

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 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. Mr. X is a resident of India, who involved in the business of trading of Fast Moving Consumer Goods (FMCG) under the name of M/s. Aadhar Stores. M/s. Aadhar Stores has turnover of Rs. 4,80,00,000 and 10,20,00,000, for F.Y. 2020-21 and F.Y. 2019-20, respectively. Mr. X has taken a building on rent for the purposes of carrying out his business. This building is taken on rent from Mr. U, who is non-resident in India. During the previous year 2020-21, Mr. X has paid monthly rent of Rs.5,00,000 to Mr. U. During the previous year 2020-21, majority of the sales is made to retail buyers. However, M/s Aadhar Stores also sold goods in wholesale and has issued the following invoices:

- (a) Invoice 1 to ABC Ltd. for goods sold worth Rs. 45,50,000 on 15.5.2020
- (b) Invoice 2 to EFG Ltd. for goods sold worth Rs. 10,00,000 on 20.5.2020
- (c) Invoice 3 to ABC Ltd. for goods sold worth Rs. 25,50,000 on 31.10.2020
- (d) Invoice 4 to EFG Ltd. for goods sold worth Rs. 8,00,000 on 12.12.2020

M/s. Aadhar Stores has received the following amounts from ABC Ltd. and EFG Ltd. against the goods sold:

- (a) Rs. 19,90,000 for Invoice 1 on 30.06.2020 through crossed cheque.
- (b) Rs. 22,50,000 for Invoice 3 on 31.12.2020 in cash.
- (c) Balance amount of Rs. 28,60,000 for Invoice 1 & 3 received in bank through RTGS on 13.01.2021.
- (d) Rs. 18,00,000 for Invoice 2 & 4 received through account payee cheque on 15.02.2021.

He received and made all the payments other than the above-mentioned receipts via NEFT, account payee cheque, UPI or credit card. His total receipts for the year 2020-21 is Rs. 4.95 crores. On 1.12.2020, Mr. X has remitted Rs. 7,50,000 to his son studying in Australia through an authorized dealer. He has taken education loan of Rs. 7,50,000 from a financial institution for the purpose of such remittance.

Mr. X has also sold 1500 listed equity shares on 1st May 2020 through Bombay Stock Exchange, which he sold after holding the shares for 15 months. He has paid STT both at the time acquisition and sale of such shares. He acquired such shares for Rs. 2,50,000. Mr. X made a profit of Rs. 1,70,000 by selling these shares. He is of the view that whole of the amount of profit is exempt from tax. Based on this view, he has furnished his return of income on or before the due date specified under section 139(1). On 12.12.2021, he received an intimation under section 143(1), intimating there is no tax payable by him or refundable to him.

Based on the facts of the above case scenario, choose the most appropriate answers to the following questions:

- (i) Whether Mr. X is under any obligation to deduct tax at source on the rent paid to Mr. U as per the provisions of Income-tax Act, 1961. If yes, under which section and at what rate?
 - (a) No, he is not liable to deduct tax at source.
 - (b) Yes, he is liable to deduct tax at source under section 194-I @ 10%/7.5%.
 - (c) Yes, he is liable to deduct tax at source u/s 195 at the rates in force.
 - (d) Yes, he is liable to deduct tax at source u/s 194-IA @ 5%/3.75%.
- (ii) Whether Mr. X is required to collect tax at source during the previous year 2020-21? If yes, what would be the amount of tax collection at source?
 - (a) No, Mr. X is not required to collect tax at source, since his turnover for the P.Y. 2020-21 does not exceed Rs. 50 crores.
 - (b) Yes, Mr. X is required to collect tax at source of Rs. 1,575.
 - (c) Yes, Mr. X is required to collect tax at source of Rs. 2,925.
 - (d) Yes, Mr. X is required to collect tax at source of Rs. 2,100.
- (iii) What would be the amount of tax collection at source on the remittance made by Mr. X to his son?
 - (a) Nil, since such remittance is for education purposes.
 - (b) Rs. 250, being @0.5% on the amount exceeding Rs. 7,00,000.
 - (c) Rs. 2,500, being @5% on the amount exceeding Rs. 7,00,000.
 - (d) Rs. 187.50, being @0.375% on the amount exceeding Rs. 7,00,000.
- (iv) On 15.1.2022, on having discussion with his friends about the gains he earned on sale of listed shares, he came to know about the following views:
 - (i) capital gain on sale of listed shares exceeding Rs. 1,00,000 is taxable @10% under section 112A
 - (ii) he cannot revise his return of income, since he received intimation u/s 143(1)
 - (iii) he can revise his return of income even if he received intimation u/s 143(1), since time limit for filing revised return has not yet expired.
 - (iv) while computing capital gain he can take the benefit of FMV as on 31.1.2018
 - (v) whole of the amount of capital gain of Rs. 1,70,000 is taxable @10% u/s 112A

