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| (iv) | If, in the P.Y.2020-21, Investment Fund II has business income of Rs.15 lakh and long term capital gains of Rs.25 lakhs, then, its total income for A.Y.2021-22 would be - |
| (a)  | Rs.6 lakh  |
| (b)  | Rs.10 lakh   |
| (c)  | Rs.11 lakh   |
| (d)  | Rs.36 lakh   |

2. Mr. Ram, is carrying on business of trading in furniture, whose annual turnover is around Rs.70 to Rs.80 lakhs. From A.Y.2018-19, he declares his profits on presumptive basis under section 44AD. His brother, Mr. Shyam, is carrying on business of wholesale trading in food grains and his annual turnover is around Rs.3 crores. Mr. Shyam also exports food grains to South East Asian countries directly as well as through his associates. The following are the particulars relating to Mr. Ram and Mr. Shyam from A.Y.2017-18 to A.Y.2019-20 –

| <b>Mr. Ram</b>   |  |
|------------------|--|
| (i)              | Filed return of A.Y.2017-18 on 30.4.2019 in response to notice under section 148 served on 20.3.2019   |
| (ii)             | Filed return of A.Y.2018-19 on 12.9.2018   |
| (iii)            | Filed return of A.Y.2019-20 on 25.9.2019   |
| <b>Mr. Shyam</b> |  |
| (i)              | Filed return of A.Y.2017-18 on 30.4.2019 in response to notice under section 148 served on 9.4.2019  |
| (ii)             | Filed return of A.Y.2018-19 on 30.9.2018<br>Assessing Officer made a reference to the Transfer Pricing Officer on 2.4.2019 under section 92CA(1) during the course of proceeding for assessment of A.Y.2018-19 and the Transfer Pricing Officer passed an order on 4.8.2019. |
| (iii)            | Filed return of A.Y.2019-20 on 1.10.2019   |

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

**(3 x 2 Marks = 6 Marks)**

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| (i) | What is the time limit available to the Assessing Officer for completion of Assessment of Mr. Ram and Mr. Shyam for A.Y.2017-18? |  |
|     | (a)  | 31.3.2020 in both cases                |
|     | (b)  | 31.3.2020 and 31.12.2020, respectively |
|     | (c)  | 31.12.2019 and 31.3.2021, respectively |
|     | (d)  | 31.3.2020 and 31.3.2021, respectively  |

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| (ii) | What is the time limit available to the Assessing Officer for completion of assessment by passing order under section 143 for A.Y.2018-19 for Mr. Ram and Mr. Shyam? |   |
|      | (a)  | 30.9.2020, in both cases                |
|      | (b)  | 31.3.2020 and 31.3.2021, respectively   |
|      | (c)  | 30.9.2020 and 30.9.2021, respectively   |
|      | (d)  | 31.12.2020 and 31.12.2021, respectively |

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| (iii) | Assuming that Mr. Ram and Mr. Shyam have business losses pertaining to A.Y.2019-20, can they carry forward such loss for set-off against the business income of A.Y.2020-21? For the purpose of this MCQ, assume that Mr. Ram has never opted for section 44AD. |   |
|       | (a)   | Yes, both Mr. Ram and Mr. Shyam can carry forward their business losses of A.Y. 2019-20 for set-off against the business income of A.Y.2020-21.   |
|       | (b)   | Mr. Ram can carry forward business losses of A.Y.2019-20 for set-off against his business income of A.Y.2020-21; however, Mr. Shyam cannot do so. |
|       | (c)   | Mr. Shyam can carry forward business losses of A.Y.2019-20 for set-off against his business income of A.Y.2020-21; however, Mr. Ram cannot do so. |
|       | (d)   | No, both Mr. Ram and Mr. Shyam cannot carry forward their business losses of A.Y. 2019-20 for set-off against the business income of A.Y.2020-21. |

