

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

All questions relate to Assessment Year 2021-22, 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. X Ltd. has two units, Unit A and Unit B engaged in setting up and operating a warehousing facility for storage of sugar and edible oil, respectively, since the year 2015. Y Ltd., an Indian company, takes over Unit B of X Ltd. by way of slump sale for Rs. 415 lakhs on 25.07.2020. The expenses incurred for this transfer were Rs. 10.5 lakhs. The following is the extract of the Balance Sheet of X Ltd. as on 25.7.2020:

(Rs. in lakhs)

Liabilities	Total	Assets	Unit A	Unit B	Total
Paid-up equity share capital	550	Fixed assets	160	280	440
General Reserve	180	Debtors	250	175	425
Revaluation Reserve	110	Inventories	270	100	370
Bank Loan	115				
Trade creditors (45% for unit B)	280				
	1235				1235

Other information:

- (i) Unit A had transferred a plant and machinery on 02.05.2020 to Unit B acquired for Rs. 30 lakhs on 31.10.2017.
- (ii) Revaluation reserve is created solely by revising upward the value of the fixed assets of Unit B.
- (iii) In fixed assets of Unit B, value of land is included at revalued figure of Rs. 160 lakhs which was purchased at Rs. 50 lakhs in the year 2014 and value of plant and machinery acquired, as above, from Unit A, is included at Rs. 30 lakhs.
- (iv) No individual value of any asset is considered in the transfer deed.
- (v) Bank loan is in nature of specific borrowings -70% attributable to Unit B and 30% attributable to Unit A.
- (vi) X Ltd. does not have any associated enterprise or deemed associated enterprise.

Based on the facts given in the above case scenario, choose the most appropriate answer to following questions:

- (i) What would be the amount taxable on transfer of plant and machinery from Unit A to Unit B, assuming there is no slump sale of unit B?
 (a) Rs. 18,42,375

- (b) Rs. 20,04,937
 (c) Rs. 30,00,000
 (d) Nil
- (ii) What shall be the cost of acquisition for the purpose of computing capital gains in respect of the slump sale?
 (a) Rs. 2,18,50,000
 (b) Rs. 2,38,50,000
 (c) Rs. 2,28,54,937
 (d) Rs. 2,08,54,937
- (iii) What would be amount of tax payable on capital gain arising on slump sale in the hands of X Ltd. assuming X Ltd. is opting for section 115BAA?
 (a) Rs. 40,25,750
 (b) Rs. 39,15,957
 (c) Rs. 37,98,080
 (d) Rs. 44,28,325
- (iv) What is the due date upto which X Ltd. is required to furnish a report from Chartered Accountant?
 (a) 31.10.2021
 (b) 30.11.2021
 (c) 31.03.2021
 (d) 30.09.2021
- (v) Assuming X Ltd. has transferred Unit B to Y Ltd., in accordance with the scheme of demerger under section 2(19AA), what would be the taxability in the hands of X Ltd. and Mr. Raj, a shareholder of X Ltd., on such transfer?
 (a) Capital gains arising on transfer would be taxable both in the hands of X Ltd. and Mr. Raj.
 (b) Capital gains arising on transfer would only be taxable in the hands of X Ltd. and nothing would be taxable in the hands of Mr. Raj.
 (c) Capital gains arising on transfer would only be taxable in the hands of Mr. Raj and nothing would be taxable in the hands of X Ltd.
 (d) No capital gain would arise neither in the hands of X Ltd. nor in the hands of Mr. Raj.
(5 x 2 Marks each = 10 Marks)
2. Following are the particulars of total income of A.Y.2021-22 of M/s. Flip & Co., a resident firm and Trip Ltd., an Indian company
- I. M/s. Flip & Co.**
- (1) As per the return of income furnished u/s 139(1)- Rs. 42,00,000
 (2) Determined under section 143(1)(a) – Rs. 51,00,000
 (3) Assessed under section 143(3) – Rs. 75,00,000
 (4) Reassessed under section 147 – Rs. 1,01,00,000
- II. Trip Ltd.**
- (1) As per the return of income furnished u/s 139(1) - (Rs. 14,00,000)

- (2) Determined under section 143(1)(a) - (Rs. 8,00,000)
- (3) Assessed under section 143(3) - (2,50,000)
- (4) Reassessed under section 147 – Rs. 7,50,000

Trip Ltd. is a manufacturing company incorporated in the year 2007. The total turnover of Trip Ltd. for the P.Y.2018-19 was Rs. 380 crore and the company has not exercised option under section 115BAA for the P.Y. 2020-21.