Choose the correct statements:

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

(v) Is Mr. X required to get his books of account audited u/s 44AB for P.Y. 2020-21? If yes, what is due date for filing tax audit report?

(a) Yes; 30.9.2021

(b) No

(c) Yes; 31.7.2021

(d) Yes; 31.10.2021

(5 x 2 Marks each = 10 Marks)

2. Mr. Shivam, an Indian citizen, has left India with his family, when he was 16 years old, to US on 31.03.2001. He was interested in cricket since his childhood days and took cricket as his career. He came to India for playing T-20 matches on 15.02.2021. Mr. Shivam has made the following investments:

Purchased shares		
Company	Date of Investment	Amount
Mittal Lyfestyle Ltd. (STT not paid on purchase)	01-06-2018	Rs. 60,00,000 (purchased in US \$)
HEG Ltd (STT paid on purchase through stock exchange)	01-06-2018	Rs. 10,00,000 (purchased in Rs.)
Dabur Ltd. (STT not paid on purchase)	22-01-2020	Rs. 40,00,000 (purchased in US \$)
Other Investments		
100 GDR's of Listed Co.	10-10-2010	Rs. 2,000 per GDR (purchased in US \$)
Bonds of Indian Co. issued abroad and purchased in foreign currency	01-04-2014	Rs. 10,00,000 (purchased in US \$)
10% debentures of Indian Co (Unlisted public Ltd. Co.)	01-04-2015	Rs. 10,00,000 (purchased in US\$)

Mr. Shivam received Rs. 11,00,000 as dividend from above companies. All the above investment in shares were sold by Shivam on 20.01.2021 on stock exchange and STT was paid as follows –

- Shares of Mittal Lyfestyle Ltd. for Rs. 1,50,00,000 and he deposit Rs. 90 Lacs from the sale proceeds with a Indian Public Limited Co. on 30-06-2021.
- Shares of HEG Ltd. for Rs.15,00,000 and he invested Rs. 15,00,000 in shares of Reliance Ltd. on 30-06-2021.
- Shares of Dabur Ltd. for Rs. 60,00,000 and invested Rs. 60,00,000 in shares of Reliance Ltd. on 30-06-2021.

50% GDR's were sold to Priya, a non-resident, on 01.04.2020 for Rs. 18,00,000 and balance 50% were sold to Hitesh, a resident, on 01.03.2021 for Rs. 15,00,000.

Mr. Shivam also received interest as follows

- (a) Interest on bonds Rs. 1,00,000
Bank charges for above interest Rs. 5,000
- (b) Interest on debentures Rs. 1,00,000

Interest on loan taken to acquire debentures Rs. 10,000

For matches played in India, Mr. Shivam has earned Rs. 6,00,000 as match participation fee.

Details of Telegraphic buying and selling rates:

Date	TTBR	TTSR
01-06-2018	28	32
30-06-2020	43	47
10-10-2020	48	52
22-01-2020	48	52
20-01-2021	58	62

Based on the facts of the above case scenario, choose the most appropriate answers to the following questions assuming that Shivam has opted for Chapter XII-A –

