GCR2

Roll No. ....

Total No. of Questions – **6**

Total No. of Printed Pages – **12**

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 2020-21 unless stated otherwise in the question.

PART – II

1. Lotus Co. Ltd., is a listed company located in Jaipur. It is engaged in multiple activities at different locations. Books of account are maintained by each unit separately. The head office maintains books relating to common transactions. All the accounts are consolidated and the return of income is filed at Jaipur. **14**

The following information is furnished unit wise for the year ended 31st March, 2020 :

(a) **Medicine manufacturing unit, Delhi** : The Company has reported Net Profit of ₹ 200 lakhs in the books of account of the said business unit. It entered into an agreement for use of know-how owned by a renowned scientist. It paid royalty of ₹ 5 per unit of medicine sold as royalty and the amount of royalty paid during the previous year 2019-20 was ₹ 36 lakhs. The company deducted tax at source on the amounts paid up to December, 2019 and omitted to deduct tax at source on the royalty of ₹ 8 lakhs due for the period from January, 2020 to March, 2020. The payee admitted the royalty income fully, paid tax and filed his return of income before the "due date" specified in Section 139(1).

The company paid ₹ 33,60,000 being 14% of basic salary plus DA of the employees in notified pension scheme and the amount so paid is debited as expenditure in the books of account.

(b) **Garment manufacturing unit, Tirupur :** The Company has a manufacturing unit at Tirupur, Tamil Nadu. It reports a Net Profit of ₹ 90 lakhs as per books of account of the unit. It bought a trademark from Mr. Yellow for ₹ 20 lakhs on 01-06-2019 which is charged as expenditure in the books of account.

The unit paid ₹ 3 lakhs as interest on loan taken from a non-resident Indian. The tax was deducted at source in March, 2020 but it was remitted only on 06-05-2020.

The company paid ₹ 6 lakhs being the amount of income-tax payable by the employees on non-monetary perquisites provided by the company. This amount is debited in the books of account as expenditure.

(c) **Fertilizer producing unit, Narmada :** The Company established a fertilizer producing unit in Narmada, Gujarat which become operational in June, 2019. It had acquired a Land for ₹ 1 crore and put up a Building for ₹ 3 crores and installed new Plant and Machinery for ₹ 4 crores. The Net Profit as per books of account of the unit is ₹ 220 lakhs (after deducting depreciation on Building of ₹ 30 lakhs and Plant and Machinery of ₹ 60 lakhs).

(d) **Warehousing facility for storage of edible oils at Chennai :** It established a warehousing facility for storage of edible oils from 01-08-2019. It made investments such as cost of Land ₹ 2 crores, Building ₹ 3 cores and Plant and Machinery (new) ₹ 5 crores. The Net Profit as per books (without deducting depreciation) was ₹ 70 lakhs.

Additional information :

The company mobilized capital during the previous year 2019-20 by public issue of shares. The application money was kept in bank pending allotment of shares. The interest income from the said deposit of ₹ 3,20,000 is credited to general reserve.

The company declared interim dividend @ 10% of share capital being ₹ 30 lakhs in October, 2019. It has 27% shareholding in Wire Inc., Singapore from whom it received ₹ 54 lakhs as dividend in January, 2020. Both dividend received and paid were credited and debited respectively in the Consolidated Statement of Profit and Loss.

The total turnover of the company for previous year 2017-18 was ₹ 282 crores and for financial year 2018-19 ₹ 405 crores. The company has MAT credit of ₹ 20 lakhs of the assessment year 2007-08. The book profit (computed) for the assessment year 2020-21 is ₹ 620 lakhs.

Compute the total income of the company and optimum income-tax liability for the assessment year 2020-21. Your answer must give reasons for treatment of each item given above and also for the tax liability.

2. (a) Saksi Pvt. Ltd. was converted into limited liability partnership (LLP) as Sakshi LLP on 1-07-2019. You are provided with the following particulars of Sakshi Pvt. Ltd. as on 31-03-2019 : 8

(i) Unabsorbed depreciation ₹ 25 Lakhs

(ii) Business loss ₹ 23 Lakhs (relating to P.Y. 2011-12)

(iii) Unadjusted MAT credit u/s 115JAA ₹ 6 lakhs

(iv) Written down value of the assets as per Sec 43(6) of the Income Tax Act :

Plant and Machinery (15%) ₹ 12 Lakhs (Market value ₹ 18 lakhs), Plant and Machinery ₹ 60 Lakhs (cost) – deduction claimed u/s 35AD, Building (10%) ₹ 30 Lakhs (Market Value ₹ 120 Lakhs)

(v) Cost of land (acquired in year 2001) ₹ 60 lakhs (Market value ₹ 105 Lakhs)

(vi) Expenditure on voluntary retirement incurred by the company during the P.Y. 2017-18 is ₹ 25 Lakhs. The company has been allowed deduction of ₹ 5 Lakhs for each year for the P.Y. 2017-18 and P.Y. 2018-19 u/s 35DDA.