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| 3. | Mr. Akash is engaged in the business of running motor cars on hire. His brother, Mr. Vikas, is a dentist. Mr. Akash and Mr. Vikas each purchased a motor car of the value of Rs.5 lakh on 1.11.2019 for their business/profession and put the same to use immediately. The written down value of motor cars as on 1.4.2019 may be taken as Rs.50 lakh for Mr. Akash and Nil for Mr. Vikas. What is the depreciation allowable in respect of motor cars to Mr. Akash and Mr. Vikas under section 32 for A.Y.2020-21? <b>(2 Marks)</b> |  |
|    | (a)  | Rs.8,25,000 and Rs.37,500, respectively  |
|    | (b)  | Rs.15,75,000 and Rs.37,500 respectively  |
|    | (c)  | Rs.15,75,000 and Rs.75,000, respectively |
|    | (d)  | Rs.16,12,500 and Rs.75,000, respectively |

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| 4. | The turnover of Mr. Aarav, engaged in wholesale trading business, for the P.Y.2019-20 is Rs. 2 crore and the gross receipts of Mr. Vishal, engaged in legal profession is Rs. 50 lakhs. Mr. Aarav has been regularly following mercantile system of accounting and Mr. Vishal regularly follows cash basis of accounting. Out of the turnover of Mr. Aarav, he receives Rs.1.20 crores through ECS through bank account during the P.Y.2019-20. He receives another Rs.60 lakhs through ECS through bank |  |
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| <p>account on or before 31.7.2020. Mr. Vishal receives Rs. 30 lakhs by account payee bank draft and Rs.20 lakhs by crossed cheque during the P.Y.2019-20. What would be the income chargeable to tax under the head "Profits and Gains of Business and Profession", if they want to minimize their tax liability? Both of them maintain books of account as per section 44AA. Income computed as per the regular provisions of Income-tax Act, 1961 Rs.11,50,000 and Rs.24,75,000 in the hands of Aarav and Vishal, respectively. However, they have not got the books of account audited and do not intend to do so in future. <b>(2 Marks)</b></p> |   |
| (a)  | Rs.16,00,000 and Rs.25,00,000, respectively |
| (b)  | Rs.13,60,000 and Rs.25,00,000, respectively |
| (c)  | Rs.11,50,000 and Rs.24,75,000, respectively |
| (d)  | Rs.12,40,000 and Rs.25,00,000, respectively |

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| <p>5. Mr. Vishal and Mr. Guha sold their residential house property in Pune for Rs.3 crore and Rs.4 crore, respectively, in January, 2020. The house property was purchased by them 25 months back. The indexed cost of acquisition is Rs.1 crore and Rs.1.75 crore, respectively. Mr. Vishal purchased two residential flats, one in Delhi and one in Agra for Rs.70 lakhs and Rs.80 lakhs, respectively, in April, 2020. On the same date, Mr. Guha also purchased two residential flats, one in Mumbai and the other in Pune, for Rs.80 lakhs and Rs.75 lakhs, respectively. Both of them invested Rs.30 lakhs in bonds of NHAI in March, 2020 and Rs.30 lakhs in bonds of RECL in April, 2020. What is the income taxable under the head "Capital Gains" for A.Y.2020-21 in the hands of Mr. Vishal and Mr. Guha? <b>(2 Marks)</b></p> |   |
| (a)  | Rs.70 lakhs and Rs.95 lakhs, respectively |
| (b)  | Rs.60 lakhs and Rs.85 lakhs, respectively |
| (c)  | Nil and Rs.95 lakhs, respectively         |
| (d)  | Nil and Rs.20 lakhs, respectively         |

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| <p>6. Mr. Hari is an interior decorator declaring profits under 44ADA in the P.Y.2019-20 and the earlier previous years. Mr. Hari has to pay brokerage of Rs.10 lakhs to Mr. Lal, a broker to buy a residential house, and Rs.50 lakhs to Mr. Shyam, a contractor for reconstruction of the residential house. Are TDS provisions attracted in the hands of Mr. Hari in respect of the above transactions, and if so, what is the amount of tax to be deducted? <b>(2 Marks)</b></p> |   |
| (a)  | No; TDS provisions are not attracted in the hands of Mr. Hari in respect of payments to Mr. Lal and Mr. Shyam             |
| (b)  | Yes; Mr. Hari has to deduct tax of Rs.50,000 from payment to Mr. Lal and Rs.2,50,000 from payment to Mr. Shyam            |
| (c)  | Mr. Hari does not have to deduct tax on payment to Mr. Lal but has to deduct tax of Rs.2,50,000 from payment to Mr. Shyam |
| (d)  | Mr. Hari does not have to deduct tax on payment to Mr. Lal but has to deduct tax of Rs.50,000 from payment to Mr. Shyam   |

