

**FINAL EXAMINATION**

December 2017

**P-16(DTI)**  
**Syllabus 2016**

**Direct Tax Laws and International Taxation**

Time Allowed: 3 Hours

Full Marks: 100

*Wherever required, the candidate may make suitable assumptions and state them clearly in the answers.*

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

*All questions relate to Assessment Year 2017-18 and the provisions referred to are those of the Income-tax Act, 1961.*

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

**Section-A**

1. Choose the most appropriate alternative and give justification in brief/brief working for your answer: 2×10=20

- (i) BG(P) Ltd. received royalty ₹ 10 lakhs in respect of a patent developed and registered in India. The income-tax payable on the royalty shall be at
- (A) 10%
- (B) 15%
- (C) 20%
- (D) 30%
- (ii) In the case of assessee who is covered under section 44AD the amount of tax payable by way of advance tax shall be paid on or before
- (A) 15th day of March.
- (B) 31st day of March.
- (C) 31st day of December.
- (D) the date of filing the return of income.

**Please Turn Over**

- (iii) When a motor car is acquired for ₹ 12 lakhs by Mr. Johnson on 01.11.2016 by availing bank loan of ₹ 10 lakhs for such acquisition, the car dealer selling the motor car must collect tax at source of
- (A) Nil
  - (B) ₹ 10,000 @1% exceeding ₹ 2 lakhs.
  - (C) ₹ 12,000 @1% on the entire sale price.
  - (D) ₹ 24,000 @2% on the entire sale consideration.
- (iv) When Mr. Arun (age 50) has business loss of ₹ 15 lakhs and unexplained cash credit of ₹ 20 lakhs, the total tax liability including cess would be
- (A) ₹ 4,37,750
  - (B) ₹ 6,18,000
  - (C) ₹ 25,750
  - (D) ₹ 1,54,500
- (v) In December, 2016 Excel Ltd. and Exceed Ltd. got amalgamated to form Excellence Ltd. The expenditure for the purpose of amalgamation was ₹ 10 lakhs. The amount of amalgamation expenditure deductible for the assessment year 2017-18 would be
- (A) ₹ 10 lakhs
  - (B) ₹ 2 lakhs (one-fifth)
  - (C) ₹ 1 lakh (one-tenth)
  - (D) ₹ 5 lakhs (one-half)

- (vi) Venus Traders engaged in turmeric trade with a turnover exceeding ₹ 200 lakhs dispatched its goods through Indian Railways. The amount of freight payable as on 31.03.2017 was ₹ 1,40,000. It wants to claim the freight as expenditure. To satisfy such claim, it has to pay the freight to Indian Railways
- (A) before due date specified in Section 139(1).
- (B) before the end of the previous year.
- (C) before the end of the assessment year.
- (D) and there is no time restriction.
- (vii) A capital asset being shares in a private company held for more than \_\_\_\_\_ months shall be a long term capital asset.
- (A) 12
- (B) 24
- (C) 36
- (D) 6
- (viii) When wife Laxmi being legal heir of Udayakumar received ₹ 10 lakhs from National Pension System Trust referred to in Section 80CCD, the amount of receipt chargeable to tax is
- (A) ₹ 10 lakhs
- (B) ₹ 4 lakhs @40%
- (C) Nil
- (D) ₹ 7,50,000 @75%

- (ix) In the case of non-government employee the monetary limit for exemption in respect of leave salary at the time of retirement is
- (A) ₹ 5 lakhs
  - (B) ₹ 50,000
  - (C) ₹ 3 lakhs
  - (D) ₹ 1.50 lakhs
- (x) Penalty for failure to furnish statement of financial transaction is
- (A) ₹ 5,000
  - (B) ₹ 10,000
  - (C) ₹ 200 for every day of delay
  - (D) ₹ 100 for every day of delay

**Section-B**

2. (a) Ganga Ltd., is a company in which 70% of the shares are held by Himalaya Ltd. Ganga Ltd., declared a dividend amounting to ₹ 40 lacs to its shareholders for the financial year 2015-16, in its Annual General Meeting held on 19th May, 2016. Dividend distribution tax was paid by Ganga Ltd. on 21st May, 2016. Himalaya Ltd. declared an interim dividend amounting to ₹ 60 lacs on 15th June, 2016.

Compute the amount of tax on dividend payable by Himalaya Ltd. Detailed note on the provisions involved is essential.

6

- (b) Sanvitha & Co., is a partnership firm trading in fertilisers, consisting of two partners S and V, who both have individual incomes from all the other sources (except remuneration and interest from this firm) in excess of ₹ 10 lakhs.

For the year ended 31.03.2017, the turnover of the assessee is likely to be ₹ 90 lakhs.

The partnership deed provides for payment of remuneration to S, the working partner at ₹ 6 lakhs per annum and ₹ 1.2 lakhs per annum to V, non-working partner. S and V are amenable to drafting these terms differently, as per your advice.

Partners' capitals are ₹ 10 lakhs each and the deed authorises payment of simple interest at 15%.

Assuming that books of account are maintained, the profits before considering remuneration and interest on capital is ₹ 12.4 lakhs.

