

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

NOTE : 1. Answer **ALL** Questions.

2. All the references to sections in the Question Paper relate to the Income-tax Act, 1961 and relevant Assessment Year is 2021-22, unless stated otherwise.

3. Working notes should form part of the answer.

1. (A) Rust Ltd. is engaged in the business of manufacturing copper bottles. As a Company Secretary you are the key person and heading the taxation wing of the Company. The CFO of the Company approached you for the tax computation for the AY 2021-22. The following information are shared with you :
- Profit and Loss Account shows a net profit of ₹ 72,00,000 for the year ended 31st March 2021, after debiting/crediting the following items :
- (a) One time license fee of ₹ 12,00,000 paid to a foreign Company for obtaining franchise on 1st July, 2020.
 - (b) ₹ 12,000 and ₹ 18,000 paid in cash on 15th October 2020 by two separate voucher to a contractor who carried out certain repair work in the office premises.
 - (c) ₹ 2,50,000 being expenses incurred on the travelling of the wife of Managing Director, who accompanied him on tour to Beijing on invitation of Trade and Commerce Chamber, China.
 - (d) Dividend of ₹ 5,50,000/- received from a foreign Company, in which Rust Ltd. hold 28% in nominal value of share capital of the Company. ₹ 50,000/- spent on earning this income.
 - (e) Depreciation on tangible fixed assets ₹ 1,50,000/-
 - (f) ₹ 15,00,000 and ₹ 2,50,000 being amounts waived by a bank out of principal and arrear interest, respectively, in one-time settlement. The loan was obtained for meeting working capital requirements two year back.

: 2 :

- (g) Provisions for gratuity based on actuarial valuation is ₹ 15,00,000. Actual gratuity paid ₹ 5,00,000/- was debited to provision for gratuity account.
- (h) The opening and closing stock of the year were ₹ 18,00,000 and ₹ 18,72,000 respectively and were undervalued by 10% on cost.

Additional Information :

- (i) During the year, the Company purchased 5,000 nos. of shares of RK (Pvt.) Ltd. at ₹ 20 per share. The Fair Market Value of such shares on the date of transaction was ₹ 40 per share.
- (ii) A debt of ₹ 8,00,000 was claimed as bad debts in F.Y. 2019-20, but the Assessing officer allowed only ₹ 4,00,000 as bad debt. In FY 2020-21, ₹ 3 Lakh was recovered from that debt, was not given in books of accounts.
- (iii) Provision for audit fee of ₹ 1,00,000/- was made in the books for the year ending 31st March 2020 without deducting tax at source. Such fee was paid to the auditors in September, 2020 after deducting tax u/s 194J and the tax so deducted was deposited on 7th October 2020.
- (iv) Depreciation on tangible fixed assets as per Income Tax Law is : ₹ 1,75,000.

You are required to :

- (1) Calculate the Total Income of the Company and reasons/rational for your treatment of above adjustment in the tax computation.

(18 marks)

- (2) Ascertain the tax payable by Rust Ltd. on the Total income of the Financial year 2020-21. Ignore MAT Provisions & provisions of section 115BAA.

(6 marks)

: 3 :

(B) KP (P) Ltd., a domestic Company having two undertakings engaged in manufacture cement and steel, decided to hive off cement division to SA(P) Ltd, a domestic Indian Company by way of demerger. The net book value of assets of KP(P) Ltd. was ₹ 60 Crore before demerger. The net book value of assets transferred to SA(P) Ltd. was ₹ 15 Crore. The demerger was made in February 2021. In the scheme of demerger, it was fixed that for each equity shares of ₹ 10 each (fully paid up) of KP(P) Ltd, two equity shares of ₹ 10 each (Fully paid) were to be issued. Tirlok held 25,000 equity shares in KP(P) Ltd. which were acquired in the Financial Year 2002-03 for ₹ 6,00,000. Tirlok received 50,000 equity shares from SA(P) Ltd. Consequent to demerger in January 2021, he sold all the shares of SA(P) Ltd. for ₹ 8,00,000 in March 2021. In this background you are requested to answer the following :