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| <p>7. Mr. X, a foreign national and citizen of USA, working with M Inc., a US based company, came to India during the P.Y. 2019-20 for rendering services on behalf of the employer. He wishes to claim his salary income earned during his stay in India as exempt. Which of the following is not a condition to be fulfilled to claim such remuneration as exempt income under the Income-tax Act, 1961? <b>(2 Marks)</b></p> |   |
| (a)   | M Inc. should not be engaged in any trade or business in India. |

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| (b) | Mr. X should not be engaged in any trade or business in India  |
| (c) | Mr. X's stay in India should not exceed 90 days in aggregate during the P.Y. 2019-20   |
| (d) | Remuneration received by Mr. X should not be liable to be deducted from M Inc.'s income chargeable to tax under the Income-tax Act, 1961 |

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| 8.  | Mrs. Ram, born on 1.4.1960, has a gross total income of Rs.2,90,000 for A.Y.2020-21 comprising of his salary income and interest on savings bank account. He does not claim any deduction under Chapter VI-A. He pays electricity bills of Rs.10,000 per month. He made a visit to Melbourne along with his wife for a month for which he incurred to and fro flight charges of Rs.1.20 lakhs. The remaining expenditure for his visa, stay and sightseeing amounting to Rs.80,000 was met by his son residing in Melbourne. Is Mr. Ram required to file return of income, and if so, why? <b>(1 Mark)</b> |
| (a) | No, Ram is not required to file his return of income.  |
| (b) | Yes, Ram is required to file his return of income, since his gross total income/total income exceeds the basic exemption limit.  |
| (c) | Yes, Ram is required to file his return of income since he pays electricity bills of Rs.10,000 per month.  |
| (d) | Yes, Ram is required to file his return of income since he has incurred foreign travel expenditure exceeding Rs.1 lakh.  |

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| 9   | Mr. Rajesh is aggrieved by an order passed by the Commissioner of Income-tax imposing penalty under section 270A for under-reporting of income. What is the appellate remedy available to him under the Income-tax Act, 1961 and the specified time limit within which he has to file an appeal? <b>(1 Mark)</b> |
| (a) | He can file an appeal to Commissioner (Appeals) u/s 246A within 30 days of service of such order.  |
| (b) | He can file an appeal to Commissioner (Appeals) u/s 246A within 60 days of service of such order.  |
| (c) | He can file an appeal to Appellate Tribunal u/s 253 within 30 days of service of such order.   |
| (d) | He can file an appeal to Appellate Tribunal u/s 253 within 60 days of service of such order.   |

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| 10  | Ms. Aparna and Ms. Dimple, Indian citizens residing in California since the year 2010, visit India for 60 days every year. On 1.3.2020, Ms. Aparna transferred to Ms. Dimple in California, for consideration of dollar equivalent to Rs.15 lakhs, rupee denominated bonds (issued outside India) of X Ltd., a company incorporated in India, which were acquired by her on 1.3.2018 for a price of dollar equivalent to Rs.10 lakhs. What are the capital gains tax implications of such transfer in the hands of Ms. Aparna? <b>(2 Marks)</b> |
| (a) | Ms. Aparna is liable to capital gains tax on long-term capital gains arising on transfer of rupee denominated bonds; indexation benefit is not available  |
| (b) | Ms. Aparna is liable to capital gains tax on long-term capital gains arising on transfer of rupee denominated bonds; indexation benefit is available  |
| (c) | Ms. Aparna is liable to capital gains tax on short-term capital gains arising on transfer of rupee denominated bonds  |
| (d) | There is no capital gains tax implication in the hands of Ms. Aparna in respect of this transaction   |