- (i) Compute taxable long term capital gain on sale of shares by Mr. Shivam for A.Y. 2021-22.
- (a) Rs. 34,00,000
 - (b) Rs. 16,60,000
 - (c) Rs. 11,60,000
 - (d) Rs. 5,00,000
- (ii) What is the taxable short term capital gain on sale of shares for A.Y. 2021-22?
- (a) Rs. 20,00,000
 - (b) Rs. 11,60,000 taxable u/s 111A
 - (c) Nil
 - (d) Rs. 11,60,000 taxable at normal rates
- (iii) Which of the following is correct in respect to the taxability of transfer of GDRs by Mr. Shivam?
- (a) Capital gains arising on sale of 100 GDRs shall be subject to tax @20% (plus applicable surcharge and HEC@4%) with indexation benefit in India.
 - (b) No Capital Gain will arise on sale of 50 GDRs to Priya but tax @ 10% (plus applicable surcharge and HEC@4%) is leviable on capital gains computed after giving benefit of foreign currency conversion (but not indexation) in respect of transfer of GDRs to Hitesh.
 - (c) No Capital Gain will arise on sale of 50 GDRs to Priya but tax @ 10% (plus applicable surcharge and HEC@4%) is leviable on capital gains computed without giving benefit of indexation and foreign currency conversion in respect of transfer of GDRs to Hitesh.
 - (d) Capital gains arising on sale of 100 GDRs shall be subject to tax @10% (plus applicable surcharge and HEC@4%) without giving benefit of indexation and foreign currency conversion.
- (iv) What will be total Income excluding capital gain of Mr. Shivam for A.Y. 2021-22?
- (a) 19,00,000
 - (b) 18,85,000
 - (c) 18,90,000

(d) 8,00,000

(4 x 2 Marks each = 8 Marks)

3. Mr. Vyomesh, a non-resident individual aged 61 years, has not furnished his return of income for A.Y.2021-22. However, the total income assessed in respect of such year under section 144 is Rs. 13 lakh. Determine the quantum of penalty leviable under section 270A (Ignore the provisions of section 115BAC).
- (a) Rs. 2,10,600, being tax payable on total income of Rs. 13 lakh
 - (b) Rs. 1,05,300, being 50% of tax payable on Rs. 13 lakh
 - (c) Rs. 66,300, being 50% of tax payable on under-reported income of Rs. 10.50 lakhs (i.e., Rs. 13 lakhs - basic exemption limit of Rs. 2.50 lakhs)
 - (d) Rs. 58,500, being 50% of tax payable on under-reported income of Rs. 10 lakhs (i.e., Rs. 13 lakhs - basic exemption limit of Rs. 3 lakhs) **(2 Marks)**
4. The assessment of ABC Associates, a LLP, for A.Y.2018-19 was made u/s 143(3) on 31st August, 2020. The Assessing Officer made two additions to the income of the LLP – (i) Disallowance of Rs. 3.25 lakhs u/s 40(a)(ia) due to non-furnishing of evidence of remittance of TDS and (ii) addition of Rs. 7 lakhs on account of unexplained investment. The LLP contested the addition on account of unexplained investment in appeal to the Commissioner (Appeals). The appeal was decided in January, 2021 against the assessee. In February, 2021, ABC Associates seeks your advice as to the course of action as regards disallowance u/s 40(a)(ia). What would be the right course of action as regards disallowance u/s 40(a)(ia), if it is a mistake apparent from the record?
- (a) Apply for revision to the Commissioner u/s 264.
 - (b) Apply for rectification to the Assessing Officer u/s 154.
 - (c) Either (a) or (b).
 - (d) Apply for revision to the Commissioner u/s 263. **(2 Marks)**
5. ABC Ltd. filed its return of income for A.Y.2020-21 on 29th September, 2020 and XYZ Ltd. filed its return of income for A.Y.2020-21 on 30th November, 2020. Both returns have been filed within the due date u/s 139(1). The returns are selected for regular assessment u/s 143(3) for which notice u/s 143(2) has been served on ABC Ltd. and XYZ Ltd. on 25th October, 2021. Which of the following statements are correct?
- (a) Notice has been issued to ABC Ltd. and XYZ Ltd. u/s 143(2) within the time permitted under the Income-tax Act, 1961.
 - (b) Notices issued to both ABC Ltd. and XYZ Ltd. u/s 143(2) are time-barred.
 - (c) Notice issued u/s 143(2) to ABC Ltd. is time-barred. However, notice has been issued to XYZ Ltd. u/s 143(2) within the time permitted under the Income-tax Act, 1961.
 - (d) Notice issued u/s 143(2) to XYZ Ltd. is time-barred. However, notice has been issued to ABC Ltd. u/s 143(2) within the time permitted under the Income-tax Act, 1961. **(2 Marks)**
6. Mr. Sourabh received an assessment order dated 11.11.2020 on 15.11.2020 wherein his total income was assessed at Rs.20 lakh. The returned income of Mr. Sourabh was Rs.5 lakh. However, Mr. Sourabh did not accept the assessment order and filed an appeal against the same before the Commissioner (Appeals). Now, while contesting the appeal, he wishes to submit some evidences that were not submitted by him before the Assessing Officer. As the Tax Consultant of Mr. Sourabh, what will be your advice to him regarding the submission of the said evidences?
- (a) Commissioner (Appeals) has no power to accept any evidences other than the evidences already submitted before the Assessing Officer.

