

MOCK TEST PAPER - II
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 2019-20, 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. Mr. Anish's, aged 40 years, total income comprises of long-term capital gains on sale of land Rs.5 lakhs; short-term capital gains on sale of STT paid listed equity shares Rs.3 lakhs; income from lottery Rs.2 lakh and savings bank interest Rs.50,000. He invests Rs.1.50 lakhs in PPF. His tax liability for A.Y.2019-20 is –
 - (a) Rs.2,13,200
 - (b) Rs.2,11,150
 - (c) Rs.1,61,200
 - (d) Rs.1,59,650

(2 Marks)
2. Mrs. Kareena, wife of Mr. Shyam, is a partner in a firm. Her capital contribution of Rs.7 lakhs to the firm as on 1.4.2018 included Rs.3.5 lakhs contributed out of gift received from Shyam. On 10.4.2018, she further invested Rs.2 lakh out of gift received from Shyam. The firm paid interest on capital of Rs.50,000 and share of profit of Rs.60,000 during the F.Y.2018-19. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct?
 - (a) Share of profit is exempt but interest on capital is taxable in the hands of Mrs. Kareena
 - (b) Share of profit is exempt but interest of Rs.25,000 is includible in the income of Mr. Shyam and interest of Rs.25,000 is includible in the income of Mrs. Kareena
 - (c) Share of profit is exempt but interest of Rs.30,556 is includible in the income of Mr. Shyam and interest of Rs.19,444 is includible in the income of Mrs. Kareena
 - (d) Share of profit to the extent of Rs.25,000 and interest on capital to the extent of Rs.30,556 is includible in the hands of Mr. Shyam

(2 Marks)
3. Kamal is employed by ABC Ltd. On 15.07.2009, ABC Ltd. has given an option to each employee to get 1,000 shares in the company at a pre-determined price of Rs.15 per share under a notified Employees Stock Option Plan (ESOP). Consequently, X has been allotted 1,000 shares @Rs. 15 per share on 25.07.2009. On 15.11.2018, Kamal gifts his ESOP shares to a friend (market value Rs.210 per share). On 15.12.2018, he gifts a house property to another friend. Find out the tax implications in the hands of Kamal.
 - (a) Capital gains will arise on gift of ESOP shares. However, no capital gain will arise on gift of house property.
 - (b) Capital gains will not arise on gift of ESOP shares. However, capital gain will arise on gift of house property.
 - (c) No tax implication shall arise in the hands of Kamal.