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| 11. | A Ltd. filed its return of income for A.Y.2018-19 disclosing total income of Rs.15 crore. During the course of assessment, the Assessing Officer made a primary adjustment of Rs.2 crore and passed an order on 1.6.2019 in respect of an international transaction denominated in Indian rupees, consequent to which the total income of A.Y.2018-19 has increased to Rs.17 crore. The excess money of Rs.2 crore has not been repatriated till date. What are the consequences of the primary adjustment made and non-repatriation of excess money in computation of total income of A.Y.2020-21, if it is assumed that A Ltd. has opted to pay additional income-tax@20.9664% on Rs.1 crore on 1.12.2019? Assume that the one year marginal cost of fund lending of SBI as on 1.4.2019 is 8.5% and as on 1.4.2020 is 9%. <span style="float: right;"><b>(2 Marks)</b></span> |
| (a) | Interest of Rs.9,79,167 to be included in total income of A.Y.2020-21.  |
| (b) | Interest of Rs.10,20,833 to be included in total income of A.Y.2020-21.   |
| (c) | Interest of Rs.15,66,667 to be included in total income of A.Y.2020-21.   |
| (d) | Interest of Rs.16,33,333 to be included in total income of A.Y.2020-21.   |

### Division B – Descriptive Questions

*Question No. 1 is compulsory*

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

1. On 1.4.2019, B Ltd, an unlisted domestic company, engaged in the business of manufacturing of tyres, converted into an LLP by name M/s. S LLP fulfilling all the conditions specified in section 47(xiiib) of the Income-tax Act, 1961. Some of the relevant information is given below in respect of B Ltd., as on 31.3.2019:
  - (a) 150 equity shares in T Ltd., an Indian company listed in National Stock Exchange was acquired for Rs. 1,900 per share on 31.7.2017. On conversion, these share become the property of M/s. S LLP.
  - (b) Voluntary Retirement Scheme (VRS) expenditure incurred by the company during the P.Y. 2017-18 is Rs.20 lakhs. The company was allowed deduction of Rs. 4 lakhs each for the P.Y.s 2017-18 &2018-19 under section 35DDA.
  - (c) Besides other assets transferred to M/s. S LLP by M/s. B Ltd., it also transferred two factory buildings. On 1.4.2019, M/s. S LLP leased out one factory building along with plant and machineries and furniture etc. at a consolidated lease rent of Rs. 50,000 per month.

During the previous year 2019-20, M/s. S LLP earned a profit of Rs. 25,40,000 after debit/credit of the following items to its Profit and loss account:

  - (i) Mr. Bharat is the working partner of the LLP. He is also a working partner in another firm. He is actively engaged in the business of both the firms. Bharat gets, a salary of Rs. 55,000 p.m. from M/s. S LLP. He is the only working partner whose remuneration is authorised by the partnership deed.
  - (ii) Mr. Aayush, an employee, was deputed to work in the client's office in Mumbai for three months. The LLP has paid his salary in cash for the months when he was in Mumbai, amounting to Rs.3,45,000 (net of TDS and other deductions), since he did not have a bank account in Mumbai. This payment was included in amount of "salary" debited to profit and loss account. Mr. Aayush is normally posted in Delhi being the headquarter of M/s. S LLP.
  - (iii) Amount of Rs. 25,000 was paid towards penalty for non-fulfilment of delivery conditions of a contract for sale for the reasons beyond its control.
  - (iv) The LLP had provided an amount of Rs. 18 lakhs being the sum estimated as payable to workers based on agreement to be entered with workers union towards periodical wage revision once in 3 years. The provision is based on a fair estimation of wage and reasonable certainty of revision once in 3 years.

- (v) Depreciation debited to profit and loss account Rs. 5,40,000.
- (vi) Gratuity provisions based on actuarial valuations Rs. 6.5 lakhs. (Gratuity actually paid Rs. 4 lakhs to retired employees debited in Gratuity provision account).
- (vii) Profit on sale of shares of M/s. T Ltd. Rs. 1,27,500. These shares were sold on 31.5.2019 for Rs. 2,750 per share. The highest price of T Ltd. quoted on the stock exchange as on 31.1.2018 was Rs. 2,500 per share.
- (viii) Repairs to plant and machinery include Rs. 59,000 in respect of plant and machinery given on lease.
- (ix) Factory licence fee paid Rs. 15,000 for each factory building.
- (x) Legal fee includes Rs. 26,000 paid to an advocate for drafting and registering the lease agreement.