- (b) Commissioner (Appeals) may accept the additional evidences in the exceptional circumstances mentioned in Rule 46A(1) of the Income-tax Rules, 1962, subject to recording reasons for its admission.
- (c) Commissioner (Appeals) may accept the additional evidences if the conditions given in Rule 46(1) of the Income-tax Rules, 1962 are satisfied.
- (d) Commissioner (Appeals) has no power to reject any evidences which the Appellant wishes to submit before him during the appellate proceedings. **(2 Marks)**
7. Mr. Ganesh, a resident Indian aged 42 years, is a salaried employee whose salary computed under the normal provisions of the Income-tax Act, 1961 for A.Y.2021-22 is Rs.14,50,000. In addition, he has interest on savings bank account to the tune of Rs.12,000. He has deposited Rs.1,50,000 in PPF and has paid medical insurance premium of Rs.25,000 by way of account payee cheque for insuring his health and Rs.30,000 by way of crossed cheque for insuring the health of his mother, aged 75 years. He incurred medical expenditure of Rs.35,000 by account payee cheque for his father, aged 78 years, who does not have an insurance policy. Ganesh's brother Rajesh, a resident Indian aged 40 years, earns rental income of Rs.40,000 per month and Rs.45,000 from his two let out flats. He also has interest on savings bank account to the tune of Rs.15,000. He deposits Rs.50,000 in NPS Tier I account. Should Mr. Ganesh and Mr. Rajesh opt for the provisions of section 115BAC for A.Y.2021-22 to minimise their tax liability?
- (a) Both Ganesh and Rajesh should opt for the provisions of section 115BAC
- (b) Neither Ganesh nor Rajesh should opt for the provisions of section 115BAC
- (c) Mr. Ganesh should opt for the provisions of section 115BAC but not Mr. Rajesh
- (d) Mr. Rajesh should opt for the provisions of section 115BAC but not Mr. Ganesh **(2 Marks)**
8. Mr. Jaideep, a resident aged 32 years, and his brother Mr. Pradeep, a non-resident aged 36 years, incurred interest expenditure of Rs.1.80 lakh and Rs.1 lakh, respectively, on loan taken for investing in shares of Beta Ltd, an Indian company. Beta Ltd. declared and distributed dividend during the P.Y.2020-21. Dividend payable to Mr. Jaideep and Mr. Pradeep was Rs.8 lakhs and Rs.6 lakhs, respectively, which was duly received by them after deduction of tax at source. What is the gross tax liability of Mr. Jaideep and Mr. Pradeep on such dividend income, assuming it is the only source of income of Mr. Jaideep and Mr. Pradeep and they wish to make maximum tax savings?
- (a) Rs.42,120 and Rs.13,000, respectively
- (b) Rs.42,120 and Rs.1,24,800, respectively
- (c) Rs.27,560 and Rs.13,000, respectively
- (d) Rs.27,560 and Rs.1,24,800, respectively **(2 Marks)**

Division B – Descriptive Questions

Question No. 1 is compulsory

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

1. Compute the total income and tax liability of M/s. Astha Ltd. for the A.Y. 2021-22 by analyzing, integrating and applying the relevant provisions of Income-tax Act, 1961. The turnover of Astha Ltd. for the P.Y. 2018-19 was Rs. 430 crores. Astha Ltd., engaged in manufacturing activity shows a net profit of Rs.2,47,00,000 for the financial year ended on 31st March, 2021 after the debit/credit of following items:
- (a) Rs. 45 lakhs paid to ABC Ltd. towards feasibility study conducted for examining proposals for technological advancement relating to the existing business, where the project was abandoned without creating a new asset.