- (d) Capital gains will arise on gift of ESOP shares as well as gift of house property. **(2 Marks)**
4. Mr. Ashok, aged 81 years, is a renowned painter who has been involved in creating and developing various paintings from his childhood. At present, he is the owner of 150 paintings. As Mr. Ashok is in his old age and is worried about the fate of his paintings after his death, he has decided to gift all his paintings to a public charitable trust namely, 'Helping Hand Trust'. Helping Hand Trust has been established in the month of April, 2018 and is registered under Section 12AA. Mr. Ashok has approached you for drafting a gift deed and enlighten him regarding the income tax implications that can arise in the hands of Mr. Ashok and Helping Hand Trust on account of the said transaction. Comment upon the said income tax implications.
- (a) Mr. Ashok shall be liable to tax under the head "Capital Gains" on account of transfer of capital asset and Helping Hand Trust shall be liable to tax under the head "Income from other sources" on the Fair Market Value of paintings.
- (b) No tax implication shall arise in the hands of Mr. Ashok but Helping Hand Trust shall be liable to tax under the head "Income from other sources" on the Fair Market Value of paintings.
- (c) No tax implications shall arise in the hands of Mr. Ashok and Helping Hand Trust.
- (d) Mr. Ashok shall be liable to tax under the head "Capital Gains" on account of transfer of capital asset but no tax implication shall arise in the hands of Helping Hand Trust. **(2 Marks)**
5. An amount of Rs.80,000 was paid to Mr. Himesh on 01-07-2018 towards fees for professional services without deduction of tax at source. Subsequently, another payment of Rs.50,000 was due to Mr. Himesh on 28-02-2019, from which tax @ 10% (amounting to Rs.13,000) on the entire amount of Rs.1,30,000 was deducted. However, this tax of Rs.13,000 was deposited only on 23-07-2019. Compute the amount of interest chargeable under section 201(1A).
- (a) Rs.975
- (b) Rs.1,610
- (c) Rs.1,690
- (d) Rs.1,615 **(2 Marks)**
6. Your client Mr. Satish, did not oppose during the proceedings of scrutiny assessment. The Assessing Officer passed the order with a demand to be paid. Mr. Satish, however, now he feels that he missed to report a major expenditure during filing of return and proceedings. Assuming he can act in time limit, the remedial course available to him is to –
- (a) File an appeal before Commissioner of Income- tax (Appeals) under section 246A(1)
- (b) Move a revision petition before the Principal Commissioner or Commissioner of Income - tax under section 264
- (c) Either of the above. However revision option can be opted for only if time limit for filing appeal has expired, unless Mr. Shah has waived his right of appeal
- (d) He cannot opt for remedial course since he did not oppose during proceedings. **(2 Marks)**
7. You are representing Ms. Deepak in proceedings initiated under section 147. You had appeared couple of times and shared the submissions as asked by Assessing Officer. However, before conclusion, it came to your knowledge, that Ms. Deepak was not served the notice for assessment properly. What can be the possible course of action?
- (a) Appeal on the ground of invalid notice to CIT (A)
- (b) Object against non-service of notice anytime before completion of assessment
- (c) Appeal on the ground of invalid notice to Appellate Tribunal

- (d) Not object, since you have appeared and co-operated in the proceedings **(2 Marks)**
8. Which of the followings are the consequences to be borne by an assessee on account of filing of return of income for A.Y. 2019-20 after the due date prescribed under section 139(1) of the Income-tax Act, 1961?
- (i) Liability to pay interest u/s 234A.
(ii) Liability to pay late filing fee u/s 234F.
(iii) Unabsorbed depreciation cannot be carried forward.
(iv) Deduction u/s 80-IA will not be available.
(v) Belated return of income cannot be revised.
(vi) Business loss incurred cannot be carried forward to subsequent years.
- (a) (i), (ii), (iv), (v), (vi)
(b) (i), (ii), (iv), (vi)
(c) (i), (iii), (iv), (v), (vi)
(d) (i), (ii), (iv), (v) **(2 Marks)**
9. The Assessment Order under section 143(3) in the case of Mr. Zahir was passed on 31.03.2019 and the notice of demand was served on the assessee on 02.04.2019 for levy of tax and interest. Mr. Zahir paid the tax and interest due on 12.4.2019. An application was filed by Mr. Zahir under Section 270AA on 27.04.2019 before the Assessing Officer to grant immunity from imposition of penalty and the said application was rejected by the Assessing Officer vide order dated 14.05.2019. The said order was served on Mr. Zahir on 15.05.2019. By what date an appeal against the Assessment Order should be presented by Mr. Zahir before the CIT (Appeals)?
- (a) 02.05.2019
(b) 22.05.2019
(c) 21.05.2019
(d) 30.04.2019 **(2 Marks)**
10. Mr. A, non-resident aged 65 years, has income under the following heads for P.Y.2018-19;
- Interest income taxable under "Income from other sources"
 - Income from Capital Gains
- His estimated tax liability is Rs.1,05,575. Tax of Rs.20,000 was deducted on interest income. Mr. A has not paid any advance tax during P.Y. 2018-19. Calculate the amount of interest payable u/s 234B, if applicable, assuming he file his return of income on 15.07.2019
- (a) Interest u/s 234B is not applicable
(b) Rs.3,420
(c) Rs.4,264
(d) Rs.5,130 **(2 Marks)**
11. While calculating advance tax liability for PQR Ltd. for A.Y. 2019-20, which of the following is immaterial –
- (a) Turnover of the preceding previous year 2016-17
(b) Losses declared in return, if any in the preceding previous year 2017-18
(c) Dividend declared in the preceding previous year 2017-18
(d) Deduction under Chapter VI-A for the current year **(1 Mark)**

