

MOCK TEST PAPER 1
FINAL 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 Questions in Division A, working notes are not required.

All questions relate to Assessment Year 2023-24, 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

An investment fund (Investment Fund I) incorporated in India in the form of a LLP has 35 unit holders each holding 2 units.

The particulars of income of Investment Fund I for the P.Y.2022-23 is as follows:

- (i) Business income - ₹ 14 lakh;
- (ii) Long-term capital gains - ₹ 21 lakhs; and
- (iii) Income from other sources - ₹ 7 lakhs.

Another investment fund (Investment Fund II) incorporated in India in the form of a company has 50 unit holders each holding 4 units. All unit holders have held the units for a period of more than a year.

The particulars of income of Investment Fund II for the P.Y.2022-23 is as follows:

- (i) Business loss – (₹ 10 lakh);
- (ii) Long-term capital losses - (₹ 20 lakhs); and
- (iii) Income from other sources - ₹ 6 lakhs.

From the information given above, choose the **most appropriate answer** to the following questions -

1. With respect to income of Investment Fund I for the P.Y.2022-23 -
 - (a) ₹ 42 lakhs is taxable in the hands of the investment fund
 - (b) ₹ 1,20,000 is taxable in the hands of each unit holder
 - (c) ₹ 21 lakh is taxable in the hands of the investment fund; ₹ 60,000 is taxable in the hands of each unit holder
 - (d) ₹ 14 lakh is taxable in the hands of the investment fund; ₹ 80,000 is taxable in the hands of each unit holder
2. What is the applicable rate of tax on the component(s) of income of Investment Fund I for the P.Y.2022-23 in the hands of Investment Fund I?
 - (a) The entire income of ₹ 42 lakhs is taxable@30% (plus cess@4%)
 - (b) N.A., since Investment Fund I enjoys pass through status for all its income components
 - (c) Long-term capital gains is taxable@20% (plus cess@4%) and other income@30% (plus cess@4%)

- (d) Business income of ₹ 14 lakhs is taxable@30% (plus cess@4%)
3. With respect to income of Investment Fund II for the P.Y.2022-23-
- Income of ₹ 6 lakhs from other sources is taxable in the hands of the investment fund and losses of ₹ 30 lakh can be carried forward by the investment fund
 - Losses of ₹ 24 lakh, arrived at after set-off of business loss against income from other sources, can be carried forward by the investment fund
 - Business loss of ₹ 4 lakh can be carried forward by the investment fund; capital loss of ₹ 40,000 can be carried forward by each unit holder
 - Business loss of ₹ 10 lakh can be carried forward by the investment fund; Income of ₹ 12,000 from other sources is taxable in the hands of each unit holder and long-term capital loss of ₹ 40,000 can be carried forward by each unit holder
4. If, in the P.Y.2023-24, Investment Fund II has business income of ₹ 15 lakh and long-term capital gains of ₹ 25 lakhs, then, its total income for A.Y.2024-25 would be -
- ₹ 5 lakh
 - ₹ 10 lakh
 - ₹ 11 lakh
 - ₹ 36 lakh

(2 x 4 = 8 Marks)

Case Scenario II

Z Pvt. Ltd. ("Z") files its return of income for the P.Y. 2022-23 on 30th September 2023 declaring loss of ₹ 14,00,000. The rate of income-tax applicable to the company is 30%.

The tax auditor of Z, in his audit report submitted under section 44AB, has reported a disallowance of ₹ 50,000 towards personal expenditure of directors as no evidence was produced by Z in support of this expenditure. However, Z did not disallow the same in its computation and return of income.

The return of income was processed by the Centralised Processing Centre making an addition of ₹ 50,000 towards personal expenditure and the loss u/s 143(1) was computed at ₹ 13,50,000.

The return of income was selected for scrutiny assessment and by order passed u/s 143(3), the loss as per normal provisions was reduced to ₹ 10,50,000 by making an addition of ₹ 3,00,000.

The assessment was reopened u/s 147 and by order passed u/s 147, the loss as per preceding order u/s 143(3) was converted into income of ₹ 2,00,000.