Explain the tax treatment of each item stated above in the hands of LLP, assuming that the conversion satisfies all the conditions laid down in section 47(xiiib).

(b) Mr. Robin, a non-resident, aged 62 years has following incomes for the F.Y. 2019-20. **6**

Income from a business in Jaipur (50% received in India)	1,90,000
Dividend from a Chinese company received in Singapore	95,600
Income from profession in Singapore which was set up in India received in Singapore but spent in India	80,000
Agriculture Income from a land in Jodhpur	45,000
Interest on Savings bank deposit in State Bank of India	10,500
Income from a business in Singapore which is controlled from Jaipur (50% received in India)	1,00,000
Income from agricultural land in Hong Kong received there and then brought to India	41,300
Interest received from an Indian company on rupee denominated Bonds which were issued in Singapore on 01.03.2019	15,000
Income received from units of Unit Trust of India purchased in foreign currency	20,000
Long-term capital gain on sale of shares purchased and sold through recognized stock exchange	1,25,000

You are required to compute his total income and tax liability for the A. Y. 2020-21.

3\. (a) Shree Shani foundations, a charitable trust registered under Section 12AA of the Income Tax Act, 1961 runs a hospital. The following particulars pertaining to the Previous Year 2019-20 are furnished to you by the trust : **8**

(i) Gross receipts from the hospital ₹ 345 lakhs.

(ii) Voluntary contributions received from public ₹ 25 lakhs, (including anonymous donation (eligible for accumulation) ₹ 5 lakhs and corpus donation ₹ 2 lakhs from other charitable trusts), are not included in the Gross receipts.

(iii) Hospital expenses ₹ 85 lakhs (revenue in nature and does not include the depreciation on hospital equipment amounting to ₹ 5 lakhs which have been claimed as application of income in the earlier years)

(iv) Gross receipts includes a sum of ₹ 4 lakhs that was received on 31-03-2020.

(v) Amount applied for the purpose of hospital ₹ 90 lakhs (includes repayment of loan taken earlier for the construction of hospital ₹ 10 lakhs).

(vi) Donation of ₹ 3 lakhs given towards corpus to a trust registered under Section 10(23C).

(vii) Income from business which is incidental to the main object of the trust and separate books of accounts are also maintained by the trust in respect of such income ₹ 5 lakhs.

Compute the total income of the trust for the Assessment Year 2020-21 in order to avail maximum benefits within the four corners of law.

(b) Mrs. Indu, an individual resident and a retired employee, aged 60 years, is a well-known classical dancer. During the Previous Year 2019-20, she derives an income of ₹ 5,40,000 from dance shows in Country 1. She also received ₹ 2,75,000 as Royalty (gross) for some literary work done from Country 2. Expenses incurred on earning royalty amounted to ₹ 50,000. **6**

India does not have any Double Tax Avoidance Agreement under Section 90 of the Income Tax Act, 1961, with these countries.

Her income from dance shows in India amounted to ₹ 7,20,000. She also received ₹ 50,000 as interest on fixed deposit with a nationalized bank. In view of tax planning, she has deposited ₹ 1,50,000 in Public Provident Fund and paid contribution to approved Pension Fund of LIC ₹ 32,000.

The tax paid by Mrs. Indu in Country 1 is @ 15% and Country 2 is @ 20%.

Compute the tax liability of Mrs. Indu for the Assessment Year 2020-21.

4. (a) Decide whether TDS provisions are attracted in the following : **2×2 =4**

(i) Krunal & Co LLP withdrew from its bank account ₹ 70 lakhs by cash up to 31.08.2019 and ₹ 55 lakhs from 01-09-2019 to 31-03-2020. The purpose of withdrawal from bank was for buying agricultural produce, from farmers / agriculturists, being raw material required for manufacture of finished products by it.

(ii) Interest of ₹ 82,000 on Capital Gains Bond issued by Power Finance Corporation Ltd. to Mr. Ajay (aged 47), a non-resident individual.