Based on the facts given in the above case scenario, choose the most appropriate answer to the following questions:

- (i) What would be the penalty leviable under section 270A in case of M/s Flip & Co. at the time of assessment, if none of the additions or disallowances made in the assessment qualify under section 270A(6) and the under-reported income is not on account of misreporting?
 - (a) Rs. 7,48,800
 - (b) Rs. 10,29,600
 - (c) Rs. 3,74,400
 - (d) Rs. 5,14,800
 - (ii) What would be the penalty leviable under section 270A in case of M/s Flip & Co. at the time of reassessment, if none of the additions or disallowances made in the reassessment qualify under section 270A(6) and the under-reported income is on account of misreporting?
 - (a) Rs. 17,68,000
 - (b) Rs. 23,78,688
 - (c) Rs. 8,11,200
 - (d) Rs. 16,22,400
 - (iii) What would be the penalty leviable under section 270A in case of Trip Ltd. at the time of assessment, if none of the additions or disallowances made in the assessment qualify under section 270A(6) and the under-reported income is not on account of misreporting?
 - (a) Rs. 71,500
 - (b) Rs. 85,800
 - (c) Rs. 1,36,500
 - (d) Rs. 68,250
 - (iv) What would be the penalty leviable under section 270A in case of M/s Trip Ltd. at the time of reassessment, if none of the additions or disallowances made in the reassessment qualify under section 270A(6) and the under-reported income is on account of misreporting?
 - (a) Rs. 2,60,000
 - (b) Rs. 5,20,000
 - (c) Rs. 6,24,000
 - (d) Rs. 3,12,000
- (4 x 2 Marks each = 8 Marks)**
3. XYZ Ltd. has failed to report an international transaction entered into by it with PQR Inc., which is a specified foreign company in relation to XYZ Ltd. What would be the penalty leviable in this case?
- (a) 2% of the value of the international transaction
 - (b) 50% of tax payable on under-reported income

- (c) 200% of tax payable on under-reported income
- (d) Both (a) and (c) **(2 Marks)**
4. Alpha Ltd.'s total income of A.Y. 2021-22 has increased by Rs.34 lakhs due to application of arm's length price by the Assessing Officer on transactions of purchase of goods from its foreign holding company in respect of a retail trade business carried on by it, and the same has been accepted by Alpha Ltd., then, -
- (a) business loss of A.Y. 2017-18 cannot be set-off against the enhanced income
- (b) deductions under Chapter VI-A cannot be claimed in respect of the enhanced income
- (c) unabsorbed depreciation of A.Y. 2011-12 cannot be set-off against the enhanced income
- (d) Business loss referred to in (a), deductions referred to in (b) and unabsorbed depreciation referred to in (c) cannot be set-off against the enhanced income. **(2 Marks)**
5. Which of the following cannot be adjusted while computing total income while processing the return of income for A.Y. 2021-22 under section 143(1)?
- (a) any arithmetical error in the return
- (b) an incorrect claim apparent from any information in the return
- (c) disallowance of expenditure indicated in the audit report but not taken into account in computing total income in the return.
- (d) addition of income appearing in Form 26AS which has not been included in computing total income in the return. **(2 Marks)**
6. Benefit of presumptive taxation under the Income-tax Act, 1961 would not be available to Akash, a non-resident, in A.Y. 2021-22, in respect of the related Indian income, if he is engaged in the business of -
- (a) Operation of ships
- (b) Operation of Aircraft
- (c) Civil construction in connection with an approved turnkey project
- (d) Plying, hiring or leasing of goods carriages **(2 Marks)**
7. The following are details of cash withdrawals from Canara Bank by Mr. Ravish during the P.Y. 2020-21:
- Rs. 15 lakhs on 27.05.2020
 - Rs. 55 lakhs on 07.06.2020
 - Rs. 25 Lakhs on 12.07.2020 and
 - Rs. 45 Lakhs on 31.08.2020.
- Mr. Ravish has failed to file return of Income for A.Y. 2018-19, A.Y. 2019-20 and A.Y. 2020-21 on or before the due date specified u/s 139(1). What is the amount of tax required to be deducted at source by Canara Bank on such withdrawals during the P.Y. 2020-21?
- (a) Rs. 80,000
- (b) Rs. 3,50,000
- (c) Rs. 2,60,000

(d) Rs. 2,00,000

(2 Marks)

8. Mr. Mahesh engaged in the business of trading of car accessories. His turnover for F.Y. 2019-20 and F.Y. 2020-21 was Rs. 11.5 crore and Rs. 9.75 crore, respectively. During the previous year, XYZ Ltd. placed order for purchase of car accessories for Rs. 55 lakhs on 01.08.2020. He again placed order for Rs. 35 lakhs on 01.11.2020. Mr. Mahesh delivered both the orders within 15 days of receipt of orders and received the payment within 7 days from the date of delivery. What is the amount of tax which Mr. Mahesh is required to collect tax at source, on the consideration received from XYZ Ltd during the F.Y. 2020-21?

