DT Mock Test Series – Paper 7

Relevant for CA Final July, 2020 Examination

Key Instructions:

1) Read the questions very carefully.
2) For descriptive questions, the answers should be in line with the specific question asked and the marks allocated.
3) Check the time taken for each question.
4) Notes/working notes should be attached suitably.
5) Figures on the right indicates the marks.
6) Highlighted Questions in pink shade in MTP 1, are for New Syllabus students only.

Mock Test Series - Index

MTP No.	Topic	MCQ Page No.	Descriptive Page No.
1	Transfer Pricing, International Taxation, General Anti Avoidance Rules	4	9
2	Taxation of Individuals, Income from Salary, House Property, Clubbing of Income, Chapter VIA Deductions	18	21
3	Capital Gain including NRI, 115AD,115AB & Surrogate Taxes	26	30
4	Profits & Gains from Business or Profession, Set off and Carry Forward of Losses, ICDS	36	43
5	AMT, Company Assessment, TDS, TCS, Advance Tax & Interest	50	53
6	Assessment of Partnership, AOP, BOI, Trust Taxation, Political Parties, Co-Operative Societies	59	60
7	Return of Income, Assessment Procedure, Penalties and Prosecution, Revision, Settlement Commission, AAR, Recovery Proceedings	67	74

Mock Test - 1

(Transfer Pricing, International Taxation, General Anti Avoidance Rules)

Multiple Choice Questions			M
Q.1	I	*Kaveri Ltd. is an Indian Company in which Andes Inc., a Country A company holds 30% shareholding and voting power. During the previous year 2016-17, the Indian company supplied computers to the Country A based company @CAD 2200 per piece. The price of computer supplied to other unrelated parties in Country A is @CAD 2500 per piece. During the course of assessment proceedings relating to A.Y.2017-18, the Assessing Officer carried out primary adjustments and added a sum of Rs.138 lakhs, being the difference between actual price of computer and arm's length price for 500 pieces and it was duly accepted by the assessee. The Assessing Officer passed the order, in which the primary adjustments were made, on 1.7.2019. On account of this adjustment, the excess money of Rs.138 lakhs is available with Andes Inc, Country A. What would be the effect of this transaction while computing the total income of Kaveri Ltd. for the assessment year 2020-21, assuming that –* *(i) Kaveri Ltd. declared an income of Rs.220 lakhs;* *(ii) the excess money is still lying with Andes Inc. till today,* *(iii) Kaveri Ltd. has not opted to pay additional income-tax on such excess money not repatriated; and* *(iv) the rate of exchange is 1 CAD = Rs.92 and the six-month LIBOR as on 30.9.2019 is 10%.* *[CAD stands for Country A Dollars, which is the currency of Country A] –* *a) Interest of Rs.13.80 lakhs would be added to the total income of Kaveri Ltd* *b) Interest of Rs.13.455 lakhs would be added to the total income of Kaveri Ltd.* *c) Interest of Rs.10.35 lakhs would be added to the total income of Kaveri Ltd.* *d) Interest of Rs.8.97 lakhs would be added to the total income of Kaveri Ltd.*	1
	II	*An APA application seeks to cover 5 years starting from A.Y.2020-21 to A.Y.2022-26. The International transaction is of continuing nature. For P.Y.2019-20 it undertook the International Transaction on 01/12/2019. The Application for APA shall be made before:* *a) 01/04/2020* *b) 01/12/2019* *c) 01/04/2019* *d) 01/04/2021*	1
	III	*Which of the following statement is correct:* *The Constituent Entity of the International Group shall be required to maintain Local file as per Sec. 92D if:* *a) It has entered International Transaction; or* *b) If the aggregate value of International transaction exceeds Rs.1 Crore; or* *c) It is irrelevant whether it has entered the International Transaction during the previous year or not; or* *d) It is not required to maintain information and document as per section 92D if it has filed Cbcr for the relevant tax year.*	1
	IV	*If Country A is a notified jurisdictional area (NJA), then, the rate at which interest receivable from a infrastructure debt fund notified u/s 10(47) is taxable in the hands of Mr. Ram, a resident of Country A, and the rate at which tax has to be deducted at source on such income are, respectively,-* *a) 30% and 5%* *b) 5% and 5%* *c) 30% and 30%* *d) 5% and 30%*	1

	V	*If ABC Ltd. has two Units, Unit 1 is engaged in power generation business and Unit 2 is engaged in manufacture of wires. Both the units were set up in Karnataka in the year 2014. In the year 2019-20, twenty lakh metres of wire are transferred from Unit 2 to Unit 1 at Rs.125 per metre when the market price per metre was Rs.180. Which of the following statements is correct?* *a) Transfer pricing provisions would be attracted in this case* *b) Transfer pricing provisions would not be attracted in this case since Unit 1 and Unit 2 belong to the same company and are not associated enterprises.* *c) Transfer pricing provisions would not be attracted in this case as it is not an international transaction since both Units are in India. However, for the purpose of Chapter VIA deduction, the profits of power generation business shall, however, be computed as if the transfer has been made at the market value of Rs.180 per MT.* *d) Transfer pricing provisions would not be attracted in this case due to reasons mentioned in both (b) and (c) above.*	**1**
	VI	*XYZ Ltd. has failed to report an international transaction entered 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?* *(i) 2% of the value of transaction* *(ii) 50% of tax payable on under-reported income* *(iii) 200% of tax payable on under reported income* *Choose the correct option:* *a) Only(i)* *b) Only(iii)* *c) (i) & (ii)* *d) (i) &(iii)*	**1**
	VII	*Alpha Ltd's total income of A.Y.2020-21 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.2016-17 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*	**1**
	VIII	*In respect of any payment made to a person located in a Notified Jurisdictional Area (NJA), tax is deductible at higher of the rate specified in the Income-tax Act, 1961 or rates in force or–* *a) 10%* *b) 15%* *c) 20%* *d) 30%*	**1**
	IX	*Interest paid to non-resident associated enterprise disallowed under the relevant provision of the Income-tax Act, 1961, during the A.Y. 2020-21 can be carried forward upto–* *a) A.Y.2024-25* *b) A.Y.2025-26* *c) A.Y.2028-29* *d) Indefinitely*	**1**

	X	*Fly Ltd., an Indian company, has to make secondary adjustment in A.Y. 2020-21, if the primary adjustment to transfer price, made by it suo moto in its return of income, is in respect of–* *a) A.Y. 2016-17 and the amount of primary adjustment is Rs.2crore* *b) A.Y. 2019-20 and the amount of primary adjustment is Rs.1crore* *c) A.Y. 2019-20 and the amount of primary adjustment is Rs.1.05crore* *d) A.Y. 2020-21 and the amount of primary adjustment is Rs.1crore*	**1**
	XI	*XYZ Ltd. has entered into a specified domestic transaction during the previous year 2019-20. The company failed to obtain a report from a Chartered Accountant and furnish such report under section 92E on or before the due date for furnishing return of income under section 139(1). Is any penalty imposable on XYZ ltd? If yes, what will be the quantum of penalty?* *a) Penalty is not imposable, as report is to be furnished only in case of an assessee who has entered into an international transaction.* *b) Penalty of Rs.1 lakh is imposable* *c) Penalty @2% of the value of specified domestic transaction is imposable* *d) Penalty @2% of the value of transaction or Rs.1 lakh, whichever is higher, is imposable*	**1**
	XII	*Y is a foreign company having permanent establishment in India namely X. Z, a non-resident associated enterprise, has invested Rs.900 crore through debt in X. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of X during the financial year was Rs.150 crore. Compute the amount of interest allowable in respect of the debt assuming that the debt was invested on the first day of the financial year and the rate of interest is 10% per annum.* *a) Rs.45 crore* *b) Rs.90 crore* *c) Rs.30 crore* *d) Rs.15 crore*	**1**
	XIII	*Music Academy, as per its rules, pays a fixed honorarium per concert to each musician performing in the concerts organised by it. Hari, a violinist, however, refuses to accept this sum. If he requests Music Academy to pay such sum directly to Aid Us, an unregistered institution providing relief to the poor and needy in rural India, what would be the tax consequence?* *a) No amount would be chargeable to tax in the hands of Mr. Hari, since this is a case of diversion of income at source by overriding title.* *b) The amount payable to Aid Us would be chargeable to tax only in the hands of Mr. Hari, since it is a case of application of income* *c) The amount payable to Aid Us would be chargeable to tax only in the hands of the institution which has received the amount* *d) The amount payable to Aid Us would be chargeable to tax both in the hands of Mr. Hari and in the hands of the institution*	**1**
	XIV	*A notified infrastructure debt fund eligible for exemption under section 10(47) of the Income-tax Act, 1961 pays interest of Rs.5 lakhs to a company incorporated in a foreign country. The foreign company incurred expenditure of Rs.12,000 for earning such interest. The fund also pays interest of Rs.3 lakhs to Mr. Frank, who is a resident of Country A, a notified jurisdictional area. Which of the following statements are correct?* *a) No tax deduction at source is required in respect of both the payments.* *b) No TDS is required in respect of payment of Rs.5 lakhs to the foreign company. However payment of interest to Frank attracts TDS@31.2%* *c) TDS@5.20% is attracted on Rs.4,88,000 to the foreign company. TDS@31.2% is attracted on interest payment of Rs.3 lakhs to Mr. Frank* *d) TDS@5.20% is attracted on interest payment of Rs.5 lakhs to the foreign company.*	**1**

		TDS@31.2% is attracted on interest payment of Rs.3 lakhs to Mr. Frank	
	XV	*Samraat, resident in India, has earned an income of Rs.4 lakh by way of lump sum consideration for copyright of a book, being a work on literary from a publisher in Country E, with which India does not have a DTAA. The same has been taxed at a flat rate of 5% in Country E. In India, his gross total income is Rs.7 lakhs. The double taxation relief available is:* *a) Rs.20,000* *b) Rs.7,725* *c) Rs.1,950* *d) Nil*	**1**
	XVI	*Interest income earned by a non-resident during the P.Y. 2019-20 on bonds, issued by ABC Ltd., an Indian company, under a scheme notified by the Central Government, which were purchased by him in convertible foreign currency, is –* *a) Taxable @10%* *b) Taxable @15%* *c) Taxable @20%* *d) Not taxable*	**1**
	XVII	*Mr. Harry and Mr. Sujoy, resident and Indian citizens, have been appointed as senior officials of County A embassy and County B embassy, respectively, in India in October, 2019. Mr. Harry and Mr. Sujoy are subjects of Country A and County B, respectively, and are not engaged in any other business or profession in India. The remuneration received by Indian officials working in Indian embassy in County A is exempt but in County B is taxable. The tax treatment of remuneration received by Mr. Harry and Mr. Sujoy from embassies of Country A and Country B, respectively, in India for the P.Y. 2019-20 is:* *a) Exempt from income-tax under section 10* *b) Taxable under the Income-tax Act, 1961* *c) Remuneration received by Mr. Harry is exempt but remuneration received by Mr. Sujoy is taxable* *d) Remuneration received by Mr. Sujoy is exempt but remuneration received by Mr. Harry is taxable*	**1**
	XVIII	*The rate of deduction of tax from interest payable to a foreign company (located in a country with which there is no DTAA) by an Indian company on borrowing made by it from the said foreign company by way of issue of rupee denominated bonds on 31.03.2019 is:* *Nil* *5% + HEC* *5% + Surcharge (if applicable) + HEC* *20% + HEC*	**1**
	XIX	*Equalisation levy shall not be charged when:* *a) Payment is made to Resident Person* *b) The non-resident providing advertisement service has a PE in India & the advertisement service are effectively connected with such PE* *c) Both A & B* *d) None of the above*	**1**
	XX	*An Indian Company would be liable to deduct Equalisation levy when it has to make payment of:* *a) Rs.99,000 each for online advertisement to 10 Foreign Companies* *b) Rs.2,00,000 each for online advertisement to 5 Foreign Companies*	**1**

		c) Rs.50,000 each for online advertisement to 10 Foreign Companies d) All of above	
	XXI	Which of the following person would not be entitled to the benefit of India-USA DTAA: a) Mr. Patel, a tax resident of India b) RIL an Indian Company c) Z PLC, a U.K. incorporated company but a resident of USA, due to its POEM in USA. d) M/s Charlee LLP a fiscally transparent entity incorporated in USA & resident of USA, all of whose partners are tax residents of UK.	1
	XXII	Mr. Ganesh, a citizen of India, is employed in the Indian embassy in the USA. He is a non-resident for A.Y.2020-21. He received salary and allowances in the USA from the Government of India for the year ended 31.3.2020 for services rendered by him in the USA. In addition, he was allowed perquisites by the Government. Which of the following statements are correct? a) Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ganesh, since he is a non-resident. b) Salary, allowances and perquisites received outside India by Mr. Ganesh is taxable in India since they are deemed to accrue or arise in India. c) Salary received by Mr. Ganesh is taxable in India but allowances and perquisites are exempt. d) Salary received by Mr. Ganesh is exempt but allowances and perquisites are taxable.	1
	XXIII	Mr. Rajesh, a resident Indian, is an employee of M/s. ABC Ltd., Bangalore. In addition to the salary income from M/s. ABC Ltd., he also earns interest from fixed deposits. M/s. PQR Inc., a foreign company not having permanent establishment in India, rendered online advertisement services to Mr. Rajesh, for which Mr. Rajesh made a payment of Rs. 2 lakhs in the F.Y.2019-20. Which of the statements is correct? a) The transaction is subject to equalisation levy since payment exceeding Rs.1 lakh has been made for online advertisement services by a resident to a non-resident not having permanent establishment in India. b) Equalisation levy@6% has to be deducted from the consideration of Rs.2 lakhs payable to M/s. PQR Inc. c) Both (a) and (b) d) The transaction is not subject to equalisation levy	1
	XXIV	ABC Ltd. an Indian company paid dividend distribution tax under section 115-O in respect of dividend distributed by it to its resident and non-resident shareholders. Mr. John, a shareholder of ABC Ltd. and a resident of Country X, has to pay tax in Country X on dividend received by him from ABC Ltd., as per the domestic tax laws of Country X. This is an example of: a) Juridical double taxation b) economic double taxation c) territorial double taxation d) municipal double taxation	1
	XXV	Mr. Akhilesh, a non-resident Indian citizen, is an enthusiastic sports person and is keen on contributing an article on a game of Hockey in a leading newspaper in India. He approaches you to enquire on taxability of such income for A.Y. 2020-21. As per the provisions of Income-tax Act, 1961, such income shall be taxable in his hands at – a) 5% b) 10% c) 20%	1

		d) Normal Tax Slab Rates	
	XXVI	*If an Indian company has entered into an advance pricing agreement (APA) in respect of its international transaction with associated enterprise for the P.Y. 2019-20. The company decides to make an application for roll back of the said APA. However, rollback provision shall not be available in respect of the said transaction for a rollback year, if –* *(i) Such application has the effect of reducing total income declared in the return of income of the said year* *(ii) Determination of the arm's length price of the said transaction for the said year has been the subject matter of appeal before Commissioner (Appeals) and the Commissioner (Appeals) has passed an order disposing of such appeal at any time before signing of the agreement* *(iii) Determination of the arm's length price of the said transaction for the said year has been the subject matter of appeal before Appellate Tribunal and the Appellate Tribunal has passed an order disposing of such appeal at any time before signing of the agreement* *(iv) Return of income for the relevant rollback year has been furnished by the company under section 139(4).* *The most appropriate answer is –* *a) (i) and (ii) above* *b) (i) and (iii) above* *c) (i), (ii) and (iv) above* *d) (i), (iii) and (iv) above*	**1**
	XXVII	*Mr. Sam (aged 40 years), a US football match referee, has earned income from football tournaments in India for A.Y. 2020-21. What are the TDS provisions applicable while making payment to him?* *a) TDS @20.8% as per section 194E* *b) TDS @5.2% as per section 194E* *c) TDS under section 195* *d) No tax is deductible at source*	**1**

Descriptive Questions

Q.2	*Chetan(P) Ltd. located in Special Economic Zone(SEZ) since April, 2012 is engaged in manufacturing activity by importing raw materials from its holding company Bada Inc. of UK.* *The following details are furnished:* → *Chetan(P) Ltd. Imported goods for Rs. 60 crores during FY 2019-20 from Bada Inc.* → *Bada Inc. supplied similar raw materials to unrelated parties with a mark-up of 20%, whereas for Chetan(P) Ltd. It provided a mark-up of 25%* → *Chetan(P) Ltd. was allowed to use the brand name of Bada Inc. without any payment & whereas the unrelated parties cannot use such brand name in India. The annual cost of brand value is Rs. 100 lakhs.* → *Chetan(P) Ltd. was allowed credit period of 2 months, whereas for the unrelated parties, Bada Inc. allowed only 1 month as credit period. The interest cost may be taken as 12% p.a & the purchases were uniform throughout the year.* → *The Assessing Officer referred the matter to Transfer pricing Officer(TPO) for determination of Arm's Length Price(ALP).* *(i) Compute the ALP of the transaction & adjustments to be made to the income of Chetan(P)Ltd.* *(ii) What is the due date for Chetan(P)Ltd. for furnishing audit report under section 92E?* *(iii) If TPO had enhanced the income of Chetan(P) Ltd. by Rs.2 crores, will that enhanced amount of*	**8**

income be eligible for deduction under section 10AA?

(iv) Will Chetan(P)Ltd. become liable for penalty for under-reporting of income based on the report of the TPO?

Q.3 *Vishnu Polymers Ltd., is an Indian company having transactions which are subject to transfer pricing regulations. In June, 2019, the assessments for assessment years 2018-19 and 2019-20 were concluded after the due process under law:* **8**

In both the years, in respect of the transactions with its associated enterprises, the ALP had been determined in Euro. For the assessment year 2018-19, the primary adjustment, as translated into INR was Rs.90 lakhs (for transactions with N Inc., Singapore) and for the AY 2019-20, the same being Rs.2.4 crores (for transactions with PK Inc., Melbourne). The assessment order was passed on 12/06/2019. The assessee is inclined to accept the same and not prefer any appeal.

You are required to answer the following in the light of above:

(i) How will the quantum of primary adjustment be treated in the books of the assessee vis-a-vis secondary adjustment? How will the aforesaid completed assessments impact the assessee?

(ii) What steps are to be taken to prevent the secondary adjustment? Will there be any secondary adjustment in the hands of the assessee if the required steps are not taken? You are required to outline the concept involved.

(iii) Calculate the secondary adjustment for PY 2019-20 assuming that money hasn't been repatriated during the period.

(iv) Calculate the additional tax payable u/s 92CE(2A) assuming the Indian AE wants to exercise the one time settlement option as on 31/10/2020.

(Note: Students should refer below Notification No. 76/2019, Dated 30.9.2019 while solving the above question.

The CBDT has, vide this notification, amended Rule 10CB(1) which prescribes the time limit for repatriation of excess money or part thereof i.e., on or before 90 days from the specified date. The 90 days period is to be reckoned from the date specified in column (2) in the cases mentioned in column (1) of the table below. Further, the date from which interest is chargeable on the excess money or part thereof which is not repatriated in the cases mentioned in column(1) is given in column (3) in the table below:

Case	*Time limit for repatriation of excess money or part thereof: Within 90 days from*	*Date from which interest is chargeable on the non-repatriated excess money or part thereof within the specified time limit*
(1)	*(2)*	*(3)*
(i) Where primary adjustments to transfer price have been made suo-motu by the assessee in his return of income	*the due date of filing of return u/s 139(1)*	*the due date of filing of return u/s 139(1)*
(ii) If primary adjustments to transfer price as determined in the order of the Assessing Officer or the appellate authority has been accepted by the assessee	*the date of the said order*	*the date of the said order*
(iii) Where primary adjustment to transfer price is determined by an advance pricing agreement (APA) entered into by the assessee u/s 92CC in respect of a		

previous year -			
• If the APA has been entered into on or before the due date of filing of return for the relevant P.Y.	the date of filing of return u/s 139(1)	the due date of filing of return u/s 139(1)	
• If the APA has been entered into on or after the due date of filing of return for the relevant P.Y.	the end of the month in which the APA has been entered into	the end of the month in which the APA has been entered into	
(iv) Where option has been exercised by the assessee as per the safe harbour rules u/s 92CB	the due date of filing of return u/s 139(1)	the due date of filing of return u/s 139(1)	
(v) Where the primary adjustment to the transfer price is determined by a resolution arrived at under Mutual Agreement Procedure under a DTAA has been entered into u/s 90 or 90A	the date of giving effect by the A.O. under Rule 44H to such resolution	the date of giving effect by the A.O. under Rule 44H to such resolution	

Q.4 *A Co. Ltd. is an Indian company at Pune. It provides software development service to various customers and also to its associated enterprise B Co. Ltd. of Miami USA. It billed Rs.2crores for the software development services rendered to B Co. Ltd. during the year 2019-20. The total costs (direct and indirect) incurred for executing the work was Rs.175 lakhs. In the case of unrelated parties for similar services A Co. Ltd. earned a gross profit of 50% on costs.* **8**

The following distinguishing features are observed between the transaction with the related party (i.e.) B Co. Ltd. and other unrelated parties:

(i) B Co. Ltd. provided technology support to A Co. Ltd. in the software development project assigned by it. In the case of unrelated parties the value of technology support expenditure for similar project would be Rs.17,50,000.

(ii) A Co. Ltd. gave discount of 10% to B Co. Ltd. and this benefit is not given to outside customers.

(iii) A Co. Ltd. carried out marketing functions in respect of transaction with B Co. Ltd. and incurred Rs.13,12,500. This marketing function is not normally provided by A Co. Ltd. to outside parties.

(iv) A Co. Ltd. provided extended credit period and the cost of credit period is estimated at 2.5% of its cost. This extended credit period is given only because B Co. Ltd. is its associated enterprise.

State the most appropriate method to be adopted for determination of ALP and compute the arm's length gross profit mark up and how much of income has to be increased or decreased in the hands of A Co. Ltd. for the transactions carried out for B Co. Ltd.

