

**Paper 7 – Direct Taxation**

### Paper 7 – Direct Taxation

Time Allowed: 3 Hours

Full Marks: 100

Answer Question No. 1 which is compulsory and any FOUR from Question No 2 to 7.

1.

(a) Fill in the blanks:

5 x 1 = 5

- (i) Rebate u/s 87A is allowed ₹\_\_\_\_\_ to an Individual who is resident in India and whose income does not exceed ₹ 5,00,000.
- (ii) Tds rate for payment in respect of NSS deposit is \_\_\_\_\_.
- (iii) Employer contribution to the superannuation fund shall be tax free perquisite upto ₹ \_\_\_\_\_.
- (iv) Assessee engaged in business of generation or transmission or distribution of power shall be allowed additional depreciation at the rate of \_\_\_\_\_.
- (v) Standard deduction @ \_\_\_ is allowed from such arrear of rent or unrealised rent.

(b) Choose the most appropriate alternative.

5 x 1 = 5

- (i) Interest rate on refund as per section 244A (1A)
  - (a) 3%
  - (b) 6%
  - (c) 9%
  - (d) None of the above
- (ii) Quantum of deduction u/s 80EE is\_\_\_\_\_.
  - (a) 5,000
  - (b) 50,000
  - (c) 75,000
  - (d) None of the above
- (iii) Island duty allowance is exempt upto \_\_\_\_
  - (a) 1,300
  - (b) 1,800
  - (c) 2,500
  - (d) 3,250
- (iv) Threshold limit for person having income from business u/s 44AD is\_\_\_\_\_.
  - (a) 50 Lakh
  - (b) 80 Lakh
  - (c) 1 crore
  - (d) 2 crore
- (v) Tax to be collected at source in case of commission on sale of lottery tickets.
  - (a) 1%
  - (b) 2%
  - (c) 5%
  - (d) 10%

(c) State true or false with reasons:

5 x 2 = 10

- (i) The Finance Act has amended so as to exclude Deposit Certificates issued under Gold Monetization scheme, 2015 notified by Central Government from the definition of capital assets and thereby has exempted it from capital gain tax.
- (ii) The term hearing as per section 2(23C) excludes communication of data and documents through electronic mode.
- (iii) The amount of tax, interest, penalty, fine or any other sum payable, and the amount of refund due, under the provisions of the Income tax Act shall be rounded off to the nearest multiple of ten rupees.
- (iv) Contingent income is not income. Until the contingency has happened it cannot be postulated that income has accrued or has arisen to the assessee.

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- (v) Fair rent is the rent which a similar property can fetch in the same or similar locality, if it is let for a year.

**Answer: (a)**

- i. ₹ 5000
- ii. 10%
- iii. ₹ 1,50,000
- iv. 20%
- v. 30%

**Answer: (b)**

- i. c
- ii. b
- iii. d
- iv. d
- v. c

**Answer: (c)**

- i. True: The Finance Act has amended so as to exclude Deposit Certificates issued under Gold Monetization scheme, 2015 notified by Central Government from the definition of capital assets and thereby has exempted it from capital gain tax.
- ii. False: The term hearing as per section 2(23C) includes communication of data and documents through electronic mode.
- iii. False: As per Section 288B The amount of tax, interest, penalty, fine or any other sum payable, and the amount of refund due, under the provisions of the Income tax Act shall be rounded off to the nearest multiple of ten rupees.
- iv. True: Contingent income is not income. Until the contingency has happened it cannot be postulated that income has accrued or has arisen to the assessee.
- v. True: Fair rent is the rent which a similar property can fetch in the same or similar locality, if it is let for a year.

**2. a.)** Mr. Pankaj is Manager of a Textile Company of Jaipur, since 1990. He has submitted the following particulars of his income for the financial year 2016-17. Compute income from salaries for the assessment year 2017-18. Assume the population of Jaipur is 26 lakhs as per 2001 census.

