

Roll No. ....

Total No. of Printed Pages – 12

Total No. of Questions – 6

Maximum Marks – 70

**GENERAL INSTRUCTIONS TO CANDIDATES**

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No bar code sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

**PART – II**

**70 marks**

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

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

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### PART – II

1. Premium Industries Limited, a domestic company, is engaged in the manufacturing of automatic gearless cars since 01-11-2019 in the State of Tamil Nadu. The net profit of the company as per Statement of Profit and Loss for the year ended 31<sup>st</sup> March, 2021, revealed profit of ₹ 147,50,000 after debiting or crediting the following items :

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- (i) Depreciation charged during the year amounted to ₹ 34,00,000/-.
- (ii) One time licence fee of ₹ 36 lakhs paid to foreign company for obtaining franchise on 30-11-2020.
- (iii) Purchased spare parts valued at ₹ 96 lakhs from XYZ Ltd. in which directors have substantial interest. The market value of the goods is ₹ 82 lakhs.
- (iv) New Plant & Machinery acquired on 01-07-2020 for ₹ 75 lakhs and payment of ₹ 10 lakhs made by bearer cheque and balance by way of transfer through RTGS. Cash subsidy of ₹ 15.00 lakh received from State Government on acquisition of Generator which was credited to Statement of profit and loss.
- (v) Legal expenses incurred for issue of bonus shares at ₹ 6 lakhs and legal expenses for issue of right shares at ₹ 8 lakhs.
- (vi) Short term capital gains on transfer of a capital asset being equity shares in a company on which security transaction tax is charged under the Act : ₹ 15,00,000/-.
- (vii) Long term capital gains (arrived at after taking indexation benefit) on transfer of Zero coupon Bonds: ₹ 8,00,000;

#### Additional information :

- (a) Depreciation eligible under Section 32 (before considering adjustment of any of the items described above) ₹ 38 lakhs. However, this includes a sum of ₹ 18.00 lacs towards depreciation on block of assets which are entitled for depreciation at 45%.
- (b) During the previous year 2020-21, the company transferred equity shares for a consideration of ₹ 22,00,000 which were acquired through preferential issue made by an Indian Company with the approval of SEBI. Acquisition cost of these shares during 2019 is ₹ 12,00,000/-.

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The Company opted for concessional rate of tax and exemption from MAT under Section 115BAB for Assessment year 2021-22. Compute the total income and tax payable for the Assessment Year 2021-22 clearly stating the reasons for treatment of each item.

2. (a) Madhav Ltd., a domestic company, furnishes the following particulars in respect of Assessment Year 2021-22 : **(Amount in ₹)**

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Profit as per Statement of profit and loss as per Companies Act, 2013	14,58,000
Statement of profit and loss includes :	
(a) Credits :	
(1) Dividend income from Domestic companies	2,25,000
(2) Share in income of an AOP as a member (the AOP has paid tax at maximum marginal rate)	1,07,000
(3) Long term Capital Gains on sale of shares in which STT was paid at the time of acquisition and sale	98,000
(b) Debits :	
(1) Depreciation on Straight line method basis	2,13,000
(2) Provision for loss on subsidiary company	3,26,000
(3) Provision for gratuity based on actuarial valuation	1,33,000
(4) Loss on transfer of business (computed as per AS 13)	2,14,000
(5) Provision for income-tax (including ₹ 37,000 of interest payable on income-tax)	88,000
Depreciation allowable as per Income-tax Rules	2,45,100
Losses brought forward as per books of accounts and as per Income-tax Act, 1961	
Business loss	4,59,100
Unabsorbed Depreciation	5,53,000

You are required to compute the book profits of Madhav Ltd. as per the provisions of Section 115JB.

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- (b) On 23<sup>rd</sup> June 2019, R Ltd., an Indian Company borrowed ₹ 100 crores from M Pte. Ltd., a company incorporated in Singapore. The said loan is repayable over a period of 6 years. This loan is guaranteed by L Ltd., a company incorporated in U.S.A. L Ltd. holds 30% shares in R Ltd. R Ltd. provides you the following information with respect to its P/L account.

₹ in lakhs

Particulars	For the FY 2019-20	For the FY 2020-21	Particulars	For the FY 2019-20	For the FY 2020-21
Employees Benefit expenses	280	301	Gross Profit	1630	1550
Interest paid to M Pte. Ltd.	589	238			
Depreciation	250	254			
Income Tax	271	232			
Profit transferred to Reserves	240	525			
	1630	1550		1630	1550

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Calculate the income under the head Profits and Gains from business and profession of R Ltd. for the Assessment Year 2021-22, assuming the gross profit is calculated as per the provisions of Income-tax Act and Depreciation is also as per Income-tax Rules. Give appropriate reasons of your workings.

Assume none of the companies are engaged in the business of banking.