From the information given above, choose the **most appropriate answer** to the following questions (Ignore MAT)-

5. Which of the following statements regarding penalty on addition of ₹ 50,000 towards personal expenditure is correct?
- Since Z has claimed deduction of amount incurred towards personal expenditure of directors, Z shall be considered to have under-reported its income.
 - The under-reporting on account of claiming personal expenditure of directors as deduction can be construed as misreporting of income as it is a claim of expenditure not substantiated by any evidence.
 - Since addition of ₹ 50,000 is an adjustment referred to in section 143(1)(a), no penalty is leviable in respect of this addition.

- (iv) No penalty is leviable if Z offers an explanation and the Assessing Officer is satisfied that the explanation is *bona fide* and Z has disclosed all the material facts to substantiate the explanation offered.
- (a) (i) and (iv)
 (b) (ii) and (iv)
 (c) (iii) only
 (d) (iv) only
6. What is the penalty leviable u/s 270A as a consequence of assessment u/s 143(3), if the addition was not on account of misreporting?
- (a) ₹ 46,800
 (b) ₹ 70,200
 (c) ₹ 93,600
 (d) ₹ 1,63,800
7. What is the penalty leviable u/s 270A at the time of passing of the order u/s 147 considering that all additions are on account of misreporting of income?
- (a) ₹ 7,80,000
 (b) ₹ 5,30,400
 (c) ₹ 1,95,000
 (d) ₹ 1,24,800
8. Assuming that the additions made in the order u/s 147 are not on account of misreporting of income but only on account of under-reporting, Z seeks to claim immunity from imposition of penalty u/s 270A and initiation of proceedings u/s 276C of the Act by filing an application in this regard before the Assessing Officer. What are the other conditions that need to be satisfied by Z in this regard?
- (i) Pay the tax and interest payable as per the order u/s section 147 within the period specified in the notice of demand.
 (ii) Pay the tax as per the order u/s section 147 within the period specified in the notice of demand.
 (iii) Contest the additions made in the order, after payment of tax and interest, within the period specified in the notice of demand.
 (iv) No appeal should be or should have been filed against the order.
- The correct answer is-
- (a) (ii) and (iv)
 (b) (i) and (iii)
 (c) (ii) and (iii)
 (d) (i) and (iv)
9. Out of the addition of ₹ 3,00,000 made by order passed u/s 143(3), an amount of ₹ 1,00,000 is on account of a false entry deliberately made by Z in its books of account. Apart from penalty under section 270A, what are the other prosecution and penal consequences, if any, that would be attracted in case of Z?
- (a) Penalty of ₹ 1,00,000 u/s 271AAD and prosecution u/s 276C would be attracted

- (b) Penalty of ₹ 30,000 u/s 271AAD and prosecution u/s 276C would be attracted
- (c) Once penalty u/s 270A is levied, no other penalty will be levied but prosecution may be initiated u/s 276C
- (d) Penalty u/s 271AAD may be levied but prosecution u/s 276C will not be initiated

(2 x 5 = 10 Marks)

10. A notified infrastructure debt fund eligible for exemption under section 10(47) of the Income-tax Act, 1961 has to pay interest of ₹ 5 lakhs to a company incorporated in a foreign country. The foreign company incurred expenditure of ₹ 12,000 for earning such interest. The fund also has to pay interest of ₹ 3 lakhs to Mr. Frank, who is a resident of Country A, a notified jurisdictional area. Which of the following statements is correct?

- (a) No tax deduction at source is required in respect of both the payments
- (b) No TDS is required in respect of ₹ 5 lakhs payable to the foreign company. However, payment of interest to Frank attracts TDS@31.2%
- (c) TDS@5.20% is attracted on ₹ 4,88,000 payable to the foreign company. TDS@31.2% is attracted on interest payment of ₹ 3 lakhs to Mr. Frank
- (d) TDS@5.20% is attracted on interest of ₹ 5 lakhs payable to the foreign company. TDS@31.2% is attracted on interest of ₹ 3 lakhs payable to Mr. Frank

(2 Marks)

11. Mr. Harsh has to pay ₹ 3 lakhs on 3.3.2023 to "Plan your trip", a travel agency, for a holiday package in Singapore and Malaysia for himself and his wife. He obtained a loan of ₹ 10 lakhs for higher education of his son studying in Columbia University, New York, on 20.3.2023 from SBI, and remitted, under LRS of RBI, the said sum through the same bank, SBI, which is also an authorised dealer. Is tax required to be collected at source from Mr. Harsh by travel agency and the bank? If so, how much?