- (i) Basic salary ₹ 2,40,000.
- (ii) Dearness Allowance ₹ 5,000 per month (₹ 200 p.m. enters into retirement benefits).
- (iii) Education allowance for two children at ₹ 150 p.m. per child.
- (iv) Commission on sales 1 % of turnover of ₹ 10,00,000.
- (v) Entertainment allowance ₹ 700 p.m.
- (vi) Travelling Allowance for his official tours ₹ 30,000. The entire amount is spent on the official tour.
- (vii) He was given cloth worth ₹ 1,000 by his employer free of cost.
- (viii) He resides in the flat of the company. Its market rent is ₹ 12,000 p.m. A watchman and a cook have been provided by the company at the bungalow who are paid ₹ 400 per month each.
- (ix) He has been provided with a motor car of 1.8 ltr. engine capacity for his official as well as personal use. The running and maintenance costs are borne by the Company.
- (x) Employer's contribution to R.P.F. is ₹ 40,000 and the interest credited to this fund at 13% rate amounted to ₹ 16,250.
- (xi) Contribution by Pankaj to recognised provident fund ₹ 40,000.
- (xii) Rent of house recovered from Pankaj ₹ 1,500 p.m.
- (xiii) Tax deducted at source from the above payments ₹ 6,000.

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**8 Marks**

**2. b.)** Sri Amit is the owner of a business. Following is his P & L A/c for the year ended on 31.3.2017. Compute the Gross Total Income for the AY 2017-18.

**7 marks**

Profit & Loss A/c for the year ending 31.3.2017

Particulars	Amount (₹)	Particulars	Amount (₹)
Establishment charges	5,110	Gross profit	50,870
Rent, rates and taxes	2,900	Interest on Govt. Securities (Gross)	5,350
Sundry expenses	7,050	Rent from property	5,400
Household expenses	1,880		
Provision for bad debts	1,200		
Loss on sale of motor car (used for private purpose)	1,800		
Insurance premium (including life insurance of ₹1790)	2,880		
Interest on bank loan	1,380		
Provision for Depreciation	6,400		
Net profit	31,020		
	61,620		61,620

Other Information is as below;

- (i) Bad debts written off during the year — ₹ 650
- (ii) Admissible depreciation as per Income-tax rules — ₹ 1,600
- (iii) The assessee is running his business in a rented property, half of which is used by him for his own residence. Rent of ₹ 2,400 in respect of entire house is included in rent, rates and taxes. The balance of ₹ 500 is on account of municipal tax paid for property respect of entire house is included in rent, rates and taxes. The balance of ₹ 500 are on account of municipal tax paid for property.

**Answer: 2.(a)**

Computation of Income of Mr Pankaj for the A.Y 2017-18.

Particulars	Amount (₹)	Amount (₹)
Basic Salary		2,40,000
Dearness Allowance @ ₹ 5,000 p.m.		60,000
Education Allowance	3,600	
Less: Exempt	2,400	1,200
Commission on Sales		10,000
Entertainment Allowance @ 700 p.m		8,400
Travelling Allowance	30,000	

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Less: Amount actually spent	30,000	Nil
Cloth given free of cost (tax free perquisites as it does not exceed ₹ 5,000)		–
Value of accommodation at concessional rate: 15% of salary of ₹ 2,62,000	39,300	
Less: Rent deducted	18,000	21,300
Value of facility of cook @ ₹ 400 p.m		4,800
Value of facility of watchman @ ₹ 400 p.m		4,800
Value of car facility ( ₹2,400 x 12)		28,800
Employer's contribution to RPF	40,000	
Less: 12% of salary i.e. of ₹ 2,52,400	30,288	9,712
Interest credited to RPF	16,250	
Less: Exempt 9.5% p.a.	11,875	4,375
Gross Salary		3,93,387
Less Deduction u/s 16		Nil
Income from Salary		3,93,387
<p>Note:</p> <ol style="list-style-type: none"> <li>1. Commission on sales has been taken to be a part of salary as it is a fixed percentage on turnover.</li> <li>2. Salary for purpose of accommodation will include Basic ₹ 2,40,000, DA ₹ 2,400, Education Allowance ₹ 1,200, Commission ₹ 10,000 and Entertainment Allowance ₹ 8,400.</li> </ol>		