**Additional Information:**

- (1) Under an agreement of debt restructuring, the bank has converted unpaid interest amounting to Rs.9,00,000 up to 31.7.2019 into a new loan account repayable in 3 equal annual instalments. The first instalment was paid in March 2020 by debiting the new loan account.
- (2) Mr. Bharat, being a working partner, bought a car which is registered in his own name out of the funds of LLP. The car was used exclusively for the purposes of the business of the LLP only. The depreciation on the car amounts to Rs. 15,000 for the P.Y. 2019-20.
- (3) Depreciation as per Income-tax Rules Rs. 8,10,000 (including depreciation on the assets given on lease amounting to Rs. 90,000). It does not include depreciation on car.
- (4) The LLP sold import entitlements on 1.5.2019 for Rs.1,50,000. This sum is not included in profit and loss account by treating it as capital receipt.

You are required to discuss the implication of such conversion and calculate the total income in the hands of M/s S LLP for the Assessment Year 2020-21. **(14 Marks)**

- 2 (a) M/s Sargam, a partnership firm, has earned a gross total income of Rs. 300 lacs for the year ended 31-3-2020. The firm has not undertaken any international transaction or specified domestic transaction during the said year.

The above includes a profit of Rs. 220 lacs from an undertaking having a turnover of Rs. 80 crores. This is the fifth year and deduction under section 80-IA of the Income-tax Act, 1961 is available to the extent of Rs. 200 lacs.

There are some grey areas in the taxation workings and hence, the assessee is contemplating to file the return of income on 10-12-2020, after seeking clarifications from tax experts.

Advise the assessee-firm by working out the total income and tax payable, where the return is filed on 30-09-2020 or when the same is filed on 10-12-2020.

What is the practical solution as regards obtaining clarifications, which might or might not have an impact on the total income? You may ignore interest under section 234A, 234B, 234C and 234F while making the computation in support of your advice **(8 Marks)**

- (b) Mr. Ravi, an individual resident in India aged 45 years, furnishes you the following particulars of income earned in India, Foreign Countries "S" and "T" for the previous year 2019-20.

| Particulars  | Rs.      |
|--|----------|
| <b>Indian Income:</b>  |          |
| Income from business carried on in Mumbai                        | 4,40,000 |
| Interest on savings bank with ICICI Bank                         | 42,000   |
| <b>Income earned in Foreign Country "S" [Rate of tax – 16%]:</b> |          |

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|--|----------|
| Agricultural income in Country "S"   | 94,000   |
| Royalty income from a book on art from Country "S" (Gross)                                 | 7,80,000 |
| Expenses incurred for earning royalty  | 50,000   |
| <b>Income earned in Foreign Country "T" [Rate of tax – 20%]:</b>                           |          |
| Dividend received from a company incorporated in Country "T"                               | 2,65,000 |
| Rent from a house situated in Country "T" (gross)  | 3,30,000 |
| Municipal tax paid in respect of the above house (not allowed as deduction in Country "T") | 10,000   |

Compute the total income and tax payable by Mr. Ravi in India for A.Y. 2020-21 assuming that India has not entered into double taxation avoidance agreement with Countries S & T. **(6 Marks)**

3. (a) "Serving the poor", a charitable trust, is registered under section 12AA of the Act. On 1.4.2019, it got merged with M/s. AP Ltd., which is a company engaged in manufacturing of steel utensils.

All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. AP Ltd who is not entitled for registration under section 12AA of the Act.

The trust appointed a registered valuer for the valuation of its assets and liabilities. From the following particulars (including the valuation report), calculate the tax liability in the hands of the trust arising as a result of such merger:

- (i) Stamp duty value of land held Rs.15 lakhs. However; if this land is sold in the open market, it would ordinarily fetch Rs.17 lakhs. The book value of the land is Rs.20 lakhs.
- (ii) 75,000 equity shares in Ink Ltd. traded in Delhi Stock Exchange. The lowest price per share on 1.4.2019 was Rs.75 and the highest price on that day was Rs.85. The book value was Rs.67 lakhs.
- (iii) 55,000 preference shares held in N Ltd. The shares will fetch Rs.44 lakhs, if they are sold in the open market on 1.4.2019. Book value was Rs.25 Lakhs.
- (iv) Corpus fund as on 1.4.2019Rs.15 Lakhs.
- (v) Outside liabilities Rs.90 lakhs
- (vi) Provision for taxation Rs.5 lakhs.
- (vii) Liabilities in respect of payment of various utility bills Rs.6 lakhs.