(b) The tax assessment of Mr. Bimal was completed on 20-12-2019 and the tax duc was determined as ₹ 105 lakhs. The assessee has the following (i) Bank fixed deposit with SBI ₹ 20 lakhs; (ii) Receivable from Sunder & Co Ltd ₹ 25 lakhs. He gifted a land to his son (aged 38 years) 3 years ago whose present market value is ₹ 22 lakhs. He gifted a diamond necklace to his son's wife evidenced by a gift deed dated 05.10.2016. He owns a residential apartment in London acquired 13 years ago. **4**

Discuss against which of the movable / immovable property the Tax Recovery Officer can proceed against for recovery of tax.

(c) State with brief reasons, which method of determination of ALP will be most appropriate in the following cases : **3×2 =6**

(i) A Co. Ltd., Mumbai is engaged in manufacture of garments. It manufactured and supplied as per the variation and customization in finishing of products to its associated enterprises Xylo Inc. UK as compared to the goods regularly sold to third parties.

(ii) DEF Co. Ltd., is engaged in manufacture of medicines. It manufactured semi-finished drugs in bulk and sold to related parties located in India and outside India. It adds gross profit mark up on direct and indirect costs of production.

(iii) ZY Ltd., Bengaluru provided identical call centre services to both related and unrelated parties.

5. (a) Aditya Co. Ltd. is engaged in manufacturing activity. The machineries owned by it have become old and obsolete. The company wants to know whether to replace machineries by borrowing loan (or) buy the finished goods from open market and sell in its brand name. Relevant details are as under : 4

Cost of machinery if acquired ₹ 500 lakhs. The company has own funds of ₹ 200 lakhs and would borrow ₹ 300 lakhs from bank @ 9% per annum interest to buy the machinery. The sales would be ₹ 2500 lakhs with net profit of 15% of before tax.

In case, the assessee decided to buy and sell the goods, the margin of profit would be 5%. The funds so retained would earn interest income of 9% per annum.

Note : Ignore other commercial considerations and GST input tax credit. Assume tax rate @ 30% (ignore Surcharge and Cess).

Advise the company suitably supporting your views.

(b) The assessment of R & Sons HUF was completed u/s 143(3) of the Income-tax Act 1961 with an addition of income of ₹ 7 Lakh to the returned income. The assessee contends that the order of the assessment is bad in law as no notice was issued u/s 143(2) even though the assessee had participated in the assessment proceedings. The assessing officer, relying on Section 292BB, contends that when assessee has participated in assessment proceedings, now he cannot raise any objection on the assessment order. 4

Examine the validity of the contentions of both and give your opinion on who is correct.

OR

What do you understand by the term 'Legal Representative' ? Write a short note on the assessment on legal representative.

(c) XYZ Ltd., an Indian company, to expand its overseas sales/exports, launched a massive advertisement campaign of its products. For the purpose of online advertisement, it utilized the services of MNO Inc., a London based company and JKL Inc., an Australian company. MNO Inc. has a permanent establishment in India, and the service is effectively connected to the permanent establishment in India. JKL Inc. has no permanent establishment in India. During the previous year 2019-20, XYZ Ltd. paid ₹ 3 lakhs to MNO Inc. and ₹ 2 lakhs to JKL Inc. for such services. 6

Discuss the tax implications/TDS implications of such payment and receipt in the hands of XYZ Ltd., MNO Inc. and JKL Inc.

6. (a) Assessing Officer came to know from the Investigation Wing of the Income-tax Department on 20-03-2020 that Mr. David has not disclosed acquisition of vacant land for ₹ 5 lakhs on 15-05-2014 in the books of account maintained by him for his business. What is the time limit for issuing notice under Section 148 ? Should the Assessing Officer take prior approval of any superior income tax authority before issuing such notice ? In case, Mr. David is agent of non-resident and the transaction of purchase of vacant land had occurred in the previous year 2009-10, what would be your answer ? 4

(b) A discretionary trust is liable to tax at the maximum marginal rate of income tax on their entire income [Section 164(1)]. Discuss the exceptions to the above statement. 4

(c) M/s. Universe Ltd. is a domestic company. Its turnover for the Previous Year 2017-18 was ₹ 300 crores. The following are the particulars furnished for the Assessment Year 2020-21 : **6**

Particulars	Income (₹)
As per Return of Income filed under Section 139(1)	(8,00,000)
Determined under Section 143(1)(a)	(4,00,000)
Assessed under Section 143(3)	(70,000)
Reassessed under Section 147	3,00,000

Can penalty be levied u/s 270A on M/s. Universe Ltd.? If yes, compute the penalty leviable u/s 270 A if

(i) under-reported income is not on account of mis-reporting.

(ii) under-reported income is on account of mis-reporting.