12. RP Ltd. purchased a plant for Rs.60,00,000 (depreciation rate: 15%) on 20.06.2018. Before commencement of the commercial production, expenses of Rs.55,000 were incurred by RP Ltd. for trial run of the plant. What will be the treatment of the expenditure incurred on the said trial run as per the provisions of ICDS-V which deals with tangible fixed assets?
- The expenditure of Rs.55,000 is required to be capitalized as the commercial production has not commenced.
 - The expenditure of Rs.55,000 can be claimed as a revenue expenditure by the company.
 - The expenditure of Rs.55,000 has to be treated as deferred revenue expenditure.
 - No treatment has been provided in ICDS-V in relation to expenditure incurred on trial run by an assessee. **(1 Mark)**
13. Which of the following is NOT TRUE in respect of provisions of Alternate Minimum Tax (AMT) :
- AMT provisions are not applicable to an individual, Hindu Undivided Family (HUF) and firm (including LLP) whose adjusted total income does not exceed Rs.20,00,000.
 - The provisions of AMT will apply to every corporate taxpayer who has claimed deduction under section 35AD
 - Every non-corporate taxpayer to whom the provisions of AMT apply is required to obtain a report from a Chartered Accountant in Form No. 29C on or before the due date of filing the return of income
- (i) only
 - (i) & (ii)
 - (ii) & (iii)
 - (i) & (iii) **(1 Mark)**
14. A gift from a person who is not a relative of the Assessee is reported in the Income-tax Return of the Assessee as a gift from a Relative. The said reporting will fall under which of the following?
- Tax Avoidance
 - Tax Planning
 - Tax Evasion
 - Tax Management **(1 Mark)**
15. Benefit of presumptive taxation under the Income-tax Act, 1961 would not be available to Akash, a non-resident, in A.Y. 2019-20, in respect of the related Indian income, if he is engaged in the business of –
- Operation of ships
 - Operation of Aircraft
 - Civil construction in connection with an approved turnkey project
 - Plying, hiring or leasing of goods carriages **(1 Mark)**
16. Shaurya, resident in India, has earned an income of Rs.4 lakh by way of lump sum consideration for copyright of a book, being a work on literary from a publisher in Country E, with which India does not have a DTAA. The same has been taxed at a flat rate of 5% in Country E. In India, his gross total income is Rs.7 lakhs. The double taxation relief available is
- Rs.20,000
 - Rs.7,725
 - Rs.1,931

- (d) Rs.1,950 **(1 Mark)**
17. In case where primary adjustment to transfer price is made *suo moto* by an Indian company, the time limit for repatriation of “excess money” is –
- (a) 60 days from 30th September of the A.Y.
 - (b) 90 days from 30th September of the A.Y.
 - (c) 60 days from 30th November of the A.Y.
 - (d) 90 days from 30th November of the A.Y. **(1 Mark)**
18. KLM Ltd. an Indian company paid dividend distribution tax under section 115-O in respect of dividend distributed by it to its resident and non-resident shareholders. Mr. Roy, a shareholder of KLM Ltd. and a resident of Country Y, has to pay tax in Country Y on dividend received by him from KLM Ltd., as per the domestic tax laws of Country Y. This is an example of:
- (a) Juridical double taxation
 - (b) economic double taxation
 - (c) territorial double taxation
 - (d) municipal double taxation **(1 Mark)**
19. Which of the following is not an eligible international transaction for application of safe harbor rules?
- (i) Preparation of user documentation
 - (ii) Receipt of intra-group loans where the amount of loan is denominated in Indian rupees
 - (iii) Providing implicit corporate guarantee
 - (iv) Purchase and export of core auto components
 - (v) Receipt of intra-group services from group member
- Choose the correct option
- (a) Only (ii)
 - (b) (ii) & (v)
 - (c) (ii), (iv) & (v)
 - (d) (ii), (iii), (iv) & (v) **(1 Mark)**
20. In which of the following transfers, the benefit of indexation is available in case the asset is a long-term capital asset?
- (a) Transfer of securities by a foreign institutional investor u/s 115AD.
 - (b) Transfer of undertaking or division in a slump sale u/s 50B.
 - (c) Transfer of shares in an Indian Company purchased in foreign currency by a non-resident assessee
 - (d) None of the above **(1 Mark)**