- (a) No tax is required to be collected by the travel agency since the payment for overseas tour programme package is less than ₹ 7 lakhs; tax has to be collected by SBI@5% of ₹ 3 lakhs, being the amount in excess of ₹ 7 lakhs
- (b) No tax is required to be collected by the travel agency since the payment for overseas tour programme package is less than ₹ 7 lakhs; tax has to be collected by SBI@0.5% of ₹ 3 lakhs, being the amount in excess of ₹ 7 lakhs
- (c) Tax has to be collected by the travel agency@5% on ₹ 3 lakhs; and by SBI@5% of ₹ 3 lakhs, being the amount in excess of ₹ 7 lakhs
- (d) Tax has to be collected by the travel agency@5% on ₹ 3 lakhs; and by SBI@0.5% of ₹ 3 lakhs, being the amount in excess of ₹ 7 lakhs.

(2 Marks)

12. Mr. Rajesh is engaged in the profession of technical consultancy and his gross receipts for the P.Y.2022-23 is ₹ 45 lakhs. He is also a partner of a firm, M/s. Rajesh & Co., which carries on the profession of technical consultancy. The gross receipts of the firm during the P.Y.2022-23 is ₹ 48 lakhs. Mr. Rajesh and firm do not maintain books of account. Which of the following statements is correct?

- (a) Mr. Rajesh and M/s. Rajesh & Co. have to pay entire advance tax on or before 15th March, 2023
- (b) Mr. Rajesh does not have to pay advance tax. However, M/s. Rajesh & Co. has to pay the entire advance tax on or before 15th March, 2023
- (c) Mr. Rajesh does not have to pay advance tax. However, M/s. Rajesh & Co. has to pay advance tax in four instalments

- (d) Mr. Rajesh has to pay entire advance tax on or before 15th March, 2023 and M/s. Rajesh & Co. has to pay advance tax in four instalments **(2 Marks)**
13. In October, 2017, Mr. Raghav, an Indian citizen who is a non-resident, bought 500 Global Depository Receipts (GDRs) of Alpha Limited, India, issued in accordance with the notified scheme of the Central Government against the company's initial issue of shares. Mr. Raghav purchased the GDRs in foreign currency through an approved intermediary. In January, 2023, he sold 300 GDRs outside India to Mr. Joe, a citizen and resident of a country outside India and 200 GDRs to Mr. Kamal, a Resident but not ordinarily resident in India. What are the tax consequences of such sale transaction under the Income-tax Act, 1961?
- (a) Capital gains arising on sale of 500 GDRs shall be subject to tax @20% with indexation benefit in India
- (b) No capital gains would arise on sale of 500 GDRs in India, since the GDRs are purchased in foreign currency
- (c) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed in India @10% without indexation benefit
- (d) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed @20% with indexation benefit in India **(2 Marks)**
14. SS Ltd., an Indian Company, has borrowed ₹ 90 crores on 01-04-2022 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. 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. 2022-23 was ₹ 11 crores after debiting the above interest, depreciation of ₹ 5 crores and income-tax of ₹ 4 crores. Calculate the amount of interest allowed to be claimed 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. Mr. Arjun's total income comprises of long-term capital gains on sale of land ₹ 5 lakhs; short-term capital gains on sale of STT paid listed equity shares ₹ 2 lakhs; income from lottery ₹ 1 lakh and savings bank interest ₹ 30,000. He invests ₹ 1.50 lakhs in PPF. His tax liability for A.Y.2023-24, assuming that he is a resident Indian of the age of 40 years and does not opt for the provisions of section 115BAC, is –
- (a) ₹ 1,64,800
- (b) ₹ 1,66,400
- (c) ₹ 1,14,400
- (d) ₹ 1,13,300 **(2 Marks)**