Q.5 *For A.Y. 2020-21, the AO made reference to Transfer Pricing Officer u/s 92CA on June 3, 2021. The assessment proceedings are stayed by the Bombay High Court on December 20, 2022. The stay is however, vacated by the Supreme Court on January 29, 2023. Find out the due date of passing the order by TPO & Regular Assessment order by AO.* **3**

Q.6 *VSl Ltd an Indian Company is a captive software development service provider of FSL Ltd, (a company resident of Singapore) which is the holding company of VSL Ltd. The VSL Ltd. has earned an operating margin of 4.16% on operating cost from the international transactions entered during financial year 2019-20 as under:* **8**

(Rs. in crores)

Operating revenue (OR)	250
Operating Cost (OC)	240
Operating Profit	10
Operating profit on Operating Cost (OP/OC)	4.16%

Compute the ALP & the primary adjustment to be made based on the following data:

SI No.	Name of comparable	F.Y. 2017-18	F.Y. 2018-19	F.Y. 2019-20
1	A	OC=100 OP=12	OC=150 OP=10	OC=225 OP=35

2	B	OC=80 OP=10	OC=125 OP=5	OC=100 OP=10
3	C	OC=180 OP=(-9)	OC=220 OP=22	OC=150 OP=20

The most appropriate method to determine the ALP in the given case in TNMM.

Q.7 (8)

Bharat Cellphones Ltd.(BCL) of Mumbai & Japan Mobiles Ltd.(JML) of Tokyo are associated enterprises. BCL imported 10,000 mobile handsets from JML for Rs.15,000 per handset which are sold to unrelated parties in India for Rs.20,000 per handset. BCL also imported similar mobile sets from Europe Ltd.(EL) of London which was sold with a gross profit margin of 25% on cost. JML offered quantity discount @ Rs.2,000 per unit & whereas EL offered discount @ Rs.800 per unit as quantity discount. The freight & customs duty paid for imports from EL had cost BCL Rs.1,500 per unit. In respect of Purchases from EL, the expenditure towards freight & customs duty was Rs.500 per unit.

State the most appropriate method applicable in this case & determine the arm's length price & amount of increase in total income of BCL.

Q.8 (4)

Narmada Ltd., an Indian Company has borrowed Rs.80 crores on 01-04-2019 from M/s. Thames Inc, a Company incorporated in London, at an interest rate of 10% p.a. The said loan is repayable over a period of 5 years. Further, loan is guaranteed by M/s Tyne Inc. incorporated in UK. M/s. Tweed Inc, a non-resident, holds shares carrying 40% of voting power both in M/s Narmada Ltd. and M/s Tyne Inc.

Net profit of M/s. Narmada Ltd. for P.Y. 2019-20 was Rs.7 crores after debiting the above interest, depreciation of Rs.4 crores and income-tax of Rs.3 crores. Calculate the amount of interest to be disallowed under the head "Profits and gains of business or profession" in the computation of M/s Narmada Ltd., giving appropriate reasons.

Q.9 (2)

What is meant by Thin Capitalisation? Why is it considered as an anti avoidance measure? Which action plan of BEPS addresses Thin Capitalisation? Explain the provision incorporated in the Income-tax Act, 1961 to address Thin Capitalisation.

Q.10 (12)

RIL is an Indian Company engages in multifaceted business activities. Barabara Inc. a US Investment giant wants to get 20% stake in the Indian Company.

Considering a favourable treaty position between India & Mauritius, the US giant floated a company in Mauritius by acquiring its shares on 01/01/2018for Rs. 10 crores. The Mauritius company in turn acquired shares of RIL on 01/03/2019.

The accounting period of the Mauritius company ends on 31st December. As on 31st December, 2019, its book value of total assets was Rs. 25 crores.

On 31/03/2020, Barbara Inc. transferred the shares of the Mauritius Co. to another Investor in US (unrelated) at a price of Rs. 50 crores. The book value (after reduction of liabilities), FMV (after reduction of liabilities) as on 31/03/2020 is a below:

Particulars	Book Value (INR Crores)	FMV (INR Crores)	Liabilities (INR Crores)
Mauritius Co.	30	50	0
RIL	110	180	20

You are required to:

(i) Explain whether the capital gains on transfer of shares of Mauritius Co. shall be taxable in India?

(ii) Calculate the amount of tax on Capital Gains on such transfer.

Q.11 (10)

Mr. Ajay, a resident individual in India (age 42) furnishes you the following particulars of income for the previous year 2019-20:

Particulars	Rs.
(i) Income from business in India (computed)	11,00,000
(ii) Dividend received from Company incorporated in Country X (gross)	2,00,000
(iii) Royalty income from writing text book for schools in Country Y (gross)	6,00,000
(iv) Expenditure incurred for authoring text book	50,000

(v) Business loss in Country Y (gross)	2,50,000
(vi) Health insurance premium paid by credit card for his father (age 67) a resident in India (His father is not dependent on Mr. Ajay)	31,000

The business loss in Country Y is eligible for set off against other income as per the Income-tax law of that country.

Note : There is no DTAA between India and Country "X" and Country "Y" given above. The rate of tax in Country "X" and Country "Y" may be taken as 10% and 25% respectively (without any threshold exemption limit).
Compute the total income and tax payable by Mr. Ajay in India for the Assessment Year 2020-21.

Q . 12 (6)

(i) Under the provisions of the Income-tax Act, 1961 read with the Income-tax Rules, 1962, what is the meaning of Foreign Tax Credit (FTC) ?
(ii) To whom is FTC allowed and in which year ?
(iii) An assessee has to pay income-tax of Rs. 92 lakhs, surcharge of Rs.9.2lakhs, Education Cess& SAH CessRs.3,03,600 and interest under section 234B of Rs.9,78,700. Against which of these item/amounts is FTC available ?

Q . 13 *Answer the Following:*

a)	What are the differences between the OECD Model Convention and UN Model Convention in relation to; (i) the article on Permanent Establishment? (ii) the right of Source State to tax business profits of an enterprise?	2
b)	Explain the meaning of "fees for technical services" and "professional services" under the relevant articles of the UN Model Convention, 2017. Does the Contracting State in which such income arises have the right to tax such income, and if so, what are the conditions/limitations for such taxability? Discuss.	2
c)	Which action plan of BEPS requires introduction of Limitation of Benefits clause in a tax treaty? Has India introduced Limitation of Benefits clause in its tax treaties in line with the BEPS Action Plan? Discuss.	2
d)	Explain the meaning of ""significant economic presence". Does "significant economic presence" constitute "business connection" for attracting deemed accrual provisions under section 9(1)? Examine, in line with which action plan of BEPS, has this provision been introduced in the Income-tax Act, 1961.	2
e)	Mr. Ganesh is a resident of the Contracting States, namely, Country "M" and Country "N", as per the domestic tax laws of the respective countries. Explain the manner of determining the single status of residence of Mr. Ganesh as per the UN Model Convention.	2
f)	Explain the following terms in the context of interpretation of tax treaties: (i) Principle of Contemporanea Expositio (ii) Teleological Interpretation	2
g)	Explain how the income derived by a resident of a Contracting State in respect of professional services is taxable as per the UN Model Convention. In this context, discuss the scope of professional services.	2
h)	Explain, with examples, the role of Protocol and Preamble in interpretation of tax treaty.	2
i)	What is the meaning of, and difference between, a hybrid mismatch and branch mismatch? Briefly mention the reasons why hybrid mismatch arrangements arise. Which Action Plan of BEPS gives recommendations in this regard?	2

Q . 14 (10)

Joseph Clarke an US Resident, worked in India on a construction project which constituted a PE of the US employer in India. For the India work where he was present for 160 days, he earned a taxable salary

	of Rs.24,00,000. The US company paid to UAE based real estate portal Rs.5 lakhs for online advertisement of its Real estate project in India. The UAE Company does not have PE in India. *(i) Based on the following provision of India-USA treaty, examine the taxability of salary earned by him under all options, if more than one? Also examine, if TDS has to be withheld on such salary payment?* *(ii) Whether the US company will be required to deduct equalisation levy in respect of the payment made to the UAE based online portal?* *Article 16* *<u>Dependent Personal Services</u>* *1. Salaries wages and other similar remuneration derived by an individual who is a resident of one of the contracting state in respect of an employment shall be taxable only in that state unless the employment is exercised in the other contracting state. If the employment is so exercised such remuneration as is derived from that exercise may be taxed in that other state.* *2. Notwithstanding the provisions of paragraph (1), remuneration derived by an individual who is resident of one of the contracting states in respect of an employment exercised in the other contracting state shall be taxable only in the first mentioned state if :* *a) The recipient is present in that other state for a period or periods not exceeding in the aggregate 183 days in a year of income of that other state;* *b) The remuneration is paid by, on or behalf of, an employer who is not a resident of that other state; and* *c) The remuneration is not borne by a PE or a fixed base which the employer has in the other state.*	
Q . 15	*Red Ltd., a non-resident foreign company, had entered into a collaboration agreement, approved by the Central Government, with Blue Ltd., an Indian company on February 21, 2003 and is in receipt of following payments during the previous year ending on March 31, 2020:* *(i) Interest on 8% debentures for Rs. 40 lakhs issued by Blue Ltd. on July 1, 2019 in consideration of providing of technical know-how, manufacturing process and designs (date of payment of interest being March 31 every year).* *(ii) Service charges @2.5% of the value of plant and machinery for Rs. 500 Lakhs leased out to Blue Ltd. payable each year before March 31.* *(iii) Apart from the above incomes, Red Ltd. received a long term capital gain amounting to Rs. 1.90 Lakhs on sale of debentures of Green Ltd., an Indian company, subscribed in US$.* *(iv) $ 1,000 received from Blue Ltd. as ex-gratia on 12/02/2020. The said amount was directly credited to its account in USA.* *- The TT buying rate as on 12/02/2020 is 1$ = ₹ 55* *- The TT buying rate as on 31/01/2020 is 1$ = ₹ 45* *- The TT buying rate as on 31/03/2020 is 1$ = ₹ 51* *Compute the Total Income of Red Ltd. and determine its tax liability for the assessment year 2020-21.*	**12**
Q . 16	*In each of the following independent cases, whether the payer shall be obligated to deduct TDS? If yes, then at what value the TDS rate shall be applied?* *(i) Mr. Ziang Zemin is a Chinese resident who was put up in India by his Chinese employer for a project in India. The Chinese company is not engaged in any business in India. Mr. Zemin stayed in India for 88 days during the F.Y. 2019 – 20. He earned ₹ 12 lakhs for this assignment in India. The Chinese company has not claimed any deduction of such remuneration in computing its income under the Income Tax Act of India.* *(ii) Asia Satellite Company based in Singapore was the owner of Satellite which was placed in geostationary orbit. It entered into a transponder leasing agreement with Star TV Hong Kong who desired to utilize the transponder capacity available on its satellite to relay their signals in South East Asia. For its Indian operations, Star TV Hong Kong paid ₹ 50 lakhs to Asia Satellite Company for F.Y. 2019 – 20. Asia Satellite does not have any physical presence or place of*	**3**

	business in India. Asia Satellite continued ₹ 25 lakhs to PM National Relief Fund on 24/03/2020. (iii) Aakash Builders has appointed Woha Architect LLP Singapore to provide architect service for their construction projects in India. It has provided both on-shore and off-shore Architect Service for which it raised its invoices of ₹ 30 lakhs and ₹ 20 lakhs respectively. The firm does not have any physical presence in India. As per the agreement, TDS on such payment, if any, shall be borne by Aakash Builders.	3 3
Q . 17	Whether in the following independent cases, is the income chargeable to tax in India? (i) Mitsubishi Japan is engaged in the business of supplying of car battery. It appoints Mr. Alok as an agent in India for its South East Asia operations. Mr. Alok negotiates the contract with the customers and Mitsubishi Japan is bound by price and other conditions negotiated by Mr. Alok. However, after finalizing terms and conditions of contract with customers, Mr. Alok sends such contract for formal approval and signature by Mitsubishi Japan. The goods are supplied by Mitsubishi Japan to the customers on receipt of the payment directly to its account in Japan. The profit for P.Y. 19 – 20 for its South East operation was ₹ 80 crores. (ii) Jupiter Ply. Ltd. London (JPL), a non-resident company, has set up a liaison office at Kolkata, with the permission of the RBI. Indian customers, who are briefed of the products of JPL by the liaison office, Interact directly with JPL for placing and processing of their orders.	3 2
Q . 18	(i) Xylo Inc., a US company, received income by way of fees for technical services of Rs.2 crore from Alpha Ltd., an Indian company, in pursuance of an agreement between Alpha Ltd. and Xylo Inc. entered into in the year 2012, which is approved by the Central Government. Expenses incurred for earning such income is Rs.8 lakhs. Examine the taxability of the above sum in the hands of Xylo Inc as per the provisions of the Income-tax Act, 1961 and the requirement, if any, to file return of income, assuming that Xylo Inc does not have a permanent establishment in India. (ii) If Xylo Inc. has a permanent establishment in India and the contract/agreement with Alpha Ltd. for rendering technical services is effectively connected with such PE in India, examine the taxability based on the following details provided:	10

	Particulars	Amount
(1)	Fees for technical services received from Alpha Ltd.	Rs. 2 crore
(2)	Expenses incurred for earning such income	Rs. 8 lakhs
(3)	Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2005 to 2010	Rs. 4 crore
(4)	Expenses incurred for earning such income	Rs. 15 lakhs
(5)	Expenditure not wholly and exclusively incurred for the	Rs. 6 lakhs
	business of such PE [not included in (2) & (4) above]	
(6)	Amounts paid by the PE to Head Office (not being in the nature of reimbursement of actual expenses)	Rs. 12 lakhs

What are the other requirements, if any, under the Income-tax Act, 1961 in this case?

Q . 19 *Mr. Kalpesh, aged 56 years, a resident individual furnishes the following particulars of income earned by him in India and country "T" for the previous year 2019-20. India has not entered into double taxation avoidance agreement with country "T".* **10**

Particulars	Amount (Rs.)
Income from profession carried on in India	6,00,000
Agricultural Income in Country "T"	75,000
Dividend from a company incorporated in Country "T"	1,20,000
Royalty income from a literary book from Country "T"	4,00,000
Expenses incurred for earning royalty	60,000
Business loss in Country "T"	75,000

As per income-tax law of Country "T" Business loss is not eligible for set off against any other incomes. The rate of income-tax in country "T" is 20%.
Compute total income and tax payable by Mr. Kalpesh in India for A.Y. 2020-21 assuming that he satisfies all conditions for the purpose of section 91.

Q . 20

a) *An Indian company, X Ltd., is a closely held company and it is a subsidiary of company Y Ltd. incorporated in country C1. X Ltd. was regularly distributing dividends but stopped distributing dividends from 1.4.2003, the date when dividend distribution tax was introduced in India. X Ltd. allowed its reserves to grow by not paying out dividends. As a result, no DDT was paid by the company. Subsequently, buyback of shares was offered by X Ltd. to its shareholder company Y Ltd.*
Y Ltd. paid taxes on the capital gains arising on buyback of shares at the applicable rate. Can GAAR be invoked on the ground that there is a deferral of tax liability by X Ltd., the Indian company? **2**

b) *In the above case (a), let us presume, there is a DTAA between India and Country C1 which provides that capital gains arising in India to a resident of country C1 shall not be taxed in India provided that the resident incurs $200,000 annually as operating expenditure. The shareholder Y Ltd. incurs an operating expenditure above that limit and is entitled to the treaty benefit. Y Ltd. therefore does not pay any tax on capital gains.*
Can GAAR be invoked on the ground that accumulation of profits by company X Ltd. and subsequent buyback is an arrangement mainly to obtain tax benefit? **2**

c) *Company X borrowed money from Company Y and used it to buy shares in three 100% subsidiary companies of X. Though the fair market value per share was Rs. 100, X paid Rs. 600. The amount received by the said subsidiary companies was transferred back to another company connected to Y. The said shares were sold by X for Rs. 100/ each and a short-term capital loss was claimed. This was set off against short-term capital gains from other sources. All the companies are Indian companies. Can GAAR be invoked?* **2**

d) *M/s Global Architects Inc is a company incorporated in country F1. It is engaged in the business of providing architectural design services all over the world. It receives an offer from Lovely Resorts Pvt Ltd, an Indian company, for design and development of resorts all over India.*
India-F1 tax treaty provides that architectural services are technical services and payment for the same to a company may be taxed in India. However, if such professional services are provided by a firm or individual, then payment for such services are taxable only if the firm has a fixed base in India or stay of partners/ employees in India exceed 180 days.
M/s Global Architects Inc forms a partnership firm with a third party (director of the company) having only a nominal share in the F1. The firm enters into an agreement to carry out the services in India. The company seconded its trained manpower to the firm.
Thus, the partnership firm claimed the treaty benefit and no tax was paid in India. Can such an arrangement be examined under GAAR? **2**

Mock Test – 2

(Taxation of Individuals, Income from Salary, House Property, Clubbing of Income, Chapter VIA Deductions)

Multiple Choice Questions

			M
Q.1	I	*Mr. Hari, a salaried individual, pays rent of Rs.55,000 per month to Mr. Raghav from June, 2019. Which of the following statement is correct?* *a) No tax is required to be deducted for F.Y.2019-20 since Mr. Hari is not subject to tax audit u/s 44AB* *b) Mr. Hari has to deduct tax@5% from rent paid every month* *c) Mr. Hari has to deduct tax@5% on the entire rent paid for F.Y.2019-20 from the rent payable for March, 2020* *d) Mr. Hari has to deduct tax of Rs.55,000 from rent payable for March, 2020*	1
	II	*Rental income earned from the business of letting out of properties is –* *a) always taxable as income from house property* *b) always taxable as business income* *c) taxable as business income or income from house property, at the option of the assessee. However, the practice should be followed consistently.* *d) taxable as business income only if the entire or substantial income of the assessee was from letting out of property. Otherwise, the same would be taxable as income from house property.*	1
	III	*Mr. Aryan is constructing a residential house property in Mumbai for self-occupation. He has taken a loan of Rs.35 lakhs on 30.3.2019 for this purpose. He pays interest of Rs.3 lakhs during the P.Y.2019-20. He repays Rs.3 lakhs towards principal on 31.3.2020. The construction is completed in April, 2020. This is the only house property of Mr. Aryan. For A.Y.2020-21:* *a) Mr. Aryan is entitled for deduction of Rs.2 lakhs under section 24 and Rs.1.50 lakhs under section 80C* *b) Mr. Aryan is entitled for deduction of Rs.2 lakhs under section 24, Rs.1,00,000 under section 80EEA and Rs.1.50 lakhs under section 80C.* *c) Mr. Aryan is neither entitled for deduction under section 24 nor under section 80C. He is, however, entitled for deduction of Rs.1,50,000 under section 80EEA.* *d) Mr. Aryan is not entitled for deduction under section 24, section 80C and section 80EEA*	1
	IV	*Abhinav, an individual, a Non-resident, aged 52 years, bought 3,000 equity shares of Rs.10 each of Theta Ltd. at Rs.70 per share on 1.6.2019. He sold 1,800 equity shares at Rs.50 per share on 3.11.2019 and the remaining 1,200 shares at Rs.60 per share on 23.3.2020. Theta Ltd. declared a dividend of 40%, the record date being 14.8.2019. On 15.3.2020, Abhinav sold a house from which he derived a long-term capital gain of Rs.1,25,000. Assuming Abhinav's interest income from bank fixed deposit is Rs.3,00,000, his tax liability (rounded off) for A.Y.2020-21 would be-* *a) Rs.18,620* *b) Rs.19,920* *c) Rs.20,110* *d) Rs.18,440*	1
	V	*Nikhil, an individual whose age is 35 years incurs the following expenses for the benefit of his family (i.e., Nikhil, Mrs. Nikhil and dependent children) and parents [father (80 years), mother (76 years)] during the previous year 2019-20:*	1

	Medi-claim insurance premium (by cheque)	Preventive health check-up expenditure (in cash)	Medical expenditure (by cheque)
For the benefit of Nikhil, Mrs. Nikhil and children	*Rs.20,000*	*Rs.7,000*	*Rs.2,000*

For the benefit of father	Nil	Nil	Rs.32,000
For the benefit of mother	6,000	Nil	Nil

Compute the amount of deduction allowable to Nikhil for assessment year 2020-21.

a) Rs.63,000
b) Rs.55,000
c) Rs.67,000
d) Rs.65,000

VI *Mr. Gagan, aged 67 years and resident, is a retired person earning a monthly pension of Rs. 12,000 from his employer. He purchased a piece of land in Delhi in December, 2010 and sold the same in April, 2019. Taxable LTCG amounted to Rs. 2,80,000. Apart from pension income and gain on sale of land, he is not having any other income. What will be his tax liability (rounded off) for the year 2019-20?* **1**

a) Rs. 25,790
b) Rs. 6,450
c) Rs. 4,370
d) Rs.15,392

VII *X Ltd. is engaged in the business of letting out of properties. As per the memorandum of association of X Ltd., letting out of properties is its main objective. The total income of X Ltd. comprises only of rental income from the business of letting out of properties. Y Ltd. is engaged in the construction and sale of properties, which is also its main objective as per its memorandum of association. Incidentally, it lets out some properties which are held as stock-in-trade and earns rental income there from. Which of the following statements are correct?* **1**

a) Rental income from letting out of properties by X Ltd. and Y Ltd. is taxable under the head "Income from house property"
b) Rental income from letting out of properties by X Ltd. and Y Ltd. is taxable under the head "Profits and gains of business or profession"
c) Rental income from letting out of properties by X Ltd. is taxable under the head "Income from house property" and by Y Ltd is taxable under the head "Profits and gains of business or profession"
d) Rental income from letting out of properties by Y Ltd. is taxable under the head "Income from house property" and X Ltd is taxable under the head "Profits and gains of business or profession".

