

## **Paper 16 - Direct Tax Laws and International Taxation**

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**Full Marks: 100**

**Time allowed: 3 hours**

**The figures in the margin on the right side indicate full marks.  
Working notes should form part of the answer.**

**Section - A**

- 1. Choose the correct alternative and also provide your justification: [10×2=20]**
- (i) Any person, responsible for paying income by way of interest by an infrastructure debt fund referred to in sec. 10(47) to a non-resident or a foreign company, is responsible to deduct tax at source @:
- (a) 20% (+ Surcharge + HEC)
  - (b) 30% (+ Surcharge + HEC)
  - (c) 5% (+ Surcharge + HEC)
  - (d) 40% (+ Surcharge + HEC).
- (ii) Time limit for completion of best judgment assessment as per Sec. 153(1) is \_\_\_\_\_ months from the end of relevant assessment year.
- (a) 12 months
  - (b) 30 months
  - (c) 6 months
  - (d) 18 months.
- (iii) Where a person, who is required to pay advance tax, fails to pay advance tax at all or 90% of assessed tax as advance tax, is liable to pay interest @ \_\_\_\_\_ % per month or part thereof.
- (a) 10
  - (b) 5
  - (c) 2
  - (d) 1.
- (iv) When an Advance Pricing Agreement is entered between the taxpayers, the tax administration of the host country and the foreign tax administration, it is called:
- (a) Unilateral Advance Pricing Agreement
  - (b) Bilateral Advance Pricing Agreement
  - (c) Multilateral Advance Pricing Agreement
  - (d) None of the above.
- (v) As per sec. 115R, the additional income-tax payable on income distributed by a specified Mutual Fund, out of its income derived from transactions made on a recognised stock exchange located in any IFSC and the consideration is paid or payable in convertible foreign exchange @:
- (a) Nil
  - (b) 10%
  - (c) 25%
  - (d) 30%.
- (vi) Where the assessee is a company, not having any international transaction, the due date of filing of return of income for assessment year 2020-21 is:

- (a) 31.10.2020
- (b) 30.11.2020
- (c) 30.09.2020
- (d) 31.07.2020

**(vii)** A settlement application shall be presented in Form No. \_\_\_\_\_ by the applicant in person or by his agent, for settlement of cases in Settlement Commission.

- (a) 34B
- (b) 34C
- (c) 34D
- (d) 34DA.

**(viii)** In case of buy back of shares, any income by way of capital gain in hands of shareholder is:

- (a) Taxable for additional tax @ 20% (+SC + Cess)
- (b) Taxable for additional tax @ 10% (+SC + Cess)
- (c) Exempt
- (d) Taxable @ 20%.

**(ix)** Which of the following is not a cost formulae recognised by ICDS II for valuation of inventories?

- (a) Specific Identification Method
- (b) First-in-First-Out Method
- (c) Weighted Average Method
- (d) Simple Average Method.

**(x)** Scrutiny Assessment u/s 143(3) is done by the Assessing Officer or the prescribed income-tax authority to ensure that:

- (a) the assessee has not understated his income
- (b) the assessee has not declared excessive loss
- (c) the assessee has not under paid the tax
- (d) All of the above.

### **Section – B**

**(Answer any five questions out of seven questions given)**

**2.(a)** State the conditions which are required to be fulfilled for withholding of refund to be allowed in certain cases as per sec. 241A. **[4]**

**(b)** Mona Ltd. needs a component in an assembly operation. It is contemplating the proposal to either make or buy the aforesaid component.

1. If the company decides to make the product itself, then it would need to buy a second hand machine for Rs. 8 lakhs which would be used for 5 years. Manufacturing costs in each of the five years would be Rs. 12 lakhs, Rs. 14 lakhs, Rs. 16 lakhs, Rs. 20 lakhs and Rs. 25 lakhs respectively. The relevant depreciation rate is 15 per cent. The machine will be sold for Rs. 1,20,000 at the beginning of the sixth year.
2. If the company decides to buy the component from a supplier the component would cost Rs. 18 lakhs, Rs. 20 lakhs, Rs. 22 lakhs, Rs. 28 lakhs and Rs. 32 lakhs respectively in each of the five year.