Division B – Descriptive Questions

Question No. 1 is compulsory

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

1. Parik Hospitality Limited is engaged in the business of running hotels of 3-star category. The company's Statement of Profit and Loss for the previous year ended 31st March 2023 shows a profit of ₹ 152 lakhs after debiting or crediting the following items:
- (a) Payment of ₹ 0.25 lakh and ₹ 0.30 lakh in cash on 3rd December 2022 and 10th December 2022, respectively, for purchase of raw corn to Mr. Raja, an agriculturist, and Mr. Khalid, a spice trader for purchase of masala used for corn products, respectively.
 - (b) Contribution towards employees' pension scheme notified by the Central Government under section 80CCD for a sum of ₹ 3 lakhs calculated at 12% of aggregate of basic salary and dearness allowance (forming part of retirement benefits) payable to the employees in terms of employment.
 - (c) Payment of ₹ 6.50 lakhs towards transportation of various materials procured by one of its hotels to M/s. Bansal 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.
 - (d) Profit of ₹ 12 lakhs on sale of a plot of land to Avimunya Limited, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by Parik Hospitality Limited on 1st June 2021.
 - (e) Contribution of ₹ 2.50 lakhs to Indian Institute of Technology with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
 - (f) Expense of ₹ 10 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a brewery project to be set up. The negotiation did not succeed, and the project was abandoned.
 - (g) Fees of ₹ 1 lakh paid to independent directors for attending Board meeting without deduction of tax at source under section 194J.
 - (h) Depreciation charged ₹ 10 lakhs.
 - (i) ₹ 10 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 2015-16.
 - (j) Dividend received from a foreign company ₹ 5 lakhs in which it holds 15% of the equity share capital.

Additional information:

- (i) As a corporate debt restructuring, the bank has converted unpaid interest of ₹ 10 lakhs upto 31st March 2022 into a new loan account repayable in five equal annual installments. The first installment of ₹ 2 lakhs was paid in March 2023 by debiting new loan account.
- (ii) Depreciation as per Income-tax Act, 1961 ₹ 15 lakhs.
- (iii) The company received a bill for ₹ 2 lakhs on 31st March 2023 from a supplier of vegetables for supply made in March 2023. The bill was omitted to be recorded in the books in March 2023. The bill was paid in April 2023 and the necessary entry was made in the books then.
- (iv) Dividend of ₹ 7 lakhs is distributed on 25.09.2023 to its shareholders.

Compute total income of Parik Hospitality Limited for the Assessment Year 2023-24 indicating the reason for treatment of each item assuming that the company is not eligible for deduction u/s 35AD.

(14 Marks)

2. (a) PQR LLP, a limited liability partnership set up a unit in Special Economic Zone (SEZ) in the financial year 2018-19 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2021-22, it has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April 2022 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2022-23 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD).	1,05,00,000

Compute income tax (including AMT under Section 115JC) payable by PQR LLP for Assessment Year 2023-24. **(8 Marks)**

- (b) Mr. Ravi, an individual resident in India aged 45 years, furnishes you the following particulars of income earned in India, Foreign Countries "S" and "T" for the previous year 2022-23.

Particulars	₹
Indian Income:	
Income from business carried on in Mumbai	4,40,000
Interest on savings bank with ICICI Bank	42,000
Income earned in Foreign Country "S" [Rate of tax – 16%]:	
Agricultural income in Country "S"	94,000
Royalty income from a book on art from Country "S" (Gross)	7,80,000
Expenses incurred for earning royalty	50,000
Income earned in Foreign Country "T" [Rate of tax – 20%]:	
Dividend from a company incorporated in Country "T" (Gross)	2,65,000
Rent from a house situated in Country "T" (Gross)	3,30,000
Municipal tax paid in respect of the above house (not allowed as deduction in Country "T")	10,000

Compute the total income and tax payable by Mr. Ravi in India for A.Y. 2023-24 assuming that India has not entered into double taxation avoidance agreement with Countries S & T. Mr. Ravi does not opt for the provisions of section 115BAC. **(6 Marks)**

3. (a) "Serving the poor", a charitable trust, is registered under section 12AB of the Act. On 1.4.2022, it got merged with another entity not eligible for registration under section 12AB or approval under section 10(23C).

All the assets and liabilities of the erstwhile trust became the assets and liabilities of the merged entity.