VIII *Ajay stays in New Delhi. His basic salary is Rs.10,000 p.m., D.A. (60% of which forms part of pay) is Rs.6,000 p.m., HRA is Rs.5,000 p.m. and he is entitled to a commission of 1% on the turnover achieved by him. Ajay pays a rent of Rs.5,500 p.m. The turnover achieved by him during the current year is Rs.12 lakhs. The amount of HRA exempt under section 10(13A) is -* **1**

a) Rs.48,480
b) Rs.45,600
c) Rs.49,680
d) Rs. 46,800

IX *Mr. Karan received basic salary of Rs.20,000 p.m. from his employer. He also received children education allowance of Rs.3,000 for three children and transport allowance of Rs.1,800 p.m. The amount of salary chargeable to tax for P.Y. 2019-20 is –* **1**

a) Rs.2,62,600
b) Rs.2,12,600
c) Rs.2,22,200

d) Rs.2,12,200

X Surya received Rs.90,000 in May, 2019 towards recovery of unrealised rent, which was deducted from actual rent during the P.Y. 2017-18 for determining annual value. Legal expense incurred in relation to unrealized rent is Rs.20,000. The amount taxable under section 25A for A.Y. 2020-21 would be ;– **1**

a) Rs. 70,000
b) Rs.63,000
c) Rs.60,000
d) Rs.49,000

XI A and H are co-owners of a self-occupied property. They own 50% share each. The interest paid by each co-owner during the previous year on loan (taken for acquisition of property during the year 2004) is Rs. 2,05,000. The amount of allowable deduction in respect of each co-owner is - **1**

a) Rs.2,05,000
b) Rs.1,02,500
c) Rs.2,00,000
d) Rs.1,00,000

XII Mr. Sumit owns a residential house in Delhi. The house is having two identical units. First unit of the house is self-occupied by Mr. Sumit and another unit is rented for Rs. 12,000 p.m. The rented unit was vacant for three months during the year. The particulars of the house for the previous year 2019-20 are as under: **1**

Standard Rent	Rs.2,20,000 p.a
Municipal valuation	Rs.2,44,000 p.a.
Fair rent	Rs.2,35,000 p.a.
Municipal tax paid by Mr. Sumit	12%of the municipal valuation
Light and water charges	Rs.800 p.m.
Interest on borrowed capital	Rs.2,000 p.m
Insurance charges	Rs.3,500 p.a.
Painting expenses	Rs.16,000 p.a.

Compute income from house property of Mr. Sumit for the A.Y. 2020-21.

a) Rs.87,973
b) Rs. 35,989
c) Rs.41,352
d) Rs. 35,341

XIII Mr Keval owns a residential house, let out for a monthly rent of Rs.15,000. The fair rental value of the property for the let out period is Rs. 1,50,000. The house was self-occupied by him from 1st January, 2020 to 31st March, 2020. He has taken a loan from bank of Rs.20 lacs for the construction of the property, and has repaid Rs.1,05,000 (including interest Rs.40,000) during the year. **1**
Compute Keval income from house property for the Assessment Year 2020-21.

a) Rs.1,20,000
b) Rs.1,00,000
c) Rs.97,890
d) Rs.1,01,000

XIV Exemption of a certain amount (not exceeding the income clubbed) is available under section 10(32), where a minor's income is clubbed with the income of the parent. The maximum exemption available is - **1**

a) upto Rs.1,500 in respect of each minor child
b) upto Rs.1,500 in respect of each minor child maximum of two children
c) upto Rs.2,000 in respect of each minor child
d) upto Rs.2000 in respect of each minor child maximum of two children

XV Mr. A gifts a sum of Rs.1,00,000 to his brother's wife Mrs. B. Mr. B gifts a sum of Rs.1,00,000 to Mrs. A. From the sum gifted to her, Mrs. B invests in a fixed deposit, income therefrom is Rs.10,000. Aforesaid Rs.10,000 will be included in the total income of ……..: **1**

a) Mr. A
b) Mrs. A
c) Mrs. B
d) Mr. B

XVI Anirudh stays in New Delhi. His basic salary is Rs.10,000 p.m., D.A.(60% of which forms part of pay) is Rs.6,000 p.m., HRA is Rs.5,000 p.m.& he is entitled to a commission of 1% on the turnover achieved by him. Anirudh pays a rent of Rs.5,500 p.m. The turnover achieved by him during the current year is Rs.12 lakhs. The amount of HRA exempt u/s 10(13A) is- **1**

a) Rs.48,480
b) Rs.45,600
c) Rs.49,600
d) Rs.46,800

Descriptive Questions

Q.2 In 2015 Rocky borrowed Rs.15 lakhs at 15% interest per annum from Ashok for his business purpose. This loan has not been repaid so far by Rocky. His average bank balance in current account was around Rs.7 lakhs on which the bank was not paying him any interest. On 1st June, 2019 Rocky's wife, Taniya borrowed from him Rs.7.50 lakhs repayable on demand at 7.5% interest per annum. She lent this money and received interest @ 18% p.a. In course of assessment of Rocky, the Assessing Officer disallowed 50% of this interest paid to Ashok on the ground that the loan to the extent of 50% has been diverted for non-business purpose i.e. for lending to wife. **6**

Further, interest earned by Taniya by advancing Rs.7.50 lakhs was included in the hands of Rocky by invoking section 64(1)(iv).

Examine the correctness of the actions of the Assessing Officer.

Q.3 Mr. Manish is entitled to salary of Rs.50,000 per month. He is given an option by his employer either to choose house rent allowance or rent free accommodation owned by the company. The HRA would be Rs.7,500 per month though he has to pay actual monthly rent of Rs.10,000. He is employed in the city of Jaipur. **4**

Compute the most beneficial option which the assessee should exercise, based on net take-home cash benefits.

Q.4 Compute the total income from the following data relating to Mr. Abhimanyu, aged 59, a resident Indian, for the assessment year 2020-21: **8**

Particulars	Rs.
Income from let out property (Loss)	2,30,000
Salary received from ABC Ltd. (Net Salary)	3,92,000
Income from capital gains:	
Short-term from sale of house plot Loss	3,10,000
Long-term from sale of listed shares in NSE	2,90,000
Income from fertiliser business carried on by minor son	3,20,000
Loss from gambling	35,000
Winnings from a TV Games show (Net of TDS Rs.2,40,000)	5,60,000
Expenses incurred for attending this TV show	60,000

Life insurance premium paid for minor son	1,20,000
Additional Information:	
Brought forward business loss for the assessment year 2018-19, carries on by the assessee in his name (Business was stopped on 31-03-2018)	1,40,000

Q.5 *The following incomes have been earned by Kedia (HUF) and members of the said HUF:* **5**

(i) The HUF is represented in a partnership firm by Sumit, the karta. Interest on capital received at 15% is Rs.3 lacs. Sumit has also been paid a remuneration of Rs.4 lacs, which is specified in the partnership deed. This amount is within the limits specified in section 40(b).

(ii) On 01.01.2020, Sumit has blended his individual house property into the hotch pot of the HUF. Gross rental form this house property is Rs.3 lacs.

(iii) Sumit has gifted cash of Rs 2 lacs to the HUF.

(iv) Sumit 's minor son M has received stipend of Rs. 60,000 from a Cost Accountant under whom he is undergoing partical training.

(v) From the income earned by HUF, salary of Rs.1.2 lacs was paid to Sumit, for looking after the family affairs.

How will the above items be treated in the hands of the HUF and individual assessment of Sumit? Head of income is to be specified.
Computation of total income is NOT required.

Q.6 *Mr. Prashant is employed in a private limited company and has earned salary of Rs. 14 lakhs for the year ended 31.03.2020. He has paid profession tax of Rs.14,000, life insurance premium of Rs.1,70,000 (capital sum assured is Rs.16 lacs on policy taken on 01.02.2016), donation of Rs. 86,000 to a project eligible for deduction under section 35AC and donation of Rs.1,00,000 by cheque to a charitable trust recognised for section 80G. Compute his total income for the assessment year 2020-21.* **5**

Q.7 *The following particulars relating to Mr. Gopal relating to the assessment year 2020-21 are furnished to you:* **8**

		(Rs.)
Gross total income		9,10,000
Above includes the following:		
Short-term capital gains from sale of listed securities	40,000	
Long-term capital gains from sale of house plot	1,10,000	
Winnings from lotteries (Gross)	60,000	
Loss from let outhouse property	45,000	
Other information:		
Contribution towards Sukanya Samriddhi Scheme in the name of minor daughter		95,000
Stamp paper and registration expenses relating to residential house		45,000
Contribution to National Pension Scheme of the Central Government		1,10,000
Donation to Prime Minister's Relief Fund		35,000
Donation given to Navrang Charitable Trust registered u/s 12AA and recognised for section 80G purposes		60,000

Compute the deduction available to him under Chapter VIA of the Income-tax Act, 1961.

Q.8 *Ms. Unnati is partner in a firm with 30% share. Her capital contribution representing her own funds in the firm on 01.04.2018 was Rs. 5 lakhs. She received a gift of Rs. 10 lakhs from her husband on 01.07.2018 and invested Rs. 7 lakhs as her capital contribution in the firm. She withdrew the entire interest on capital and working partner salary and share of profit for the year ended 31.03.2019. Her capital on 01.04.2019 was Rs. 12 lakhs in the firm. She received a gift of Rs. 4 lakhs from her father-in-law on 01.05.2019 and invested the same into the firm.* **7**

For the year ended 31.03.2020, her income from the firm are as under: Interest on capital at 12% on Rs. 16 lakhs for 11 months Rs. 1,76,000.
Interest on capital at 12% on Rs. 12 lakhs for 1 month = Rs. 12,000.
Share of profit from the firm Rs. 90,000.

State how Ms. Unnati's income from the firm would be taxed for the Assessment Year.

Q. 9 (3)

Govind Syndicates Pvt Ltd., owns several house properties, let out on commercial basis to various kinds of people like business houses, corporate entities, etc. One of the objectives of the company is to own & derived was offered by the company as its business income. Various deductions for earning such income was claimed, as also depreciation on the buildings owned by the company.

The Assessing Officer treated the rental income as income from house property & granted deduction only u/s 24.

Discuss whether the treatment of the impugned income made by the company is correct.

Q. 10 (8)

Mr. Abhi, a Director of ABC Pvt Ltd. Pune is offered an employment with the following two alternative packages:

Particulars	I	II
Basic Pay per annum	1,98,000	1,98,000
Conveyance allowance for private use	9,000	--
Motor car facility for private use of Abhi & his family members(Valued)	--	9,000
Entertainment Allowance	18,000	--
Club Facility(Valued)	--	18,000
Children Education Allowance(for 2 childrens)	9,700	--
Free Education Facility in Institution run by employer for children(Valued)	--	9,700
Rent free unfurnished house with fair rental value	30,000	30,000

Which of the 2 packages should Abhi opt for the assumption that both employer & employee will contribute 20% of the basic pay towards an unrecognised provident fund. Assume the population of Pune is more than 25 lakhs as per 2011 census.

Q. 11 (8)

For following particulars furnished by Mr.X for the year ended 31.03.2020, you are requested to compute his Gross Salary for the assessment year 2020-21.

a. *Mr.X retired on 31.12.2019 at the age of 58, after putting in 25 years & 9 months of service, from a private company at Mumbai.*
b. *He was paid a salary of Rs.25,000 p.m. & house rent allowance of Rs.6,000 p.m. He paid rent of Rs.6,500 p.m. during his tenure of service.*
c. *On retirement, he was paid a gratuity of Rs.3,50,000. He was not covered by the payment of Gratuity Act. His average salary in this regard may be taken as Rs.24,500. Mr.X has not received any other gratuity at any point of time earlier, other than this gratuity.*
d. *He has accumulated leave of 15 days per annum during the period of his service, this was encashed by Mr.X at the time of his retirement. A sum of Rs.3,15,000 was received by him in this regard. His average salary may be taken as Rs.24,500.*

Q. 12 (12)

From the following details, compute the total income of Siddhant of Delhi for A.Y. 2020-21:

Particulars	₹
Salary including dearness allowance	3,35,000
Bonus	11,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2012, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000 @ 15% interest, his own saving of ₹ 65,000 and deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

a) *Municipal taxes paid by Mr. Siddhant - ₹ 4,300 (per annum)*

b) *House Insurance - ₹860*
c) *He earned ₹ 2,700 in share speculation business and loss ₹ 4,200 in cotton speculation business.*
d) *In the year 2013-14, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.*
e) *Siddhant received a gift of ₹ 25,000 each from four friends.*
f) *He contributed ₹ 50,000 to public provident fund.*

Q. 13 *Mr. Venus Provides the following details for the previous year 31.03.2020* **8**

(i)	Salary from HNL Ltd	Rs. 50,000 P.M.
(ii)	Interest on FD with SBI for the financial year 2019-20	Rs. 96,000
(iii)	Brought forward long term capital loss of A.Y. 2017-18	Rs. 75,000
(iv)	Long Term Capital gain	Rs.75,000
(v)	Loss of minor son Rs. 90,000 computed in accordance with the provisions of Income Tax Act 1961. Mr Venus transferred his own house to his minor son without adequate consideration few year backs and minor son let it out and suffered loss.	
(vi)	Loss of his wife's business (she Carried business with funds which Mr. Venus gifted to her)	(2,00,000)

You are required to compute taxable income of Mr. Venus for the AY 2020-21.

Mock Test – 3

(Capital Gain including NRI, 115AD,115AB & Surrogate Taxes)

Multiple Choice Questions			M
Q.1	I	*In October, 2014, Mr. Raghav, an Indian citizen who is a non-resident, bought 500 Global Depository Receipts (GDRs) of Alpha Limited, India, issued in accordance with the notified scheme of the Central Government against the company's initial issue of shares in foreign currency. In January, 2020, he sold 300 GDRs outside India to Mr. Joe, a citizen and resident of a country outside India and 200 GDRs to Mr. Kamal, a Resident but not ordinarily resident in India. What are the tax consequences of such sale transaction under the Income-tax Act, 1961?* *a) Capital gains arising on sale of 500 GDRs shall be subject to tax @20% with indexation benefit in India* *b) No capital gains would arise on sale of 500 GDRs in India, since the GDRs are purchased in foreign currency* *c) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed in India @10% without indexation benefit* *d) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed @20% with indexation benefit in India*	1
	II	*Mr. Anjan, a property dealer, sold a flat in Mumbai, the stamp duty of which is Rs.2 crores for Rs.1.80 crores to his friend Mr. Ashwin, a college lecturer. Mr. Anjan had purchased the flat one year back for Rs.1.50 crores and the stamp duty value on that date was also Rs.1.50 crores. What are the tax implications of such sale?* *a) Rs.50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin* *b) Rs.50 lakhs would be taxable as business income in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin* *c) Rs.50 lakhs would be taxable as business income in the hands of Mr. Anjan and Rs.20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin.* *d) Rs.50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan and Rs.20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin*	1
	III	*Dividend received by a real estate investment trust (REIT) from special purpose vehicle (SPV) and distributed to its unit holders is –* *a) exempt in the hands of both the REIT and the unit holders unconditionally* *b) exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt in the hands of unit holders only if taxable in the hands of REIT* *c) exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt in the hands of unit holders only if exempt in the hands of REIT* *d) exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt unconditionally in the hands of unit holders*	1
	IV	*PQR Ltd., a domestic company, has distributed on 15/10/2019, dividend of Rs.230 lakh to its shareholders. On 17/9/2019, PQR Ltd. has received dividend of Rs.60 lakh from its domestic subsidiary company XYZ Ltd., on which XYZ Ltd. has paid dividend distribution tax under section 115-O. The additional income-tax payable by PQR Ltd. under section 115-O is-* *a) Rs.29.70 lakhs* *b) Rs.34.944 lakhs* *c) Rs.34.608 lakhs* *d) Rs.29.42 lakhs*	1
	V	*Lima Ltd., a domestic company, purchases its own listed shares on 13th August, 2019. The consideration for buyback amounted to Rs.23 lakh, which was paid on the same day. The amount received by the*	1

		company two years back for issue of such shares determined in the manner specified in Rule 40BB was Rs.17 lakh. The additional income-tax payable by Lima Ltd. is – a) Rs.1,03,824 b) Rs.1,04,832 c) Rs.1,39,776 d) Rs.1,38,432	
	VI	A REIT derives rental income of Rs.2 crore from real estate property directly owned by it and short term capital gains of Rs.1 crore on sale of developmental properties. It also receives interest income of Rs.3 crore from Gamma Ltd., an Indian company, in which it holds controlling interest. The REIT holds 80% of the shareholding of Gamma Ltd. Which of the following statements is correct? a) All the above income are taxable in the hands of REIT b) REIT enjoys pass through status in respect of the above income and hence, such income are taxable in the hands of the unit holders. c) REIT enjoys pass through status in respect of interest income from Gamma Ltd. and hence, such income is taxable in the hands of the unit holders. Rental income and short-term capital gains are taxable in the hands of the REIT d) REIT enjoys pass through status in respect of interest income from Gamma Ltd. and rental income from directly owned real estate property and hence, such income are taxable in the hands of the unit holders. Short-term capital gains is taxable in the hands of the REIT.	1
	VII	Delta Ltd., a domestic company, declared dividend of Rs.85 lakh for the year F.Y.2019-20 and distributed the same on 27.6.2020. Mr. Ganesh, holding 15% shares in Delta Ltd., receives dividend of Rs.12.75 lakh in June, 2020. Mr. Rajesh, holding 10% shares in Delta Ltd., receives dividend of Rs.8.50 lakh. Which of the following statements is correct? a) Dividend distribution tax u/s 115-O is attracted in the hands of Delta Ltd. There would be no tax on dividend received by Mr. Ganesh and Mr. Rajesh in their individual hands. b) Dividend distribution tax u/s 115-O is attracted in the hands of Delta Ltd. However, dividend received by Mr.Ganesh and Mr. Rajesh is also taxable in their individual hands c) Dividend distribution tax is payable by Delta Ltd. u/s 115-O. Also, dividend received by Mr. Ganesh is taxable in his hands@10%. d) Dividend distribution tax is payable by Delta Ltd. u/s 115-O. Also, Mr. Ganesh has to pay tax@10% on dividend of Rs.2.75 lakhs received by him	1
	VIII	Mr. Arjun's, aged 40 years, total income comprises of long-term capital gains on sale of land Rs.5 lakhs; short- term capital gains on sale of STT paid listed equity shares Rs.2 lakhs; income from lottery Rs.1 lakh and savings bank interest Rs.30,000. He invests Rs.1.50 lakhs in PPF. His tax liability for A.Y.2020-21 is – a) Rs.1,64,800 b) Rs.1,66,400 c) Rs.1,14,400 d) Rs.1,13,300	1
	IX	A Foreign Institutional Investor (FII) has total income which includes short-term capital gains on sale of preference shares of Rs.50 lakh. The rate of tax for charging such income to tax is: a) 10% b) 15% c) 30% d) 40%	1

X *In which of the following transfers, the benefit of indexation is available in case the asset is a long-term capital asset?* **1**

a) *Transfer of securities by a foreign institutional investor u/s 115AD.*
b) *Transfer of undertaking or division in a slump sale u/s 50B.*
c) *Transfer of shares in an Indian Company purchased in foreign currency by a non-resident assesse*
d) *None of the above*

XI *A Pvt. Ltd. is a company engaged in the business of trading of household appliances. The directors of the said company are desirous of converting it into a LLP. After the conversion, all the assets and liabilities of the company shall be transferred to the LLP. The conversion of the company into LLP shall take place in the financial year 2019-20. The details of the total sales and total value of assets of the company are as follows;* **1**

Previous Year	Total Sales (in Rs.)	Total value of assets (in Rs.)
2014-15	78,00,000	1,88,00,000
2015-16	50,00,000	3,56,00,000
2016-17	45,78,000	4,78,00,000
2017-18	60,00,000	5,00,00,000
2018-19	85,00,000	10,00,00,000

The directors have approached you to determine whether any capital gains shall arise in the hands of the company on its conversion to LLP. Advise them.

a) *No capital gains shall arise in the hands of the company as the transaction under consideration is not a'transfer' as per the provisions of Section 47.*
b) *Capital gains shall arise in the hands of the company as the conversion of a company to LLP amounts to transfer of capital asset.*
c) *No capital gains shall arise in the hands of the company as any kind of conversion such as conversion of firm into LLP, conversion of company into firm, conversion of company into LLP, etc. does not amount to transfer of capital asset.*
d) *Capital gains shall arise in the hands of the company as the amount of total sales and total value of assets in P.Y. 2018-19 exceeds the prescribed limits mentioned in Section 47(xiiib).*

XII *A is a resident individual aged 45 years. Find out his tax liability for A.Y. 2020-21 on the basis of the following particulars:* **1**

Business income	5,00,000
Dividend from different domestic companies (dividend distribution tax has been paid by these companies)	
- G Ltd.	40,00,000
- H Ltd.	10,000
- I Ltd.	11,90,000
Expenditure for earning dividend income	2,60,000

a) *Rs.4,49,800*
b) *Rs.6,09,180*
c) *Rs.4,22,760*
d) *Rs.13,000*

XIII *A REIT has distributed Rs.2 crore to its unitholders, which comprises of -* **1**

(i) *Rental income from real estate property directly held by it Rs.80 lakhs*
(ii) *Interest income from special purpose vehicle Rs.50 lakhs*
(iii) *Dividend income from special purpose vehicle Rs.40 lakhs*
(iv) *Capital gains on disposal of assets Rs.30 lakhs*

In this case, the special purpose vehicle is an Indian company, in which REIT holds 100% of shares. Which of the following statements relating to taxability of the above income are correct?

(1) *All the above income are taxable in the hands of REIT. The said income are exempt in the*

hands of unit holders.

(2) *Only income referred to in (i) and (ii) are taxable in the hands of REIT. Income referred to in (iii) and (iv) are taxable in the hands of unit holders.*

(3) *Only income referred to in (i) and (ii) are taxable in the hands of REIT. Income referred to in (iv) is taxable in the hands of unit holders. Income referred to in (iii) is exempt both in the hands of REIT and unitholders.*

(4) *Only income referred to in (iv) is taxable in the hands of REIT. Income referred to in (i) and (ii) is taxable in the hands of unit holders. Income referred to in (iii) is exempt both in the hands of REIT and unitholders.*

(5) *Tax is deductible by REIT from income referred to in (i) and (ii).*

(6) *Tax is deductible by REIT from income referred to in (iii) and (iv).*

(7) *Tax is deductible by REIT only from income referred to in (iv)*

(8) *No tax is deductible by REIT since the entire income is taxable in its hands.*

The correct option is –

a) *(1) and (8) above*
b) *(2) and (6) above*
c) *(3) and (7) above*
d) *(4) and (5) above*

Question XIV to XVIII are based on the following information:

A business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the P.Y.2019-20:

(a) *Interest income from Z Ltd. – Rs.10 lakh;*
(b) *Dividend income from Z Ltd. – Rs.5 lakh;*
(c) *Short-term capital gains on sale of listed shares (STT paid both at the time of purchase and sale) of Indian companies – Rs.4 lakh;*
(d) *Short-term capital gains on sale of developmental properties – Rs.8 lakh*
(e) *Interest received from investments in unlisted debentures of real estate companies Rs.1 lakh;*
(f) *Rental income from directly owned real estate assets –Rs.20 lakh*

Z Ltd. is an Indian company in which the business trust holds 100% of the shareholding.