- (b) Depreciation charged during the year amounted to Rs. 72 lakhs.
- (c) It incurred Rs. 3 lakhs as expenditure for public issue of shares. The public issue could not materialize due to non-clearance by SEBI.
- (d) Profit of Rs. 10 lakhs on sale of plot of land to Ganga Ltd., a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by Astha Ltd. on 30.09.2019.
- (e) Loss of Rs. 3 lakhs incurred by way of trading in futures and options (derivatives) in stocks in a recognized stock exchange.
- (f) Provision for gratuity based on actuarial valuation was Rs. 130 lakhs. Actual gratuity paid was Rs. 80 lakhs.
- (g) Rs. 8.50 lakhs, being the additional compensation received from the State Government pursuant to an interim order of the Court in respect of land acquired by the State Government in the previous year 2015-16.
- (h) One time license fee of Rs. 80 lakhs paid to a foreign company for obtaining franchise on 01.10.2020.
- (i) Payment of Rs. 15 lakhs towards interest on loan taken from a non-resident for the purpose of business in India (no tax deducted at source).

Additional Information:

- (1) As a corporate debt restructuring, the bank has converted unpaid interest of Rs. 10 lakhs upto 31st March, 2020 into a new loan account repayable in five equal annual installments.

The first installment of Rs. 2 lakhs was paid in March, 2021 by debiting new loan account.

- (2) Depreciation allowable as per Income-tax Act, 1961 is Rs. 75 lakhs.
- (3) The company has installed a new plant and machinery worth Rs. 300 lakhs on 01.11.2019 in the notified backward area in the state of Telangana. Further, it invested Rs. 250 lakhs in the plant and machinery on 01.11.2020 out of which machinery worth Rs. 50 lakhs was second hand. Additional depreciation on these machineries were not considered while calculating the above figure of depreciation as per Income-tax Act for A.Y. 2021-22.

Note - Ignore MAT and the provisions of section 115BAA. Explain in brief, the reasons for the treatment of each item. **(14 Marks)**

- 2 (a) (i) Compute the total income of Kashish Limited for Assessment Year 2021-22 from the following information and indicate the losses/ other allowances to be carried forward by it.

Khushboo Limited has the following carried forward losses as assessed till the Assessment Year 2020-21:

	Particulars	Rs. (in lacs)
(i)	Speculative Loss	4
(ii)	Unabsorbed Depreciation	18
(iii)	Unabsorbed expenditure of capital nature on scientific research	2
(iv)	Business Loss	120

Khushboo Limited was amalgamated with Kashish Limited on 01.04.2020. All the conditions of section 2(1B) were satisfied.

Kashish Limited has computed a profit of Rs.130 lacs for the financial year 2020-21 before setting off the eligible losses of Khushboo Limited but after providing depreciation at 15% per annum on Rs.150 lacs, being the consideration at which plant and machinery were transferred to Kashish Limited. The written down value as per Income-tax record of

Khushboo Limited as on 1st April, 2020 was Rs.100 lacs.

Kashish Limited also has speculative profit of Rs.10 lacs during the F.Y. 2020-21. **(5 Marks)**

- (ii) Worldclass Ltd. was incorporated on 1.7.2020. It is engaged in innovation, development or improvement of new products and it holds a certificate of eligible business from the notified Inter-Ministerial Board of Certification.

The quantum of turnover and profits and gains from such business for different years are as follows:

Previous Year	Turnover (Rs. in crore)	Business income (Rs. in lakh)
2020-21	13.89	(1.29)
2021-22	19.72	(4.32)
2022-23	21.21	8.00
2023-24	26.32	9.45
2024-25	27.98	9.98
2025-26	28.32	10.32
2026-27	28.01	9.34
2027-28	29.15	9.12
2028-29	30.12	9.24
2029-30	30.65	9.35

Is Worldclass Ltd. eligible for any tax benefit under the provisions of the Income-tax Act, 1961 for A.Y. 2021-22? If yes, what is the benefit available? **(3 Marks)**

- (b) Compute the total income and tax liability of Ms. Ayesha, an Indian resident aged 45, from the following information furnished by her for the P.Y. 2020-21:

Particulars	(Rs. In lacs)
Income from playing chess matches in country A	14.00
Agricultural income from land situated in Country A	3.00
Tax paid in country A	3.00
Income from playing chess matches in India	21.00
Deposit in PPF	1.50
Medical expenditure paid for her mother aged 75 years resident in India (paid through credit card), who is not dependent on her and no insurance is taken on her health.	0.60

There is no Double Taxation Avoidance Agreement between Indian and country A. Agricultural income of Rs.3 lakhs is exempt in Country A. Ms. Ayesha does not opt for the provisions of section 115BAC. **(6 Marks)**

3. (a) "Needy", a charitable trust, is registered under section 12AA of the Act. On 1.4.2020, it got merged with M/s. XY Ltd., which is a company engaged in manufacturing of steel utensils.