**Answer: 2.(b)**

Computation of Gross Total Income of Sri. Amit for the A.Y 2017-18

Particulars	Amount (₹)	Amount (₹)
Income from house property		
Rent received	5,400	
Less: Municipal Taxes	500	4,900
Less: Standard Deduction @30%		1,470
		3,430
Profit and Gains from Business and Profession		
Profit as per P & L Account		31,020
Add: Inadmissible Expenses		
Rent (50% for Personal use)	1,200	
Household expenses	1,880	
Provision for Bad debt	1,200	
Loss on sale of Car	1,800	
Life Insurance Premium	1,790	
Provisions for Depreciation	6,400	
M. Taxes for let out House Property	500	
		14,770
Less: Expenses allowed but not debited to P & L A/c.		
Bad debts	650	
Depreciation	1,600	
		2,250
		43,540
Less: Income not taxable under this head but credited to P & L A/c		
Interest on Govt Securities	5,350	
Rent from property	5,400	
		10,750

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Income from Business		32,790
Income from other sources Interest on securities		5350
Gross Total Income (₹ 3,430 + ₹ 32,790 + ₹ 5,350)		41,570

**3. a.)** Rajat owns a house property which is self-occupied by him till 30.11.2016 and thereafter let out for ₹ 10,000 p.m. The municipal value of house property is ₹ 1,00,000 and the fair rent is ₹ 1,20,000. Rajat paid ₹ 1,50,000 as municipal taxes during the previous year which relate to past years as well as for current year.

Determine the income from house property assuming the insurance premium and interest paid during the year were ₹ 3,000 & ₹ 25,000 respectively. **8 marks**

**3. b.)** From the following information, compute the tax payable by Ram for the A.Y 2017-18.

Listed shares purchased on 31.8.1992 for ₹ 40,000 sold for ₹ 2,00,000 on 1.11.2016 through a recognized stock exchange. Gold ornaments purchased for ₹ 2,00,000 on 1.9.1993 sold for ₹ 8,80,000 on 1.12.2016. His gross salary for the previous year ending 31.3.2017 was ₹ 2,60,000.

**7 marks**

**Answer. 3 (a)**

### Computation of income from house property

Particulars	Amount (₹)	Amount (₹)
Gross Annual Value which shall be higher of the following two: Expected Rent Actual rent received or receivable (10,000 x 4)	1,20,000 40,000	 1,20,000
Less: Municipal Value		1,50,000
Net Annual Value		(-) 30,000
Less: Deduction u/s 24 a) Statutory u/s 24 b) Interest paid Deduction to be allowed	Nil 25,000	 25,000
Income from House Property		(-)55,000

**Answer. 3 (b)**

Particulars	Amount (₹)	Amount (₹)	Amount (₹)
Income under head salary			
Gross salary	2,60,000		
Less: Deduction	Nil		2,60,000
Long-term capital gain			Exempt
(a) From Shares Sold through recognised stock exchange Consideration price	8,80,000 9,22,131	Exempt (-) 42,131	----
Total Income			2,60,000
Tax on ₹ 2,60,000			1,000
Less: Rebate u/s 87A			1,000
Tax Payable			Nil

Note:

1. Long term capital gain on listed securities shall be exempt u/s 10(38).
2. Long term capital loss of ₹ 2,06,066 on gold is not allowed to be set off from other income. Hence, it shall be carried forward to claim it as set off from LTCG in subsequent years.