Assume that the business trust has distributed the entire Rs. 48 lakh to the unit holders in the P.Y. 2019-20. Mr. X is a resident holder holding 100 units and Mr. Y is a non- resident holder holding 500 units. The total number of units subscribed to by all unit holders is 5,000.

XIV *In respect of the component of interest income from Z Ltd. distributed by the business trust to unit-holders X and Y;* **1**

a) *No tax is deductible by the business trust, since such income is not taxable in the hands of unit holders.*
b) *Tax is deductible@5% on Rs.20,000 distributed to Mr. X and @5.2% on Rs.1 lakh distributed to Mr. Y*
c) *Tax is deductible@10% on Rs.20,000 distributed to Mr. X and @5.2% on Rs.1 lakh distributed to Mr. Y*
d) *Tax is deductible@5% on Rs. 20,000 distributed to Mr. X and 10.4% on Rs.1 lakh distributed to Mr. Y*

XV *In respect of short-term capital gains of Rs.4 lakh on sale of listed shares of Indian companies and Rs.8 lakh on sale of developmental properties;* **1**

a) *The business trust is liable to pay tax@15.6% and 31.2%, respectively*
b) *The business trust is liable to pay tax @ 42.744%.*
c) *The business trust enjoys pass through status and hence, it need not pay any tax on such short-term capital gains; such income is subject to tax in the hands of unit-holders.*
d) *The business trust is liable to pay tax@15.6% and 42.744%, respectively*

XVI *The dividend component of income from Z Ltd., distributed to unit-holders;* **1**

		a) would be subject to distribution tax in the hands of Z Ltd., hence exempt in the hands of the business trust and the unit holders. b) is exempt in the hands of the business trust, and consequently, would be subject to tax in the hands of the unit holders c) would be exempt from distribution tax in the hands of Z Ltd., and hence taxable in the hands of the business trust. d) would be exempt from distribution tax in the hands of Z Ltd., and not taxable either in the hands of the business trust or in the hands of the unit holders.	
	XVII	Interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be; a) Subject to tax in the hands of the unit holders b) Subject to tax in the hands of the business trust @ 31.2% c) Subject to tax in the hands of the business trust @ 42.744% d) Subject to tax in the hands of the business trust at the average rate of tax	1
	XVIII	The rental component of income from real estate assets received by the business trust and distributed to its unit holders X and Y would be; a) Subject to tax in the hands of the business trust @ 42.744% b) Subject to tax in the hands of the business trust @ 31.2% c) Subject to tax in the hands of the unit-holder X @ 10% (on Rs.40,000) and Y @ the rates in force (on Rs.2,00,000); such tax has to be deducted at source by the business trust. d) Subject to tax in the hands of the unit-holders X and Y; business trust has to deduct tax @ 10% on Rs.40,000 distributed to X and at the rates in force on Rs.2,00,000 distributed to Y.	1
Descriptive Questions			
Q.2		Mr. More, an Engineering graduate who worked abroad for the past 20 years in software industry, returned to India recently. He inherited one residential house at Fort, Mumbai which was acquired by his father in 1950's. The fair market value of the property as on 01.04.2001 is Rs. 5 lakhs. The property, if sold now i.e.FY-19-20 , would fetch a price of Rs. 3 crores. He desires to start a company for manufacture of fertilizer at Rajkot. He wants to have a tax-free use of entire sale proceeds in the venture contemplated by him. Cost inflation index for the FY 2019-20 is 289. Advise Mr. More suitably within the four corners of law.	4
Q.3		Mr. Pritesh sold a vacant site for Rs.100 lakhs on 10.09.2019. The site was acquired in April, 2008 for Rs.20 lakhs. The stamp duty valuation on the date of sale was Rs.110 lakhs. Mr. Pritesh paid 2% as brokerage without deduction of tax at source and it was paid in cash. He deposited Rs.30 lakhs in capital gain bonds issued by REC on 27.04.2020. He acquired a residential property in April, 2020 for Rs.40 lakhs and in the document his name and his wife's name were mentioned as buyers. His wife is a home maker. Compute the capital gains chargeable to tax in the hands of Mr. Pritesh. Cost inflation index: F.Y. 2008-09 = 137; F.Y. 2019-20 = 289.	4
Q.4		Mr. Warner a resident sold a residential property for Rs. 90 lakhs to Mr. Sukwinder on 17.08.2019. The stamp duty valuation on the date of sale was Rs. 105 lakhs. Earlier in February, 2019 an agreement was entered into by the parties and Mr. Sukwinder gave Rs. 5 lakhs as advance by means of electronic transfer. The stamp duty valuation at the time of agreement was Rs. 95 lakhs. Mr. Warner paid Rs. 1 lakh as commission to broker, Mr. Vishal. The property was acquired by Mr. Warner in December, 2004 for Rs. 20 lakhs. In July, 2019 Mr. Warner sold a vacant site to Mr. Dayal for Rs. 30 lakhs. The stamp duty valuation of the site at the time of sale was Rs. 27 lakhs. The site was acquired in April, 2013 for Rs. 7 lakhs. Mr. Warner acquired a residential building in June, 2019 for Rs. 120 lakhs by availing a bank loan. Stamp duty and registration fee paid for the property amounts to Rs. 6 lakhs. He repaid the bank loan out of the sale proceeds of	7

both the assets referred earlier. The new residential building was let out for a monthly rent of Rs. 1 lakh from 01.07.2019. Interest for the year 2019-20 in respect of the property amounts to Rs. 6 lakhs.
Compute the total income of Mr. Warner for the Assessment Year 2020-21.
Cost inflation index F.Y. 2004-05 = 113; F.Y.2013-14 = 220; F.Y. 2019-20 = 289

Q.5 *Nikki Ltd. an Indian company, engaged in growing and manufacturing tea receives the following dividend income during the P.Y. 2019-20 and also the company has paid remuneration for realizing the dividend, break up of which is also given below:* **12**

Co. Information		Details about holding	Dividend income	Remuneration(Expense)
XYZ Inc.	Foreign Co.	25% of Nominal Value	80,000	4,000
PQR Inc.	Foreign Co.	30% of Nominal Value	1,85,000	9,000
LMN Inc.	Foreign Co.	55% of Nominal Value	2,15,000	-
ABC Ltd.	Indian Co.	> 50% of Nominal Value	90,000	5,000

(i) A shareholder holding 10% equity shares of the company borrowed Rs. 3,00,000 from the company @18% p.a. on 31.08.2019
(ii) On 01.08.2019, the company redeemed its redeemable bonus shares for Rs. 9,09,000
(iii) The company declared dividend of Rs. 4,20,000 at its AGM held on 30.09.2019. But the dividend remained unpaid up to 31.03.2020.
(iv) Business Income of Nikki Ltd. for PY 2019-20 is Rs. 40,00,000 before depositing the money in NABARD. On 01/08/2020 the company deposited Rs. 8,00,000 in NABARD account.
(v) 58% shares of Nikki Ltd are held by Neel Ltd.

Compute total income and tax liability of Nikki Ltd., ignoring MAT provisions. Also compute additional income tax payable by it u/s 115-O. The company is of the opinion that the scope of DDT would be restricted to 40% of the dividend declared as the source of the dividend declared is derived from the agricultural land. Analyse the contention of the company while computing the DDT.

Q.6 *Amit Singh, a resident individual, sold a factory building purchased by him 5 years back, on 1-2-2020. He had been allowed depreciation during all the past years. This was the only asset in the block. He purchased a residential house in Chennai on 1-6-2020, investing the whole of capital gains. He does not own any other house property. He has claimed exemption under section 54F of the Income-tax Act, 1961. The Department opposes the claim of the ground that the asset sold was a depreciable asset and the resultant capital gain was short-term in nature.* **4**
(i) Is the assessee eligible for the exemption
(ii) Will your answer be the same if the new residential house purchased is in London?

Q.7 *XYZ Private Limited, an Indian company (having 5,000 shares of Rs.100 per share) is engaged in producing cooking spices. MNO Private Ltd., another Indian company is engaged in producing edible oil and processing foods. It is decided that XYZ Private Limited will be amalgamated with MNO Private Limited with effect from 1st March, 2020.* **10**
The total consideration for transfer of assets is Rs. 9.75 lakhs, the break-up of which is as follows:
Capital assets Rs.6 lakhs.
Net current assets Rs. 3.75 lakhs.
Consideration is to be satisfied by issue of 3 equity shares of MNO Private Limited at Rs.130 per share for every 2 equity shares of XYZ Private Limited.
One Mr. Vishnu held 700 equity shares in MNO Private Limited which were acquired in the financial year 2009-10 for Rs.2,00,000. Mr. Vishnu received 1,050 equity shares from MNO Private Limited consequent to amalgamation in March, 2020.
Against the above backdrop, you are required to answer the following questions:
(i) Does the transaction of amalgamation attract any income-tax liability in the hands of XYZ Private Ltd.?
(ii) Compute capital gain in the hands of Mr. Vishnu on receipt of shares of MNO Private Limited.
(iii) Compute capital gain in the hands of Mr. Vishnu if he sells the shares of MNO Private Limited at Rs.600 per share on 31st March, 2020.
(iv) Will sale of shares of MNO Private Limited by Mr. Vishnu affect the tax benefit, if any availed by XYZ Private Limited?

	(v) Suggest any investment plan for Mr. Vishnu to mitigate his tax liability. *Note: Cost inflation index: FY 2009-10: 148; FY 2019-20: 289.*	
Q. 8	*Mr. Pandurang sold a residential house property and invested whole of the long-term capital gain for purchasing a residential flat. The possession was not handed over by the builder to the assessee even after 3 years, even though the entire sale consideration has been paid.* *The Assessing Officer refused to grant exemption u/s 54 on the ground that the prescribed condition for purchase of a residential house had not been compiled with, in as much as the possession had not been handed over.* *Judge the correctness of the action of the Assessing Officer.*	**3**
Q. 9	*Tani purchased a land at a cost of Rs.10 Lakhs in the financial year 1984-85 and held the same as her capital asset till 31st March, 2012, fair market value of such land as on 1st April, 2001 is Rs.7 Lakhs. Tani started her real estate business on 1st April, 2012 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was Rs.150 Lakhs. She constructed 20 flats of equal size, quality and dimension. Cost of construction of each flat is Rs.8 Lakhs. Construction was completed in December, 2019. She sold 15 flats at Rs.20 Lakhs per flat between January, 2020 and March, 2020. The remaining 5 flats were held in stock as on 31st March, 2020. She invested Rs.50 Lakhs in bonds issued by Power Finance Corporation Ltd. on 31st March, 2020.* *Compute the amount of chargeable capital gain and business income in the hands of Tani arising from the above transactions for Assessment Year 2020-21 indicating clearly there as on for treatment for each item. Cost Inflation Index: FY 2001-02: 100; FY 2012-13: 200; FY 2019-20: 289.*	**10**
Q. 10	*Mr. X was the owner of a Freehold land. In April 2018, he entered into a collaboration agreement with Arihant Builders for developing the property. According to the terms of the agreement, Arihant Builders were to develop, construct, and put up a building consisting of four independent floors – ground floor, first floor, second floor and third floor with terrace at its own cost. Mr. X handed over to Arihant Builders, the physical possession of the entire property, for the limited purpose of development. Arihant Builders was to get the third floor plus the undivided interest in the land to the extent of 25% for its exclusive enjoyment. The remaining floors (i.e., the ground floor, first and second) were to be handed over to Mr. X after construction.* *The cost of construction of each floor was Rs. 1 crore, which was borne by Arihant Builders. In addition to the cost of construction incurred by Arihant Builders on development of the property, a further amount of Rs. 5 crore was payable by Arihant Builders to Mr. X as consideration against the rights of Mr. X. Part completion certificate of ground, first and 2nd floor was received on 31/03/2020. The SDV as on the said date was Rs. 50 lakhs, 60 lakhs, 75 lakhs respectively.* *You are required to discuss and resolve the following issues arising in the assessment of Mr. X as a result of the above transaction –* *(i) What is the year of chargeability of the capital gains on transfer of land?* *(ii) For computation of capital gains, what should be the full value of consideration accruing as a result of transfer of the capital asset?* *(iii) Is Mr. X eligible for exemption under section 54F?* *(iv) If the answer to (ii) is yes, whether exemption is to be restricted to the cost of construction of one independent floor, (iii) on the reasoning that the floors given to Mr. X contained independent residential units having separate entrances and therefore, cannot quality as a single residential unit?*	**10**
Q. 11	*Aries Tubes Private Ltd. went into liquidation on 01.06.2019. The company was seized and possessed of the following funds prior to the distribution of assets to the shareholders:*	**10**

Particulars	*Amount (Rs.)*
Share Capital (issued on 01.04.2014)	*5,00,000*
Reserves prior to 1.6.2019	*3,00,000*
Excess realization in the course of liquidation	*5,00,000*
Total	*13,00,000*

There are 5 shareholders, each of whom received Rs.2,60,000 from the liquidator in full settlement. The shareholders desire to invest the resultant element of capital gains in long term specified assets as defined in section 54EE. You are required to examine the various issues and advice the shareholders about their liability to income tax.

Q. 12 *A non-resident Indian, has the following sources of income in India. Compute his total income & determine his tax liability:* **10**

Sr. No	Particulars	Amount (Rs.)
(i)	Dividend from Indian Companies	50,00,000
(ii)	Interest earned on debentures of Indian company invested out of remittance in convertible foreign exchange	75,000
(iii)	Interest paid on money borrowed for investment in the debentures.	25,000
(iv)	Long-term capital gains on sale of shares subscribed in convertible foreign exchange: Cost in 2002-03 Sale in 2019-20 Brokerage	 20,00,000 30,00,000 10,000
(v)	House property income in India	2,00,000
(vi)	Income from off shore investments made through category 1 AIF	6,00,000
(vii)	TDS	30,000

The house property was acquired out of a loan from HDFC. The repayment of loan made during the year amounted to Rs.20,000. The assessee also claimed deductions of Rs.10,000 by way of donation to the Prime Minister Relief Fund.

Q. 13 *SQL Inc., a notified Foreign Institutional Investor (FII) and assessed like an AOP derived the following incomes from various sources for the financial year 2019-20:-* **10**

(1) *Income in respect of securities:* Rs. 2,80,50,000
Expenses incurred in respect thereof: Rs. 50,000
(the above income includes an interest of Rs. 16,00,000 received from an Indian company on the investment of rupee denomination bonds and dividend income of Rs. 3,50,000 from a domestic company referred to in section 115-O).

(2) *Capital Gains:*

(i) *Long Term:*

Sale proceeds on sale of securities on 15/01/2020	Rs. 52,00,000
Purchase cost of securities on 25/05/2015	Rs. 28,00,000

Cost Inflation Index: 2015-16:254, 2019-20:289

(ii) *Short Term:*

Sale proceeds of equity shares of Company A (Jan., 2020): (STT paid on Company A shares)	Rs. 13,50,000
Cost of acquisition (Aug., 2019)	Rs. 5,50,000
Sale proceeds of equity shares of Company B (Dec., 2019)	Rs. 9,25,000
Cost of acquisition (April, 2019) (STT not paid on Company B Shares)	Rs. 4,85,000

Compute the taxable income of SQL Inc. and tax liability for the assessment year 2020-21 as per applicable provisions of the Income Tax Act, 1961, assuming that no other income is derived by SQL Inc. (FII) during the financial year 2019-20.

Q. 14 *Parul Ltd. is a category 2 AIF as registered with the SEBI. It has 6 high net worth individual as equal investor.* **8**
The date from which the investments is held by the investors in the AIF are as under:

→ *Investor 1 = 01/06/2019*
→ *Investor 2 = 01/12/2019*
→ *Investor 3 = 31/01/2019*
→ *Investor 4 = 01/02/2019*

→ *Investor 5 = 01/03/2019*
→ *Investor 6 = 01/11/2018*

The following details of A.Y. 2019-20 was furnished:

- *Business loss = Rs. 25 lakhs*
- *Long term capital loss = Rs. 50 lakhs*

For A.Y. 2020-21 following details are furnished:

- *Business income = Rs. 75 lakhs*
- *Short term capital gain = Rs. 20 lakhs*
- *Long term capital gain = Rs. 20 lakhs*
- *IFOS (loss) = Rs. 1.5 crore*

Compute the total income of AIF for A.Y. 2020-21 and discuss the treatment of loss both in the hands of AIF and the unitholder.

Mock Test – 4

(Profits & Gains from Business or Profession, Set off and Carry Forward of Losses, ICDS)

Q. 1	Multiple Choice Questions		M
	I	*X Ltd., a company engaged in the business of manufacturing and not opted for provisions of section 115BAA, paid Rs.2 lakh to IISc, Bangalore (an approved and notified institution) for scientific research. It also incurred capital expenditure of Rs.12 lakh (including cost of acquisition of land Rs.5 lakh) on in-house research and development facility as approved by the prescribed authority. The deduction under section 35 for A.Y.2020-21 would be;* a) Rs.9,00,000 b) Rs.13,50,000 c) Rs.14,00,000 d) Rs.10,00,000	1
	II	*Y Ltd. purchased computers of the value of Rs.10 lakhs in November, 2019 and installed the same in its office. The depreciation allowable under section 32 for A.Y.2020-21 is respect of the same is:* a) Rs.6 lakhs b) Rs.3 lakhs c) Rs.4 lakhs d) Rs.2 lakhs	1
	III	*Mr. Arvind, engaged in the business of wholesale trade, has a turnover of Rs.90 lakhs for P.Y.2018-19 and Rs.210 lakhs for P.Y.2019-20. In the P.Y.2019-20, he paid salary of Rs.3 lakhs to Mr. Hari, a resident, without deduction of tax at source and commission of Rs.51 lakhs to Mr. Rajesh, a resident, without deduction of tax at source. The disallowance under section 40(a)(ia) while computing business income of A.Y.2020-21 would be –* a) Rs.54,00,000 b) Rs.16,02,000 c) Rs.15,30,000 d) Nil	1
	IV	*Which of the following can be treated as "profits derived from" business or undertaking to qualify for deduction under section 80-IB?* (i) Transport subsidy (ii) Duty drawback receipts (iii) interest subsidy (iv) power subsidy a) Only (ii) b) (ii) & (iii) c) (i), (iii) & (iv) d) All the above	1
	V	*ABC Ltd., an Indian company engaged in manufacture of steel, has incurred expenditure on advertisement in a souvenir of a political party. Which of the following statements are correct?* a) Such expenditure is allowable as deduction while computing its business income. b) Such expenditure is not allowable as deduction while computing its total income. c) Such expenditure is not allowable as deduction while computing its business income but is allowable as deduction from gross total income. d) Such expenditure is neither allowable as deduction from business income nor allowable as deduction from gross total income.	1
	VI	*ABC Ltd., an Indian company commenced business on 1.2.2020. It incurred preliminary expenses of Rs.35 lakhs during the period from 1.4.2019 to 31.1.2020. The cost of the project is Rs.5 crore. The*	1

		following are the details as on 31.3.2020: Issued Share Capital - Rs.3 crore; Share Premium - Rs.50 lakhs; Debentures - Rs.1 crore; Long-term borrowings - Rs.2 crore. The deduction under section 35D for P.Y.2019-20 is – *a) Rs.5 lakhs* *b) Rs.6 lakhs* *c) Rs.6.50 lakhs* *d) Rs.7 lakhs*	
	VII	*Himalaya Ltd. is an eligible start-up engaged in eligible business. Its gross total income included profits of Rs.25 lakhs from such business. The Assessing Officer made disallowance of Rs.3 lakhs under section 40(a)(ia) and of Rs.2 lakhs under section 43B. The deduction allowable under section 80-IAC would be –* *a) Rs.25 lakhs* *b) Rs.28 lakhs* *c) Rs.30 lakhs* *d) Rs.20 lakhs*	1
	VIII	*Mr. Hari has income of Rs.52 lakhs under the head "Profits and gains of business or profession". One of his businesses is eligible for deduction@100% of profits under section 80-IB for A.Y. 2020-21. The profit from such business included in the business income is Rs.20 lakhs. The tax payable by Mr. Hari (rounded off), assuming that he has no other income during the P.Y.2019-20, is –* *a) Rs.8,03,400* *b) Rs.10,89,950* *c) Rs.9,90,860* *d) Rs.11,00,530*	1
	IX	*Delta Limited is engaged in growing and manufacturing rubber in India. It commenced its operations from 1st April, 2019. It acquired plant and machinery (second hand), factory building and furniture at a cost of Rs.62 lakhs, Rs.37 lakhs and Rs.8 lakhs, respectively, in the P.Y. 2019-20 by way of ECS through bank account. Assuming that all the assets were put to use for more than 180 days during the P.Y. 2019-20, you are required to compute the written down value of each block as on 1st April, 2020.* *a) Rs.52.70 lakhs; Rs.33.30 lakhs & Rs.7.20 lakhs* *b) Rs.58.75 lakhs; Rs.35.71 lakhs & Rs.7.72 lakhs* *c) Rs.58.28 lakhs;Rs.35.52 lakhs & Rs.7.68 lakhs* *d) Rs.59.675 lakhs; Rs.36.075 lakhs & Rs.7.8 lakhs*	1
	X	*Which of the following individuals would be entitled to opt for presumptive taxation schemes under the Income- tax Act, 1961 for A.Y.2020-21?* *(i) A retail trader having turnover of Rs.2 crore during the previous year 2019-20* *(ii) A practising CA having gross receipts of Rs.92 lakhs during the previous year 2019-20.* *(iii) A wholesale trader having turnover of Rs.1.96 crore during the previous year 2019-20* *(iv) A doctor having gross receipts of Rs.50 lakhs during the previous year 2019-20* *(v) Individual owning 8 goods carriages as on 1.4.2019. He sold 2 goods carriages on 1.5.2019 and purchased 4 goods carriages on 1.7.2019* *a) Only (iii)* *b) (iii) & (v)* *c) (i), (iii), (iv) & (v)* *d) (i), (ii), (iii), (iv) & (v)*	1

XI *M/s. Atlanta Airlines, incorporated as a company in USA, operated its flights to India and vice versa during the year 2019-20 and collected charges of Rs.280 crores for carriage of passengers and cargo, out of which Rs.100 crores were received in US Dollars for the passenger fare from Atlanta to Delhi. Out of Rs.100 crores, US dollars equivalent to Rs.40 crores is received in India. The total expenses for the year on operation of such flights were Rs.11 crores. The effective rate of income-tax applicable on total income of M/s. Atlanta Airlines is –* **1**

a) 42.432%
b) 43.68%
c) 43.26%
d) 42.024%

XII *Benefit of presumptive taxation under the Income-tax Act, 1961 would not be available to Akash, a non-resident, in A.Y. 2020-21, in respect of the related Indian income, if he is engaged in the business of –* **1**