The relevant discounting rate and tax rate are 14 per cent and 32.445% per cent respectively. Additional depreciation is not available. Should Mona Ltd. make the component or buy it from outside? **[12]**

**3. Discuss the tax treatment of the following items:**

- (i) Mr. X, a salaried employee has received medical allowance of Rs. 14,000 which is fully used for meeting medical expenses.
- (ii) A company provides free conveyance to its employees for the journey between office and residence.
- (iii) A firm (having two equal partners) gets a loan of Rs. 40,000 from a private limited trading company whose general reserve is more than its share capital of Rs. 20 lakhs. Rajat, one of the partners of the firm, holds 10 per cent equity share capital in the company.
- (iv) A prize of Rs. 16,000 received by Amit from a TV contest. The total income of Amit does not exceed Rs. 2,00,000.
- (v) Electricity bills of the year 2019-20 paid on December 1, 2020 by a manufacturing company.
- (vi) Money received from LIC on the maturity of a Keyman insurance policy by a company.
- (vii) Share of profit received from a firm.
- (viii) A farmer transfers rural agricultural land in India at a price higher than its cost of acquisition. **[16]**

**4.(a) State the cases where Income-tax Authority has the power to survey. In this connection, also state the restrictions imposed on Income-tax Authority while conducting survey.**

**[6+4=10]**

- (b)** Smile Ltd. is a wholly-owned subsidiary company of Happy Ltd., an Indian company. Smile Ltd. owns Plant-A and Plant-B (depreciation rate 40%, depreciated value of the block Rs. 3,00,000 on 1st April, 2019). Plant-B was purchased and put to use on 10th November, 2017 (cost being Rs. 70,000). Plant-B is transferred by Smile Ltd. to Happy Ltd. on 14th December, 2019 for Rs. 20,000. It is put to use by Happy Ltd. on the same day. Happy Ltd. owns Plant-C on 1st April, 2019 (depreciation rate 40%, depreciated value Rs. 60,000). Find the amount of depreciation in the hands of Happy Ltd. for the assessment year 2020-21. **[6]**

**5.(a) X was running a business. He died intestate on September 30, 2019, leaving behind his wife D and two minor sons, viz., B and K. D is running the business for and on behalf of herself and the minor children. X owned several house properties. Discuss how the rental income and the business income of the financial year March 31, 2020 will be assessed and in whose hands.** **[8]**

- (b)** In course of assessment, the Assessing Officer made addition to assessee's income u/s 41(1) in respect of cessation / remission of trading liability of various transporters who transported the minerals for the assessee stating that the assessee had failed to produce these transporters/trade creditors before the authority, despite the summons issued to them. Justify. **[8]**

**6.(a)** Shri Anuj, an ordinarily resident in India, provides following details of his income for the previous year relevant to the A.Y. 2020-21:

- Income from India Rs. 3,40,000
- Income from Country Z Rs. 2,00,000
- Investment in PPF Rs. 10,000

Further, it is to be noted that:

1) India has avoidance of double taxation agreement with Country Z. According to said agreement, income is taxable in the country in which it is earned and not in other country. However, in the other country such income can be included for the purpose of computation of tax rate.

2) Foreign income has been taxed in Country Z @ 20%.

Compute Indian tax payable.

**[8]**

**(b)** What do you mean by International Transaction as per sec. 92B? Give an example. **[8]**

**7.(a)** Compute arm's length price from following information:

| Particulars                      | Related Party | Unrelated Party |
|----------------------------------|---------------|-----------------|
| Price paid (inclusive of taxes)  | INR 25,000    | INR 23,500      |
| Delivery terms                   | CIF           | FOB             |
| Quantity                         | 100 pcs       | 110 pcs         |
| Availability of Input Tax Credit | No            | Yes             |
| Quantity                         | 100 pcs       | 110 pcs         |
| Freight cost                     | -             | INR 1,200       |
| Insurance cost                   | -             | INR 700         |
| Input Tax Credit                 | -             | INR 2,000       |

**[8]**

**(b)** What is the Berry Ratio in the context of arm's length price? What are the factors to be considered for selecting most appropriate method for calculation of arm's length price? **[2+6=8]**

**8. Write short note (any four):**

**[4×4=16]**

- (a) Scope and disclosure requirement of ICDS IX.
- (b) Appointment of Income-tax Authorities.
- (c) Tax implication on slump sale.
- (d) Powers of Settlement Commission.
- (e) Disclosure of Information in respect of Assessee [Sec. 138]