

MOCK TEST PAPER 2
FINAL (OLD) COURSE: GROUP - II
PAPER – 7: DIRECT TAX LAWS

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 Questions in Division A, working notes are not required.

All questions relate to Assessment Year 2021-22, unless stated otherwise in the question.

Total Marks: 100 Marks

Time Allowed: 3 Hours

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.

Case Scenario I

Star Co. Ltd., a listed company located in Pune, is engaged in multiple activities at different locations. It furnished the following information unit wise for the year ended 31st March, 2021:

- (a) **Vehicle parts manufacturing unit, Pune:** It entered into an agreement for use of know-how owned by Sun India Ltd., an Indian Company. It paid royalty of ₹ 36 lakhs during the previous year 2020-21. The company deducted tax at source on the amounts paid up to December, 2020 and omitted to deduct tax at source on the royalty of ₹ 8 lakhs due for the period from January, 2021 to March, 2021. The payee admitted the royalty income fully, paid tax and filed his return of income before the “due date” specified in section 139(1).
- (b) **Garment manufacturing unit, Indore:** The Company has a manufacturing unit at Indore, Madhya Pradesh. The unit paid ₹ 3 lakhs as interest on loan taken from a non-resident Indian. The tax was deducted at source in March, 2021 but it was remitted only on 06-05-2021.
The company paid ₹ 33,60,000 being 14% of basic salary plus DA of the employees in notified pension scheme. It also paid ₹ 6 lakhs being the amount of income-tax payable by the employees on non-monetary perquisites provided by the company.
- (c) **Fertilizer producing unit, Surat:** The Company established a fertilizer producing unit in Surat, Gujarat which become operational in June, 2020. It has acquired a Land for ₹ 1 crore and put up a Building for ₹ 3 crores and installed new Plant and Machinery for ₹ 4 crores. The Net Profit as per books of account of the unit is ₹ 2.20 crores (after deducting depreciation on Building of ₹ 0.30 crores and Plant and Machinery of ₹ 0.60 crores).
- (d) **Warehousing facility for storage of edible oils at Chennai:** It established a warehousing facility for storage of edible oils from 01-06-2020. It made investments such as cost of Land ₹ 50 lakhs, Building ₹ 2.5 crores and Plant and Machinery (new) ₹ 3.2 crores at the beginning of the previous year. The Net Profit as per books (without deducting depreciation) was ₹ 70 lakhs.

The total turnover of the company for previous year 2018-19 was ₹ 282 crores and for financial year 2019-20 ₹ 405 crores. The company has MAT credit of ₹ 20 lakhs of the assessment year 2010-11. The book profit (computed) for the assessment year 2021-22 is ₹ 835 lakhs. Total income (computed) as per the normal provisions of the Income-tax is ₹ 520 lakhs for the A.Y.2021-22. Company does not opt for section 115BAA.

Based on the facts of the above case scenario, choose the most appropriate answer to Q.1 to Q. 5 below:

1. How much amount would be disallowed with respect to royalty paid to Sun India Ltd. and interest on loan taken from a non-resident while computing "Profits and Gains from business or profession" of Star Co. Ltd.?
 - (a) ₹ 3,30,000
 - (b) ₹ 2,40,000
 - (c) ₹ 90,000
 - (d) ₹ 3,00,000
2. How much amount is allowable as deduction with respect to Employer's contribution to notified pension scheme and income-tax paid on non-monetary perquisites while computing "Profits and Gains from business or profession" of Star Co. Ltd.?
 - (a) ₹ 33,60,000 and ₹ 6,00,000, respectively
 - (b) ₹ 33,60,000 and Nil, respectively
 - (c) ₹ 24,00,000 and ₹ 6,00,000, respectively
 - (d) ₹ 24,00,000 and Nil, respectively
3. Which of the following statements is correct with regard to the taxability of income under the head "Profits and Gains from business or profession"/carry forward and set-off of losses of fertilizer producing unit?
 - (a) Loss of ₹ 3.90 crores to be carried forward to A.Y. 2022-23
 - (b) Loss of ₹ 4.90 crores to be carried forward to A.Y. 2022-23
 - (c) Profits of ₹ 1.4 crores
 - (d) Loss of ₹ 3.90 crores can be set-off from other business income
4. Which of the following statements is correct with regard to the taxability of income under the head "Profits and Gains from business or profession"/carry forward and set-off of losses of warehousing facility unit?
 - (a) Loss of ₹ 5 crores to be carried forward to A.Y. 2022-23
 - (b) Loss of ₹ 5 crores can be set-off from other business income
 - (c) Loss of ₹ 5.5 crores to be carried forward to A.Y. 2022-23
 - (d) Loss of ₹ 3 lakhs can be set-off from other business income
5. What is the tax liability of Star Co. Ltd. for the A.Y. 2021-22?
 - (a) ₹ 139.3782 lakhs
 - (b) ₹ 144.664 lakhs
 - (c) ₹ 124.664 lakhs
 - (d) ₹ 153.5968 lakhs