3. (a) Based on the relevant provisions of Income-tax Act and judicial pronouncements, discuss about the treatment of the following : 8

- (i) On 26<sup>th</sup> August, 2020, *Relief for Poor* a public charitable trust, sold one of its building which was held by it for charitable purposes, for ₹ 4 lakhs. The asset was acquired on 23-6-2019 for ₹ 2.5 lakhs. It invested ₹ 3 lakhs in fixed deposits for the tenure of 2 years.
- (ii) *Save our religion*, a trust established for the purpose of religious and charitable purposes. It runs a temple and a school. During the year 2020-21, it received anonymous donation amounting to ₹ 2 crores in temple and ₹ 3 crores in school.
- (iii) M/s ABC, an electoral trust incorporated in the year 2018, provides the following information to you in respect of its transactions for the year 2020-21

Total voluntary contributions received ₹ 400 lakhs

Surplus brought forward from earlier PYs ₹ 15 lakhs

Expenses incurred for the purpose of managing its affairs ₹ 6 lakhs

What is the amount of surplus that can be distributed by the electoral trust assuming all other conditions as provided under the Act are satisfied ?

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- (b) Mr. Dharma Teja, aged about 61 years, furnished the following information in respect of income earned in various places for the previous year ended 31-03-2021 : 6

Name of Country/Place	Particulars of Income/expenses	Amount in lakhs
India	Pension from State Government	₹ 4,20,000
	Speculative Income	₹ 1,16,000
	Short term capital gains on sale of plot	₹ 1,10,000
	Deposit in PPF Account	₹ 1,50,000
Germany	Agricultural Income (gross)	₹ 90,000
	Royalty on patent developed in respect of new cancer molecule (as a co-owner of the patent) (convertible foreign exchange brought into India on 31-08-21)	₹ 6,00,000
	Dividends from a company incorporated in Germany (gross)	₹ 64,000
Thailand	Business loss (proprietary business)	
	Not eligible for set off against other incomes as per prevailing laws.	₹ 1,06,000
	Gross rental income from a property (no statutory deduction was available there)	₹ 3,00,000
	Municipal taxes paid in respect of the above property (not allowed as deduction)	₹ 20,000

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**Additional Information :**

- (1) There is no agreement under Section 90 for relief or avoidance of double taxation between India and Germany and Thailand where the incomes have accrued or arisen.
- (2) Mr. Dharma Teja is an individual resident in India and he has paid applicable taxes on incomes earned in Germany and Thailand, where the applicable tax rates are 15% and 10% respectively.

Compute the total income and tax payable by Mr. Dharma Teja for AY 2021-22 clearly indicating tax rebate, if any available on incomes earned outside India.

4. (a) Examine the applicability of provisions relating to deduction / collection of tax at source and compute the liability, if any for deduction / collection of tax at source in the following cases for financial year ended 31st March, 2021 as per provisions contained under the Income Tax Act, 1961: 8
- (i) Pursuant to the agreement to operate E-commerce platform between "AB" (E-commerce Operator) and "XY" (E-commerce Participant), the buyer purchased goods worth ₹ 6.00 lakhs on 28.02.2021 on e-commerce website of "AB" and he makes such payment through the digital platform of "XY". Who is the person responsible to deduct /collect the Tax on this transaction and specify the amount of liability ?

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- (ii) Mr. James, is an authorised dealer under the Liberalised Remittance Scheme of RBI. Three persons from India remitted the following sums through the Authorised Dealer as under :

Name of the Person	Remittance Amount INR	Purpose
Mr. Pradeep	₹ 6,50,000	Maintenance expenses of his son studying in London
Mr. Promod	₹ 15,00,000	Cost of Overseas Tour Programme package to North & South America
Mr. Pranav	₹ 10,00,000	Repayment of loan obtained from Bank in Germany for pursuing higher studies.

What are the tax obligations of Mr. James in the above transactions ?

- (b) State with brief reasons, whether transfer pricing provisions are attracted in the following cases :

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- (i) ABC Inc, a London based foreign company transferred engravings valued at ₹ 55 crores to Beta Ltd, an Indian Company during the previous year 2020-21. ABC Inc, holds 32% of voting power in Alpha Ltd, an Indian Company which in turn holds 75% of shares in Beta Ltd.
- (ii) Tikku Projects Ltd, an Indian Company, has two units, Tikku Infra and Tikku Trading. While the Tikku Infra is engaged in the development of highway project pursuant to the agreement entered into with Central Government since past 4 years. Tikku Trading is engaged in the business of trading of construction materials. During the previous year 2020-21, Tikku Trading transferred 12,000 MT of cement at ₹ 14,000 per MT against the prevailing market value at ₹ 16,000 per MT.

