

**Paper 16-DIRECT TAX LAWS
AND
INTERNATIONAL TAXATION**

Paper 16 – Direct Tax Laws and International Taxation

Time Allowed: 3 Hours

Full Marks: 100

Section-A

1. Multiple Choice Questions with Justification

10x 2 = 20 Marks

- i. MAT credit can be set off and carry forward for _____ years.
 - A. 5 years
 - B. 8 years
 - C. 10 years
 - D. 15 years
- ii. Non-corporate taxpayer to whom the provisions of AMT apply is required to obtain a report from a chartered accountant in Form No. _____ on or before the due date of filing the return of
 - A. 29
 - B. 29A
 - C. 29AB
 - D. 29C
- iii. As per section 47(vib), any transfer in a demerger of a capital assets by the demerged company to the resulting company is not treated as transfer provided the resulting company is an _____ company.
 - A. Foreign Company
 - B. Domestic Company
 - C. Indian Company
 - D. None of the above
- iv. Specified domestic transaction means a transaction where the aggregate of such international transaction entered into by the assessee in the previous year exceeds a sum of ₹ _____ crore.
 - A. 5 crore
 - B. 8 crore
 - C. 10 crore
 - D. 20 crore
- v. Two enterprises shall be deemed to be associated enterprises if one enterprise holds shares carrying not less than ____% of the voting power in another enterprise.
 - A. 10%
 - B. 20%
 - C. 26%
 - D. 51%
- vi. An application for advance pricing agreement shall be made in Form No _____.
 - A. 3CEE
 - B. 3CED
 - C. 3CEDA
 - D. None of the above
- vii. The annual compliance report shall be furnished by the assessee to the Director General of Income Tax (International Taxation) in Form No. _____.
 - A. 3CEE
 - B. 3CED
 - C. 3CEF
 - D. None of the above
- viii. In case of Political Party the return of income is verified by _____.
 - A. Karta
 - B. Principal officer
 - C. Chief executive officer
 - D. Any Partner

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- ix. TDS rate on Income of FII from securities.
A. 5%
B. 10%
C. 15%
D. 20%
- x. MAT provision shall not apply to any income accruing or arising to a company from _____.
A. Insurance Business
B. Banking Business
C. Life Insurance business
D. None of the above.

Section-B

Answer any five questions out of seven questions)

2.a. R Ltd files return of Income declaring an income of ₹ 4,40,000 for assessment year 2018-19. A sum of ₹ 23,000 have already been deducted at source on the income of R Ltd. during the financial year 2017-18. The company has paid advance tax as under;

Due Dates	Amount (₹)
On 15.06.2017	12,000
On 15.09.2017	36,000
On 15.12.2017	30,000
On 15.03.2018	25,000

Calculate the interest payable by R Ltd under section 234C.

8 Marks

2.b. Discuss the Doctrine of form and substance in the context of tax planning.

8 Marks

3. XYZ is engaged in the manufacture of fertilizer since 04.04.2012. Its statement of profit and loss Shows a net profit of ₹ 700 Lakhs after debit and credit of the followings items; **16 Marks**

1. Depreciation calculated on the basis of useful life of assets as per provisions of the Companies Act, 2013 is ₹ 50 Lakhs.
2. Normal deprecation calculated as per Income Tax Rules is ₹ 80 Lakhs.
3. Employer contribution to EPF of ₹ 2 lakhs together with the Employee's contribution of ₹ 2 Lakhs for the month of March, 2018 was remitted on 08.05.2018
4. The company appended a note to its Income Statement that industrial power traffic concession of ₹ 2.5 Lakhs received from state government and treated as same as capital receipts.
5. The company had provided an amount of ₹ 25 Lakhs being sum estimated as payable to workers based on agreement to be entered with the workers union towards periodical wage revision once in 3 years. The provision is based on a fair estimation on wage and probable revision.
6. The company had made a provision of 10% of its debtors towards bad and doubtful debts. Total sundry debtors of the company as on 31.03.2018 was ₹ 200 Lakhs.
7. A debtor who owed the company an amount of ₹ 40 crores was declared insolvent and hence, was written off.

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8. Sundry creditor includes an amount of ₹ 50 Lakhs payable to A & Co. towards supply of raw materials, which remained unpaid due to quality issues. An agreement has been made on 31.03.2018 to settle the amount at a discount of 75% of the outstanding.
9. The opening and closing stock of the year were ₹ 200 lakhs and ₹250 Lakhs respectively. They were overvalued by 10%.
10. Provision for gratuity based on actuarial valuation was ₹ 5 crores. Actual gratuity paid was ₹ 3 crore.
11. Commission of ₹ 1 Lakh paid to a recovery agent for realization of a debt. Tax has been deducted and remitted as per chapter XVIIIB of the Act.
12. The company has purchased 500 units of industrial paper as packing material at a price of ₹ 30,000/ton from PQR, a firm in which majority of the directors are partners. PQR's normal selling price in the market for the same material is ₹ 28,000/ton.