All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. XY Ltd who is not entitled for registration under section 12AA of the Act.

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 Rs.14 lakhs. However; if this land is sold in the open market, it would ordinarily fetch Rs.18 lakhs. The book value of the land is Rs.20 lakhs.
- (ii) 50,000 equity shares in Pen Ltd. traded in National Stock Exchange. The lowest price per share on 1.4.2020 was Rs.80 and the highest price on that day was Rs.90. The book value was Rs.70 lakhs.
- (iii) 30,000 preference shares held in Z Ltd. The shares will fetch Rs.35 lakhs, if they are sold in the open market on 1.4.2020. Book value was Rs.28 Lakhs.
- (iv) Corpus fund as on 1.4.2020 Rs.25 Lakhs.
- (v) Outside liabilities Rs.60 lakhs
- (vi) Provision for taxation Rs.10 lakhs.
- (vii) Liabilities in respect of payment of various utility bills Rs.8 lakhs.

Note: Give reasons for treatment of each item.

(8 Marks)

- (b) (i) Akash Ltd., a resident Indian company, on 1.4.2020 has borrowed Rs.100 crore from M/s Sarthak Inc., a company incorporated in US, at an interest rate of 9% p.a. The said loan is repayable over a period of 10 years. Further, loan is guaranteed by M/s Yoyo Inc incorporated in US. Yoyo Inc. holds share carrying 30% of voting power in Akash Ltd.

The EBITDA of Akash Ltd. was Rs.10 crore. Calculate the amount of interest to be disallowed under the head "Profits and gains of business or profession" in the computation of Akash Ltd.

(3 Marks)

- (ii) Mr. Singh, a non-resident individual, is due to receive interest of Rs.4 lakhs during February 2021 from a notified infrastructure debt fund eligible for exemption under section 10(47). He incurred expenditure amounting to Rs.15,000 for earning such income. Assuming that Mr. Singh is a resident of a NJA, discuss the tax implications under section 94A, read with sections 115A and 194LB.

(3 Marks)

4. (a) (i) Jaishree Bank credited Rs.65,50,000 towards interest on the deposits in a separate account for macro-monitoring purposes by using Core-branch Banking Solutions (CBS) software. No tax was deducted at source in respect of interest on deposits so credited even where the interest in respect of some depositors exceeded the limit of Rs.40,000.

The Assessing Officer disallowed 30% of interest expenditure, where the interest on time deposits credited exceeded the limit of Rs.40,000 and also levied penalty under section 271C.

Decide the correctness of action of the Assessing Officer.

(4 Marks)

- (ii) Examine in the context of provisions contained in Chapter XVII of the Act and also work out the amount of tax to be deducted by the payer of income in the following cases:

(I) "Profit Commission" of Rs.1.20 lakhs paid on 18.7.2020 by a re-insurance company to the insurer company after the expiry of the term of insurance and where there was no claim during the treaty.

(II) Usha, a part time director of Karishma Pvt. Ltd. was paid an amount of Rs.3,10,000 as fees which was actually in the nature of commission on sales for the period 1.7.2020 to 30.9.2020.

(4 Marks)

- (b) (i) Master Ltd. is an Indian Company involved in manufacturing and trading in mobile phones under the brand name "MY PHONE". In order to expand its exports sale, it launched a massive publicity campaign in foreign market. For the purpose of online advertising, it hired the Sunshine Inc., a Japanese based company which has no permanent establishment in India and paid Rs.15 lakhs for its services in the previous year 2020-21.