Division B – Descriptive Questions

Question No. 1 is compulsory

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

1. Ganga Ltd. is engaged in the business of manufacturing fertilizers since 1st April 2009. Its statement of profit and loss shows a net profit of Rs.350 lakhs for the year ended 31-03-2019, after debiting and crediting the following items:
- (a) Depreciation provided in accounts as per straight line basis Rs.50 lakhs.
 - (b) The opening and closing stock for the year were Rs.200 lakhs and Rs.255 lakhs, respectively. They were overvalued by 10%.
 - (c) Fees of Rs.1 lakh paid to independent directors for attending Board meeting without deduction of tax at source under section 194J.
 - (d) Rs.9 lakhs contribution to a National Laboratory approved under section 35(2AA).
 - (e) GST of Rs.2.10 lakhs, pertaining to P.Y.2018-19, was paid on 27-12-2019.
 - (f) The company has also purchased goods of Rs.63 lakhs from M/s. Jamuna Ltd. in which directors have substantial interest. The market value of the goods is Rs.58 lakhs.
 - (g) The company has made cash payments for purchases and expenditure as below:
On 10-05-2018 Rs.8 lakhs (Due to strike by bank staff)
On 17-08-2018 Rs.5 lakhs (Due to cash demanded by the supplier)
Cash payments made to transport operator for hiring of lorry are as follows:
06-06-2018 - Rs.40,000; 03-07-2018 - Rs.35,000; 15-01-2019 - Rs.52,000.
 - (h) The company has incurred legal expenses of Rs.5 lakhs and Rs.4 lakhs for issue of bonus shares and for issue of right shares, respectively.
 - (i) Donation paid to a registered political party by way of cheque Rs.17 lakhs

Additional Information:

- (i) Normal depreciation allowable as per the Income-tax Rules, 1962 is Rs.62 lakhs.
- (ii) A debt of Rs.4 lakh was claimed as bad debt in the previous year 2014-15. A sum of Rs.2 lakh was recovered during the P.Y. 2018-19. The effect of recovery of bad debt was not given in books of account.

Compute the total income and tax liability of the company for the A.Y.2019-20 by integrating, analysing and applying the relevant provisions of the income-tax law and decided case laws. Give brief reasons for treatment of each item. Ignore MAT provisions.

Assume the tax rate applicable to Ganga Ltd for the P.Y. 2018-19 is 30%.

(14 Marks)

- 2 (a) ABC LLP, a limited liability partnership in India is engaged in development of software and providing IT enabled services through two units, namely, Unit A and Unit B. Unit A is setup in Special Economic Zone (SEZ) and Unit B is set up in a Domestic Tariff Area (DTA). The LLP furnishes the following information relating to its 3rd year of operation ended on 31-3-2019:

Items	(Amount in Rs. Lacs)	
	Unit A	Unit B
Export Turnover	1200	920
Domestic Turnover	200	460
Duty Draw Back	38	38

Profit on sale of Import Entitlement	24	Nil
Salaries paid	540	192
Other expenses	420	473
Net Profit of the year	502	753

Additional Information:

- (i) **Unit A:** Expenses of Rs.24 lacs are disallowable under section 43B and export sales proceeds received in India amounted to Rs.1040 lacs. Export sales of Rs.1200 lacs include freight and insurance of Rs.200 lacs and realization of Rs.1040 lacs includes amount of insurance and freight charges of Rs.140 lacs.
- (ii) **Unit B:** Export sales received in India was Rs.850 lacs. Expenses charged and are to be disallowed as per section 40A(3) are of Rs.47 lacs.