- (a) Does the transaction of demerger attract any Income Tax Liability in the hands of KP(P) Ltd. and SA(P) Ltd. (2 marks)
- (b) State the conditions in brief, which are to be satisfied under the Act for a demerger. (6 marks)
- (c) Compute the capital gain that could arise in the hands of Tirlok on receipt of shares of SA(P) Ltd. (1 mark)
- (d) Compute the Capital gains that could arise in the hands of Tirlok on sale of shares of SA(P) Ltd. (4 marks)
- (e) Will the sale of shares by Tirlok affect the tax benefit availed by KP(P) Ltd, and/or SA (P) Ltd ? (1 mark)
- (f) Is Tirlok eligible to avail any tax exemption under any of the provisions of the Income Tax Act, 1961 on the sale of shares of SA(P) Ltd. ? If so, state in brief. (2 marks)

CII for FY 2002-03: 105

CII for FY 2020-21: 301

: 4 :

2. (a) Atul, aged 32 years, a resident of India employed with FRT Pvt Ltd, received the following sums during the previous year 2020-21 :

Basic Salary	₹ 70,000 p.m.
DA	12% of basic salary
Servant Allowance	₹ 6,000 p.m.
Tiffin/Lunch/Dinner	₹ 5,000 p.m.

He has paid ₹ 2,25,000 by account payee cheque for Mediciclaim premium to insure the health of his mother, aged 62 year, who is not dependent on him as a lump-sum payment for 5 year including the current previous year.

Apart from this, he also provided guest lecture to a university in foreign Country during the year. He received ₹ 15,79,200 from such university after deduction of tax of ₹ 3,94,800 in that Country. India does not have any double taxation avoidance agreement under section 90 of the Income Tax Act, 1961, with the said foreign Country. Compute the tax liability of Atul for the A.Y. 2021-22. Assume assessee has not opted section 115BAC.

(8 marks)

- (b) Aadarsh, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by him) during the year ended 31st March 2021 :

Particulars	₹
Income from sale of coffee grown, cured, roasted and grounded in Colombo (Sri Lanka). Sale consideration was received at Chennai.	4,00,000
Income from sale of coffee grown and cured in Tamil Nadu	2,00,000
Income from sale of tea grown and manufactured in Darjeeling	60,000

Calculate his business and agriculture income for financial year 2020-21.

(4 marks)

: 5 :

3. (a) Radhika aged 63 years, has gross total income of ₹ 7,75,000 comprising of income from house property and other sources. She has made the following payments and investments :
- (a) Premium paid ₹ 20,000 to insure the life of her major daughter (policy taken on 1.4.2014) (Insured value ₹ 1,80,000).
 - (b) Medical Insurance premium for self - ₹ 12,000; Spouse - ₹ 14,000.
 - (c) Donation to a public charitable institution registered under Section 80G ₹ 1,50,000 by way of cheque.
 - (d) LIC Pension Fund- ₹ 60,000.
 - (e) Donation to National Children's Fund - ₹ 25,000 by way of cheque.
 - (f) Donation to Jawaharlal Nehru Memorial Fund - ₹ 25,000 by way of cheque.
 - (g) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque.

Compute the total income of Radhika for A.Y. 2021-22.

(6 marks)

- (b) Discuss the following statements :
- (i) Examine the circumstances where the appellant shall be entitled to produce additional evidence, oral or documentary, before the Commissioner of Income Tax (Appeals) other than the evidence produced during the proceedings before the Assessing Officer.
- (2 marks)
- (ii) Company A and Company B who has entered into Advance Pricing Agreement (APA) and eligible for rollback provisions merged to form Company AB. Is the Company AB eligible for rollback provisions as it was formed on the merger of Company A and Company B ?

(2 marks)

(iii) The gross total income of Yuvraj Co. Ltd., Indore was ₹ 70 Lakh which is wholly attributable to a unit located in SEZ since April, 2012. Adjustments to total income made by the Assessing Officer by applying the transfer pricing provisions enhanced their total income by ₹ 50 Lakh. What is the total income of the year chargeable to tax and explain why ?

(2 marks)

4. (a) FRX Ltd. gives a multilevel parking building in front of a shopping mall in Delhi to ABC Ltd. on a lease of 80 year. ABC Ltd. is liable to pay ₹ 3 Crore as one-time lease premium in addition to an annual lease rent of ₹ 26 Lakh. What will be the TDS/TCS liability in the hands of FRX Ltd. as well as in the hand of ABC Ltd. What will be your answer if ABC Ltd. does not have PAN ?

(3 marks)

(b) Explain the treatment as to their taxability and/or allowability, under the provisions of Income Tax Act, 1961 for the AY 2021-22, in the following case :

Saloni Ltd. paid Singapore dollar equivalent to ₹ 1 crore as sales commission for the year ended 31st March 2021, without deduction tax at sources, to Robin, a citizen of Singapore and non-resident who acted as agent for booking orders, from various customers who are outside India.