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

XIII *M/s Beautiful Homes, an interior decorator proprietorship concern, submitted the following details of three years immediately preceding the P.Y. 2019-20.* **2**

Previous Year	Gross Receipts	Income from Profession	Total Income
2016-17	Rs. 1,39,000	Rs. 91,000	Rs. 3,10,000
2017-18	Rs. 2,02,000	Rs. 1,35,000	Rs. 4,07,000
2018-19	Rs. 3,85,000	Rs. 2,49,000	Rs. 6,83,000

Comment upon the applicability of section 44AA and Rule 6F regarding the maintenance of books of account and documents for P.Y. 2019-20

a) The assessee is required to maintain books of account as per section 44AA(1) as interior decorator is a notified profession and consequentially under Rule 6F also
b) The assessee is not required to maintain books of account as per section 44AA(1) and hence not covered under Rule 6F
c) The assessee is required to maintain books of account as per section 44AA(1),but, is exempted under Rule 6F since his gross receipts do not exceed Rs.1,50,000 in P.Y. 2016-17
d) Rule 6F shall be applicable, even though assessee does not meet the criteria for gross receipts/income from business/total income, as the case may be, as per section 44AA

XIV *Zinc Ltd. owns the following assets on 01.04.2019:* **2**

Assets	**Rate of Depreciation**	**WDV on 01.04.2019**
Plant A	15%	4,05,000
Plant B	15%	1,95,000

On 10.06.2019, the company acquires Plant C for Rs. 20,000 (rate of depreciation is 15%). The company sells the following assets during the previous year 2019-20:

Assets	**Sale consideration**	**Expenses on transfer**
Plant A	2,00,000	12,000
Plant B	3,72,000	-
Plant C	85,000	200

Determine the amount of depreciation and capital gains for the A.Y. 2020-21 in the hands of Zinc Ltd. Further, is it possible for Zinc Ltd. to avoid tax on capital gains?

		a) Depreciation: Nil and Short term capital gain: Rs.24,800. Further, it is not possible for Zinc Ltd. to avoid tax on capital gains. *b) Depreciation: Rs.93,000 and Short term capital gain: Rs.1,17,800. Further, it is not possible for Zinc Ltd. to avoid tax on capital gains.* *c) Depreciation: Nil and Short term capital gain: Rs. 24,800. Further, Zinc Ltd. can avoid tax on capital gains if it purchases another plant (eligible for depreciation @15%) during the previous year 2019-20 of Rs. 24,800 or more.* *d) Depreciation: Rs. 93,000 and Short term capital gain: Rs.1,17,800. Further, Zinc Ltd. can avoid tax on capital gains if it purchases another plant (eligible for depreciation @15%) during the previous year 2019-20 of Rs.1,17,800 or more*	
	XV	*Mr. X took a loan from SBI on 31.03.2011 of Rs.10,00,000. During previous year 2019-20, interest actually paid on such loan was Rs.1,00,000. However, the amount of interest unpaid on such loan from 01.04.2011 upto 31.03.2020 is Rs.2,00,000. As Mr. X was making continuous defaults in making payment of interest, a restructuring arrangement was entered wherein the unpaid interest was converted into Funded Interest Term Loan (FITL) which is shown separately from the original loan and no interest is chargeable on FITL. This converted interest is to be paid 4 annual equal installments from 01.04.2022. Mr. X is of the view that for A.Y. 2020-21, the following deductions shall be allowed to him while computing his business income:* • *Interest of Rs.1,00,000 on original principal of Rs.10,00,000.* • *Converted interest of Rs.2,00,000.* *Whether X's view is correct?* *a) Correct, total deduction of Rs.3,00,000 shall be allowed to Mr. X in A.Y. 2020-21.* *b) Incorrect, no deduction shall be allowed to Mr. X in A.Y. 2020-21.* *c) Partially correct, interest of Rs.1,00,000 shall be fully allowed, however, proportionate amount of converted interest for the period 01.04.2019 to 31.03.2020 shall be allowed.* *d) Incorrect, only deduction of Rs.1,00,000 shall be allowed to Mr. X in A.Y. 2020-21*	**2**
	XVI	*The total turnover of Sunshine Ltd. during the financial year 2019-20 was Rs.10 crore. It is liable to get its accounts audited u/s 44AB of the Income-tax Act, 1961 by 30.09.2020. However, due to some disputes between the directors, process of audit of accounts u/s 44AB will not be completed by 30.09.2020. Directors of the company have approached you to know the consequences of not complying with the provisions of Section 44AB. Which of the following are the consequences of the said non-compliance?* *a) Fine may be charged, which shall be lower of Rs.1,50,000/- or 0.5% of the total turnover.* *b) Penalty may be charged, which shall be lower of Rs.1,50,000/- or 0.5% of the total turnover.* *c) Fine as per option (a) and imprisonment of directors responsible for the non-compliance.* *d) Penalty as per option (b) and imprisonment of directors responsible for the non-compliance*	**2**
	XVII	*A Pvt. Ltd., an Indian company, is engaged in the business of generation of power. It installed a Wind Power Project on 30.04.2016 and claimed a deduction of 100% of profits derived from generation of power in A.Y. 2017-18, 2018-19 and A.Y. 2019-20 u/s 80-IA of the Income-tax Act, 1961. During the previous year 2019-20, A Pvt. Ltd. got amalgamated with B Pvt. Ltd. which is also an Indian company. Determine whether B Pvt. Ltd. shall be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA? If yes, then for how many assessment years?* *a) Yes, B Pvt. Ltd. shall be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA for the unexpired period of 7 consecutive assessment years* *b) Yes, B Pvt. Ltd. shall be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA for a fresh period of 10 consecutive assessment years.* *c) No, B Pvt. Ltd. shall not be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA as deduction u/s 80-IA is not allowed at all to an amalgamated company.*	**2**

	d) No, B Pvt. Ltd. shall not be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA as deduction u/s 80-IA is not allowed to an amalgamated company if the amalgamation has taken place on or after 01.04.2007	
XVIII	During the P.Y. 2019-20, R & Partners, a partnership firm, purchased the following assets on 05.05.2019: • Machine A for Rs.10,00,000 (Rs.5,00,000 paid in cash and balance transferred through NEFT) • Machine B for Rs.5,00,000 (Rs.2,00,000 paid through a bearer cheque and balance amount paid through account payee cheque) • Machine C for Rs.8,00,000 (Rs.3,00,000 paid through account payee bank draft and balance amount paid in cash) • Machine D for Rs.7,00,000 (whole amount transferred through RTGS) For Machine B, a cash subsidy of Rs.50,000 was received by the firm from the Government. Compute the total amount of actual cost of the block of machinery in the hands of the firm. (a) Rs.29,50,000 (b) Rs.18,00,000 (c) Rs.17,50,000 (d) Rs.19,50,000	2
XIX	Z Ltd. purchased a plant for Rs.50,00,000 (depreciation rate: 15%) on 20.05.2019. Before commencement of the commercial production, expenses of Rs.50,000 were incurred by Z Ltd. for trial run of the plant. What will be the treatment of the expenditure incurred on the said trial run as per the provisions of ICDS-V which deals with tangible fixed assets? a) The expenditure of Rs.50,000 is required to be capitalized as the commercial production has not commenced. b) The expenditure of Rs.50,000 can be claimed as a revenue expenditure by the company. c) The expenditure of Rs.50,000 has to be treated as deferred revenue expenditure. d) No treatment has been provided in ICDS-V in relation to expenditure incurred on trial run by an assessee	2
XX	Z Ltd., a company providing telecommunication service, obtains a telecom license on 01.04.2018 for a period of 10 years which ends on 31.03.2028 (license fee being Rs.27 lakh). Find out the amount of deduction allowable to Z Ltd. in respect of such license fee during the A.Y. 2020-21 if the entire amount of license fee is paid on 01.04.2019. a) Nil b) Rs.27 lakh c) Rs.3 lakh d) Rs.2.7 lakh	2
XXI	Ms. Neha is a working partner in Ramaiya & Associates. As per the terms of the partnership deed, she is paid a fixed monthly salary of Rs.39,800. In this case, salary of Rs.39,800 shall be charged to tax in the hands of Neha in which head of income and to what extent? a) Salaries b) Profits and gains of business or profession, to the extent of amount allowed to the Firm u/s 40(b). c) Profits and gains of business or profession, to the extent of amount not allowed to the Firm u/s 40(b). d) Income from other sources	2
XXII	Written down value of 4 machines at the beginning of the previous year 2019-20 forming part of block of assets carrying 15% rate of depreciation was Rs.6,00,000. The following 3 machines of the	2

same block were bought (not included in WDV above):

Machines	Date of Purchase	Date when put to use	Cost (Rs.)
A	5.1.19	14.1.2020	50,000
B	5.4.19	15.5.19	1,00,000
C	15.5.19	31.1.2020	2,00,000

Four machines of this block (other than those which were acquired and put to use for less than 180 days) were sold for Rs.4,00,000. Calculate the depreciation for A.Y. 2020-21. Ignore additional depreciation.

a) Rs.67,500
b) Rs.82,500
c) Rs.60,000
d) Rs.63,750

XXIII *At the time of computation of taxable income of Star Pvt. Ltd., its tax consultant found that the company won a lottery of Rs.5 crore on 20.12.2019. Apart from the lottery receipt, there were no other receipts in the hands of the company during the year 2019-20. The company follows mercantile system of accounting. The tax consultant was of the view that the income of the company for A.Y. 2020-21 shall be computed as per the provisions of ICDS IV which deals with Revenue Recognition. In light of these facts, which of the following statements is true?* **2**

a) The view of the tax consultant is correct as for computing the business income or income from other sources, any revenue is to be recognized as per the provisions of ICDS IV.
b) The view of the tax consultant is incorrect as ICDS IV is not applicable on recognition of lottery receipts.
c) The view of the tax consultant is correct as for any person following mercantile system of accounting, all ICDS are to be mandatorily followed for computing income.
d) The view of the tax consultant is incorrect as ICDS are not applicable for FY 2019-20

XXIV *PQ Ltd. is a company having two units – Unit P carries on specified business of setting up and operating warehousing facility for storage of agricultural produce and Unit Q carries on specified business of setting up and operating warehousing facility for storage of edible oil. Unit P commenced operations on 1.4.2018 and claimed deduction of Rs.120 lakhs incurred in April, 2018 on purchase of two buildings for Rs.70 lakhs and Rs.50 lakhs (for operating warehousing facility for storage of agricultural produce) under section 35AD for A.Y.2019-20. However, in March, 2020, Unit P transferred its building costing Rs.70 lakhs to Unit Q. What are the tax implications of such transfer in the hands of PQ Ltd.?* **2**

(i) Rs.70 lakhs would be deemed as business income in the hands of PQ Ltd. for A.Y.2020-21
(ii) Rs.63 lakhs would be deemed as business income in the hands of PQ Ltd. for A.Y.2020-21
(iii) Actual cost of building for computing depreciation for P.Y.2019-20 would be Rs.70 lakhs
(iv) Actual cost of building for computing depreciation for P.Y.2019-20 would be Rs.63 lakhs

Which of the above statements are correct?

a) (i) and (iii) above
b) (i) and (iv) above
c) (ii) and (iii) above
d) (ii) and (iv) above

XXV *XYZ Ltd. engaged in the business of manufacture of steel, claimed deduction under section 80-IB on the profits and gains of business which included transport subsidy, interest subsidy and power subsidy received from the Government and duty drawback receipts. XYZ Ltd. contended that all the above receipts are profits derived from the business of the industrial undertaking and are hence, eligible for deduction under section 80-IB. Is the contention of XYZ Ltd. correct?* **2**

a) Yes; transport subsidy, interest subsidy, power subsidy and duty drawback are profits derived from the business of the industrial undertaking and hence, eligible for deduction under section 80-IB.
b) No; none of the above receipts can be treated as profits "derived" from the business of the industrial undertaking and hence, deduction under section 80-IB cannot be claimed in respect of any such receipt.
c) No; transport subsidy, interest subsidy and power subsidy received from Government are profits derived from the business of the industrial undertaking and hence, eligible for deduction under section 80-IB. However, duty drawbacks belong to the category of ancillary profits and hence, deduction under section 80-IB cannot be claimed in respect of such receipt.
d) No; transport subsidy, interest subsidy and power subsidy received from Government are ancillary profits and hence, deduction under section 80-IB cannot be claimed in respect of such receipts. However, duty drawbacks are profits derived from the business of the industrial undertaking and hence, deduction under section 80-IB can be claimed in respect of such receipt

XXVI Shipcargo Inc., a company based in Netherlands operating its ships to and fro Cochin port, collected freight of Rs.85 lakhs, demurrage of Rs.5 lakhs and handling charges of Rs.2 lakhs in respect of goods shipped at Cochin port. It incurred expenses of Rs.35 lakhs during the year for operating its fleet. In respect of goods shipped at Rotterdam, Netherlands, it received Rs.50 lakhs in India. Its tax liability (rounded off) for the A.Y.2020-21 is – **2**

a) Rs.4,21,200
b) Rs.4,43,040
c) Rs.3,12,000
d) Rs.1,77,840

XXVII A Inc. and B Inc., incorporated in Country A and Country B, respectively, whose place of effective management is also in the said countries, are engaged in the business of operation of ships and aircraft, respectively. The details of receipts etc. during the P.Y.2019-20 are as follows **2**

Particulars	A Inc.	B Inc.
Amount paid/payable in Mumbai on account of carriage of passengers: Shipped from Mumbai port to port in Country A From Mumbai airport to airport in Country B	Rs.20 lakhs	Rs.15 lakhs
Amount paid/payable in Country A/B on account of carriage of passengers: Shipped from Mumbai port to port in Country A From Mumbai airport to airport in Country B	Rs.5 lakhs	Rs.4 lakhs
Amount received/deemed to be received in India on account of carriage of passengers: Shipped from port in Country A to Mumbai port From airport in Country B to Mumbai airport	Rs.7 lakhs	Rs.8 lakhs
Amount received/deemed to be received in Country A/B on account of carriage of passengers: Shipped from port in Country A to Mumbai port From airport in Country B to Mumbai airport	Rs.22 lakhs	Rs.18 lakhs
Profit (pertaining to Indian operations) computed as per books of account maintained by A Inc. and B Inc., after providing the deductions under the Income-tax Act, 1961	Rs.2.20 lakhs	Rs.1.20 lakhs

The profits and gains of business of A Inc. and B Inc. chargeable to tax in India under the Income-tax Act, 1961 for A.Y.2020-21 is-

a) Rs.2.20 lakhs and Rs.1.20 lakhs, respectively, provided the books of accounts are audited under

		section 44AB of the Income-tax Act, 1961 b) Rs.2.025 lakhs and Rs.1.15 lakhs, respectively c) Rs.2.40 lakhs and Rs.1.35 lakhs, respectively d) Rs.2.70 lakhs and Rs.3.375 lakhs, respectively	
	XXVII	Mr. A who is the tax consultant of X Pvt. Ltd. is computing the income from business of the company for A.Y. 2018-19 for determining the tax liability. X Pvt. Ltd. is not liable for tax audit u/s 44AB during the said year. While computing the business income under the normal provisions of the Income-tax Act, 1961, Mr. A has duly considered the provisions of the Income Computation and Disclosure Standards ("ICDS") wherever applicable. However, Mr. A is confused regarding the applicability of ICDS while computing book profits for determining the MAT liability of the company u/s 115JB. Advise Mr. A regarding the same. a) Provisions of ICDS will not apply while computing "book profits" for the purposes of MAT as ICDS are applicable only for computation of income under the regular provisions of the Income-tax Act, 1961. b) Provisions of ICDS will apply while computing "book profits" for the purposes of MAT as ICDS are applicable for computing income under the "Profits and gains of business or profession", whether computed under the normal provisions or on the basis of book profits under MAT provisions. c) Provisions of ICDS will not apply while computing "book profits" for the purposes of MAT as ICDS are not applicable in the case of an assessee not liable for tax audit. d) Provisions of ICDS will apply while computing "book profits" for the purposes of MAT as no exception regarding the same has been carved out in the notification with respect to ICDS	2

Descriptive Questions

Q. 2	India Green LLP is carrying on two businesses viz. (i) wind power generation; and (ii) solar panels trade and erection. The firm has maintained two separate books of account. The wind power generation was commenced in the financial year 2014-15 and the solar panels trade and erection business in the financial year 2018-19. The following details are furnished: i Net Profit from wind generation before deduction under section 80-IA Rs. 55 lakhs. ii Net Profit from solar panels trade and erection Rs. 30 lakhs before debiting interest on capital and working partner's salary. iii The LLP agreement provides for interest on capital and working partner salary payable only in respect of solar panels trade and erection. No such payment is permissible out of the income of wind power generation. The amount of capital of the partners as per partnership agreement in solar panels trade and erection which is eligible for interest is Rs. 100 lakhs and the LLP agreement authorizes working partner salary of Rs. 18 lakhs. iv The LLP has not claimed deduction under section 80-IA so far. There is no unabsorbed depreciation or business loss brought forward by the LLP from either of the businesses. v The depreciation on wind mill meant for generation of power claimed so far amounts to Rs. 300 lakhs. The WDV of the wind mill as on 01.04.2019 is to be taken as 'nil'. Compute the total income of the LLP for the assessment year 2020-21. Computation should be made in the manner, most beneficial to the assesse.	8
Q. 3	ABC & Co. a partnership firm got converted into ABC Co. (P) Ltd. on 01.09.2019. It furnishes you the following details for the year ended 31st March, 2020. • Unabsorbed depreciation Rs.15 lakhs relating to assessment year 2014 – 15. • Business loss Rs. 20 lakhs relating to assessment year 2012-13. • Unadjusted AMT credit Rs.2 lakhs of the assessment year 2019-20. • Written down value of assets under the Income-tax Act, 1961 [Section 43(6)] : Plant & Machinery (15%) Rs.20 lakhs (market value Rs. 25 lakhs) Plant & Machinery cost Rs.50 lakhs – deduction claimed under section 35 AD.	8

Factory Building (10%) Rs.30 lakhs (market value Rs.50 lakhs)

- Cost of land (acquired in 2010) Rs.50 lakhs (market value Rs.90 lakhs)
- Bad debt written off in assessment year 2015-16 Rs. 8 lakhs. Amount recovered in December 2019 from the debtor Rs.6 lakhs.

Explain the tax treatment of each of the items given above in the hands of the company on the assumption that all the conditions laid down in section 47(iii) are satisfied.

Q. 4 (4)

M/s. ABC Ltd. is engaged in the manufacturing of industrial equipments prepared its financial statements in compliance to the provisions of Companies Act. While computing the taxable income for the assessment year 2018-19, arrived with unabsorbed depreciation and missed to file the return of income by the due date as specified in the provisions of Income Tax Act. In the next assessment year 2020-21 the unabsorbed depreciation of the assessment year 2018-19 has been adjusted and return was filed within due date. The Assessing Officer denied to allow the carry forward of depreciation and adjustment as above. Is the Assessing Officer right in his approach? Explain with reference to provisions of Income Tax Act and decided cases.

Q. 5 (7)

Mahavishnu Tea Pvt. Ltd., is engaged in the business of tea as well as development of infrastructural facility (covered by section 35 AD).

The company has brought forward business loss of 3 lakhs from tea business and Rs. 4 crores from the business of infrastructural facility, relating to the AY 2019-20.

During the year ended 31.03.2020, the company has shown a net profit of Rs. 82 lakhs from business of tea in its books, before current depreciation of Rs. 12 lakhs.

From the infrastructural facility business, it has earned profit of Rs. 2.2 crores.

The company has credited a sum of Rs. 30 lakhs in the share application money on 28- 2-2020, for which it is unable to explain the source satisfactorily.

Compute the total income of the company for the assessment year 2020-21.

Q. 6 (6)

Ms. Janani reports to you that her gross receipt from interior decoration profession carried on by her during the year ended 31-03-2020 is Rs. 47,80,000. Her net income as per income and expenditure account is Rs. 25,00,000 before adjustment of depreciation of Rs. 1,50,000. She did not pay any amount by way of advance tax during the financial year 2019-20. She has two residential house properties, of which one is self-occupied for residence and another is let out for the monthly rent of Rs. 15,000 during the financial year 2019-20.

Is Janani eligible to opt for presumptive tax provisions, if any, under the Income-tax Act, 1961? If so, is it beneficial for her to opt for such provisions? Advise, assuming that she approached you for consulting on this matter in April, 2020.

Q. 7 (4)

Sigma Ltd., incorporated on 1.4.2017, is a technology enabled eligible start-up engaged in innovation of processes. The company filed its return of income for A.Y.2020-21 after claiming deduction of Rs. 18 lakhs under section 80-IAC. The return was selected for scrutiny. In the assessment, a sum of Rs. 7 lakhs, being 30% of Rs. 21 lakhs, towards payment of fees for professional services was disallowed for non-deduction of tax at source by invoking section 40(a)(ia). The Assessing Offic er, however, limited the deduction under section 80-IAC to the original amount claimed by Sigma Ltd. Sigma Ltd. contended that it was eligible for a higher deduction of Rs. 25 lakhs under section 80-IAC consequent to disallowance under section 40(a)(ia). Examine the correctness of contention of Sigma Ltd.

Q. 8 (10)

Mr. Prem commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2019.

	Particulars	Food grains	Sugar	Edible Oil
		Rs. in lakhs		
(1)	Profits from business (computed) before allowing deduction under section 35AD/section 32	125	60	30

(2)	Capital expenditure on land and building purchased exclusively for the business (January 2019 - March 2019) and capitalized in the books of account as on 1st April, 2019	120	90	75
(3)	Cost of land included in (2) above	75	60	45
(4)	Capital expenditure incurred during P.Y.2019-20 on extension/reconstruction of building purchased and used exclusively for the business	30	20	10

Compute Mr. Prem's total income and tax liability for the A.Y.2020-21, assuming that Mr. Prem does not have any income other than income from the above businesses.