In the light of above, state

- (i) Whether it will be advisable to opt for presumptive taxation u/s 44AD, if the firm and the partners are desirous of reducing their overall tax liability (tax of firm and the partners), or should the firm go for maintenance of accounts and audit u/s 44AB. 8
- (ii) Will your answer be different, if the assessee were an LLP? 2

3. (a) Mr. Manekshaw a resident sold a residential property for ₹ 90 lakhs to Mr. Sunderlal on 17.08.2016. The stamp duty valuation on the date of sale was ₹ 105 lakhs. Earlier in February, 2016 an agreement was entered into by the parties and Mr. Sunderlal gave ₹ 5 lakhs as advance by means of electronic transfer. The stamp duty valuation at the time of agreement was ₹ 95 lakhs. Mr. Manekshaw paid ₹ 1 lakh as commission to broker, Mr. Vaidya. The property was acquired by Mr. Manekshaw in December, 2000 for ₹ 20 lakhs.

In July, 2016 Mr. Manekshaw sold a vacant site to Mr. Dayal for ₹ 30 lakhs. The stamp duty valuation of the site at the time of sale was ₹ 27 lakhs. The site was acquired in April, 2013 for ₹ 7 lakhs.

Mr. Manekshaw acquired a residential building in June, 2016 for ₹ 120 lakhs by availing a bank loan. Stamp duty and registration fee paid for the property amounts to ₹ 6 lakhs. He repaid the bank loan out of the sale proceeds of both the assets referred earlier. The new residential building was let out for a monthly rent of ₹ 1 lakh from 01.07.2016. Interest for the year 2016-17 in respect of the property amounts to ₹ 6 lakhs.

Compute the total income of Mr. Manekshaw for the Assessment Year 2017-18.

Cost inflation index F.Y. 2000-01 = 406; F.Y.2013-14 = 939; F.Y. 2016-17 = 1125

9

- (b) ABC Ltd. was amalgamated with XYZ Ltd. on 01.04.2016. All the conditions of Section 2(1B) were satisfied and amalgamation is within the meaning of Section 72A of Income-tax Act. ABC Ltd. has the following carried forward losses as assessed till the Assessment Year 2016-17.

Particulars	₹ (in lakhs)
Speculative loss	4
Unabsorbed depreciation	18
Unabsorbed expenditure of capital nature on scientific research	2
Business loss (Non speculative)	120

XYZ Ltd. has computed a profit of ₹ 140 lakhs for the financial year 2016-17 before setting off eligible losses of ABC Ltd. but after providing depreciation at 15% per annum on ₹ 150 lakhs, being the consideration at which plant and machinery were transferred to XYZ Ltd. The written down value as per income tax record of ABC Ltd. as on 31st March, 2015 was ₹ 100 lakhs. Above profit of XYZ Ltd. includes speculative profit of ₹ 10 lakhs. Compute the total income of XYZ Ltd. for Assessment Year 2017-18.

7

4. (a) Ms. Pallavi is partner in a firm with 30% share. Her capital contribution representing her own funds in the firm on 01.04.2015 was ₹ 5 lakhs. She received a gift of ₹ 10 lakhs from her husband on 01.07.2015 and invested ₹ 7 lakhs as her capital contribution in the firm. She withdrew the entire interest on capital and working partner salary and share of profit for the year ended 31.03.2016. Her capital on 01.04.2016 was ₹ 12 lakhs in the firm. She received a gift of ₹ 4 lakhs from her father-in-law on 01.05.2016 and invested the same into the firm.

For the year ended 31.03.2017, her income from the firm are as under:

Interest on capital at 12% on ₹ 16 lakhs for 11 months ₹ 1,76,000.

Interest on capital at 12% on ₹ 12 lakhs for 1 month = ₹ 12,000.

Share of profit from the firm ₹ 90,000.

State how Ms. Pallavi's income from the firm would be taxed for the Assessment Year 2017-18.

5

- (b) Sony Textiles (P) Ltd., Surat earned a profit of ₹ 20 lakhs after debit/credit of the following items to its statement of profit and loss for the year ended 31.03.2017:

	Particulars	₹
Items debited to statement of profit and loss:		
(i)	Provision for the loss of subsidiary	2,00,000
(ii)	Provision for doubtful debts	1,50,000
(iii)	Provision for income-tax	3,00,000
(iv)	Provision for Gratuity (based on actuarial valuation ₹ 5 lakhs)	7,00,000
(v)	Depreciation	5,60,000
(vi)	Interest to financial institution (unpaid till filing of return on 01.12.2017)	2,50,000
(vii)	Penalty for infraction of law	60,000
Items credited to statement of profit and loss:		
(i)	Royalty in respect of patent (chargeable to tax under section 115BBF)	6,00,000
(ii)	Share income as partner in a firm	1,20,000
(iii)	Dividend from subsidiary company	75,000
(iv)	Long term capital gains on sale of vacant land	4,00,000

Other information:

- (i) Depreciation includes ₹ 1,60,000 on account of revaluation of fixed assets.
- (ii) Depreciation as per Income-tax Rules is ₹ 2,80,000.
- (iii) Income tax liability on income computed as per regular provisions for the Assessment Year 2017-18 is ₹ 1,22,070 excluding tax on royalty chargeable to tax under section 115BBF.