Discuss the tax and TDS implications of such transaction both in the hands of Master Ltd. and Sunshine Inc. **(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)**

5. (a) (i) Mr. Suresh received the draft order from the Assessing Officer as per section 144C of the Income-tax Act, 1961 due to variations determined by the Transfer Pricing Officer in the arm's length price. However, Mr. Suresh did not prefer to file the objection against the draft order before the Dispute Resolution Panel, instead, he preferred to file appeal before the CIT (Appeals) under section 246A against the final order received from the Assessing Officer.

You are required to advise Mr. Suresh, whether his contentions are tenable? Discuss the issue with reference to provisions of section 144C of the Income-tax Act, 1961.

OR

- (ii) During search conducted on premises of assessee, some gold bars were seized by the department from lockers of assessee. Assessee voluntarily disclosed some income during course of search. Assessee moved an application before Assessing Officer, for adjustment of tax liability on income surrendered during search by sale of seized gold bars. However said application was turned down by the Assessing Officer. Examine whether action of the AO is justified, in light of relevant case laws. **(4 Marks)**
- (b) In the case of Mr. Vinod, a summary assessment was made under section 143(1) for Assessment Year 2018-19 without calling him. Thereafter, Mr. Vinod has received a notice under section 148 on 6th April, 2020 for reopening of assessment. Can Mr. Vinod challenge the legality of the notice on the ground of change of opinion? **(4 Marks)**

- (c) (i) Flash Inc, a company incorporated in Japan, was engaged in manufacture, trade and supply equipment and services for GSM Cellular Radio Telephones Systems. It supplied hardware and software to various entities in India. Software licensed by assessee embodied the process which is required to control and manage the specific set of activities involved in the business use of its customers, and also made available to its customers, who used it to carry out their business activities. The Assessing Officer contended that the consideration for supply of software embedded in hardware is 'royalty' under section 9(1)(vi)

Examine the correctness of the action of the Assessing Officer assuming that the software that was loaded on the hardware and embedded in the system does not have any independent existence. **(4 Marks)**

- (ii) Nishant, a foreign national and a match referee came to India for T-20 matches and other match tournaments during the P.Y. 2020-21 for 45 days. He received Rs.9.6 lakhs for T-20 matches in India. When he stayed in India, he also won a prize of Rs.25,000 from horse racing in Delhi. He has no other income in India during the year. Compute tax liability of Nishant for Assessment Year 2021-22 if he opts for section 115BAC. **(2 Marks)**
6. (a) (i) Mr. Deepak, an individual, has deposited with Trimurti Finance & Investment Ltd., a residuary non-banking company, Rs.18,000 on 10th July, 2019 for 48 months by bearer cheque and made another deposit of Rs.14,000 on 1st August, 2020 in cash to purchase a new certificate of 48 months tenure.

On 25th March, 2021, Mr. Deepak has applied for premature withdrawal against both the certificates. On 27th March, 2021, the company has paid him Rs.19,500, by a bearer cheque, against principal and interest, due against his first certificate (purchased in 2019) and Rs.14,600 in cash on 28th March, 2021, against the second certificate.

Discuss the violation of income tax provision, if any, and consequential penalty for each transaction. **(4 Marks)**

- (ii) As per the provisions of a tax treaty between India and Country X, any capital gains arising from the sale of shares of an Indian company would be taxable only in Country X, if the transferor is a resident of Country X except where the transferor holds more than 10% interest in the capital stock of Indian company.

A company, A Ltd., being resident in Country X, makes an investment in an Indian company through two wholly owned subsidiaries (M Ltd. and N Ltd.) located in Country X. Each subsidiary holds 9.95% shareholding in the Indian Company, the total adding to 19.9% of equity of Indian company. The subsidiaries sell the shares of Indian company and claim exemption as each is holding less than 10% equity shares in the Indian company. Can GAAR be invoked to deny treaty benefit?

Note - The applicable tax rate on capital gains in Country X is 5%. **(4 Marks)**

- (b) On an application made by Mr. Ashish, an order was passed by the Settlement Commission on 15-02-2021 under Section 245D(6B). The said order had a mistake apparent on record. The Settlement Commission suo moto passed an amended order dated 16-08-2021 which resulted in modifying the liability of Mr. Ashish.

Mr. Ashish is of the view that order of the Settlement Commission is final and conclusive and it has no power to rectify the said mistake.

You are required to examine the following:

- (i) Correctness of claim made by Mr. Ashish
(ii) Validity of the order amended by the Settlement Commission **(6 Marks)**