The trust appointed a registered valuer for the valuation of its assets and liabilities. From the following particulars (including the valuation report), calculate the tax liability in the hands of the trust arising as a result of such merger:

- (i) Stamp duty value of land held ₹ 15 lakhs. However, if this land is sold in the open market, it would ordinarily fetch ₹ 17 lakhs. The book value of the land is ₹ 20 lakhs.
- (ii) 75,000 equity shares in Ink Ltd. traded in Delhi Stock Exchange. The lowest price per share on 1.4.2022 was ₹ 75 and the highest price on that day was ₹ 85. The book value was ₹ 67 lakhs.
- (iii) 55,000 preference shares held in N Ltd. The shares will fetch ₹ 44 lakhs, if they are sold in the open market on 1.4.2022. Book value was ₹ 25 Lakhs.
- (iv) Corpus fund as on 1.4.2022 ₹ 15 Lakhs.
- (v) Outside liabilities ₹ 90 lakhs
- (vi) Provision for taxation ₹ 5 lakhs.
- (vii) Liabilities in respect of payment of various utility bills ₹ 6 lakhs. **(8 Marks)**
- (b) (i) What is the remedy available to an applicant who is aggrieved by the ruling of Board for Advance Rulings? Also, state the time limit within which he should exercise this remedy. **(3 Marks)**
- (ii) XYZ & Co., a non-resident entity based in Singapore, owns and operates an electronic facility through which it effects online sale of goods manufactured by it. The following are its receipts for the P.Y.2022-23 –

	Particulars	Amount in ₹
(a)	Receipts from sale of goods to persons resident in India	158 lakhs
(b)	Receipts from sale of goods to persons not resident in India but resident in other parts of South-East Asia	96 lakhs
	Out of the said sum, ₹ 57 lakhs relates to receipts from persons using internet protocol address located in India.	

Discuss the equalisation levy implications of such receipt in the hands of XYZ & Co., if XYZ & Co. has no permanent establishment in India. **(3 Marks)**

- 4 (a) Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31st March, 2023:
- (i) On 20.6.2022, Mr. X, a resident, made three separate transactions for acquiring house property at Mumbai from Mr. Y for a consideration of ₹ 90 lakhs, an urban plot in Kolkata from Mr. C for a sum of ₹ 49,50,000 and rural agricultural land from Mr. D for a consideration of ₹ 60 lakhs. Stamp duty value of house property, plot and rural agricultural land is ₹ 95 lakhs, ₹ 48 lakhs and ₹ 65 lakhs.
- (ii) On 17.6.2022, a commission of ₹ 50,000 was retained by the consignee 'ABC Packaging Ltd.' and not remitted to the consignor 'XYZ Developers', while remitting the sale consideration.
- (iii) Raj (aged 35 years) is working with AB Ltd. He is entitled to a salary of ₹ 55,000 per month w.e.f. 1.4.2022. He has a house property which is self-occupied. He paid an interest of ₹ 80,000 on loan during the previous year 2022-23. The loan was taken for construction of house. He has notified his employer AB Ltd. that there will be a loss of ₹ 80,000 in respect of this house property for financial year ended 31.3.2023. Raj is not opting for the provisions of section 115BAC.
- (iv) Mr. Anand has been running a sole proprietary business with turnover of ₹ 202 lakhs for the A.Y.2022-23. He pays a monthly rent of ₹ 15,000 for the office premises to Mr. R, the owner of building. Besides, he also pays service charges of ₹ 6,000 per month to Mr. R towards the use of furniture, fixtures and vacant land appurtenant thereto. **(8 Marks)**

(b) STYLE Inc., a notified Foreign Institutional Investor (FII), derived the following incomes for the financial year 2022-23:-

- (1) Interest on investment in Rupee Denominated Bonds of ABC Ltd., an Indian company (investment was made in the F.Y.2018-19) - ₹ 8,50,000
- (2) Dividend from listed shares of Indian companies – ₹ 6,20,000
- (3) Interest on securities – ₹ 17,32,000 (Expenses of ₹ 26,000 has been incurred to earn such income)
- (4) Income from sale of securities and shares:

(i)	Bonds of J Ltd. [Date of purchase 5 May, 2017; Date of sale 7 March, 2023]	
	Sale proceeds :	₹ 47,00,000
	Cost of purchase : Cost Inflation Index: F.Y.2017-18:272; F.Y.2022-23:331	₹ 32,00,000
(ii)	Listed Shares of E Ltd. [Date of purchase – 2 May, 2022; Date of sale – 9 February, 2023]	
	Sale Consideration	₹ 12,40,000
	Purchase cost	₹ 7,80,000
	[STT paid both at the time of purchase and sale]	
(iii)	Unlisted equity shares of M Ltd. [Date of purchase – 1 July, 2022; Date of sale – 7 March, 2023]	
	Sale Consideration	₹ 8,40,000
	Purchase cost	₹ 3,72,000

Compute the total income and tax liability of the FII, STYLE Inc., for the A.Y. 2023-24 as per section 115AD, assuming that no other income is derived by STYLE Inc. during the F.Y.2022-23.