(2 x 5 = 10 Marks)

Case Scenario II

You are a Chartered Accountant. M/s Prithvi (India) Ltd., an authorised dealer under the Liberalised Remittance Scheme of RBI, furnished you the following information for the previous year 2020-21 for seeking tax advice:

Mr. Sumit, an employee of M/s Prithvi (India) Ltd. derived salary income of ₹ 12 lakhs under the head "Salaries". He also pays interest of ₹ 1,50,000 and principal of ₹ 50,000 on loan taken from SBI in respect of a self-occupied house property. His wife Mrs. Sneha derived salary income of ₹ 10,50,000, rental income from house property of ₹ 3,60,000 and she pays interest of ₹ 2,50,000 and principal amount of ₹ 80,000 on loan taken in respect of purchase of the said house property.

M/s Prithvi (India) Ltd. received the following amounts from three individuals for remitting outside India under Liberalised Remittance Scheme of RBI:

Name of the Person	Date of remittance	Remittance Amount INR	Purpose
Mr. P	11.11.2020	₹ 7,20,000	Maintenance expenses of his son studying in London
Mr. Q	12.12.2020	₹ 12,20,000	Cost of Overseas Tour Programme package to North & South America purchased from overseas foreign tour operator
Mr. R	01.01.2021	₹ 14,50,000	Repayment of loan obtained from Bank in Germany for pursuing higher studies.

Based on the facts of the above case scenario, choose the most appropriate answer to Q.6 to Q. 9 below:

6. What would be the tax liability (computed in the manner to maximise his tax savings) of Mr. Sumit for the A.Y. 2021-22?
 - (a) ₹ 1,06,600
 - (b) ₹ 1,19,600
 - (c) ₹ 1,09,200
 - (d) ₹ 70,200
7. What would be the tax liability (rounded off) (computed in the manner to maximise her tax savings) of Mrs. Sneha for the A.Y. 2021-22?
 - (a) ₹ 1,00,780
 - (b) ₹ 88,820
 - (c) ₹ 1,43,520
 - (d) ₹ 1,11,180
8. Is tax required to be collected by M/s Prithvi (India) Ltd. on the remittances made by Mr. P and Mr. Q? If yes, what would be rate of TCS and amount of tax to be collected at source?
 - (a) No, tax be collected at source on both these remittances
 - (b) Tax of ₹ 1,000 @5% on amount exceeding ₹ 7,00,000 on remittance made by P and tax of ₹ 26,000 @ 5% in excess of ₹ 7,00,000 on the remittances made by Q is to be collected at source.
 - (c) No, tax be collected at source on the remittance made by P. Tax of ₹ 61,000 @ 5% on ₹ 12,20,000 on the remittances made by Q is to be collected at source.
 - (d) Tax of ₹ 1,000 @5% on amount exceeding ₹ 7,00,000 on remittance made by P and tax of ₹ 61,000 @ 5% on ₹ 12,20,000, being the amount remitted by Q is to be collected at source.
9. Is tax required to be collected by M/s Prithvi (India) Ltd. on the remittances made by Mr. R? If so, what would be the rate of TCS and amount of tax to be collected at source?
 - (a) Yes, tax is to be collected at source of ₹ 37,500 @5% on the amount exceeding ₹ 7,00,000.
 - (b) Yes, tax is to be collected at source of ₹ 3,750 @0.5% on the amount exceeding ₹ 7,00,000.
 - (c) Yes, tax is to be collected at source of ₹ 7,250 @0.5% on the amount of ₹ 14,50,000.
 - (d) Yes, tax is to be collected at source of ₹ 26,250 @3.5% on the amount exceeding ₹ 7,00,000.