**Note:** Give reasons for treatment of each item. **(8 Marks)**

- (b) Mr. Suresh is a resident of the Contracting States, namely, Country "L" and Country "M", as per the domestic tax laws of the respective countries. Explain the manner of determining the single status of residence of Mr. Suresh as per the UN Model Convention. **(6 Marks)**
4. (a) Examine the liability for tax deduction at source in the following cases for the assessment year 2020-21:
- (i) Mr. X, an employee of M/s. JK Ltd. since 10-04-2016. He resigned on 31-03-2020 and withdrew Rs. 80,000 being the balance in his EPF account. His PAN is available with M/s JK Ltd.
  - (ii) MNO Ltd. is a producer of natural gas. During the year, it sold natural gas worth Rs.20,50,000 to M/s HP, a partnership firm. It also incurred Rs.2,00,000 as freight for the transportation of gas. It raised the invoice and clearly bifurcated the value of gas as well as the transportation charges.
  - (iii) M/s. Sahil & Co. is engaged in the business of stock broking, depositories, mobilisation of



deposits and marketing of public issues. It is a registered member of National Stock Exchange. Every year it makes payment amounting to Rs.10 lakhs, to the Stock Exchange by way of transaction charges in respect of fully automated online trading facility. This service is available to all members of the stock exchange in respect of every transaction that is entered into.

- (iv) FlySKy Ltd. has paid amount of Rs. 5 lacs during the year ended 31-3-2020 to Airports Authority of India towards landing and parking charges. **(8 Marks)**
- (b) M/s. S&J Co. Ltd., Chennai entered into the following agreements with various non-resident entities during the previous year 2019-20:
- (i) Paid Rs.3,75,000 to M/s. Star Inc., a company based in Canada for online advertisement of its products. M/s. Star Inc., does not have a PE in India.
- (ii) Paid Rs. 85,000 to Mr. D, a non-resident individual, against providing digital space for online advertisement of its products.
- (iii) Paid Rs.1,96,000 to M/s MakeMoney Ltd., for providing a platform for sale of its used furniture items. M/s. MakeMoney Ltd., is a company based in China and does not have a PE in India.

Examine the tax implications of such payments. **(6 Marks)**

5. **Attempt either 5(a)(i) (or) 5(a)(ii)**

- (a) (i) The Director General of Income-tax after getting the information that Mr. Sujay is in possession of unaccounted cash of Rs. 85 lacs, issued orders by invoking powers vested in him as per section 131(1A), for its seizure. Is the order for seizure of cash issued by the Director General of Income-tax correct? If not, does the Director General of Income-tax have any other power to seize such cash? **(4 Marks)**

**OR**

- (ii) Smt. Vimal engaged in the business of growing, curing, roasting and grounding of coffee after mixing chicory had a total income of Rs. 5,00,000 from this business which was her only source of income during the year ended on 31.3.2020. She consults you to have an opinion whether she is required to file return of income for the A.Y. 2020-21 as per provisions of section 139(1).

Would your answer change if she had travelled to Australia during the P.Y.2019-20 and incurred Rs. 2.50 lakhs for the same? **(4 Marks)**

- (iii) A petition for stay of demand was filed before ITAT by TRY Ltd. in respect of a disputed demand for which appeal was pending before it, on which stay was granted by the ITAT *vide* order dated 1.1.2019. The bench could not function thereafter till 1.2.2020 and therefore, the disputed matter could not be disposed off. The Assessing Officer attached the bank account on 16.2.2020 and recovered the amount of Rs. 21 lacs against the arrear demand of Rs. 25 lacs. The assessee requested the Assessing Officer to refund back the amount as it holds stay over it. The Assessing Officer rejected the contention of the assessee. Now the assessee seeks your opinion. **(4 Marks)**
- (b) (i) NP Ltd., an Indian Company has borrowed Rs. 80 crores on 01-04-2019 from M/s. TL Inc, a Company incorporated in London, at an interest rate of 10% p.a. The said loan is repayable over a period of 5 years. Further, loan is guaranteed by M/s ST Inc. incorporated in UK. M/s. Tweed Inc, a non-resident, holds shares carrying 40% of voting power both in M/s NP Ltd. and M/s ST Inc.