(3 marks)

(c) “Stylish Trends” filed its return of income as partnership firm for the relevant assessment year admitting a total income of ₹ 160 Lakh. The firm consisted of fifteen individuals and two firms. The return of income was selected for scrutiny which led to disallowance of certain deductions to the tune of ₹ 80 Lakh. The assessee preferred an appeal. The CIT (Appeals) invoked section 251 and issued a show cause notice proposing to change the assessee’s status to AOP on the reasoning that a partnership cannot be a partner in another firm. Discuss the correctness of the contention of the CIT (Appeals). Also, examine whether the CIT (Appeals) has the power to change the status of the assessee.

(6 marks)

: 7 :

5. (a) The books of accounts maintained by Janta Vikash Party registered with Election Commission for the year ended 31st March 2021 disclosed the following receipts :
- (a) Rent of Property let out to a Departmental Store at Bhopal – ₹ 5,32,000.
 - (b) Interest on deposits other than Banks – ₹ 14,50,000.
 - (c) Cash contributions from 1500 persons (who have secreted their name) of ₹ 10,000 each – ₹ 1,50,00,000.
 - (d) Contribution of ₹ 11 each from 1,00,000 members by cheque (Recorded in books of accounts) – ₹ 11,00,000.
 - (e) Net Profit of Cafeteria run in the premises at Delhi – ₹ 50,00,000.
- Compute the total income of the Political Party for the A.Y. 2021-22.
- (b) PWSI Ltd. engaged in the business of TMT manufacturing also effected the sales and purchase of shares of other Companies. It suffered loss from such transactions :
- (a) Whether such Company can set off its losses from share trading from the profit of TMT business ?
 - (b) If principal business of such Company is sale and purchase of shares of other Companies, what would be your answer ?
- (c) Under the provisions of a tax treaty between India and Dubai, any capital gains arising from the sale of shares of Sun India Ltd, an Indian Company would be taxable only in Dubai if the transferor is a resident of Dubai except where the transferor holds more than 10% interest in the capital stock of Sun India Ltd. A company, Gama Inc, being resident in Dubai, makes an investment in Sun India Ltd. through two wholly owned subsidiaries (Fama Inc. and Gama Inc.) located in Dubai. Each subsidiary holds 9.95% shareholding in the Indian Company, the total adding to 19.9% of equity of Sun India Ltd. The subsidiaries sell the shares of Sun India Ltd. and claim exemption as each is holding less than 10% equity shares in the Indian Company. Can GAAR be invoked to deny treaty benefit ?

(4 marks each)

6. The following are the details of income provided by Manish, the assessee for the financial year ended 31st March, 2021 :

- (i) Rental income from property at Bangalore- ₹ 5,00,000, Standard Rent- ₹ 4,50,000, Fair Rent- ₹ 4,80,000.
- (ii) Municipal and water tax paid during the year 2020-21 : Current year ₹ 35,000, Arrears- ₹ 1,50,000.
- (iii) Interest on loan borrowed towards major repairs to the property : ₹ 1,50,000.
- (iv) Arrears of rent of ₹ 30,000 received during the year, which was not charged to tax in earlier year.

Further, the assessee furnished the following additional information regarding sale of property at Chennai :

- (a) Manish's fathers acquired a residential house in April 2005 for ₹ 1,25,000 and thereafter gifted this property to the assessee, Manish on 1st March 2006.
- (b) The property, so gifted, was sold by Manish on 10th June 2020. The consideration received was ₹ 25,00,000.
- (c) Stamp duty charges paid by the purchaser at the time of registration @ 14% (as per statutory guidelines) were ₹ 3,38,000.
- (d) Out of the sale consideration received :
 - On 2nd January, 2021 the assessee had purchased two adjacent flats, in the same buildings, and made suitable modification to make it as one unit. The investment was made by separate sale deeds, amount being ₹ 8,00,000 and ₹ 7,00,000 respectively.
 - On 10th October, 2020 ₹ 10 Lakh were invested in bonds issued by National Highways Authority of India, but the allotment of the bonds was made of 1st February, 2021.

Compute Manish's taxable income for the assessment year 2021-22.

Cost inflation index : FY 2005-06 : 117, FY 2020-21 : 301.

(12 marks)