

Roll No. ....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 7

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

2. All the references to sections in the Question Paper relate to the Income-tax Act, 1961 and relevant to the Assessment Year 2019-20, unless stated otherwise.

3. Working notes should form part of the answer.

1. Mukund Industries Ltd. (MIL), is a big corporate house, with presence in several industries and businesses, subsidiaries and sister concerns.

As the Company Secretary, you are also a key person in the Group's taxation matters, including international taxation.

MIL holds a think tank meeting in the month of April, 2019 to arrive at a preliminary idea of its income-tax liability for the previous year 2018-19.

**Abhinav Pvt. Ltd.'s activities**

Abhinav Pvt. Ltd. (APL) is one of the group companies, having a small presence in the overseas market also. It has agricultural lands in country L with which India does not have a DTAA.

The global turnover of APL during this year was ₹ 210 cores. During the last 7 years, the company has been showing an increase of around 6% in its turnover, as compared to the earlier year.

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During the PY 2018-19, APL derived business income of ₹ 140 lakh from its Indian operations, but made a loss of ₹ 10 lakh from its core business operations in country L.

From its agricultural operations in country L, APL made net surplus of ₹ 22 lakh. In country L, the income earned from other sources was ₹ 8 lakh.

In country L, tax paid is ₹ 5.4 lakh. Agricultural income is taxed there and business loss can be set off against any other income in the same year.

#### **Results of Vaamana & Co.**

MIL is a partner in a firm Vaamana & Co. On behalf of MIL, Mr. Vishnu, its director, is a working partner in the said firm. The Taxation Manager furnishes gist of the firm's workings, which are furnished infra.

The partnership firm, has earned net profit of ₹ 79 lakhs, before remuneration to working partners. Only depreciation pertaining to current year has been considered in this. The partnership deed provides for remuneration of ₹ 40 lakhs to the working partners, and this amount has also been actually paid by the firm.

The income from other sources earned by the firm during the PY 2018-19 is ₹ 76 lakhs.

The firm has brought forward business loss of ₹ 7 lakhs (eligible for set off) and unabsorbed depreciation of ₹ 6 lakhs, both pertaining to the AY 2018-19.

#### **Workings of industrial undertaking owned by RPL**

Rajalakshmi Textiles Pvt. Ltd. (RPL) is a subsidiary of MIL.

Two industrial undertakings are owned by RPL, units P and Q. Both units are eligible for claiming deduction u/s 80-IA.

During the PY 2018-19, unit P made a profit of ₹ 70 lakhs, while unit Q made a loss of ₹ 15 lakhs.

Gross total income of RPL is ₹ 590 lakhs.

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**Required :**

- (a) Ascertain the tax payable by APL for the assessment year 2019-20. Show the complete workings.  
(15 marks)
- (b) MIL desires to start a subsidiary company in an “International Financial Centre”. The Board of directors desire to know the income-tax concessions available to such company. Outline the same to the Board.  
(9 marks)
- (c) Compute the total income and tax payable by Vaamana & Co., for the assessment year 2019-20, along with the working notes.  
(11 marks)
- (d) RPL wants to know whether the total deduction available u/s 80-IA is ₹ 70 lakhs (without considering loss made in Unit Q) or is ₹ 55 lakhs (after setting off loss of unit Q). Advice the assessee suitably.  
(5 marks)
2. (a) Ramesh Kumar, is employed by ABC Ltd., an Indian Company, which is a wholly owned subsidiary (WOS) of Finch Inc., of USA, a foreign company. Employee Ownership Plan (ESOP) shares were issued by the foreign holding company to Ramesh Kumar at a pre-determined price of ₹ 90 per share. On the date of vesting of interest, the fair market value of foreign holding company’s shares was ₹ 900 per share. The fair market value on the date of allotment of shares on 2nd June, 2018 was ₹ 1,170 per share. You are required to state :
- (i) How is the value of perquisite relating to the shares so offered to be ascertained in the hands of Ramesh Kumar ?

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- (ii) Can he claim deduction in respect of pre-determined price of ₹ 90 per share paid by him to the company while working out the value of perquisite subject to tax ?
- (iii) What will be the cost of acquisition of shares in the hands of Ramesh Kumar for the purpose of charge of capital gain when such shares are being subsequently sold by him ?