Q. 9 **14**

Anamika Builders and Constructions Ltd., a company resident in India is engaged in the business of construction and real estate. Net profit as per profit and loss account is Rs.54,80,000 (prepared in accordance with ICDS) after debiting/crediting the following items:

- *i* Depreciation debited to books Rs.8,47,000.
- *ii* Gross revenue includes Rs.5,00,000 in respect of a service contract for maintenance of the office building for Nitup Ltd. for the period from 1st March, 2020 to 30th April, 2020. The expenses incurred on the project till 31-3-2020 amounts to Rs.1,27,000 which is included in other expenses.
- *iii* The amount of employee benefits include a sum of Rs.4,41,000 in respect of bonus payable to employees. In the previous year 2019-20, the company and its employee's union had a dispute over payment of bonus. In order to avoid late payment of bonus, the company formed a trust and transferred the amount of bonus payable to employees to the said trust. The dispute was settled in the month of November, 2020 and the trust paid the amount of bonus to the employees on 30th December, 2020;
- *iv* Capital gains on sale of shares in Yara Ltd.Rs.3,77,500.
- *v* In respect of one of its on-going projects, the assessee had made some structural changes contrary to what was earlier approved by the municipal authorities. Assessee hence paid a sum of Rs.98,000 as regularization fee in respect of such changes made in the construction plan.
- *vi* Other expenses include Rs.1,45,000 as expenditure incurred on CSR.
- *vii* During the previous year 2019-20, the assessee company decided to expand its business and open a retail petrol out let. Accordingly, a sum of Rs.1,75,000 was deposited with the concerned authority. However, the assessee could not start this operation and the deposit with the authority was forfeited. Amount paid for advertisement in political parties' brochure Rs.48,000
- *viii* During the previous year 2019-20, the assessee entered into an agreement with Bat Ltd. As per the agreement, Bat Ltd. has agreed to not to engage in the business of real estate trading. The assessee paid Rs.11 lakhs without deduction of tax at source on 1-6-2019 as non-compete fee.

Additional Information:

- *(i)* Depreciation as per Income-tax Act, 1961 Rs.5,14,000. This includes an amount of Rs.78,000 in respect of fire fighting equipments installed in various business premises/ offices of the assessee. During the year, as there were no incidence of fire, these equipments were not used.
- *(ii)* On 26th October, out of 5 unsold office spaces in a mall, the assessee converted one such space into its own office. The fair market value of that space as on that date was Rs.15,00,000. The cost incurred originally to construct such space was Rs.10,00,000.
- *(iii)* In respect of ongoing construction contracts, there was a claim for escalation of prices, to the tune of Rs.8,50,000. The company had filed a lawsuit in the year 2018. In the previous year 2019-20, the court gave its judgement in favour of the company. The company has received Rs.2,00,000 till 31-03-2020. Gross receipt in the profit and loss account includes Rs.2,00,000 in respect of such claims.
- *(iv)* The assessee held 250 shares in Yara Ltd. On 1-4-2017, Y Ltd. allotted bonus shares in the ratio of 1 : 1. The company sold all the shares in Yara Ltd. on 24th September 2019 for Rs.2,050 per share. The company had acquired the original shares for Rs. 540 on 23-06- 2015. The fair market value of

the shares as at 31st January 2018 was Rs.1,980 per share.

You are required to compute the total income chargeable to tax in the hands of Anamika Builders and Constructions Ltd., for the Assessment Year 2020-21 giving a brief explanation to each item of additions or deletions. Ignore provisions of MAT.

Q. 10

In this question for each adjustment 2 marks will be allotted.

Alpha Ltd. is engaged in commercial production of Mineral Oil. It claimed deduction u/s 80IB in respect of profit and gains derived by it from such business. Its Statement of Profit and Loss for the previous year ended on for the previous year ended on 31st March, 2020 shows a profit of Rs. 750 lakhs after debiting or crediting the following items:

(1) Industrial power tariff concession of Rs. 4.80 lakhs, received from Maharashtra State Government was credited to Statement of profit and loss.

(2) The company had provided Rs. 18 lakhs being sum fairly estimated as payable with reasonable certainty, to workers on agreement to be entered with the workers union towards periodical wage revision once in every three years.

(3) Dividend received from -

a) US company - Rs. 12 Lakhs.

b) Gama Limited - Rs. 10,000 on 1,000 equity shares of Rs. 10 each purchased at Rs. 100 per share on 10th October, 2019. The rate of dividend declared is 100%, the record date being 10th December, 2019. The shares were sold on 1st March, 2020 at Rs. 80 per share.

c) Subsidiary Indian company credited to Profit and Loss Account Rs. 2,00,000.

d) Foreign company in which the assessee company holds 26% shares Rs. 8 lakhs.

(4) Loss Rs. 17 lakhs, due to destruction of a machine worth Rs. 24 lakhs by fire due to short circuit and Rs. 3 lakh received as scrap value. The insurance company did not admit the claim of the company on charge of gross negligence.

(5) Provision for gratuity based on actuarial valuation was Rs. 320 lakhs. Actual gratuity paid debited to gratuity provision account was Rs. 180 lakhs.

(6) The company has purchased 1000 bales of raw cotton at a price of Rs. 20,000 per bale from M/s. Omicron, a firm in which majority of the directors of Alpha Ltd. are partners. The firm's normal selling price of the same material in market is Rs. 18,000 per bale.

(7) Long term capital gain Rs. 3 lakhs on sale of equity shares on which Securities Transaction Tax (STT) was paid at the time of acquisition and sale.

(8) One-time license fee of Rs. 32 lakh paid to ABC Ltd (an Indian company) for obtaining franchise on 1st June, 2019.

(9) Rs. 32,000 paid to Beta & Co., a goods transport operator, in cash on 31st January, 2020 for carrying company's products to the warehouse.

(10) Rent of Rs. 50,000 p.m. received from letting out a part of its office premises. Municipal tax in respect of the said part of the building is Rs. 8,000 remains unpaid due to court litigation.

(11) Donation for Scientific Research –

a) Rs. 1 lakh, being contribution to a scientific research association approved and notified under section 35(1)(ii).

b) Rs. 1 lakh to Dalmia Research Centre Ltd. which is engaged in approved scientific research.

(12) Rs. 5 lakh paid to a contractor for repair work at the company's factory. No tax was deducted on such payment.

(13) Amount received towards Dharmadha by separately mentioning in the sales bills Rs. 7,00,000. This has not been credited to Profit and Loss Account.

(14) Rs. 10 lakhs was paid towards use of trademark for 10 years in April, 2019. This has been debited to Profit and Loss Account.

(15) Rs. 5,00,000 was paid towards feasibility study for examining proposals for commencing a textile business and the project was abandoned.

(16) Rs. 50,000 paid as secret commission to a Government department official, an unidentified person. The payment has been approved by the Board as a normal trade practice.

(17) Rs. 2 lakhs incurred towards issue of convertible debentures, the debentures being convertible into equity shares after one year from the date of issue.

(18) Rs. 1 lakh paid to a local gang for rescuing an executive director who was kidnapped.

(19) Non-compete fee paid to –

a) an ex-director Rs. 10,00,000 on 10.12.2019 and no tax was deducted at source.

b) DEF Ltd for not marketing their products in North- Eastern States Rs. 10 lakhs. The non-complete agreement bars DEF Ltd for a period of 5 years ending 31.03.2024. No tax was deducted at source on the said payment.

(20) One employee who was employed only upto December 2019 was paid salary ofRs. 5,00,000 and on which no tax was deducted at source. The whereabouts of the employee is not known and it is not possible to ascertain whether he has admitted and paid income tax on such salary income.

(21) Rs. 11,50,000 was incurred towards sponsoring of higher studies of a director's son in United Kingdom.

(22) Rs. 15,00,000 was incurred on glow-sign boards displayed at dealer outlets and on which depreciation at 15% was claimed.

(23) One factory in Meerut was closed and a sum of Rs. 12,00,000 was paid as retrenchment compensation to employees on its closure.

(24) The company made cash payment for purchases on 05.06.2019 (bank holiday) Rs. 2,00,000.

(25) A bad debt write off in Financial Year 2016-17 of Rs. 5,00,000 was allowed in the assessment. Rs. 2,00,000 was recovered this year and is credited to general reserve.

(26) Cash payment of Rs. 80,000 to a transporter on 04.06.2019 and who furnished his PAN.

(27) GST of Rs. 1,50,000 for the Financial Year 2018-19 was paid on 10.02.2020.

(28) Rent paid Rs. 2,40,000 inclusive of GST of Rs. 28,000. Tax was not deducted on the GST on rent paid.

(29) Expenditure towards alteration of Memorandum of Association for increase in authorized share capital Rs. 1 lakh. Legal expenses for issue of bonus shares Rs. 5,00,000. Paid Rs. 2 lakhs to Registrar of Companies as fee for issue of bonus shares.

(30) Donation paid to a political party Rs. 4,50,000 by cheque and Rs. 2,70,000 by cash.

(31) Expenditure incurred towards complying with Corporate Social Responsibility obligation under the Companies Act, 2013 Rs. 3 lakhs.

(32) A building was constructed on the leasehold land for Rs. 30 lakhs and it was completed on 30.11.2019. The lease agreement is for 3 years and after the lease period, the building must be handed over to the lessor.

(33) The company introduced VRS scheme during the financial year 2017-18 and paid Rs. 60 lakhs as VRS compensation. The company transferred the entire unamortized amount of Rs. 24 lakhs to statement of profit and loss.

(34) Cost of EPABX and mobile phones acquired on 01.06.2019 for use by executives Rs. 10 lakhs. Depreciation @ 60% was charged in the books.

(35) Compounding fee paid for violation of municipal laws in construction of buildings Rs. 1,20,000.

(36) Royalty from patent developed by the company credited to Statement of profit and loss Rs. 22 lakhs.

(37) The company, during the year has spent Rs. 4 crores towards replacing the existing celling of a building which was in a very bad state. It debited the same as repair & maintenance.

(38) The company debited to its profit & loss account a sum of Rs. 6,00,000, being the interest on loan of Rs. 60,00,000 taken for financing its expansion scheme. The plant and machinery purchased for the project with the loan were not received during the year and those were still in transit at the end of the year.

Additional Information:

	a) GST Rs. 8 lakhs collected from its customers was paid by the company on the due dates. On an appeal, the High Court directed the GST department to refund Rs. 3 lakhs to the company. The company in turn refunded Rs. 2 lakhs to the customers from whom it was collected and the balance Rs. 1 lakh is still lying under the head "Current Liabilities". *b) The company has obtained a loan of Rs. 2 lakh from Theta Private Limited in which it holds 16% voting rights. The accumulated profits held by Theta Private Limited on the date of loan were Rs. 0.50 lakh.* *Compute the total income for AY 2020-21.*	
Q. 11	*Examine the taxability in light of the following grants received in light of ICDS and provisions of Act:* *a. Amount received towards power subsidy with a stipulation that the same is to be adjusted in the electricity bills* *b. Amount received from CG for the industrial promotion and expansion of capacity of plant*	**2**
Q. 12	*RS Pvt Ltd, a Company engaged in BPO services, has set up a unit in rural sector. The state government has agreed to provide subsidy for generating rural employment amounting to Rs. 20 lakhs in a phased manner for 2 years. The said Company has credited to Profit & Loss Account a sum of Rs. 10 lakhs and fulfilled the conditions.* *Whether the treatment provided is in accordance with ICDS-VII?*	**2**
Q. 13	*The following are the details pertaining to M/s. Aravali, a partnership firm, for the year ended 31-3-2020:* *(i) Gross total income of Rs. 600 lakhs, which includes a profit of Rs. 550 lakhs from an undertaking engaged in an irrigation project.* *(ii) The profits of the undertaking are eligible for deduction under section 80-IA. This is the third year and the deduction available is Rs. 510 lakhs.* *(iii) The firm has undertaken "specified domestic transactions" referred to in section 92BA during the said year and has to obtain a report from an accountant under section 92E and furnish such report.* *Since M/s. Aravali wishes to seek opinion of tax consultants in relation to certain issues before filing its return of income, it is planning to file its return of income only in the month of March, 2021. Advise M/s. Aravali the right course of action. You may ignore interest under section 234A, 234B, 234C and 234F while making your computations in support of your advice.*	**7**

Mock Test – 5

(AMT, Company Assessment, TDS, TCS, Advance Tax & Interest)

		Multiple Choice Questions	M
Q.1	I	*Air India Ltd. has paid amount of Rs.20 lakhs during the year ended 31.3.2020 to Airports Authority of India towards landing and parking charges.* *a) No tax is deductible at source from such payment* *b) Tax is deductible at source@2% u/s 194C on such payment* *c) Tax is deductible at source@2% u/s 194-I on such payment* *d) Tax is deductible at source@10% u/s 194-I on such payment*	1
	II	*A Ltd. credited Rs.28,000 towards fees for professional services and Rs.27,000 towards fees for technical services to the account of Ram in its books of account on 12.11.2019. The total sum of Rs.55,000 was paid by cheque to Ram on the same date.* *a) No tax is deductible at source from such payment* *b) Tax is deductible at source@10% u/s 194J on the entire payment of Rs.55,000* *c) Tax is deductible at source@10% u/s 194J on Rs.25,000 (Rs.55,000 - Rs.30,000)* *d) Tax is deductible at source@2% u/s 194-J on Rs.25,000 (Rs.55,000 - Rs.30,000)*	1
	III	*ABC Ltd. took on sub-lease a building from Ms. Jhanvi with effect from 1.7.2019 on a rent of Rs.20,000 per month. It also took on hire machinery from Ms. Jhanvi with effect from 1.10.2019 on hire charges of Rs.15,000 per month. ABC Ltd. entered into two separate agreements with Ms. Jhanvi for sub-lease of building and hiring of machinery. Which of the following statements are correct with reference to ABC Ltd.'s liability to deduct tax at source, assuming that one-month's rent was received as security deposit, which is refundable at the end of the lease period?* *a) No tax needs to be deducted at source since rent for building does not exceed Rs.1,80,000 p.a. and rent for machinery also does not exceed Rs.1,80,000 p.a. Security deposit refundable at the end of the lease term is not rent for the purpose of TDS* *b) Tax has to be deducted@10% on rent of Rs.2,00,000 (including security deposit) for building, but no tax needs to be deducted on rent for machinery (including security deposit), since the same does not exceed Rs.1,80,000.* *c) Tax has to be deducted@10% on Rs.2,00,000 and @2% on Rs.1,05,000 (i.e. rent including security deposit)* *d) Tax has to be deducted@10% on Rs.1,80,000 and @2% on Rs.90,000. Security deposit refundable at the end of the lease period is not rent*	1
	IV	*Mudra Adco Ltd., an advertising company, has retained a sum of Rs.15 lakhs, towards charges for procuring and canvassing advertisements, from payment of Rs.1 crore due to Cloud TV, a television channel, and remitted the balance amount of Rs.85 lakhs to the television channel. Which of the following statements are correct?* *a) No TDS is attracted on the sum of Rs.15 lakhs retained by Mudra Adco Ltd.* *b) TDS@2% is attracted on the sum of Rs.15 lakhs retained by Mudra Adco Ltd* *c) TDS@5% is attracted on the sum of Rs.15 lakhs retained by Mudra Adco Ltd.* *d) TDS@10% is attracted on the sum of Rs.15 lakhs retained by Mudra Adco Ltd.*	1
	V	*Mr. X acquired a house property at Mumbai from Mr. Y, a resident, for a consideration of Rs.90 lakhs, on 20.6.2019. On the same day, Mr. X made two separate transactions, thereby acquiring an urban plot in Kolkata from Mr. C for a sum of Rs.49,50,000 and rural agricultural land from Mr. D for a consideration of Rs.60 lakhs. Which of the following statements are correct?* *a) No tax deduction at source is required in respect of any of the three payments.* *b) TDS@1% is attracted on all the three payments.* *c) TDS@1% on Rs.90 lakhs and Rs.49,50,000 are attracted. No TDS on payment of Rs.60,00,000 for*	1

		acquisition of rural agricultural land *d) TDS@1% on Rs.90 lakhs is attracted. No TDS on payments of Rs.49,50,000 and 60,00,000*	
	VI	*A notified infrastructure debt fund eligible for exemption under section 10(47) of the Income-tax Act, 1961 pays interest of Rs.5 lakhs to a company incorporated in a foreign country. The foreign company incurred expenditure of Rs.12,000 for earning such interest. The fund also pays interest of Rs.3 lakhs to Mr. Frank, who is a resident of Country A, a notified jurisdictional area. Which of the following statements are correct?* *a) No tax deduction at source is required in respect of both the payments.* *b) No TDS is required in respect of payment of Rs.5 lakhs to the foreign company. However payment of interest to Frank attracts TDS@31.2%* *c) TDS@5.20% is attracted on Rs.4,88,000 to the foreign company. TDS@31.2% is attracted on interest payment of Rs.3 lakhs to Mr. Frank* *d) TDS@5.20% is attracted on interest payment of Rs.5 lakhs to the foreign company. TDS@31.2% is attracted on interest payment of Rs.3 lakhs to Mr. Frank*	1
	VII	*Raman & Associates had made payment of Rs.2 lakh to the contractors for carrying out labour job work at various sites, but had not deducted tax at source. What are the tax consequences?* *a) Rs.2,00,000 has to be added back while computing business income. However, no penalty is leviable* *b) Rs.60,000 has to be added back while computing business income. However, no penalty is leviable* *c) Penalty equal to the amount of tax which has not been deducted is leviable in this case. Also, Rs.2,00,000 has to be added back while computing business income.* *d) Penalty equal to the amount of tax which has not been deducted is leviable in this case. Also, Rs.60,000 has to be added back while computing business income*	1
	VIII	*Salary paid by M/s AK & Co. to its partner falls within the limits prescribed under section 40(b)(v). Does AK & Co. have to deduct tax on salary paid to its partner?* *a) Yes; tax is deductible at source under section 192 on salary paid to its partners* *b) No; salary paid to partner is not subject to tax deductible at source* *c) Yes; tax is deductible at source under section 192 on salary paid to resident partners but under section 195 on salary paid to the non-resident partner* *d) Salary paid to resident partner is not subject to tax deduction at source; but tax has to be deducted under section 195 on salary paid to the non-resident partner*	1
	IX	*Mr. Ganesh is running a steel factory. The total turnover of the factory during the F.Y. 2018-19 amounted to Rs.2.5 crores. The estimated turnover for F.Y. 2019-20 is likely to exceed Rs.3 crore. On 10-04-2019, he took consultancy of a Delhi based Chartered Accountant. The consultancy fees amounted to Rs.1,84,000. Should Mr. Ganesh deduct tax from consultancy fees of Rs.1,84,000? If yes, then what shall be the amount of tax to be deducted and by when the same should be deposited with Government?* *a) Yes; Rs.18,400 to be deposited by 07.05.2019* *b) Yes; Rs.18,400 to be deposited by 07.07.2019* *c) Yes; Rs.15,400 to be deposited by 07.05.2019* *d) He is not liable to deduct tax in respect of professional fees paid*	1
	X	*Which of the following amounts, if debited to the statement of profit or loss, are required to be added while computing book profits for the purpose of MAT?* *I. Income-tax* *II. Proposed dividend* *III. Depreciation*	1

		IV. Interest on Income-tax V. Amount transferred to general reserve VI. Provision for losses of subsidiary company VII. Dividend paid a) I, III, V, VI, VII b) I, II, V, VII c) I, II, III, IV, V, VI, VII d) I, II, III, V, VI, VII	
	XI	PQR Ltd. is a company which already possesses a TAN and uses the same for the purpose of TDS. Now, PQR Ltd. wants to sell some scrap of his business to A Ltd. on which it is required to collect tax at source @1%. Whether PQR Ltd. is required to apply for a separate TAN for the purpose of TCS? a) No, PQR Ltd. is not required to apply for a separate TAN for the purpose of TCS as TAN allotted for TDS can be used for TCS also. b) Yes, PQR Ltd. is required to apply for a separate TAN for the purpose of TCS as tax deduction account number and tax collection account number are different account numbers. c) No, PQR Ltd. is not required to apply for a separate TAN for the purpose of TCS as there is no requirement of obtaining TAN for the purpose of TCS. d) No, PQR Ltd. is not required to apply for a separate TAN for the purpose of TCS as in case of TCS, PAN can be quoted in place of TAN	1
	XII	The rate of deduction of tax from interest payable to a foreign company (located in a country with which there is no DTAA) by an Indian company on borrowing made by it from the said foreign company by way of issue of rupee denominated bonds on 31.03.2019 is: a) Nil b) 5% + HEC c) 5% + Surcharge (if applicable) + HEC d) 20% + HEC	1
	XIII	Mr. Sanjay, a salaried individual, pays brokerage of Rs.40 lakhs on 5.1.2020 to buy a residential house. His father, Mr. Hari, a retired pensioner, makes contract payments of Rs.15 lakhs, Rs.25 lakhs and Rs.12 lakhs on 28.9.2019, 3.11.2019 and 15.2.2020 for reconstruction of residential house. With respect to the above payments made by Mr. Sanjay and Mr. Hari, which of the following statements is correct? a) Neither Mr. Sanjay nor Mr. Hari is required to deduct tax at source, since they are not subject to tax audit, on account of being a salaried individual and pensioner, respectively. b) Both Mr. Sanjay and Mr. Hari are required to deduct tax at source under the provisions of the Income-tax Act, even though they are not subject to tax audit. c) Mr. Sanjay is required to deduct tax at source but Mr. Hari is not required to deduct tax at source. d) Mr. Hari is required to deduct tax at source but Mr. Sanjay is not required to deduct tax at source.	1
	XIV	Mr. Rajesh and Mr. Brijesh, resident individuals, received Rs.12 lakhs each on 31.3.2020 on maturity of life insurance policy taken on 31.3.2012 and 1.4.2012, respectively, the sum assured of which is Rs.10 lakhs. They had paid an annual premium of Rs.1.10 lakhs each. Are provisions of tax deduction at source attracted on maturity proceeds received by Mr. Rajesh and Mr. Brijesh? a) Yes; Tax is deductible at source on maturity proceeds received by both Mr. Rajesh and Mr. Brijesh, since the annual premium is more than Rs.1,00,000, being 10% of Rs.10 lakhs. b) No; Tax is not deductible at source on maturity proceeds received by either Mr. Rajesh or	1

Mr. Brijesh, since the annual premium is less than Rs.1,20,000, being 10% of Rs.12 lakhs.

c) No tax is deductible at source on maturity proceeds received by Mr. Rajesh. Tax is deductible at source on maturity proceeds received by Mr. Brijesh and the tax deductible at source is Rs.12,000

d) No tax is deductible at source on maturity proceeds received by Mr. Rajesh. Tax is deductible at source on maturity proceeds received by Mr. Brijesh and the tax deductible at source is Rs.16,000.