Net profit of M/s. NP Ltd. for P.Y. 2019-20 was Rs. 7 crores after debiting the above interest, depreciation of Rs. 4 crores and income-tax of Rs. 3 crores. Calculate the amount of interest

to be disallowed under the head “Profits and gains of business or profession” in the computation of M/s NP Ltd., giving appropriate reasons? **(4 Marks)**

- (ii) Innovation & Co. is engaged in providing scientific research services to several non-resident clients. Such services are also provided to T Inc., which guarantees 15% of the total loans of Innovation & Co. Examine whether transfer pricing provisions are attracted in respect of this transaction. **(2 Marks)**

6. (a) Explain the circumstances under which the Assessing Officer can resort to provisional attachment of the property of the assessee. Also, state the period of time for which such attachment can take place. **(4 Marks)**

- (b) Under the provisions of a tax treaty between India and Country P, if a resident of country P makes any capital gains by selling the shares in any Indian Company, such capital gains will be taxable only in Country P and it will be exempt from tax in India. However, as an exception it is also provided that, such exemption is not available if the transferor holds more than 10% interest in the equity capital of the Indian Company. PFX Ltd., a resident in Country P floated two wholly owned subsidiaries in Country P. On 1.4.2019, both the subsidiaries bought 9% shareholding in TRP Co. Ltd., an Indian Company. These subsidiaries do not have any other income. On 31.12.2019, both of them sold the investment in TRP Co. Ltd. Each of the subsidiaries claim exemption from Indian capital gains tax amounting to Rs.2.5 crores from such sale, as each is holding less than 10% equity shares in the Indian Company. Can GAAR be invoked in such case to deny the treaty benefit?

Will your answer be different if the capital gain tax on such sale is calculated at Rs.1.2 crores each?

**(4 Marks)**

- (c) STYLE Inc, a notified Foreign Institutional Investor (FII), derived the following incomes for the financial year 2019-20:-

- (1) Interest received on investment in Rupee Denominated Bonds of ABC Ltd., an Indian company (investment was made in the F.Y.2018-19) - Rs. 8,50,000
- (2) Dividend from listed shares of Indian companies – Rs. 6,20,000
- (3) Interest on securities – Rs.17,32,000 (Expenses of Rs. 26,000 has been incurred to earn such income)
- (4) Income from sale of securities and shares:

|              |   |               |
|--------------|---|---------------|
| <b>(i)</b>   | <b>Bonds of J Ltd.</b><br><b>[Date of purchase 5 May 2016; Date of sale 7 March 2020]</b>                         |               |
|              | Sale proceeds :   | Rs. 47,00,000 |
|              | Cost of purchase :<br>Cost Inflation Index: F.Y.2016-17:264; F.Y.2019-20:289                                      | Rs. 32,00,000 |
| <b>(ii)</b>  | <b>Listed Shares of E Ltd.</b><br><b>[Date of purchase – 2 May, 2019; Date of sale – 9 February, 2020]</b>        |               |
|              | Sale Consideration  | Rs. 12,40,000 |
|              | Purchase cost   | Rs. 7,80,000  |
|              | [STT paid both at the time of purchase and sale]  |               |
| <b>(iii)</b> | <b>Unlisted equity shares of M Ltd.</b><br><b>[Date of purchase – 1 July, 2019; Date of sale – 7 March, 2020]</b> |               |
|              | Sale Consideration  | Rs. 8,40,000  |
|              | Purchase cost   | Rs. 3,72,000  |

Compute the total income and tax liability of the FII, STYLE Inc., for the A.Y. 2020-21, assuming that no other income is derived by STYLE Inc. during the F.Y.2019-20. **(6 Marks)**