(2 x 4 = 8 Marks)

10. Mr. A, an agriculturist has made an agreement to sell his 10 acres of agricultural land situated in a remote village at a price of ₹ 1 lakh per acre to Mr. B, a builder for constructing a farmhouse. Mr. A has received an advance of ₹ 1 lakh by way of a crossed cheque. Later on, the agreement was rescinded as Mr. B could not pay the balance amount within the stipulated time as per the agreement. Mr. A returned the advance by A/c payee cheque. Would penalty be leviable on Mr. A under section 271D? If yes, what would be the amount of penalty?
- (a) Yes, penalty of ₹ 1 lakh is leviable on Mr. A, since Mr. B has income other than agricultural income.
- (b) No, penalty would not be leviable, since Mr. A returned the advance by an A/c payee cheque.
- (c) No, penalty would not be leviable, since Mr. A is an agriculturist.
- (d) Yes, penalty of ₹ 20,000 is leviable on Mr. A, since Mr. B has income other than agricultural income.

(2 Marks)

11. M/s XYZ Highway Ltd, an Indian company is engaged in the business of building highway projects in India. It has borrowed US \$ 250 million from MNO Inc., a company resident in US to invest in one of its ongoing projects in India. The rate of interest charged is 8% p.a. Would such interest payable by M/s XYZ Highway Ltd. be taxable in the hands of MNO Inc.? If yes, at what rate (excluding surcharge and cess) such interest is taxable?
- (a) Yes, interest is taxable @5%
- (b) No, interest is not taxable
- (c) Yes, interest is taxable @ 10%
- (d) Yes, interest is taxable @20%

(2 Marks)

12. Mr. A, a non-resident, staying in England, holds 10% of the total share capital in M/s ABC Ltd., a company incorporated in England. The shares derive their value substantially from assets located in India. M/s ABC Ltd. directly owns assets in India. Mr. A has transferred the shares held by him to Mr. B, an Indian resident, when he was in England. Would capital gain arising on transfer of such shares is taxable in the hands of Mr. A?
- (a) Taxable, since Mr. A hold shares exceeding 5% of the total share capital in ABC Ltd.
- (b) Not taxable, since Mr. A is a non-resident and no income deemed to accrue or arise in India
- (c) Not taxable, since Mr. A does not hold controlling interest in M/s ABC Ltd.
- (d) Not taxable, since Mr. A does not hold 26% or more voting rights in ABC Ltd.

(2 Marks)

13. Pursuant to the agreement to operate E-commerce platform between "PQ" (E-commerce Operator) and "ST" (E-commerce Participant), the buyer purchased goods worth ₹ 10 lakhs on 28.02.2021 on e-commerce website of "PQ" and he makes such payment through the digital platform of "MNO". Who is the person responsible to deduct/collect the tax on this transaction and specify the amount of liability?
- (a) PQ required to deduct tax at source of ₹ 10,000
- (b) PQ required to deduct tax at source of ₹ 7,500
- (c) PQ required to deduct tax at source of ₹ 37,500
- (d) ST required to collect tax at source of ₹ 1,000

(2 Marks)

14. SS Ltd., an Indian Company, has borrowed ₹ 90 crores on 01-04-2020 from M/s. TM Inc, a company incorporated in London, at an interest rate of 10% p.a. The said loan is repayable over a period of 5

years. Further, this loan is guaranteed by M/s TY Inc. incorporated in UK. M/s. TD Inc, a non-resident, holds shares carrying 40% of voting power both in M/s SS Ltd. and M/s TY Inc.

Net profit of M/s. SS Ltd. for P.Y. 2020-21 was ₹ 11 crores after debiting the above interest, depreciation of ₹ 5 crores and income-tax of ₹ 4 crores. Calculate the amount of interest to be allowed as deduction under the head "Profits and gains of business or profession" in the computation of M/s SS Ltd..

- (a) Interest allowable as deduction under the head "Profits and gains from business or profession" would be ₹ 9 crores
- (b) Interest allowable as deduction under the head "Profits and gains from business or profession" would be ₹ 8.7 crores
- (c) Interest allowable as deduction under the head "Profits and gains from business or profession" would be ₹ 3.3 crores
- (d) Interest allowable as deduction under the head "Profits and gains from business or profession" would be ₹ 6 crores

(2 Marks)

15. (i) Where a notice under section 143(2) is issued to the assessee, it is not required to process under section 143(1), the return of income filed by the assessee.
- (ii) Only an individual can be regarded as a Tax Return Preparer under section 139B.
- (iii) Expenses of special audit conducted under section 142(2A) shall be paid by the Central Government.

Which of the above statements are true?