XV Mr. A, whose total sales is Rs.201 lakhs, declares profit of Rs.10 lakhs for the F.Y. 2019-20. He is liable to pay advance tax – **1**

a) in one instalment
b) in two instalments
c) in three instalments
d) in four instalments

Descriptive Questions

Q.2 HSBC Hong kong undertake its banking business in India through its various branches in India, including a branch in IFSC. All the consideration received by IFSC unit is in foreign currency. It furnishes the following information based on which you are suppose to calculate its tax liability (Including MAT); **10**

Particulars	IFSC Branch	Other Branch
1) Profit before taxation (Out of the above profits, Rs. 30 lakhs and Rs. 80 lakhs represents interest income on monies borrowed by Indian concern in foreign currency from IFSC Branch and other Branches respectively)	Rs. 50 Lakhs	Rs. 300 Lakhs
2) Provision for NPA as per the prudential norms	Rs. 10 lakhs	Rs. 30 lakhs
Other Information:		
Particulars	As per Books	As per Income tax laws
1) B/f loss for A.Y. 2019-2020 (the loss pertains only to Non-IFSC unit)	(Rs.20 lakhs)	(Rs. 30 lakhs)
2) UAD of A.Y. 2019-2020	Rs. 5 lakhs	Rs. 10 lakhs

Q.3 Tulsi Private Ltd., a company engaged in ship breaking activity, sold some old and used plates, wood etc., in respect of which it did not collect tax from the buyer. The company claimed that such items are usable as such. Hence these are not 'scrap' to attract the provisions for collection of tax at source. The Assessing Officer treated such items in the nature of 'scrap' and raised a demand under section 201(1) and interest under section 201(1A). **3**

Is the action of the Assessing Officer in treating such items as 'scrap' tenable in law? Discuss.

Q.4 Should capital gains exempt under section 54EC, which forms part of the net profit in the statement of profit and loss of the assessee-company, be taken into account for calculation of tax on book profits as per section 115JB? **2**

Q.5 ACHARYA LLP, a limited liability partnership in India is engaged in development of software and providing IT enabled services through two units, one of which is located in a notified Special Economic Zone (SEZ) in Chennai (commenced from 01.04.2006). **8**

The particulars relating to previous year 2019-20 furnished by the assessee are as follows:
Total Turnover: SEZ unit Rs. 120 lakhs and the other unit Rs. 100 lakhs
Export Turnover: SEZ unit Rs. 100 lakhs and the other unit 60 lakhs
Profit: SEZ unit Rs. 48 lakhs and the other unit Rs. 42 lakhs
Amount debited to Profit and Loss Account towards Special Economic Zone Re-Investment Reserve Account Rs. 21 lakhs.
The Assessee has no other income during the year.

(i) Compute tax payable by ACHARYA LLP for the Assessment Year 2020-21.

(ii) *Will the amount of tax payable change, if ACHARYA LLP is an overseas entity?*

Q.6 *Monohar & Hari LLP is engaged in multiple business activities. The following information is furnished for the year ended 31.03.2020:* **7**

(i) Net profit as per Profit and Loss Account Rs. 52 lakhs.
(ii) Working partner salary debited to profit and loss account Rs. 40,20,000 as authorized by the LLP agreement.
(iii) Interest on capital paid to partners @ 15% Rs. 15,75,000. This is authorized by the LLP agreement.
(iv) Depreciation debited to profit and loss account Rs. 8,10,000.
(v) Eligible depreciation under section 32 Rs. 10,35,000.
(vi) The Net Profit includes profit from under taking located in SEZ (4th year) Rs. 20 lakhs. The total turnover is Rs. 200 lakhs and the export turnover is Rs. 150 lakhs.
(vii) The unit has earned income from generation of power and the eligible deduction under section 80-IA amounts to Rs. 8 lakhs.

You are required to compute the total income of the firm and also the alternative minimum tax (AMT) and decide the final tax liability of the firm for the assessment year 2020-21.

Q.7 *SRK Limited has a carried forward MAT credit of Rs. 3 lakhs under section 115JAA(3) of the Income-tax Act from assessment year 2019-20. The company's total income and book profit under section 115JB in assessment year 2020-21 are Rs. 6 lacs and Rs. 7.50 lakhs respectively.* **2**

Compute the tax payable by the company for assessment year 2020-21 and the amount to be carried forward under section 115JAA.

Q.8 *Auto Ltd., a manufacturer of automobiles, sells premium cars (each of value between Rs.12 lakh to Rs.25 lakh) and small cars (each of value between Rs.5 lakh to Rs. 9 lakh) to its dealers across the country.* **3**

Discuss whether the manufacturers are liable to collect tax at source under section 206C.

Also, discuss the liability, if any, of dealers to collect tax at source on sale of these cars to the retail customers, if no part of the consideration is received in cash? Would your answer change, if part of the consideration is received in cash?

Q.9 *Gamma (P) Ltd., an Indian company established in the year 2007, reports total income of Rs.22 lakh for the previous year ended 31st March, 2020. Tax deducted at source by different payers amounted to Rs. 1,68,000 and tax paid in Country A on a doubly taxed income amounted to Rs. 30,000 for which the company is entitled to relief under section 90 as per the double taxation avoidance agreement.* **4**

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

Date of payment	Advance tax paid (Rs.)
13-06-2019	45,000
14-09-2019	90,000
13-12-2019	1,00,000
14-03-2020	1,05,000

The company filed its return of income for the A.Y. 2020-21 on 3rd November, 2020.

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

***Note** – Turnover of Gamma (P) Ltd. for P.Y. 2017-18 is Rs. 251 crore.*

Q.10 *Explain whether tax has to be deducted at source, as per the provisions of the Income Tax Act, 1961 under the following situations, each being independent of the other. If yes, the rate of tax and the amount of TDS should be stated (Provisions of DTAA may be ignored):* **6**

(i) Rent of Rs. 2,00,000 paid by Govindaya Tubes LLP to Mr. Naresh, who has been living in Singapore for the last 12 years and has never visited India during such period. The building is used for training purposes.
(ii) Mrs. Sarawathi purchased a house property for Rs. 48 lakhs on 12.01.2020 from Mrs. Lakshmi, a resident. The value adopted by the stamp valuation authority was Rs. 55 lakhs.
(iii) Divya & Co., a partnership firm, has paid lorry freight of Rs. 3 lakhs on 12.03.2020 to Mr.

	Govinda, a lorry fleet owner having 11 Lorries and having PAN.	
Q. 11	*State with reason, whether tax is required to be deducted at source with reference to relevant provision of the Income-tax Act, 1961, and the quantum of tax, if any for the following:* *(i) Premature withdrawal from recognized provident fund Rs.55,000 on 01.10.2019 by Mr. H, who furnished declaration in Form No. 15G.* *(ii) Interest on fixed deposit to Mr. J paid by one branch of State Bank of India Rs.7,000 and another branch of the same bank Rs.4,000. The bank uses Core Banking Solutions (CBS).* *(iii) Salary paid to Mr. K, aged 58, by a software company located in Hyderabad Rs.15 lakhs. Mr. K was employed throughout the year at New Jersey, United States and the payment was made by branch office at New Jersey.* (iv) *Payment of Rs.2 lacs made by LS Company Ltd. for internet services to ABC Communications (P) Ltd.*	**6**
Q. 12	*State whether the TDS provisions are attracted in the following cases:* *a. Mr. Mahadevan engaged in trading business with a turnover of Rs.80 lakhs for the previous year 2018-19 and turnover of Rs. 85 lakhs in the financial year 2019-20 paid interest of Rs.30,000 to Mr. Swami.* *b. Mr. Singhvi engaged in manufacturing activity paid salary of Rs.3,50,000 to Mr. Ghosh during the previous year 2019-20 which is the first year of commencement of business.* *c. Cure Well Hospitals Ltd. paid professional charges to Dr. Sakthikanal Rs.40,000.* *d. Garg & Co. a firm of Cost Accountants paid rent of Rs. 2,70,000 (Rs. 22,500 per month) to a partner's son by cash.* *e. Ramnath & Co. paid interest on term loan taken for car of Rs.31,000 to UCO Bank.* *f. Mr. Ranjan resigned from MT Pharma after rendering service for 4 years. He received Rs. 60,000 from recognized provident fund account.* *g. Padmaja & Co. made contract payments of Rs. 7,500 per month aggregating to Rs.90,000 to CD & Co. during the year 2019-20.* *h. Shiva Industries Ltd. paid brokerage of Rs. 18,000 to Sanvitha Ltd. on 30.01.2020.*	**8**
Q. 13	*M/s. NIACO Ltd., an Indian Company reports total income of Rs. 10,50,000 for the previous year ending March 31, 2020. Tax deducted at source by different payers amounts to Rs.24,450 and tax paid in foreign country on a doubly taxed income amounts to Rs. 10,000 for which the company is entitled to relief under section 90 as per DTAA. During the year the company pays advance tax on June 15, 2019 – Rs.40,000 ; on September 12, 2019 - Rs.65,000; on December 15, 2019 – Rs.1,00,000 and on March 15, 2020 - Rs.62,000. The company files its return of income for the assessment year 2020–21 on October 15, 2020. There is no international transaction and no transfer pricing provisions are applicable. Compute interest, if any, payable by the company under sections 234A, 234B and 234C. The due date for filing return of income is September 30, 2020.*	**7**
Q. 14	*MNC Ltd. is engaged in this business of managing and operating hotels. The assessee allowed the employees to accept tips from customers. Some customers paid the bill and tips to the employees through credit card. The assessee, being employer collected the amounts and disbursed tips to the employees on monthly basis. The assessee did not deduct tax at source on the said payments as the amounts were not in the nature of salary. Does the action of the assessee satisfy the legal requirements ?*	**3**
Q. 15	*State whether tax has to be deducted at source under the provisions of the Income-tax Act, 1961:* *(i) Vaasu & Co., a partnership firm pays following amounts as interest to the partners in the firm X Rs. 43,000, Y Rs. 9,000. X is resident in India, Y is a non-resident and he is resident of Country J with which India has no DTAA.* *(ii) Barun Pvt. Ltd., has paid Rs. 35,000 as sitting fees to D, who is a director not employed with the company.*	**2**
Q. 16	*Pradhan (P) Ltd. gives you the following information for the Financial Year 2019-20:* *(i) It paid a refundable deposit of Rs. 5 lakhs to the landlord where the company has commenced manufacturing activity during the year.* *(ii) It paid Rs. 3 lakhs to a hotel accommodation where the training programme for the marketing*	**8**

	force was conducted. *(iii) Paid non-compete fee of Rs. 10 lakhs to a director who was associated with the company for the last 15 years.* *(iv) It filed the quarterly statement of TDS for the quarter ended 30.09.2019 on 05.01.2020. The amount of tax deducted and remitted in the quarter is Rs. 60,000.* *(v) It received interest-free loan of Rs. 7 lakhs from its subsidiary company in December 2019 to meet its working capital requirements. The subsidiary company has accumulated profit of Rs. 20 lakhs.* *(vi) It engaged a famous tennis player Mr. Mahesh as Brand Ambassador for promoting its products and paid Rs. 2 lakhs as fee to him.* *(vii) It acquired a luxury car for Rs. 15 lakhs by making payment by cheque on 01.10.2019.* *(viii) It paid Rs. 30,000 to travel agents for purchase of train and air tickets to the company officials during the year.* *You are requested to state in brief the consequences of the above transaction as per TDS/TCS provisions of the Income-tax Act, 1961.*	
Q . 17	*ABC Ltd., an Indian Company, was registered on 01.04.2015. It is solely engaged in the manufacture of textiles. Its turnover for the P.Y. 2016-17, P.Y. 2017-18 and P.Y. 2018-19 and P.Y 2019-20 are Rs.50 crore, Rs.350 crore, Rs.410 crores and 450 crore respectively. What would be the total tax payable by ABC Ltd., for A.Y.2020-21, if its total income for the P.Y. 2019-20 is Rs.9 crore?* *Would the rate of tax for A.Y.2020-21 in the case of ABC Ltd. be different, if it was registered on 01.04.2019 instead of 01.04.2015? If yes, what are the conditions to be fulfilled by it to avail such differential rate of tax?* *[Note-Ignore provisions relating to Minimum Alternate Tax, section 115BAA, 115BAB]*	**6**
Q . 18	*Arnold Ltd. (incorporated in UK) has a branch office (PE) in India. The Net Profit of the Branch as per the statement of profit and loss for the year ended 31.03.2020was Rs.83 lakhs. It includes the following:* *(i) Dividend from Indian companies (listed) Rs.8,00,000.* *(ii) Dividend from Indian companies (unlisted) Rs.4,00,000.* *(iii) Interest received from MMS Ltd. of Mumbai Rs.7,00,000. The amount was received by the Indian company MMS Ltd. in foreign currency as per loan agreement dated 01.04.2014 (section 194LC applicable).* *(iv) Fee for technical services received from Barun Co. Ltd., Kolkata Rs. 25,00,000. The agreement was made on 10.08.2007 and was approved by Central Government. Expenditure incurred for providing technical service amounts to Rs.6,00,000.* ***Additional information:*** *Total income chargeable to tax as per regular provisions of the Income-tax Act, 1961 (Act) is Rs.20,00,000 (without considering the items (i) to (iv) above).* *You are required to compute the book profit tax under section 115JB of the Act for the assessment year 2020-21 and also the total income-tax liability of the assessee.* *Your working should be supported by notes*	**8**
Q . 19	*Anustup Chandra Ltd., a domestic company incorporated on 01/04/2017, engaged in manufacture of sugar, furnishes the following information pertaining to the year ended 31-3-2020:* *(i) Net profit as per the Statement of Profit and Loss is Rs. 77 lakhs after considering the items listed in (ii) to (vi) below.* *(ii) The company is a member of Vishnu Foods & Co., an AOP in which the members' shares are determinate and their shares in profit/loss are clearly known. The entire income of the AOP is from business activities. During the year, the company has derived share income of Rs. 9 lakhs from the AOP. The company has spent a sum of Rs. 90,000 towards earning such income.* *(iii) The company has provided for income-tax (including interest under sections 234B and 234C of Rs. 62,000) for Rs. 3 lakhs and Rs. 5 lakhs towards share in loss of foreign subsidiary.*	**14**

	(iv) Amount debited to the Statement of Profit and Loss towards interest to a public financial institution is Rs. 12 lakhs. Of this, Rs. 4 lakhs was paid on 12-12-2019 only. *(v) The company committed breach of building norms while extending the factory building. The City Corporation initiated proceedings against the company and the company settled the issue by paying compounding fee of Rs. 1 lakh. This amount forms part of general expenses, which has been debited to the Statement Profit and Loss.* *(vi) In the administrative expenses, the company has debited a sum of Rs.70,000 towards fee for delayed filing of statement of TDS under section 234E of the Income-tax Act,1961.* *(vii) The company has credited revaluation surplus of Rs. 10 lakhs on fair valuation of assets under Ind AS 16 and Ind AS 38 to other equity.* *(viii) The company has credited Rs. 5 lakhs to other comprehensive income on fair valuation of equity instruments in which the company has Investment.* *(ix) Depreciation debited in the profit and loss account of Rs. 1.5 lakhs, the actual cost of the asset was already allowed as deduction u/s 35AD in P.Y. 2017-18.* *(x) The brought forward loss u/s 73A of A.Y. 2018-19 is Rs. 3 lakhs.* *(xi) Rs. 5 lakhs debited for expenditure towards agriculture extension project.* *(xii) The company sold its land and has credited to its profit and loss account Rs.15 lakhs being the difference between the sale price and the carrying amount as on 31st March 2019.* *The land was sold on 1/10/2019 at Rs.50 lakhs whereas it was acquired on 1/1/2017 at Rs.30 lakhs. On 1/2/2020 it invested Rs.12 lakhs in NHAI bond. CII of F.Y. 2019-2020 is 289 and of 2016-2017 is 264.* *You are required to compute the income-tax payable by the company for the assessment year 2020-21. The company is an Indian Accounting standard compliant company. Also suggest whether the company should opt for the provision of Section 115BAA.* *Note: The Turnover of company for the P.Y 2017 -18 was Rs. 390 crore.*	

Mock Test – 6

(Assessment of Partnership, AOP, BOI, Trust Taxation, Political Parties, Co-Operative Societies)

		Multiple Choice Questions	M
Q.1	I	*A public charitable trust registered under section 12AA for the previous year ended 31.3.2020, derived income of Rs.10 lakhs from properties held by trust and voluntary contributions from public 15 lakhs, out of which Rs.8 lakhs was applied for charitable purposes and Rs.4 lakhs towards repayment of loan taken for construction of orphanage. The total income of the trust for A.Y.2020-21 is –* *a) Rs.13 lakhs* *b) Rs.9.25 lakhs* *c) Rs.13.25 lakhs* *d) Rs.17 lakhs*	1
	II	*Kamala charitable trust, registered u/s 12AA, having its main object as medical relief, earned dividend income of Rs.3 lakhs, income of Rs.2 lakhs from mutual funds registered under section 10(23D) and agricultural income of Rs.4 lakhs during the P.Y.2019-20. Which of the following statements is correct?* *a) The trust has to apply such income for charitable purposes as per the provisions of section 11 to claim exemption in respect of such income.* *b) The trust can claim exemption under section 10(1), 10(34) and 10(35) in respect of its agricultural income, dividend and income from mutual funds, respectively, without applying such income for charitable purposes.* *c) The trust can claim exemption under sections 10(34) and 10(35) in respect of its dividend and income from mutual funds, respectively, without applying such income for charitable purposes. However, it cannot claim exemption under section 10(1) in respect of agricultural income without applying such income for charitable purposes.* *d) The trust can claim exemption under section 10(1) in respect of its agricultural income without applying such income for charitable purposes. However, it cannot claim exemption in respect of its income from mutual funds registered under section 10(23D) and dividend income of Rs.3 lakhs without applying such income for charitable purposes*	1
	III	*Mrs. Kavitha, wife of Mr. Sundar, is a partner in a firm. Her capital contribution of Rs.5 lakhs to the firm as on 1.4.2019 included Rs.3 lakhs contributed out of gift received from Sundar. On 2.4.2019, she further invested Rs.1 lakh out of gift received from Sundar. The firm paid interest on capital of Rs.60,000 and share of profit of Rs.50,000 during the F.Y.2019-20. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct?* *a) Share of profit is exempt but interest on capital is taxable in the hands of Mrs. Kavitha* *b) Share of profit is exempt but interest of Rs.40,000 is includible in the income of Mr. Sundar and interest of Rs.20,000 is includible in the income of Mrs. Kavitha* *c) Share of profit is exempt but interest of Rs.36,000 is includible in the income of Mr. Sundar and interest of Rs.24,000 is includible in the income of Mrs. Kavitha* *d) Share of profit to the extent of Rs.30,000 and interest on capital to the extent of Rs.36,000 is includible in the hands of Mr. Sundar*	1
	IV	*XYZ is a charitable trust registered u/s 12AA w.e.f 01.04.2010. During the P.Y. 2018-19, it received a specific corpus donation for construction of building which was claimed as exempt u/s 11 during the said previous year. Now, during the P.Y. 2019-20, it desires to claim depreciation on such building as application of its income. Comment upon the validity of the said claim of depreciation.* *a) Depreciation can be claimed as the acquisition of building was not claimed as application of income u/s 11(1)(a).* *b) Depreciation cannot be claimed as the specific corpus donation was already claimed as*	1

exempt during P.Y. 2018-19.

c) Depreciation can be claimed as it is a statutory deduction and no restriction regarding the same has been provided in section 11.

d) It is upon the discretion of XYZ to either claim specific corpus donation for construction of building as exempt in the year of receipt or claim depreciation on building as application of income during various years.

V During the P.Y.2019-20, Help Aid Charitable Trust registered under section 12AA received donations of Rs.80 lakhs, out of which Rs.10 lakhs were corpus donations and Rs.20 lakhs were anonymous donations. The trust applied Rs.40 lakhs towards its objects during the P.Y.2019-20. The tax liability of the trust for A.Y.2020-21 is – **1**

a) Rs.6,24,000
b) Rs.5,92,800
c) Rs.5,30,920
d) Rs.5,97,220

Descriptive Questions

Q.2 Helpage is a charitable trust set up on 1.4.2010 with the object of providing relief of the poor. Later on, in April, 2012, it changed its object to medical relief. It applied for registration on the basis of its new object, i.e., medical relief, on 1.9.2012 and was granted registration on 1.2.2013. **10**

On 1.4.2019, Helpage got merged with M/s. Medicare (P) Ltd, a pharmaceutical company not entitled for registration under section 12AA. All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. Medicare (P) Ltd. 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) Land

Location	Date of purchase	Stamp duty value on 1.4.2019	Value which the land would fetch, if sold in the open market on 1.4.2019	Book Value on 1.4.2019
		Rs.	Rs.	Rs.
Noida	1.9.2010	55 lakhs	58 lakhs	50 lakhs
Gurgaon	1.9.2013	100 lakhs	120 lakhs	110 lakhs

(ii) Shares

Type of shares	Date of purchase	Face value of each share	Purchase price of each share	Price at which each share is quoted on BSE as on 1.4.2019		Open market value as on 1.4.2019 #
				Highest price	Lowest price	
		Rs.	Rs.	Rs.	Rs.	Rs.
5000 Quoted equity shares of A Ltd.	1.5.2014	100	110	320	300	
2000 Preference shares of B Ltd.	1.9.2015	100	100	-	-	180

on the basis of report of Merchant Banker

(iii) Liabilities

Book value of liabilities on 1.4.2019 = Rs. 120 lakhs. This includes –
(a) Corpus fund Rs. 12 Lakhs.
(b) Provision for taxation Rs. 8 lakhs; and
(c) Reserves and Surplus Rs. 18 lakhs

Q.3 (3)

a) HelpAll charitable trust, having its main object as relief of poor, earned agricultural income of Rs. 2.80 lakh, dividend income of Rs. 1.10 lakh and income of Rs. 1.30 lakh from mutual funds specified under section 10(23D) during the P.Y.2019-20. The trust claims exemption under section 10(1), 10(34) and 10(35) in respect of its agricultural income, dividend income and income from mutual funds, respectively, without complying with the conditions laid down under section 11. Examine the correctness or otherwise of the claim of the trust.

b) HistoSpace charitable trust, having its main object as preservation of monuments of historic interest, purchased computers for Rs. 12 lakh in March, 2019 for the purposes of the trust and claimed the same as application of income in the P.Y.2018-19. It also claims depreciation @ 40% on such computers for P.Y.2019-20, while computing income for the purpose of application for that year. Examine the correctness or otherwise of the claim of the trust.