(a) Nil, since his turnover does not exceed Rs. 10 crores in the F.Y. 2020-21

(b) Rs. 2,625

(c) Rs. 3,000

(d) Rs. 3,500

(2 Marks)

Division B – Descriptive Questions

Question No. 1 is compulsory

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

1. Comfort Ltd., an Indian company engaged in manufacturing footwear and leather products, since 2015. As per the Statement of profit and loss, the net profit for the year ended 31st March, 2021 is Rs. 640 lakhs. The net profit is arrived at after debiting or crediting the following amounts:
- (i) Employers' contribution of Rs. 5.4 lakhs to EPF for the month of March, 2021 was deposited on 25th August, 2021.
 - (ii) A sundry creditor whose dues of Rs. 85 lakhs were outstanding since long time, has been settled for Rs. 63 lakhs on 31st March, 2021 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.
 - (iii) Interest payments debited Rs. 85 lakhs (Includes interest on term loan of Rs. 50 lakhs availed on 1-4-2020 at interest rate of 12% p.a. towards purchase of machinery during the year).
 - (iv) Payment of Rs. 12 lakhs without deduction of tax to ABC & Co., a sub-contractor, for processing raw leather supplied by Comfort Ltd. is debited to statement of profit & loss.
 - (v) Depreciation as per Companies Act, 2013 is Rs. 78 lakhs.
 - (vi) Industrial power tariff concession of Rs. 4.80 lakhs, received from State Government.

Other Information:

- (1) The written down values of assets before allowing depreciation as per Income-tax Rules are as under:
- | | |
|--------------------|--|
| Factory Buildings: | Rs. 320 lakhs; |
| Plant & Machinery: | Rs. 360 lakhs (inclusive of machinery costing Rs. 60 lakhs acquired on 1.4.2020 and put to use on 1.12.2020) |
| Computers: | Rs. 20 lakhs |
- (2) The company has not made provision for an amount of Rs. 18 lakhs being a fair estimate of the amount as payable to workers towards periodical wage revision once in 2 years in respect of existing employees. The provision is estimated on a reasonable certainty of the revision once in 2 years.
- (3) During the year 2020-21, the company has employed 32 additional employees. All these employees contribute to a recognized provident fund. 18 out of 32 employees joined on 1.6.2020

on a salary of Rs. 23,000 per month, 8 joined on 1.7.2020 on a salary of Rs. 25,500 per month, and 6 joined on 1.11.2020 on a salary of Rs. 20,000 per month. The salaries of 6 employees who joined on 1.6.2020 are being settled by bearer cheques every month.

The total turnover of Comfort Ltd. for the P.Y.2018-19 was Rs. 360 crore.

Compute the total income and tax liability of Comfort Ltd. for the Assessment Year 2021-22 indicating reasons for treatment of each item and ignoring the provisions relating to minimum alternate tax (MAT). Assume that the company does not opt for the provisions of section 115BAA. **(14 Marks)**

2. (a) M/s Turnip LLP is engaged in export of computer software from a Special Economic Zone. It commenced its business on 1.4.2018. Compute tax payable of M/s Turnip LLP for the A.Y. 2021-22 from the following information:

The net profit of the firm as per its Profit & Loss Account for the year ended 31-3-2021 was Rs. 330 lakhs after debit/credit of the following items:

- (1) Advertisement in a souvenir published by a political party Rs. 2.5 lakhs
- (2) Remuneration to its working partners Rs. 220 lakhs
- (3) Interest provided on the current account balance of the partners @ 15% p.a. Rs. 22.5 lakhs
- (4) Depreciation Rs. 25 lakhs

Additional Information:

- (1) Depreciation allowable as per Income-tax Rules is Rs. 30 lakhs.
- (2) Payment of remuneration to working partners and interest on current account is authorized by the Partnership Deed.
- (3) Brought forward business loss and depreciation from Assessment Year 2019-20 was Rs. 50 lakhs and Rs. 30 lakhs respectively.
- (4) The total turnover and export turnover of the firm was Rs. 25 crores and Rs. 20 crores, respectively. **(8 Marks)**