**4. a.)** Ranjit submits you the following particulars of his income for the assessment year 2017-18.

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**7 marks**

Particulars	Amount (₹)
Income under the head Salary	6,00,000
Income under the head house property	3,00,000
Dividends from domestic company	14,00,000
Compute tax payable by him	

**4. b.)** The estimated gross total income of Mr. Pankaj is ₹ 7,45,000 which includes ₹ 1,00,000 on account of LTCG earned on 16<sup>th</sup> September 2016. Compute the advance tax payable by Mr Pankaj, assuming ₹ 11,000 have been deducted at source during the financial year 2016-17. **8 marks**

**Answer. 4 (a)**

### Computation of total income of Ranjit for the assessment year 2017-18

Particulars	Amount (₹)	Amount (₹)
Income under the head salary (computed)		6,00,000
Income under the head house property		3,00,000
Income from other sources	14,00,000	
Less: Exemption u/s 34	10,00,000	
Balance Taxable		4,00,000
Gross Total Income		13,00,000
Less: Deduction u/s 80C to 80U		Nil
Total Income		13,00,000
Tax payable		
Tax on dividend exceeding ₹ 10,00,000 (4,00,000m x 10%)		40,000
Tax on total Income of ₹ 9,00,000		
₹ 2,50,000	Nil	
Tax on next ₹ 2,50,000 @ 10%	25,000	
Tax on balance income of ₹ 4,00,000	80,000	1,05,000
Tax		1,45,000
Add: EC & SHEC @ 3%		4,350
Total tax payable		1,49,350

**Answer. 4 (b)**

Particulars	Amount (₹)	Amount (₹)
Estimated tax liability with LTCG		
On ₹ 6,45,000	54,000	
On LTCG of ₹ 1,00,000 @ 20%	20,000	74,000
Add: Education cess & SHEC @ 3%		2,220
Total Income		76,220
Less: TDS		11,000
		65,220
Estimated Tax Liability without LTCG		
Tax on ₹ 6,45,000 = ₹ 54,000+ ₹ 1,620	55,620	
Less: TDS	11,000	
		44,620

Advance tax payment schedule

Particulars	Due date	%	Amount (₹)
1 <sup>st</sup> Instalment	15 <sup>th</sup> June, 2016	15%	6,693
2 <sup>nd</sup> Instalment	15 <sup>th</sup> Sept, 2016	45%	13,386
3 <sup>rd</sup> Instalment	15 <sup>th</sup> Dec, 2016	75%	28,836
4 <sup>th</sup> Instalment	15 <sup>th</sup> Mar, 2017	100%	16,305

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**5. a.)** Mr Prabir submits the following information for previous year 2016-17 relevant to the assessment year 2017-18:

Particulars	Amount (₹)
Profit from Business A situated in Delhi	1,50,000
Profit from Business B situated in Mumbai	1,00,000
Loss from Business C carried in New York (the business is controlled from India but profits are not received in India)	60,000
Unabsorbed depreciation of business C	35,000
Income from house property situated in India	10,000
Income from house property situated in London (rent received in London)	20,000

Find out GTI of Mr. Prabir for the A.Y 17-18 as if he is

- (a) Resident in India
- (b) Not ordinary resident in India
- (c) Nonresident in India

**8 marks**

**5. b.)** Mrs. Banerjee who is resident in India provides the following information. Compute her taxable income for the A.Y 17-18 and tax thereon.