- (a) (i) & (ii)
- (b) (i), (ii) & (iii)
- (c) (ii) & (iii)
- (d) (ii) only

(2 Marks)

Division B – Descriptive Questions

Question No. 1 is compulsory

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

1. Compute total business income of Sakshi Ltd. (engaged in the manufacture of textile since 01.05.2010) for A.Y. 2021-22 giving a brief explanation to each item of addition or deletion. Ignore MAT provisions and the provisions of section 115BAA.

Its Statement of Profit and Loss for the financial year ended 31st March, 2021 shows a profit of ₹ 560 lakhs after debiting or crediting the followings items:

- (a) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 52 lakhs.
- (b) Industrial power tariff concession of ₹ 5.40 lakhs, received from Uttar Pradesh Government was credited to Statement of Profit and Loss.
- (c) Contribution of ₹ 2.50 lakhs to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
- (d) Profit of ₹ 8 lakhs on sale of a plot of land to PQR Limited, a domestic company, the entire shares of which are held by the Sakshi Ltd.. The plot was acquired by Sakshi Ltd. on 30th June, 2019.

- (e) Payment of ₹ 3.50 lakhs towards transportation of various materials procured by one of its units to M/s BP Transport, a partnership firm, without deduction of tax at source. The firm opts for presumptive taxation under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.
- (f) Interest of 15 lakhs paid on loans taken specifically for purchase of second hand plant and machinery. Out of this ₹ 5 lakhs is for the period till such machinery was commissioned on 12.08.2020.
- (g) A debtor who owed the company an amount of ₹ 20 lakhs was declared insolvent and hence, was written off by debiting the Statement of Profit and Loss.
- (h) ₹ 5 lakhs, being the additional compensation received from the State Government pursuant to an interim order of Court in respect of land acquired by the State Government in the previous year 2014-15.
- (i) In order to expand its overseas business, the company planned online advertisement campaign for which it engaged Fastex Inc., a Malaysian company not having any PE in India, and paid ₹ 5 lakhs for services availed. No tax/TDS was deducted by the company.
- (j) ₹ 2 lakhs paid to consultant for expert opinion on new business set-up.

Additional Information:

- (i) Depreciation computed as per Income-tax Rules on the book assets is ₹ 71 lakhs.
 - (ii) Debenture of face value of 1500 lakhs having 5 years tenure were issued at a discount of 3% and were subscribed in full.
 - (iii) The company received a bill for ₹ 3 lakhs on 31st March, 2021 from a supplier of cotton for supply made in March, 2021. The bill was omitted to be recorded in the books in March, 2021. Payment against the bill was made in April, 2021 and necessary entry was made in the books then. The same has been considered in closing inventory valuation during physical verification conducted on 31.03.2021.
 - (iv) The company has purchased 1000 bales of cotton at ₹ 5,000 per bale from Enpee LLP, a firm in which majority of the directors of Sakshi Ltd. are partners. The normal selling price in the market for the same material is ₹ 4,600 per bale. **(14 Marks)**
2. (a) STP Pvt. Ltd was converted into limited liability partnership (LLP) as STP LLP on 1-11-2020. You are provided with the following particulars of STP Pvt. Ltd. as on 31-03-2020:
- (i) Unabsorbed depreciation ₹ 30 Lakhs
 - (ii) Business loss ₹ 25 Lakhs (relating to P.Y.2012-13)
 - (iii) Unadjusted MAT credit u/s 115JAA ₹ 6.5 lakhs
 - (iv) Written down value of the assets as per section 43(6) of the Income-tax Act:
Plant and Machinery (15%) ₹ 12 Lakhs (Market Value ₹ 18 Lakhs), Plant and Machinery ₹ 60 Lakhs (cost) – deduction claimed u/s 35AD, Building (10%) ₹ 30 Lakhs (Market Value ₹ 120 Lakhs)
 - (v) Cost of land (acquired in year 2001) ₹ 60 lakhs (Market value ₹ 110 Lakhs)
 - (vi) Expenditure on voluntary retirement incurred by the company during the P.Y. 2018-19 is ₹ 27 Lakhs. The company has been allowed deduction of ₹ 5.4 Lakhs for each year for the P.Y. 2018-19 and P.Y. 2019-20 u/s 35DDA.

Explain the tax treatment of each item stated above in the hands of LLP, assuming that the conversion satisfies all the conditions laid down in section 47(xiiib). **(8 Marks)**

- (b) Mr. Rakesh, an individual resident in India aged 65 years, furnishes you the following particulars of income earned in India, Country "S" and Country "T" for the previous year 2020-21. India has not entered into double taxation avoidance agreement with Country S and Country T.