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- (iii) A Ltd, engaged in manufacturing activity of power generation, opted for concessional rate of tax under Section 115BAB. B Ltd, supplied 10,000 MT of power cables valued at ₹ 23,000 per MT to A Ltd. at ₹ 21,000 per MT during the previous year 2020-21. Mr. X, an individual, holding controlling interest in both A Ltd. and B Ltd.

5. (a) Answer any **two** out of the **three** sub-parts :

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- (i) Consequent to a search in the premises of Mr. Manav, some gold bars were seized from the locker. Manav voluntarily disclosed some income during the course of search. In order to remove his liability to pay interest under sections 234B and 234C, the assessee filed an application for sale of the gold bars and adjustment of tax liability on undisclosed income out of the sale proceeds while the assessment was still pending. Based on the provisions of applicable sections and court rulings, discuss whether the assessee can do so ?
- (ii) During the assessment proceedings in respect of Mr. Desai, the Assessing Officer found that some purchases were shown in the trading account for which the details of the suppliers were missing. The assessee did not maintain the daily stock register and also could not offer proper explanation regarding those purchases. The assessing officer rejected the books of accounts of the assessee and made ex-parte assessment under Section 144. In the assessment order, the AO treated them unexplained cash credit and made additions to the tune of ₹ 12,26,000 in the declared income. The assessee filed appeals with various appellate authorities but due to lack of satisfactory explanation, his case was dismissed at all levels and the issue finally reached to the Supreme Court. While the appeal was still pending at the Supreme Court, the AO initiated penalty proceeding for concealment of income. During the penalty proceedings, the

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assessee provided the details of the creditors to the satisfaction of CIT(A) and thus, the penalty proceedings were dropped.

Now, the assessee approached you as a consultant. You are required to list out what grounds that may be taken by the assessee against the pending assessment proceedings. Base your answer on the relevant provisions of law and decided court rulings.

- (iii) The assessee, World Television Corporation Ltd. (WTCL) invested in several subsidiary companies outside India. During the year 2009-10, one these subsidiary companies issued coupon bonds. The assessee furnished corporate guarantee in respect of such bonds. The case was selected for scrutiny assessment. WTCL disclosed all the material facts and also the entities that subscribed to these bonds. While the AO did not doubt the validity of the transaction, it added a deemed guarantee fee to the income of the assessee and the order was passed in the FY 2012. On 31<sup>st</sup> March 2015, on the basis of subsequent years' assessment proceedings, the department sent a notice under Section 147 stating that it has reason to believe that the income has escaped assessment because the overseas entities were sham companies and the amount raised by them should be treated as income of the assessee and since the assessee did not disclose all material facts truly, the extended period of limitation of 6 years can be invoked. The assessee contended that since the original assessment was a detailed one and it disclosed all primary facts before the AO, the AO cannot reopen the case. After losing the case at the High Court, the assessee appealed to the Supreme Court. The department contended that since the assessee had foreign assets, second proviso to Section 148 is applicable the limitation period is 16 years.

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You are required to answer the following questions based on relevant provisions and recent rulings :

(I) Whether the revenue has a valid reason to believe that the income has escaped assessment even if the original assessment was a detailed one ?

(II) Whether the revenue can take benefit of extended period of 16 years citing that the assessee did not disclose full and true material facts ?

(III) Can the revenue take the benefit of proviso to Section 148 ?

(b) Atiwna Inc., a non-resident company incorporated in U.S., engaged in manufacturing of computer hardware and software. It also owns an online social networking site, Friendszone. It exports its products globally including India for which it owns a warehouse in Mumbai. Ari Ltd., an Indian Company, imports computer hardware and software from Atiwna Inc. During the previous year 2020-21, Ari Ltd. did not import any article from Atiwna Inc. but paid ₹ 5,45,000 (Date of payment 23<sup>rd</sup> June, 2019) to Atiwna Inc. for advertising its business on the platform of Friendszone. However, Ari Ltd., neither deducts TDS nor equalisation levy on such payments. You are required to discuss whether Ari Ltd. is required to deduct equalisation levy or TDS on such payment? If yes, then discuss the consequences of non-deduction of such levy in the hands of Ari Ltd.

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6. (a) (i) List out the instances that are treated as “Misreporting of Income” and quantum of penalty that would be attracted in these cases. 4
- (ii) Briefly explain the following in the context of Income Tax Act, 1961 : (i) Meaning of Faceless Assessment; (ii) Assessments covered under Faceless Assessment Procedure; (iii) Important units of Faceless Assessment Procedure. 4
- (b) A and B are two individuals, and they derived an income of ₹ 14.00 lakhs each during previous year 2020-21. While A had no other income except income from salaries, B had to pay interest of ₹ 2,00,000/- on loan taken in respect of a self-occupied house property. You, as a consultant, are required to advise them whether they should opt for concessional rate of tax under Section 115BAC or otherwise, showing the tax liability of both individuals. 6
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