(6 Marks)

5. (a) Smt. Kanti engaged in the business of growing, curing, roasting and grounding of coffee after mixing chicory had income of ₹ 6,00,000 from this business which was her only source of income during the year ended on 31.3.2023. She consults you to have an opinion whether she is required to file return of income for the A.Y. 2023-24 as per provisions of section 139(1).

Would your answer change if she had travelled to USA during the P.Y.2022-23 and incurred ₹ 2.20 lakhs for the same?

(4 Marks)

- (b) Examine the correctness or otherwise of the following propositions in the context of the Income-tax Act, 1961:
- (i) The powers of the Commissioner of Income-tax (Appeals) to enhance the assessment are plenary and quite wide.
 - (ii) At the time of hearing of rectification application, the Income-tax Appellate Tribunal can re-appreciate the evidence produced during the proceedings of the appeal hearing.

(4 Marks)

- (c) What is the General Rule of Interpretation under Vienna Convention of Law of Treaties?

(6 Marks)

6. (a) An order for A.Y. 2021-22 was passed by the Assessing Officer as per section 143(3), but the typist wrongly typed in the order, the assessment year as A.Y.2020-21 and the relevant previous year as ending on 31.3.2020. The assessee claimed in appeal that the same is an invalid order which was not accepted by the CIT (Appeals) on the ground of the error being of clerical nature. Discuss the correctness of the order of the CIT(Appeals). **(4 Marks)**
- (b) Specify with reason, whether the following acts can be considered as (i) Tax planning; or (ii) Tax management; or (iii) Tax evasion.
- (i) SQL Ltd. maintains register of tax deduction at source effected by it to enable timely compliance.
 - (ii) A partnership firm obtaining declaration from lenders/depositors in Form No. 15G/15H and forwarding the same to income-tax authorities.
 - (iii) A company installed an air-conditioner costing ₹ 75,000 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 to treat it as plant for the purpose of computing depreciation.
 - (iv) RR Ltd. issued a credit note for ₹ 80,000 as brokerage payable to Mr. Ramana who is the son of the managing director of the company. The purpose is to increase the total income of Mr. Ramana from ₹ 4,20,000 to ₹ 5,00,000 and reduce the income of RR Ltd. correspondingly.
 - (v) An individual tax payer making tax saver deposit of ₹ 1,00,000 in a nationalised bank.
- (4 Marks)**
- (c) XE Ltd. is an Indian Company in which Zilla Inc., a US company, has 28% shareholding and voting power. Following transactions were effected between these two companies during the financial year 2022-23.
- (i) XE Ltd. sold 1,00,000 pieces of T-shirts at \$ 2 per T-Shirt to Zilla Inc. The identical T-Shirts were sold to unrelated party namely Kennedy Inc., at \$ 3 per T-Shirt.
 - (ii) XE Ltd. borrowed \$ 2,00,000 from a foreign lender based on the guarantee of Zilla Inc. For this, XE Ltd. paid \$ 10,000 as guarantee fee to Zilla Inc. To an unrelated party for the same amount of loan, Zilla Inc. collected \$ 7000 as guarantee fee.
 - (iii) XE Ltd. paid \$15,000 to Zilla Inc. for getting various potential customers details to improve its business. Zilla Inc. provided the same service to unrelated parties for \$ 10,000.
- Assume the rate of exchange as 1 \$ = ₹ 64
- XE Ltd. is located in a Special Economic (SEZ) and its income before transfer pricing adjustments for the year ended 31st March, 2023 was ₹ 1,200 lakhs.
- Compute the adjustments to be made to the total income of XE Ltd. Assuming that such adjustments are made by the Assessing Officer, state whether it can claim deduction under section 10AA for the income enhanced by applying transfer pricing provisions. **(6 Marks)**