Particulars	₹
Income from profession carried on in India	8,00,000
Agricultural income in Country "S" (gross)	60,000
Dividend received from a company incorporated in Country "T" (gross)	1,50,000
Royalty income from a literary book from Country "S" (gross)	6,00,000
Expenses incurred for earning royalty	1,00,000
Business loss in Country "T" (Proprietary business)	65,000
Rent from a house situated in Country "T" (gross)	2,40,000
Municipal tax paid in respect of the above house in Country "T" (not allowed as deduction in Country "T")	10,000

Note: Business loss in Country "T" not eligible for set off against other incomes as per law of that country. Royalty income brought in India in May, 2021. The rates of tax in Country "S" and Country "T" are 10% and 15%, respectively. He does not opt to pay tax as per section 115BAC. Compute total income and tax payable by Mr. Rakesh in India for Assessment Year 2021-22 after allowing deduction u/s 91. **(6 Marks)**

3. (a) Rahi charitable trust registered under section 12AA of the Income-tax Act, 1961 has, out of its income of ₹ 4,90,000 for the year ending 31.3.2021 and sale proceeds of a capital asset sold on 11.11.2020, held by it for less than 24 months, amounting to ₹ 10,60,000, purchased a building on 28.03.2021 for ₹ 15,50,000. The building is held only for charitable purposes.

The trust claims that the purchase of the building amounts to application of its income for charitable purposes and that the capital gain arising on the sale of the capital asset is deemed to have been applied to charitable purposes. Is the claim made by the charitable trust valid in law?

(4 Marks)

- (b) A Pavitra charitable trust registered under Section 12AA, for the previous year ending 31.3.2021, derived gross income of ₹ 25 Lacs, which consists of the following:

	(₹ in Lacs)
(a) Income from properties held by trust (net)	12
(b) Income (net) from business (incidental to main objects)	5
(c) Voluntary contributions from public	8

The trust applied a sum of ₹ 11.60 lacs towards charitable purposes during the year which includes repayment of loan taken for construction of orphanage ₹ 3.60 lacs. Determine the taxable income of the trust for the assessment year 2021-22. **(4 Marks)**

- (c) KP Ltd., the assessee, has sold goods on 13.12.2020 to LM Ltd., located in notified jurisdictional area (NJA), for ₹ 11.40 crores. During the current financial year, KP Ltd. charged ₹ 12.60 crores from XY of US and ₹ 13.20 crores from RS of London for sale of identical goods and both of which are neither associated enterprise of KP Ltd. nor they are situated in any NJA. While sales to XY and RS were on CIF basis, the sale to LM Ltd., was on FOB basis, which paid ocean freight and insurance amounting to ₹ 20 lakhs on purchases from KP Ltd.

India has a Double Taxation Avoidance Agreement with the US and U.K. The assessee has a policy of providing after sales support service to the tune of ₹ 12 lakhs to all customers except LM Ltd.

Compute the ALP for the sales made to LM Ltd., and the amount of consequent increase, if any, in the profit of KP Ltd. **(6 Marks)**

4. (a) M/s XYZ (P) Ltd., an Indian company in the business of event management throughout India, withdraws ₹ 12 lakhs in cash on 7th day of each month during the financial year 2020-21 from its current account with Canara Bank, for local payments and for payment of wages and incentives to temporary employees engaged by it for different events. It did not made any single payment of ₹ 10,000 or more to any person in a day. M/s XYZ (P) Ltd. always files its return of income before the due date specified u/s 139(1). Examine the liability for tax deduction at source in the present case. **(4 Marks)**

- (b) M/s Swiss Inc., a foreign company, seconded some employees to its collaborator M/s Twinkle Ltd., an Indian company, for working on a turnkey project for setting up a pharmaceutical factory. These employees worked with M/s Twinkle Ltd., throughout the P.Y. 2020-21. The employees were in receipt of salary from M/s Twinkle Ltd. They were also in receipt of special allowance directly from M/s Swiss Inc. in foreign currency outside India. M/s Twinkle Ltd. deducted tax under section 192, on the component of salary paid by it, without taking into account the special allowance paid abroad by M/s Swiss Inc. in foreign currency to these employees.