Compute tax payable by ABC LLP for the Assessment Year 2019-20. **(8 Marks)**

- (b) The following particulars of income earned in India, Country X and Country Y for the previous year 2018-19 are furnished by Mr. Rajan, an individual resident in India aged 52 years.

Particulars	Rs.
<u>In India</u>	
Income from profession carried on in India	6,20,000
<u>In Country X</u>	
Agricultural income (gross) [not exempt in Country X]	82,000
Royalty income from a literary book (gross)	5,20,000
Expenses incurred for earning royalty	30,000
<u>In Country Y</u>	
Dividend received from a company incorporated in Country Y (gross)	97,000
Business loss (Proprietary business) [Business loss in Country Y not eligible for set off against other incomes as per law of that country.]	70,000
Rent from a house situated in Country Y (gross) [No statutory deduction allowable in Country Y]	3,20,000
Municipal tax in respect of the above house (not allowed as deduction in Country Y)	12,000

India has not entered into double taxation avoidance agreement with these two countries. The rates of tax in Country X and Country Y are 12% and 15%, respectively.

You are required to compute total income and tax payable by Mr. Rajan in India for A.Y.2019-20. **(6 Marks)**

3. (a) The following are the particulars of Healthcare Trust relevant for the previous year ended 31st March, 2019. Healthcare Trust running hospitals is registered under section 12AA.
- (i) Income from running of hospitals Rs.108 lakhs.
- (ii) Income from medical college (gross receipts Rs.95 lakhs) Rs.24 lakhs
- (iii) Donation received (including anonymous donation Rs.3 lakhs) Rs.8 lakhs.
- (iv) Amount applied for the purposes of hospital Rs.93.50 lakhs.

- (v) The trust had accumulated Rs.20 lakhs under section 11(2) in the financial year 2012-13 for a period of five years for extension of one of its hospitals. The trust has spent Rs.15 lakhs for the said purpose till 31st March, 2018. No amount was spent in the year 2018-19.

You are required to compute taxable income and tax liability of the trust for A.Y.2019-20.

(8 Marks)