**7 marks**

Particulars	Amount (₹)
Gross salary	3,30,000
Rent of house property	1,20,000
Interest on fixed deposits with bank (gross)	14,000
Deposit in PPF	80,000
Tuition fee paid for 3 children @ 15,000 p.a. per child	45,000
LIP on her life taken on 1-5-2013 (sum assured ₹ 2,00,000)	25,000

**Answer. 5 (a)**

	<i>Resident</i> ₹	<i>Not Ordinarily Resident</i> ₹	<i>Non-Resident</i> ₹
Business Income			
Business A (Profit)	1,50,000	1,50,000	1,50,000
Business B (Profit)	1,00,000	1,00,000	1,00,000
	2,50,000	2,50,000	2,50,000
Business C (Loss); (controlled from India but received out of India)	(-) 60,000	(-) 60,000	(-) 60,000
	1,90,000	1,90,000	2,50,000
Unabsorbed depreciation of business C	(-) 35,000	(-) 35,000	Nil
	1,55,000	1,55,000	2,50,000
Income from house property			
Property in India	10,000	10,000	10,000
Property in London	20,000		
Gross Total Income	1,85,000	1,65,000	2,60,000



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**Answer. 5 (b)** Computation of total income of Mrs Banerjee for the assessment year 2017-18

Particulars	Amount (₹)	Amount (₹)
Income Under the head "salaries"		
Gross Salary	3,30,000	
Less: Deduction u/s 16	Nil	3,30,000
Income under the head "House Property"		
Annual Rent	1,20,000	
Less: Standard deduction @ 30%	36,000	84,000
Income from other sources		
Interest o fixed deposit with bank		14,000
Gross Total Income		4,28,000
Less: Deduction u/s 80C		1,30,000
Total Income		2,98,000
Tax on ₹ 2,98,000	4,800	
Less: Rebate u/s 87A	4,800	Nil
Note: Deduction u/s 80C		
PPF	80,000	
Tuition fees for 2 children	30,000	
LIP limited to 10% of sum assured	20,000	1,30,000

**6. a.)** "Is it mandatory to file return before due date if certain losses are to be carried forward".  
Comment.

**7 Marks**

**6. b.)** State the power of principal commissioner or commissioners to grant immunity for prosecution.

**8 Marks**

**Answer. 6 (a)**

If a person has sustained a loss under the head "Profits and gains of business or profession" or under the head "Capital Gains" and claims that such loss or any part thereof should be carried forward under section 72 or section 73 or section 73A or section 74 or section 74A then he may furnish a return of loss within the time prescribed under section 139(1) and all the provisions of this Act shall apply as if it were a return under section 139(1).

It is not mandatory to file a return of loss (except in case of a company or a firm) as there is no taxable income. Under section 80 in the chapter on 'Set off and carry forward of losses', losses cannot be carried forward unless the return of loss is submitted on or before the due date mentioned under section 139(1) and it is duly assessed. If the return of loss is not submitted or is submitted after the due date, losses cannot be carried forward.

Note:

1. All losses are not allowed to be carried forward. Therefore return of loss should be submitted on or before due date only in case of business loss, speculation loss, capital loss or loss on account of owning and maintaining the horses for ruining in horse races.
2. It may be noted that filling a return of loss within due date is necessary for carry forward of losses u/s 72 (1), 73(2), or 73A(2), 74(1), 74(3) and 74(A)(3). It does not cover section 71B i.e carry forward and set off loss of house property. Therefore, loss on account of house property can be carried forward even if the return is submitted late.
3. Unabsorbed depreciation can be carried forward even if the return of loss is submitted after due date, as it is not covered under Chapter VI of set off or carry forward of losses but covered u/s 32(2). [East Asiatic Co. V Cit (1986) 161 ITR 135(Mad)].
4. Section 139(9) read with section 80, does not prohibit the set off of losses of the current year while computing the Total Income even if the return is filled after the due date. It only prohibits the carry forward of such losses.
5. If an assessee has submitted a return of loss in response to a notice u/s 142(1), such loss cannot be carried forward unless it is a loss under the head income from house property. However,

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unabsorbed depreciation can be carried forward in this case.

6. Although the loss of the current year cannot be carried forward unless the loss is submitted before the due date but the loss of earlier year can be carried forward if the return of loss of that year(s) was submitted within the due date and such loss has been assessed.