Compute minimum alternate tax under section 115JB of the Income-tax Act, 1961 for Assessment Year 2017-18 and tax credit eligible for carry forward by the company under section 115JAA. 11

5. (a) Mr. Kamal (Age 55), a resident individual derived following incomes during the year 2016-17:
- (i) Income from profession (computed) ₹ 5,50,000.
  - (ii) Rent from property located in foreign country 'X' ₹ 30,000 per month. Municipal tax paid in that country ₹ 30,000. Tax paid in foreign country in equivalent Indian currency is ₹ 33,000.
  - (iii) Royalty on books from foreign country 'Y' (converted into Indian currency) ₹ 10 lakhs. It is eligible for Chapter VI-A deduction under applicable provision. Tax paid in respect of royalty at 20%. Expenditures incurred for earning royalty ₹ 2 lakhs.
  - (iv) Interest from savings bank account ₹ 15,000.

Note: There is no DTAA between India and country 'X'/country 'Y'. Compute the total tax liability of Mr. Kamal for the Assessment Year 2017-18. 8

- (b) Enumerate the consequences that would ensue if the Assessing Officer makes adjustment to arm's length price in international transactions of the assessee resulting in increase in total income of the assessee. What are the remedies available to an assessee to dispute such adjustment made? 4
- (c) When is transaction treated as an international transaction as per Section 92CB? 4



6. (a) Discuss how the following items which have been debited to the Statement of Profit & Loss of Vaibhav Polymers Ltd., will be dealt with, in computing its business income: 8

- (i) ₹ 20 lakhs paid to ten workmen on account of voluntary retirement of the said employees;
- (ii) ₹ 2 lakhs paid towards advertisement in a souvenir published by a political party, by way of account payee cheque;
- (iii) One of the units of the company was closed and retrenchment compensation of ₹ 12 lakhs was paid to the employees in that unit;
- (iv) Loss incurred by way of trading in commodity derivative transactions in recognized stock exchange relating to its agro division ₹ 2,20,000.

(b) Discuss the validity of following statements: 2×4=8

- (i) Mr. A has long term capital gain of ₹ 7 lakhs from sale of listed shares for the year 2016-17. He has no other income chargeable to tax. As the long term capital gain is exempt under section 10(38), he need not file his return of income for the Assessment Year 2017-18.
- (ii) A belated return under section 139(4) cannot be furnished after the end of the relevant assessment year.
- (iii) A belated return filed under section 139(4) cannot be revised.
- (iv) Where the return is filed without payment of self-assessment tax it would be deemed as defective return.

7. (a) In "A Pvt. Ltd.", a closely-held company, following are some of the shareholders holding equity shares entitled to dividend and voting power:

Mr. Janak (individual)	12%
Janak (HUF)	5%
Thilagam & Co. (LLP)	30%
B Pvt. Ltd.	25%

On 12.01.2017, the company declared dividend of ₹ 50 lakhs net, after paying dividend distribution tax u/s 115-O.

During the year, Mr. Janak obtained a loan of ₹ 7 lakhs on 13.04.2016, which was repaid on 30.03.2017. As on 13.04.2016, the credit balance in Profit and Loss account of the company was ₹ 5 lakhs.

Janak (HUF) has received dividend of ₹ 8 lakhs from equity-oriented approved mutual funds.

For investing in the company's shares, Thilagam & Co. (LLP) has borrowed some funds on which interest of ₹ 2 lakhs was paid during the year ended 31.03.2017, tax being duly deducted at source and paid to the credit of the Central Govt.

Determine the income-tax liability in respect of each of the shareholders, in respect of the aforesaid receipts.

8

- (b) Raghunath (P) Ltd. is engaged in multiple business activities. It has brought forward business loss of Assessment Year 2010-11 of ₹ 15 lakhs and unabsorbed depreciation of ₹ 20 lakhs. The company has 10 shareholders each having 10% of the equity share capital of the company.

Four shareholders transferred the shares to their relatives in October, 2016.

One shareholder died in February, 2017 and yet another shareholder gifted his shares to his son in August, 2017.

The company for the previous year 2016-17 earned Net Profit of ₹ 10 lakhs (computed) as per regular provisions before set off of brought forward loss and depreciation given above. Its book profit under section 115JB for the Assessment Year 2017-18 is ₹ 25 lakhs (computed).

- (i) How much of accumulated loss and unabsorbed depreciation, the company could carry forward to the subsequent assessment years?
- (ii) Assume, the company converted into LLP in April, 2017. In the light of such conversion consider the amount of accumulated loss and depreciation which it can carry forward. Will there be any reduction of benefit on violation of any condition?

8

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

4×4=16

- (a) Regular assessment
  - (b) Protective assessment
  - (c) Best judgement assessment
  - (d) Liability of members after partition of HUF
  - (e) Powers of Commissioner (Appeals)
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