- (b) Zen technologies is a company incorporated in UAE and 62% of its shares are held by Gen (P) Ltd., an Indian company. Zen technologies has its presence in India also. The details relating to Zen technologies for the P.Y.2020-21, are as under:

Particulars	India	UAE
Fixed assets at depreciated values for tax purposes (Rs. in crores)	125	85
Intangible assets (Rs. in crores)	45	195
Other assets (value as per books of account) (Rs. in crores)	40	120
Income from trading operations (Rs. in crores)	30	45
The above figure includes:		
(i) Income from transactions where purchases are from associated enterprises and sales are to unrelated parties	2	4
(ii) Income from transactions where sales are to associated enterprises and purchases are from unrelated parties	3	5
(iii) Income from transactions where both purchases and sales are from/to associated enterprises	5	10
Interest and dividend from investments (Rs. in crores)	25	10
Number of employees (Residents in respective countries)	75	85
Payroll expenses on employees (Rs. in crores)	9	11

Determine the residential status of Zen technologies for A.Y.2021-22, if during the F.Y.2020-21, seven board meetings were held – 3 in India and 4 in UAE. **(6 Marks)**

3. (a) The Balance Sheet of M/s Sheetal Charitable Trust as on 31.1.2021, and its other information is given hereunder: (All amounts are in lakhs of Rupees)

Particulars	Rs.
<u>Liabilities</u>	
Capital fund	800.00
Sundry creditors	<u>335.00</u>
Total	<u>1135.00</u>
<u>Assets</u>	
Land purchased in the year 2012	100.00
Land and buildings purchased in the year 2015	800.00
2000 equity shares of Rs. 1000 each in M/s X Ltd. shares are listed in Bombay Stock Exchange (at face value)	20.00
Balance in current account of a nationalized bank	10.00
Balanced in fixed deposits with scheduled banks	200.00
Cash in hand	3.50
Tax Deducted at Source	<u>1.50</u>
Total	<u>1135.00</u>

The registration granted under section 12AA of the Income-tax Act, 1961 on 1-4-2009 to M/s Sheetal Charitable Trust. It was merged with another entity neither having similar objects nor registered under section 12AA on 31.1.2021. M/s Sheetal Charitable Trust also furnished the following additional information:

Additional Information:

- (1) Stamp duty value of the land (purchased in the year 2012), as on 31-1-2021 was Rs. 120.00 lakhs but if sold in the open market, the property would fetch Rs. 250 lakhs as per a registered valuer's certificate.
- (2) Land and building (purchased in 2015), if sold in the open market will fetch Rs. 1000 lakhs as per a registered valuer's certificate. Stamp duty value as on 31-1-2021 was Rs. 1050 lakhs.
- (3) The highest and lowest value per share of M/s X Ltd. traded on 31-1-2021 was Rs. 1098 and Rs. 1051 respectively.
- (4) Included in Sundry Creditors is Rs. 30 lakhs provided on estimated basis to contractors for which no bills are received.

Based on the above information, calculate the exit tax payable by the Charitable Trust and state the latest day on which the said tax has to be paid. **(8 Marks)**

- (b) (i) M/s Pathways Ltd, a resident Indian company is engaged in the business of building highway projects in India. It has borrowed US \$ 250 million from a financial institution resident in US to invest in one of its ongoing projects in India. The rate of interest charged is 8% p.a. Assume 1 US\$ = Rs. 69.

Examine with reasons whether the interest income is deemed to accrue or arise in India in the hands of the financial institution. Will your answer differ in case the money is invested by the India company in one of its ongoing projects in UAE? **(3 Marks)**

- (ii) The Authority for Advance Rulings has the powers of compelling the production of books of account– Examine the correctness or otherwise of this statement. **(3 Marks)**
4. (a) RS (P) Ltd., an Indian company established in the year 2015, reports total income of Rs. 15 lakh for the previous year ended 31st March, 2021. Tax deducted at source by different payers amounted to Rs. 1,35,600 and tax paid in foreign country on a doubly taxed income amounted to Rs. 22,000 for which the company is entitled to relief under section 90 as per the double taxation avoidance agreement.

During the year, the company paid advance tax as under:

Date of payment	Advance tax paid (Rs.)
13-06-2020	38,000
15-09-2020	73,000
12-12-2020	92,000
14-03-2021	77,000

The company filed its return of income for the A.Y. 2021-22 on 22nd November, 2021.

Compute interest, if any, payable by the company under sections 234A, 234B and 234C and fee payable under section 234F. Assume that company is not opting for section 115BAA and transfer pricing provisions are not applicable.