### Answer. 6 (b)

Where the proceedings before the Settlement Commission abate as per section 245HA, the Commission of Income has been empowered to grant immunity for prosecution under section 278AB—

- The application for the immunity must be made by the assessee (person whose case has been abated under section 245HA) to the Principal Commissioner or Commissioner of Income-tax before institution of the prosecution proceedings after abatement.
- If prosecution proceedings were instituted before or during the pendency of settlement proceedings, then the assessee can approach the Principal Commissioner or Commissioner for immunity any time. However if the assessee has received any notice etc. from the Income tax authority for institution of prosecution, then he must apply to the Principal Commissioner or Commissioner for immunity, before actual institution of prosecution.
- Immunity can be granted by the Commissioner on his satisfaction.
- The satisfaction is required to be that the assessee has cooperated in the proceedings after abatement and has made a full and true disclosure of his income and the manner in which such income has been derived.
- Where application for settlement under section 245C had been made before 1.6.2007, the Commissioner can also grant immunity from prosecution for any offence under this Act or under the Indian Penal Code or under any other Central Act.
- Immunity can be subject to such conditions as the Commissioner may think to impose.
- The immunity granted shall stand withdrawn, if such assessee fails to comply with any condition subject to which the immunity was granted.
- The immunity granted may be withdrawn by the Commissioner, if he is satisfied that the assessee had, in the course of proceedings, after abatement, concealed any particulars from the Income-tax authority or had given false evidence.

7. Write a short note on the followings:

**5 x 3=15 Marks**

- a) Authority for advance ruling.
- b) Remedy available against the order of the Commissioner appeal.
- c) Power to tender immunity from prosecution.

### Answer. 7 (a)

Authority for advance ruling [Section 245-O]

(1) Central Government to constitute an Authority for Advance Rulings [Section 245-0(1)]: The Central Government shall constitute an authority for giving advance rulings, to be known as "Authority for Advance Rulings".

(2) Constitution of the Authority for Advance Ruling [W.e.f. 1.10-2014]

(1) The Authority shall consist of a Chairman and such number of Vice-chairmen, Revenue Members and law Members as the Central Government may, by notification, appoint.

(2) A person shall be qualified for appointment as—

(a) Chairman, who has been a Judge of the Supreme Court;

(b) Vice-chairman, who has been Judge of a High Court;

(c) a revenue Member from the Indian Revenue Service, who is a Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General or Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General;

(d) a law Member from the Indian Legal Service, who is, or *is qualified to be* an Additional Secretary to the Government of India.

(3) The terms and conditions of service and the salaries and allowances payable to Members shall be such as may be prescribed.

(4) The Central Government shall provide to the Authority with such officers and employees, as may be necessary, for the efficient discharge of the functions of the Authority under this Act.

(5) The powers and functions of the Authority may be discharged by its Benches as may be constituted by the Chairman from amongst the Members thereof.

(6) A Bench shall consist of the Chairman or the Vice-chairman and one revenue Member and one law Member.

(7) The Authority shall be located in the National Capital Territory of Delhi and its Benches shall be located at such places as the Central Government may, by notification Specify.

The constitution of the Authority is such that it functions as an independent quasi judicial body and for the purpose of exercising its powers, it shall have all the powers of a civil court under the Code of Civil Procedure, 1908 as are referred to in Section 131 of the Income-tax Act.

### Answer. 7 (b)

Remedy available against the order of the Commissioner:

The assessee can file an appeal against the orders of the Commissioner (Appeals) or the revision orders of the CIT under section 263 in the following cases:

(a) Second Appeal: If the assessee is not satisfied with the order passed by the Commissioner (Appeals), he can appeal against that order to the Appellate Tribunal. Similarly, the CIT may also direct the Assessing Officer to file an appeal against that order with the Appellate Tribunal if the Revenue is not satisfied with the order of the Commissioner (Appeals).