Additional Information:

- a. There was an addition to plant and machinery amounting to ₹ 50 Lakhs on 10.06.2017
- b. The company had credited a sub contractor an amount of ₹ 8 Lakhs on 31.03.2017 towards repairing machinery components. The tax so deducted was remitted on 31.10.2017.
- c. The company has collected ₹ 10 Lakhs as sales tax from its customers and paid the same on the due date. However on an appeal made high court directed the states tax department to refund ₹ 2 Lakhs to the customer from whom the amount was collected and the balance of ₹ 1 lakhs is still lying under the head "Current Liabilities".

Compute the total income and tax payable. Ignore MAT provisions.

4.a. Mrs X filed return of A.Y 2013-14 declaring an income of ₹ 3,25,000. He had been assessed under section 143(3) and the assessing officer made the following additions;

- i. Unexplained cash credit for want of confirmation from creditors ₹ 2,00,000.
- ii. Disallowance in respect of travelling expenditure of ₹ 46,000 for tour to Chennai for effecting sales there, as Mr X failed to establish that the expenditure had been incurred for the purpose of business.

At a later stage, he has been served with a notice under section 148 for income escaping assessment in respect of A.Y 2013-14. During the course of reassessment proceedings, the Assessing Officer sought to add unaccounted sales of ₹ 4,00,000 made at Chennai.

During the course of hearing, the assessee produced confirmation from creditors and requested to delete the addition for unexplained cash credit of ₹ 2,00,000 and to allow deduction of travelling expenditure of ₹ 46,000.

Discuss the validity of the contention raised by the assessee.

8 Marks

4.b. X Ltd transferred its fertilizer business to a new company Y Ltd by way of demerger with effect from appointed date of 01.04.2016 after satisfying the conditions of demerger. Further information given;

- i. WDV of the entire block of plant and machinery held by X Ltd as on 01.04.2016 is ₹ 100

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crores;

- ii. Out of the above, WDV of block of plant and machinery of fertilizer division is ₹ 70 crore;
- iii. X Ltd has absorbed depreciation of ₹ 50 Lakhs as at 31.03.2016;

On the above facts:

- i. You are required to explain the provisions of the income tax as to the allowability of depreciation, post merger, in the hands of X Ltd and Y Ltd as at 31.03.2017 duly calculating the depreciation.
- ii. State how the unabsorbed depreciation has to be dealt with for the assessment year 2017-18. **8 Marks**

5.a. Critically comment with the help of a case law-

"Income from the sub-licensing of property is taxable as house property income and not business income". **8 Marks**

5.b. Critically comment with the help of a case law-

Securities premium shall not be considered as a part of the capital employed for the purpose of sec. 35D. **8 Marks**

6.a. EF Ltd, an Indian company, is engaged in manufacturing electronic components. 74% of the shares of the company are held by EF Inc. incorporated in USA. EF Ltd has borrowed funds from EF Inc. at LIBOR plus 150 points. The LIBOR prevalent at the time of borrowing is 4% for US \$. The borrowings allowed under the External Commercial Borrowings Guidelines issued under FEMA are LIBOR plus 200 basis points. Discuss whether the borrowings made by EF Ltd. are at Arm's Length. (LIBOR means London Inter Bank Offer Rate). **8 Marks**

6.b. Mr Pankaj, a resident Indian aged 67 years, has derived following income during the previous year 2017-18. **8 Marks**

Particulars	Amount (₹)
Income from business in India	2,50,000
Commission (Gross) from a company in Hong Kong (Tax paid in Hong Kong ₹ 60,000)	3,00,000
Dividend (Gross) from a company in Hong Kong (Tax paid in Hong Kong ₹ 18,000)	90,000
Interest on Fixed deposit and saving bank account with bank in India	2,00,00

India has no Double Avoidance Agreement with Hong Kong. Compute the Income and Tax payable by Mr. Pankaj for the Assessment year 2017-18.

7.a. US Ltd, a US company has subsidiary, IND Ltd in India. US Ltd sells computer monitors to IND Ltd, for resale in India. US Ltd also sells computer monitor to CMI Ltd, another computer reseller. Its sells 50,000 computer monitor to IND Ltd at ₹ 11,000 p.u.

The price fixed for CMI Ltd is ₹ 10,000 p.u. The warranty in case of sale of monitors by IND Ltd is handled by IND Ltd However, for sale of monitors by CMI Ltd, US Ltd is responsible for the warranty for 3 months. Both US Ltd and IND Ltd offers extended warranty at a standard rate of ₹ 1,000 per annum. On these facts how the assessment of IND Ltd is going to be affected? **8 Marks**

7.b. Z resident Indian aged 21 years earned a sum of ₹ 10 lakhs during the previous year 2017-18 from playing Badminton matches in a country with which India does not have Double Avoidance Agreement. Tax of ₹ 2 lakhs was levied on such income in that source country. In India, he earned ₹ 15 Lakhs during the previous year 2017-18. From playing badminton matches. He has deposited ₹ 1 lakhs in Public Provident Fund during the year.

Compute the Income tax liability for assessment year 2018-19.

8 Marks

8. Write short notes on the following (Any four to be answered out of 5 questions) (4x4=16 Marks)

- a. Scope of total undisclosed foreign income and asset [Sec. 4].
- b. Power of authorised officer.
- c. Cases of under-reporting of income [Sec. 270A(2)].
- d. Manner of computation of income under tonnage tax scheme [Sec. 115VE].
- e. Unilateral Relief.