- (b) Mr. Navneet is a resident of the Contracting States, namely, Country “P” and Country “Q”, as per the domestic tax laws of the respective countries. Explain the manner of determining the single status of residence of Mr. Navneet 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 2019-20:
- (i) An Indian company pays gross salary including allowances and monetary perquisites amounting to Rs.9,20,000 to its General Manager. Besides, the company provides non-monetary perquisites to him whose value is estimated at Rs.1,40,000.
 - (ii) Mr. Aryan, a resident, acquired a house property at Chennai from Mr. Josh for a consideration of Rs.85 lakhs, on 21.7.2018. On the same day, Mr. Aryan made two separate transactions, thereby acquiring an urban plot in Mumbai from Mr. Akash for a sum of Rs.49,00,000 and rural agricultural land from Mr. Dhanush for a consideration of Rs.55 lakhs.
 - (iii) A notified infrastructure debt fund eligible for exemption under section 10(47) of the Income-tax Act, 1961 pays interest of Rs.6 lakhs to a company incorporated in Canada. The Canadian Company incurred expenditure of Rs.15,000 for earning such interest. The fund also pays interest of Rs.2.5 lakhs to Mr. A, who is a resident of a notified jurisdictional area.
 - (iv) Fly Ltd. has paid amount of Rs.18 lacs during the year ended 31-3-2019 to Airports Authority of India towards landing and parking charges. **(8 Marks)**
- (b) Examine whether transfer pricing provisions under the Income-tax Act, 1961 would be attracted in respect of the following cases -
- (i) Scientific research services provided by Sigma, an Italian company to ABC Ltd., an Indian company. Sigma is a “specified foreign company” as defined in section 115BBD, in relation to ABC Ltd.
 - (ii) Purchase of commodities by Figaro Ltd., an Indian company, from Zyl0 AG, a German company. Figaro Ltd. is the subsidiary of Zyl0 AG.
 - (iii) Transfer of technical knowhow by XYZ Ltd., an Indian company, to Alcatel Lucent, a German company, which guarantees 15% of the borrowings of XYZ Ltd. **(6 Marks)**
5. (a) (i) An Income-tax authority did not file an appeal to the Income-tax Appellate Tribunal against an order of the Commissioner (Appeals) decided against the Income-tax department on a particular issue in case of one assessee, Bela for assessment year 2018-19 on the ground that the tax effect of such dispute was less than the monetary limit prescribed by CBDT. In assessment year 2019-20, similar issue arose in the assessments of Bela and her sister Tara, which was decided by the Commissioner (Appeals) against the Department. Can the Income-tax department move an appeal to the Tribunal in respect of A.Y. 2019-20 against the orders of the Commissioner (Appeals) for Bela and her sister Tara? **(4 Marks)**
- (ii) The Assessing Officer lodged a complaint against M/s. M & D, a firm, under section 276CC of the Income-tax Act, 1961 for failure to furnish its return of income for the A.Y.2018-19 within the due date under section 139(1). The tax payable on the assessed income, as reduced by the advance tax paid and tax deducted at source, was Rs.60,000. The appeal filed by the firm against the order of assessment was allowed by the Commissioner

(Appeals). The Assessing Officer passed an order giving effect to the order of the Commissioner (Appeals). The tax payable by the firm as per the said order of the Assessing Officer was Rs. 1,000. The Assessing Officer has accepted the order of the Commissioner (Appeals) and has not preferred an appeal against it to the Income Tax Appellate Tribunal. The firm desires to know of the maintainability of the prosecution proceedings in the facts and circumstances of the case. **(4 Marks)**

- (b) Examine with reasons whether the following transactions are subject to tax as deemed income.
- (i) MOON Ltd. is a broadcaster of News Channel in India. It had made payments to a Australian company having no PE in India for downlinking Television Channels into India and international footprint through a channel.
 - (ii) Mr. Andrew, a foreign citizen and a diamond merchant from US, has earned income of Rs.18 crores from display of uncut and unassorted diamonds in the Best Diamond Bourse, a notified special zone in Surat. **(6 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) Examine whether the following acts can be considered as (i) Tax planning; or (ii) Tax management; or (iii) Taxevasion. Give brief reasons for your answer.
- (I) Miss Kashish deposits Rs.1,50,000 in PPF account so as to reduce her total income from Rs.5,90,000 to Rs.4,70,000, so as to fall in the 5% total income slab.
 - (II) A company installed an air-conditioner costing Rs.70,000 at the residence of a director as per terms of his appointment but treats it as fitted in quality control section in the factory. This is with the objective of treating it as plant for the purpose of computing depreciation. **(4 Marks)**
- (c) Mr. Sidney Crosby, a foreign national hockey player (who is non-residents in India) participated in hockey tournaments in India and earned Rs.45 lakhs. He also contributed an article relating to the sport of hockey in a sports magazine in India and earned Rs. 10,000. He also earned winnings from lotteries (net) of Rs. 69,100.

With reference to the provisions of the Income-tax Act, 1961, you are required to –

- (i) Examine whether the above income are subject to deduction of tax at source.
 - (ii) Decide whether it is necessary for him to file his return of income for A.Y.2019-20. **(3 Marks)**
- (d) Mr. Sakshat, a non-resident, made an application to the Authority for Advance Rulings on 3.7.2018 in relation to a transaction proposed to be undertaken by him. On 10.8.2018, he decides to withdraw the said application. Can he withdraw the application on 10.8.2018? Examine. **(3 Marks)**