(b) Appeal against revision: If the revision of the order of Assessing Officer is done u/s 264, by CIT which is revision in favour of the assessee, no appeal can be filed against this order under the Income-tax Act. However, writ under article 226/227 is possible. On the other hand, if the revision order is passed u/s 263, by CIT which is known as revision of orders prejudicial to the interest of revenue, the assessee can file an appeal with the Appellate Tribunal.

Notes:

1. Appeal against the revision order u/s 263 can only be preferred by the assessee. The commissioner of income tax cannot file an appeal against his own order.
2. In some other case, first appeal is filled by ITAT against the order of Principal Commissioner or Commissioner e.g order refusing to grant registration to a trust a institution or order passed by Assessing Officer on the direction of Dispute Resolution Panel.

### Answer. 7 (c)

Power to tender immunity from prosecution.

1) The Central Government may, if it is of opinion (the reasons for such opinion being recorded in writing) that with a view to obtaining the evidence of any person appearing to have been directly or indirectly concerned in or privy to the concealment of income or to the evasion of payment of tax on income it is necessary or expedient so to do, tender to such person immunity from prosecution for any offence under this Act or under this Indian Penal Code, 1860, or under any other Central Act for the time being in force and also from the imposition of any penalty under this Act on condition of this making a full and true disclosure of the whole circumstances relating to the concealment of income or evasion of payment of tax on income.

2) A tender of immunity made to, effect of immunity and accepted by, the person concerned,

- shall, to the extent to which the immunity extends, render him immune prosecution for any offence in respect of which the tender was made or imposition of any penalty under this Act.
- 3) If it appears to the Central Government that any person to whom immunity tendered under this section has not complied with the condition on which the tender was made or is willfully concealing anything or is giving false evidence, the Central Government may record a finding to that effect, and thereupon the immunity shall be deemed to have been withdrawn, and any such person may be tried for the offence in respect of which the tender of immunity was made or for any other offence of which he appears to have been guilty in connection with the same matter and shall also become liable to the imposition of any penalty under this Act to which he would otherwise have been liable.

### Section-B (20 Marks)

#### International Taxation and Transfer Pricing

Answer question No. 8 which is compulsory and any one from Question No.9 and 10

8. a) Fill in the blanks:

[4 x 1=4 Marks]

- a. Foreign income is taxable in India on the basis of \_\_\_\_\_.
- b. If one enterprise holds at least 26% of the voting rights of another enterprise, they are said to be \_\_\_\_\_ enterprises.
- c. The determination of Arm's Length price u/s 92C or section 92CA shall be subject to \_\_\_\_\_ rules.
- d. Where any amendment is made by the transfer pricing officer u/s 92CA (5), he shall send a copy of his order to the \_\_\_\_\_ who shall thereafter proceed to amend the order of assessment in conformity with such order of the TPO.

8. b) Select the suitable answer:

[4 x 1=4 Marks]

- a. For the purpose of Section 92CA, TPO means
  - A. Joint commissioner or,
  - B. Deputy Commissioner or,
  - C. Assistant Commissioner or,
  - D. All of the above
- b. Arm's length price is to be determined by applying\_\_\_\_\_
  - A. resale price method
  - B. Fair market value method
  - C. Stamp duty value method
  - D. Indexed cost of acquisition method
- c. The computation of Arm's length price is covered u/s.
  - A. 92
  - B. 92C
  - C. 80C
  - D. 90
- d. Relief in case of specified associations in India which enters into an agreement with any specified associations in a specified territory outside India is given under section.
  - A. 92
  - B. 90
  - C. 90A
  - D. 92C

Answer: 8.a

- a. Residential status

- b. Associated
- c. Safe harbour
- d. Assessing Officer

**Answer: 8.b**

- a. d
- b. a
- c. b
- d. c

**9. a.** Discuss in brief Profit split Method (TNMM)

**6 Marks**

**9. b.** List down the different types of filters?

**6 Marks**

**Answer: 9.a**

**Profit Split Method:** This method is mainly applicable in international transaction involving transfer of unique intangible or in multiple international transactions which are so inter related that they cannot be evaluated separately for the purpose of determining the Arm's Length Price of any one transaction.