Note – Turnover of RS (P) Ltd. for P.Y. 2018-19 was Rs. 455 crore. **(8 Marks)**

- (b) Can prosecution be launched for each of the following actions or defaults committed? If yes, then explain the relevant provisions of the Act and the quantum of prescribed punishment.
- (i) The assessee had restrained and not allowed the officer authorized as per section 132(1)(iib) of the Act to inspect the documents maintained in the form of electronic record and the books of accounts.
- (ii) The assessee deliberately has failed to comply with the requirement of section 142(1) and/or 142(2A).
- (iii) The assessee deliberately has failed to make the payment of the tax collected under section 206C. **(6 Marks)**
5. (a) (i) A search was conducted under section 132 in the business premises of Kabir on 15th December, 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? **(4 Marks)**

OR

- (ii) Examine the correctness or otherwise of the following propositions in the context of the Income-tax Act, 1961:
- (I) 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.
- (II) The High Court cannot interfere with the factual finding recorded by the lower authorities and the Tribunal, without any valid reasons. **(4 Marks)**
- (iii) A petition for stay of demand was filed before ITAT by XYZ Ltd. in respect of a disputed demand for which appeal was pending before it, on which stay was granted by the ITAT

vide order dated 1.1.2020. The bench could not function thereafter till 1.2.2021 and therefore, the disputed matter could not be disposed off. The Assessing Officer attached the bank account on 16.2.2021 and recovered the amount of Rs. 18 lacs against the arrear demand of Rs. 22 lacs. The assessee requested the Assessing Officer to refund back the amount as it holds stay over it. The Assessing Officer rejected the contention of the assessee. Now the assessee seeks your opinion. **(4 Marks)**

- (b) RPS Ltd., the assessee, has sold goods on 12.01.2021 to LMN Ltd., located in notified jurisdictional area (NJA), for Rs. 10.50 crores. During the current financial year, RPS Ltd. charged Rs. 11.50 crores from TP of New York and Rs. 12 crores from NS of London for sale of identical goods and both of which are neither associated enterprise of RPS Ltd. nor they are situated in any NJA. While sales to TP and NS were on CIF basis, the sale to LMN Ltd., was on FOB basis, on which LMN Ltd. paid ocean freight and insurance amounting to Rs. 20 lakhs on purchases from RPS Ltd.

India has a Double Taxation Avoidance Agreement with the U.S.A. and U.K. The assessee has a policy of providing after sales support service to the tune of Rs. 14 lakhs to all customers except LMN Ltd. which procured the same locally at a cost of Rs. 18 lakhs.

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

6. (a) M/s Suhaas & Co. is a partnership firm carrying on trading activity. It has filed all its returns promptly up to the Assessment Year 2019-20. The firm suffered losses year after year due to market conditions and some of its major debtors defaulted in payment of their dues. It was decided by the partners on 17-9-2020, when the scrutiny assessment for the Assessment Year 2019-20 was in progress, that the business of the firm should be discontinued and a notice of discontinuance of business was given to the Assessing Officer on 12-12-2020. In these circumstances, you are required to advise on the tax implications for the firm. **(4 Marks)**
- (b) Mr. Ramkumar an agriculturist has made an agreement to sell his 10 acres of agricultural land situated in a remote village at a price of Rs. 1 lakh per acre to Mr. Bhaskar, a builder, for constructing a farmhouse. Mr. Ramkumar has received an advance of Rs. 1 lakh by way of a crossed cheque. Later on, the agreement was rescinded as Mr. Bhaskar could not pay the balance amount within the stipulated time as per the agreement. Mr. Ramkumar returned the advance by a crossed cheque. The Assessing Officer has proposed to levy a penalty under section 271D on Mr. Ramkumar. Examine the validity of the Assessing Officer's action. **(4 Marks)**
- (c) During the Previous Year 2020-21, Ms. Anuradha, a citizen of India and resident of India earned business income of Rs. 21,00,000 from a foreign country with which India has a Double Taxation Avoidance Agreement (DTAA), which provides that "the income would be taxable in country where it is earned and not in other country, but would be included for computation of tax rate in such other country."

Her income is Rs. 8,75,000 from business in India. In foreign country, the rate of tax is 18%. During the year, she paid a premium of Rs. 35,000 to insure the health of her mother, a non-resident, aged 63 years, through her credit card. You are required to compute the tax payable by Ms. Anuradha in India for the A.Y.2021-22.

Also, show the tax payable by Ms. Anuradha in India, had there been no DTAA with such foreign country. Ms. Anuradha does not want to opt for 115BAC. **(6 Marks)**