For this reason, the Revenue authorities treated M/s Twinkle Ltd. as an 'assessee-in-default' under Section 201 for non-deduction of tax at source on the "special allowance" component of salary paid by M/s Swiss Inc. under section 192. Is such treatment by the Revenue Authorities and the consequent levy of interest and penalty justified? **(4 Marks)**

- (c) You are required to compute the total income and tax liability of Mr. Yatin, a non-resident, aged 68 years for the A.Y.2021-22. The following are the details of the income for the F.Y.2020-21.

- Income from a business in Pune (50% received in India)	3,80,000
- Dividend from a Canadian company received in Dubai	1,91,200
- Income from profession in Singapore, which was set up in India, received in Dubai but spent in India	1,80,000
- Interest on Savings bank deposit in Sate Bank of India	10,500
- Income from a business in Singapore which is controlled from Pune (50% received in India)	1,20,000
- Income from agricultural land in Singapore, received there and then brought to India	41,300
- Interest from an Indian company on Rupee Denominated Bonds which were issued in Singapore on 01.03.2019	15,000
- Long-term capital gain on sale of shares purchased and sold through recognized stock exchange (STT paid both at the time of purchase and sale)	1,35,000

He does not want to pay tax as per section 115BAC.

(6 Marks)

5. (a) M/s M & Co., a proprietary concern of Mr. Manan, failed to furnish its Return of Income (ROI) for A.Y. 2020-21 within the due date u/s 139(1). The A.O. in turn lodged a complaint against the proprietor u/s 276CC. The tax payable on assessed income as reduced by the tax deducted at source and advance tax paid was ₹ 1,40,000. Mr. Manan filed an appeal before CIT(A) against the order of assessment and got part relief. Accordingly, A.O. passed an order giving effect to the order of CIT(A). The tax payable as per said order of A.O. was ₹ 18,500. The A.O. accepted the order of CIT(A) and did not prefer an appeal against it to ITAT.

M/s M & Co. seeks your advice on the maintainability of proceedings u/s 276CC.

Also, briefly mention would your answer be different if M & Co. is a private limited company.

(4 Marks)

- (b) Examine the following cases and state whether the same are liable for penalty as per the provisions of the Income-tax Act, 1961.

(I) Blue & Associates had made payment in excess of the limits prescribed to the contractors for carrying out labour job work at various sites, but had not deducted tax at source as per section 194C.

(II) Sunshine Hotels were asked by Income-tax Officer (CIB) after obtaining the approval of the Principal Director to furnish details of all such tourists who stayed in their hotels and had paid bill amount in excess of ₹ 10,000. They have not furnished the requisite information in spite of various reminders.

(4 Marks)

- (c) X Ltd., an Indian company, to expand its overseas sales/exports, launched a massive advertisement campaign of its products. For the purpose of online advertisement, it utilized the services of M Inc., a London based company and J Inc., an Australian company. M Inc. has a permanent establishment in India, and the services are effectively connected to the permanent establishment in India. J Inc. has no permanent establishment in India. During the previous year 2020-21, X Ltd. paid ₹ 34 lakhs to M Inc. and ₹ 20 lakhs to JKL Inc. for such services.

Discuss the tax implications/TDS implications of such payment and receipt in the hands of X Ltd., M Inc. and J Inc.

(6 Marks)

6. (a) Mr. Vihaan, a stockbroker, has defaulted with regard to his income-tax payments and the Assessing Officer has attached his membership card of Stock Exchange under section 281B of the Income-tax Act, 1961. Mr. Vihaan contends that the membership card is not transferable and is not his personal asset. Discuss the validity of attachment of the card by the Assessing Officer in the context of Section 281B.

(4 Marks)

- (b) Examine whether the following acts can be considered as (i) Tax planning; or (ii) Tax management; or (iii) Tax evasion. Give brief reasons for your answer.

(I) Miss Kavita, a resident, deposits ₹1,50,000 in PPF account so as to reduce her total income from ₹ 6,30,000 to ₹ 4,80,000.

(II) A company installed an air-conditioner costing ₹ 55,000 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) A search was conducted under section 132 in the business premises of Devendra on 21st November, 2020. At that time, assessments under section 143(3) for A.Y. 2018-19 and A.Y. 2019-20 and reassessment proceeding under section 147 for A.Y. 2017-18 were pending before the Assessing Officer.

(i) What are the assessment years for which notice can be issued for making post-search assessment?

(ii) What would be the fate of pending assessments and reassessment?

(iii) What would be the effect, if the post-search assessment orders are annulled by the Income-tax Appellate Tribunal?

(6 Marks)