Step-I: Determine the combined net profit of the associated enterprise arising from the international transaction in which they are engaged.

Step-II: Determine the relative contribution made by each of the associated enterprise to the earning of such combined net profit. This is determined on the functions performed, assets employed and risks assumed by each enterprise and on the basis of reliable external market data which indicates how such contribution would be determined by unrelated enterprises performing comparable functions in similar circumstances.

Step-III: Split the combined net profit amongst the enterprises on the basis of reasonable returns and in proportion to their relative contributions, as determined in step-II (See note below)

Step-IV: Arm's length Price – Profit apportioned to the assessee under Step III.

Note: Combined Net Profit shall be as under:

III.A. First Split=Reasonable Return : Allocate an amount to each enterprise so as to provide it with a basic return appropriate for the type of international transaction with reference to market return achieved in similar types of transactions by independent enterprises.

III.B. Second Split= Contribution Ratio: Allocate the residual net profit amongst the enterprises in proportion to their relative contribution.

III.C. Total Profit: Share of profit of each enterprise= Step A + Step

**Answer: 9.b**

Different types of filters: Once there is a selection of comparable companies, the next step is to filter these companies with the use of quantitative and qualitative filters. The following filters are also used sometimes:

- (a) Export filter
- (b) Diminishing Loss filter
- (c) Fixed Assets filter
- (d) Onsite and offsite filter
- (e) Income tax filter
- (f) Research and Development filter
- (g) Related party filter
- (h) Turnover filter

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- (i) Service income filter
- (j) Different financial year filter
- (k) Companies that had exceptional year of operation
- (l) Employee cost filter
- (m) Companies whose data is not available for the relevant year
- (n) Companies for which sufficient financial data is not available to undertake analysis.

**10. a.** Satyam Ltd is an Indian company engaged in the business of developing and manufacturing industrial components. Its subsidiary Max Inc supplies technical information and offers technical support to Satyam for manufacturing goods, for a consideration of Euro 1,00,000 per year. Income of Satyam Ltd is ₹ 90 lakh. Determine the taxable income of Satyam Ltd if Max charges Euro 1,30,000 per year to other entities in India. What will be the answer if Max charges Euro 60,000 per year to other entities. (Rate per Euro may be taken as ₹ 55).

**6 Marks**

**10. b.** What are the methods recognised for determining Arm's Length Price as per section 92C of the Income-tax Act?.

**6 Marks**

**Answer: 10.a**

### Computation of Total Income of Satyam Ltd.

Particulars	Amount (₹)	Amount (₹)
When Price charged for Comparables Uncontrolled Transaction	100,000	50,000
Price actually paid by Satyam Ltd (€ 100,000 x 55)	5,500,000	5,500,000
Less: Price charged in Rupees (Under ALP) (€ 130000 x 55) (€ 50,000 x 55)	7,150,000	2,750,000
Incremental profit on adopting ALP(A)	(1,650,000)	2,750,000
Total Income before adjusting for difference due to Arm's Length Price	9,000,000	9,000,000
Add: Difference on account of adopting Arm's Length Price (if (A) is positive)	Nil	2,750,000
Total Income of Satyam Ltd.	9,000,000	11,750,000

Note: U/s 92 (3), taxable Income cannot be reduced on applying ALP. Therefore, difference on account of ALP which reduces the Taxable income is ignored.

**Answer: 10.b** As per Section 92C of the Income Tax Act, 1961 the methods for determining Arm's Length price may be enumerated as under:

- (a) Comparable Price Method,
- (b) Cost Plus Method,
- (c) Profit Split Method,
- (d) Transitional Net Margin Method,
- (e) Such other method as may be prescribed by the Board.