(6 marks)

- (b) Mohan, the owner of piece of land at Chennai, entered into an agreement with Reality Builders as a Joint Development Agreement for construction of a housing complex. He is desirous to seek your opinion in the context of provisions of Income-tax Act, 1961 as to :

- (i) The conditions specified under the Act for charge of capital gain;
- (ii) When the capital gain shall be taxed;
- (iii) How such capital gain has to be worked out.

(6 marks)

3. (a) Hari Vallabh Tea Ltd., is engaged in growing and manufacture of tea in Shimla. For the year ended 31st March, 2019, the company distributed dividend of ₹ 30 lakhs. The company is of the view that it has to pay dividend distribution tax (DDT) on 40% of such dividend u/s 115-O. The Assessing Officer is of the view that the DDT should be on the entire dividend distributed.

Examine the correctness of the rival contentions.

(6 marks)

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- (b) When can uncontrolled transactions be said comparable to international transactions ? Which data can be used for the comparability of an uncontrolled transaction with an international transaction ? Furnish your answer in the context of transfer pricing provisions.

(6 marks)

4. (a) *“All specified Indian companies are required to shift from existing Indian GAAP to Ind AS w.e.f. 1st April, 2016. The adjustments arising on account of shifting from existing Indian GAAP to Ind AS are required to be recorded in Other Comprehensive Income (OCI) at the date of such transition to Ind AS. Several of these items shall never be reclassified to statement of profit and loss whereas some of these items shall subsequently be reclassified to the statement of profit and loss”.*

In this backdrop in the context of provisions of the Income-tax Act, 1961, explain the treatment to be given to all those adjustments which are recorded in Other Comprehensive Income (OCI) and both would be and would never be reclassified to statement of profit and loss for the purpose of computation of book profits.

- (b) *“The concept of Permanent Establishment is one of the most important concepts in determining the tax implications of cross border transactions”.* Explain the significance thereof, when such transactions are governed by Double Taxation Avoidance Agreements (DTAA).

(6 marks each)

5. (a) (i) State the provisions of the Act applicable, and the rate at which the tax is either to be deducted or to be collected at source in the following independent cases :

- A partnership firm is making sales of the timber which was procured and obtained by it under a forest lease.
- A nationalized bank receiving professional services from a registered society (resident) and had made a provision on 31st March, 2019 of an amount of ₹ 15 lacs against the service charges bills to be received relating to the services provided during the year.
- Payment of ₹ 5 lacs made to Mr. Phelps who is an athlete (resident) by a manufacturer of a swim wear as brand ambassador.

(1×3=3 marks)

(ii) Specify all those circumstances under which an A.O. resorts to make 'Protective Assessment' and for which reason. Can such assessment order be made a basis for taking action to levy penalty under the Act ?

(3 marks)

(b) Ram Manohar & Sons HUF, consisting of Karta Ram Manohar, his wife, two sons and daughter, is running Ragistan Departmental Stores. Both the sons, who are having professional/technical qualifications as a Chartered Accountant and as an Automobile Engineer started in partnership, a garage for the repairing of motor cars, with a clear understanding that the technical side of the business be looked after by the Engineer, while the general administration and finance part be taken care by the Chartered

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Accountant. They had taken an interest-free loan of ₹ 15,00,000 from the HUF for starting the venture. The business of garage resulted in a net profit of ₹ 12,50,000 for the year ended 31st March, 2019. The Assessing Officer proposes to assess the income from the business of motor garage in the hands of the HUF.

Examine the validity of the proposition of the Assessing Officer in the light of a decided case law, if any.

(6 marks)

6. Examine the correctness of the following statements in the context of provisions contained in the Income-tax Act, 1961 relevant for the previous year 2018-19 :

- (i) The additions to income made by invoking the provisions of section 68 are subject to normal rates of tax as applicable to the assessee.
- (ii) Income received by certain foreign companies in Indian currency fulfilling prescribed conditions from sale of crude oil to any person in India is exempt from tax.
- (iii) The provisions of AMT are applicable to all persons other than companies.
- (iv) Resident and ordinary resident having no income chargeable to tax, but having interest in property outside India is not required to file a return of income u/s 139(1).

(3 marks each)

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