Q.4 (2)

Edu All Charitable Trust registered under section 12AA, following cash system of accounting, furnishes you the following information for P.Y. 2019-20:

a. Gross receipts from hospital Rs. 200 lakhs.
b. Gross receipts from medical college Rs.95 lakhs (offering recognized degree courses).
c. Corpus donations by way of cheque Rs. 42 lakhs and by way of cash Rs. 6 lakhs.
d. Anonymous donations by cash Rs. 12 lakhs.
e. Administrative expenses for hospital Rs. 75 lakhs.
f. Fees not realized from patients Rs. 18,00,000 as on 31st March, 2020.
g. Depreciation on assets of the trust Rs. 37,50,000. The entire cost of assets Rs. 250 lakhs claimed as application in the earlieryears.
h. Acquired a building for Rs. 80 lakhs on 01.06.2019 for expansion of hospital (cost of land included therein Rs. 50 lakhs). Stamp duty value of the land and building on the date of registration of sale deed Rs. 210 lakhs.
i. The trust gave corpus donation of Rs. 19 lakhs to Help Aid Trust having objects of charitable nature registered under section 12AA but not similar to the objects of the donor trust.

You are required to compute the total income of the trust and its income-tax liability in such a manner that it can avail the optimal benefit within the four corners of the Income- Tax Act, 1961.
Note: The trust does not want to seek accumulation of income by virtue of section 11(2) of the Act.

Q.5 (8)

Following is the Profit and Loss Account of Kalai & Co. for the year ended 31.03.2020:

Particulars	Rs.	Particulars	Rs.
Salary	1,89,500	Gross Profit	7,40,000
Contract Payments	1,50,000	Agricultural income (from lands in India)	40,000
Amount paid to university for scientific research	10,000	Dividend from Indian companies	15,000
Depreciation	1,10,000	Interest on income-tax refund	5,000
Working partners' salary	2,40,000		
Interest on capital	75,000		
Net Profit	25,500		
	8,00,000		**8,00,000**

Additional Information:

(i) Salary includes payment to partner's son of Rs.40,000. He was employed for only one month. The excess payment was ascertained at Rs.15,000.

(ii) The partnership deed provides for monthly salary to two partners @ Rs. 10,000 each and interest

on capital at 15% per annum.

(iii) Contract payments include a single contract given to Mr. R for Rs.35,000. No tax was deducted on such payment.

(iv) Depreciation eligible under section 32 has been computed and found as Rs.1,21,000.

Compute the income chargeable under the head "Profits and Gains of business or profession" of the firm for the assessmentyear 2020-21.

Q.6 (7)

Sanvitha & Co., is a partnership firm trading in fertilisers, consisting of two partners S and V, who both have individual incomes from all the other sources (except remuneration and interest from this firm) in excess of Rs. 10 lakhs.

For the year ended 31.03.2020, the turnover of the assessee is likely to be Rs. 90 lakhs.

The partnership deed provides for payment of remuneration to S, the working partner at Rs. 6 lakhs per annum and Rs. 1.2 lakhs per annum to V, non-working partner. S and V are amenable to drafting these terms differently, as per your advice.

Partners' capitals are Rs. 10 lakhs each and the deed authorises payment of simple interest at 15%.

Assuming that books of account are maintained, the profits before considering remuneration and interest on capital is Rs. 12.4 lakhs.

In the light of above, state

(i) Whether it will be advisable to opt for presumptive taxation u/s 44AD, if the firm and the partners are desirous of reducing their overall tax liability (tax of firm and the partners), or should the firm go for maintenance of accounts and audit u/s 44AB.

(ii) Will your answer be different, if the assessee were an LLP?

Q.7 (4)

AKP is a public charitable trust created under a trust deed for providing relief to physically challenged persons and registered under section 12AA. The following are the particulars of receipts of the trust during the year ending March 31, 2020 :

Particulars	Rs. in lakhs
Income from properties held by trust (net)	15
Income (net) from business (incidental to main objects)	14
Voluntary contributions from public (including the corpus donation of Rs. 7 lakhs)	18

The trust applied Rs. 18 lakh towards various activities and programmes undertaken for the benefit of physically challenged persons during the year. The trust has also paid Rs. 8 lakh towards repayment of a loan taken two years back for the purpose of construction of its centre for training the handicapped persons in various handicraft works and sports.

Determine the tax liability, if any of the trust for the Assessment Year 2020-21 and also state how the trust can mitigate such liability.

Q.8 (3)

Govinda and Vaamana were partners in a firm, which got dissolved consequent to the demise of Govinda. The firm had unabsorbed losses. Vaamana, who took over the business, has set off the said loss in his personal hands in the subsequent year. Such set off is not allowed by the Assessing Officer. Is his action correct ?

Q.9 (4)

Ray Charitable Trust was formed on 1st April, 2018. The object of the trust is to provide financial assistance to the individuals who are below the poverty line and undergoing medical treatment in hospitals. The trust makes direct-payments to the concerned hospitals where the individuals are admitted for treatment.

The trust applied for registration under section 12AA of the Income-tax Act, 1961 on 4th April, 2020 and the registration was granted by the Commissioner of Income Tax on 30th April, 2020.

Income of the trust from properties held in trust and voluntary contribution (not forming part of corpus of the trust) during the previous year 2018-19 and 2019-20 were Rs.3.50 lacs and 5 lacs respectively. The trust applied Rs.2 lacs and 3.50 lacs respectively, out of such incomes of the two years, towards its objects/purpose.

The trustees seek advice from you as to whether the trust is entitled to exemption under section 11 in the assessment for Assessment Year 2019-2020, even though registration under section 12AA was

sought and granted in April, 2020. The proceeding for Assessment Year 2019-2020 is pending before the Assessing Officer.
What should be your opinion?

Q. 10 Vatsan & Co is an AOP consisting of Ajay (age 55), Vijay (age 62) and Sanjay (age 57) with equal profit sharing rights. The Profit and Loss Account for the year ended 31.03.2020 is given below: **8**

	(Rs. in lakhs)		(Rs. in lakhs)
To Administration expenses	5.40	By Gross Profit	17.00
To Bank Interest (Term loan)	1.80		
To Donations	0.30		
To Salary:			
Ajay	1.00		
Sanjay	1.00		
To Interest on Capital @ 18%			
Ajay	1.20		
Vijay	1.80		
Sanjay	1.50		
To Net Profit			
Ajay	1.00		
Vijay	1.00		
Sanjay	1.00		
	17.00		17.00

Other information:

(i) Bank interest on term loan of Rs. 38,000 will not be paid till the 'due date' for filing the return specified in section 139(1).

(ii) Donations include Rs. 14,000 paid to an unrecognized trust and the balance to eligible institutions approved under section 80G.

(iii) Other income of Ajay, Vijay and Sanjay are Rs. 2,10,000; Rs. 2,90,000 and Rs. 2,45,000 respectively.

Compute the total income and taxability of Vatsan & Co. (AOP) and that of Ajay, Vijay and Sanjay for the Assessment Year 2020-21.

Q. 11 Bharathi Co-operative Housing Society collects fees at the time of transfer of flat, from the outgoing member, as well as the incoming member. As per the bye-laws, the receipts are used for meeting the various expenses of the society. During the year ended 31-03-2020, the society has collected a sum of Rs. 5 lakhs as transfer fees from outgoing members and like amount from the incoming members. The Assessing Officer (AO) has brought to tax the entire receipts of Rs. 10 lakhs. Is his action valid in law? **3**

Q. 12 Saipriya Charities had applied for registration of the trust u/s 12AA on 01-04-2019. No order was passed in this regard by the Commissioner of Income-tax/Director (Exemptions). Hence the trust took the view that its application was accepted and proceeded to file its return of income. Is this view of the trust correct in law? **3**

Q. 13 Ghosh Group of Educational Institutions, running three famous colleges in Kolkata, claimed exemptions under section 10(23C). In all these three colleges, there is a net surplus after meeting all its expenses. The Assessing Officer (AO) rejected the claim for exemption on the ground that the presence of net surplus leads to the inference that the assessee - institution does not exist solely for educational purposes. Is the rejection of the AO justified in law? **3**

Q. 14 The book of accounts maintained by a National Political Party registered with Representation of People Act, for the year ended in 31.03.2020 discloses the following receipts: **4**

Particulars	Amount (Rs.)
(a) Rent of property let out to a departmental store at Chennai	6,00,000
(b) Interest on deposits of other banks	5,00,000
(c) Contributions from 50 persons (records maintained) of Rs.22000 each	11,00,000

(d) Contribution @ Rs.2500 each from 440 members in cash	11,00,000
(e) Net profit of cafeteria in the premises at Delhi	3,00,000

Compute the total income of the Political Party with the reasons for inclusions or otherwise.

Q. 15 (8)

DLF Housing Ltd. is wholly owned subsidiary of DLF REIT. The Net Profit for the PY 2019-20 is Rs. 200 Lakhs after debiting / crediting the following items:

(i) Interest of Rs. 5 Lakhs paid towards loan taken from DLF REIT to construct commercial property on which tax is not deducted.

(ii) Cost of construction incurred during the previous year Rs. 300 Lakhs in respect of luxurious residential apartment project completed during the previous year. The said cost includes Rs. 50 Lakhs towards interest on loan taken from scheduled bank which was paid after the due date of the filing of the ROI. Out of 50 Units constructed during the previous year, 10 Units remained unsold.

(iii) Profit include Rs. 30 Lakhs i.r.t., affordable housing scheme for which deduction u/s 80IBA is available.

(iv) Profits of Rs. 20 lakhs from transfer of unquoted shares credited to profit & loss account (FVC: Rs. 80 lakhs, FMV: Rs. 90 lakhs). The shares were held for 6 months.

Calculate the tax payable of DLF Housing Ltd.

Q. 16 (14)

Net profit of ABC LLP for previous year is Rs. 20 lakh after the debit and credit of the following:

(i) Dividend received from various domestic companies during the previous year is Rs. 12 lakh.

(ii) Depreciation as per books Rs. 3 lakh.

(iii) Speculation profit on contract of goods settled without obtaining its delivery of Rs. 2 lakh.

(iv) Amount debited includes contribution of Rs. 1 lakh towards national laboratory.

(v) Rs. 2 lakh debited on account of bad debts in respect of debtors taken over of A Pvt. Ltd.

(vi) Rs. 10 lakh being incurred on 30/08/2019 towards replacing the existing ceiling of factory building which was in a very bad state.

(vii) The arrears of interest on loan taken by A Pvt. Ltd. of Rs. 8 lakh was converted in to a new loan repayable in 10 equal installment commencing from PY 19-20. The firm claimed the deduction of arrears of interest on loan.

(viii) Rs. 5 lakh, being sales tax dues of earlier years determined during the year on disposal of appeals by appellate authorities, for which the firm has furnished a bank guarantee and claimed deduction.

Additional Information:

Partner A,B,C were equal partner at the time of its formation as they held the shares in the erstwhile company. Partner A however retired on 31/3/20 to whom the land was distributed by the firm towards settlement of his dues. The FMV of the land as on 31/3/20 is Rs.90 lakhs . The SDV of the land as on this date was Rs.100 lakhs.

A Pvt. Ltd. was incorporated on 01/12/2011 in which A,B,C held shares equally. Finding it difficult to sustain the business being as a corporate entity, it converted itself as LLP on 31/07/2019. The following are the particulars of A Pvt. Ltd. as on 31-3-2019:

a) Unabsorbed depreciation - Rs. 13 Lakhs

b) Business loss Rs. 10 Lakhs (relating to P.Y. 2011-12)

c) Speculative loss of AY 16-17 is Rs. 2 lakhs.

d) Unadjusted MAT credit u/s 115JAA Rs. 8 lakhs

e) WDV of the assets as per 43(6) of the Income Tax Act:
Plant and Machinery (15%) Rs. 60 lakhs
Building (10%) Rs. 20 lakhs
Land (acquired in 2003-2004) is Rs.50 lakhs.

f) VRS expenditure incurred by the company during the P.Y. 2017-18 is Rs.25 lakhs. The company has been allowed deduction of Rs. 5 lakhs each year for the P.Y. 2017-18 and P.Y. 2018-19 u/s 35DDA.

g) The turnover of the company from P.Y.16-17 to P.Y.18-19 is less than Rs. 60 lakhs in each year.

	Compute the Tax liability of the firm for AY 2020-21.	

Mock Test – 7

(Return of Income, Assessment Procedure, Penalties and Prosecution, Revision, Settlement Commission, AAR, Recovery Proceedings)

		Multiple Choice Questions	M
Q.1	I	*An application for advance ruling was made on 31.05.2019 in relation to a transaction proposed to be undertaken by Mr. Andrew, a resident of Germany. On 07.07.2019, he decides to withdraw the said application.* *a) Application cannot be withdrawn once filed* *b) Application can be withdrawn on 07.07.2019 only with special permission of Principal Chief Commissioner* *c) Application cannot be withdrawn since 30 days from date of application have passed* *d) Application can be withdrawn on 07.07.2019 with permission of the AAR, if the circumstances of the case so justify*	1
	II	*XYZ Ltd. has failed to report an international transaction entered 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?* *(i) 2% of the value of transaction* *(ii) 50% of tax payable on under-reported income* *(iii) 200% of tax payable on under-reported income* *Choose the correct option* *a) Only (i)* *b) Only (iii)* *c) (i) & (ii)* *d) (i) & (iii)*	1
	III	*An Assessing Officer entered a hotel run by a person, in respect of whom he exercises jurisdiction, at 8.30 p.m. for the purpose of collecting information, which may be useful for the purposes of the Act. The hotel is kept open for business every day between 8 a.m. and 10 p.m. As per the provisions of section 133B,* *a) The A.O. cannot enter the premises at 8.30 p.m. since it is after sunset* *b) The A.O. can enter premises at 8.30 p.m. and take away books of account kept at the hotel after taking prior approval of the Principal Chief Commissioner or Chief Commissioner.* *c) The A.O. can enter premises at 8.30 p.m. and take away books of account kept at the hotel after recording reasons for doing so.* *d) The A.O. can enter premises at 8.30 p.m. but cannot take away books of account kept at the hotel*	1
	IV	*In the course of search operations under section 132 in the month of May, 2020, Mr. Aakash makes a declaration under section 132(4) on the earning of income not disclosed in respect of P.Y. 2019-20. He also explains the manner in which he has derived such income and he pays the tax together with interest on such income and declares such income in the return of income filed by him in the month of July, 2020. Is penalty leviable in this case?* *a) No penalty is attracted since Mr. Aakash has voluntarily made a declaration under section 132(4).* *b) Penalty@10% of undisclosed income would be attracted even if Mr. Aakash has voluntarily made a declaration under section 132(4).* *c) Penalty@30% of undisclosed income would be attracted even if Mr. Aakash has voluntarily made a declaration under section 132(4).* *d) Penalty@60% of undisclosed income would be attracted even if Mr. Aakash has voluntarily made a declaration under section 132(4).*	1
	V	*Mr. Ram, a resident individual aged 55 years, has not furnished his return of income for*	1

		A.Y.2020-21. However, the total income assessed in respect of such year under section 144 is Rs.12 lakh. Determine the quantum of penalty leviable under section 270A? a) Penalty leviable is Rs.1,79,400, being tax payable on total income of Rs.12 lakh b) Penalty leviable is Rs.89,700, being 50% of tax payable on Rs.12 lakh c) Penalty leviable under section 270A is Rs.53,300, being 50% of tax payable on under-reported income of Rs.9.50 lakhs (i.e., Rs.12 lakhs - basic exemption limit of Rs.2.50 lakhs) d) Penalty leviable under section 270A is Rs.1,06,600, being tax payable on under-reported income of Rs.9.50 lakhs (i.e., Rs.12 lakhs - basic exemption limit of Rs.2.50 lakhs)	
	VI	A private bank has not filed its statement of financial transaction or reportable account in relation to the specified financial transactions for the financial year 2019-20. A notice was issued by the prescribed income-tax authority on 1st October, 2020 requiring the bank to furnish the statement by 31st October, 2020. The bank, however, furnished the statement only on 15th November, 2020. What would be the penalty leviable under section 271FA? a) Rs.91,500 b) Rs.13,600 c) Rs.16,800 d) Rs.22,800	1
	VII	The assessment of Satpura Ltd. was completed under section 143(3) with an addition of Rs.18 lakhs to the returned income. Satpura Ltd. preferred appeal before the Commissioner (Appeals) which is pending now. Which of the following statements is incorrect? a) The A.O. can initiate reassessment proceedings in respect of income chargeable to tax which has escaped assessment, provided such income which has escaped assessment does not form part of the additions of Rs.18 lakhs to the returned income, which is the subject matter of appeal. b) The A.O. can pass an order under 154(1) to rectify a mistake apparent from the record, provided the rectification is in relation to a matter, other than the matter which has been considered and decided in the appeal before Commissioner (Appeals). c) Under section 264, the Commissioner can revise the order pending before the Commissioner (Appeals), if the revision pertains to a matter, other than the matter(s) covered in the appeal before Commissioner (Appeals). d) Under section 263, if the order is prejudicial to the interests of the revenue, the Commissioner can revise the order pending before the Commissioner (Appeals), if the revision pertains to a matter, other than the matter(s) covered in the appeal before Commissioner (Appeals).	1
	VIII	Mr. A failed to comply with the provisions of section 203A for which penalty of Rs.10,000 was levied under section 272BB. Mr. A approached his consultant and asked him to file an appeal before the Commissioner of Income-tax (Appeals) against the Penalty Order. Determine the appeal fee that is required to be paid by Mr. A for filing the said appeal. a) Rs.500 b) Rs.250 c) Rs.1,000 d) Rs.750	1
	IX	Suppose Mr. Naveen is an employee working in a public sector. What will be the consequence of the following transaction for A.Y. 2020-21? -He repaid a loan in cash of Rs.24,000 (including interest of Rs.5,000), which he took from his friend for higher studies. a) Disallowance under section 40A(3) of Rs.24,000	1

		b) Penalty under section 271E of Rs.24,000 due to violation of section 269T c) Penalty under section 271E of Rs.19,000 due to violation of section 269T d) No disallowance or Penalty under section 271E, since the principal loan amount is less than Rs.20,000	
	X	The Assessment Order under section 143(3) in the case of Mr. Z was passed on 31.03.2019 and the notice of demand was served on the assessee on 02.04.2019 for levy of tax and interest. Mr. Z paid the tax and interest due on 12.4.2019. An application was filed by Mr. Z under Section 270AA on 27.04.2019 before the Assessing Officer to grant immunity from imposition of penalty and the said application was rejected by the Assessing Officer vide order dated 14.05.2019. The said order was served on Mr. Z on 15.05.2019. By what date an appeal against the Assessment Order should be presented by Mr. Z before the CIT (Appeals)? a) 02.05.2019 b) 22.05.2019 c) 21.05.2019 d) 30.04.2019	1
	XI	Which of the following cannot be corrected while processing the return of income for A.Y.2020-21 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.	1
	XII	A search u/s 132 of the Income-tax Act, 1961 was carried out in the case of Mr. M on 20.12.2019. During the course of search, the assessee admitted the additional income of Rs.50 crore as additional sales for the financial year 2018-19. While filing his return of income in response to notice u/s 153A, M did not declare the said income. Determine the amount of penalty excluding surcharge and cess to be payable by M in respect of the said undisclosed income. a) Rs.5 crore b) Rs.10 crore c) Rs.15 crore d) Rs.30 crore	1
	XIII	Following are the details given in the case of PQR, which is a partnership firm for A.Y.2020-21: Returned total income: 1,00,00,000 Total income determined u/s 143(1)(a): 1,10,00,000 Total income assessed u/s 143(3): 1,50,00,000 Total income reassessed u/s 147: 2,00,00,000 Compute the amount of under-reported income, on which penalty shall be leviable on reassessment u/s 147. a) Rs.90,00,000 b) Rs.1,00,00,000 c) Nil d) Rs.50,00,000	1
	XIV	In case of Reema & Sons, a partnership firm, assessment proceedings were completed by the Assessing Officer u/s 148 of the Income-tax Act, 1961 at a total income of Rs.2,50,000 for A.Y. 2017-18. Aggrieved by the assessment order, the Assessee preferred an appeal before CIT(A)	1

		which also confirmed the action of the Assessing Officer and provided no relief to the Assessee. Thereafter, the Assessee is desirous of filing an appeal against the order of the CIT(A) before the Hon'ble ITAT. Guide him regarding the amount of fee that is required to be paid by him in respect of the appeal to be filed before ITAT. *a) Rs.500* *b) Rs.1,500* *c) Rs.2,500* *d) Rs.10,000*	
	XV	*Mr. X received an assessment order dated 11.11.2019 on 15.11.2019 wherein his total income was assessed at Rs.20 lakh. The returned income of X was Rs.5 lakh. However, Mr. X did not accept the assessment order and filed an appeal against the same before the Commissioner of Income Tax (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. X, what will be your advise to him regarding the submission of the said evidences?* *a) Commissioner of Income Tax (Appeals) has no power to accept any evidences other than the evidences already submitted before the Assessing Officer.* *b) Commissioner of Income Tax (Appeals) may accept the additional evidences if the conditions given in Rule 46A(1) of the Income-tax Rules, 1962 are satisfied.* *c) Commissioner of Income Tax (Appeals) may accept the additional evidences if the conditions given in Rule 46(1) of the Income-tax Rules, 1962 are satisfied.* *d) Commissioner of Income Tax (Appeals) has no power to reject any evidences which the Appellant wishes to submit before him during the appellate proceedings.*	**1**
	XVI	*A Bench of the Authority for Advance Rulings ("AAR") consists of a Chairman/Vice-chairman, one revenue member and one law member. An Assessee filed an application before the AAR pertaining to interpretation of certain provisions of the Income-tax Act, 1961. Determine which of the following persons can be a revenue member of the AAR for the purpose of adjudicating the said application?* *a) A person from the Indian Revenue Service who is qualified to be a member of CBDT* *b) A person from the Indian Customs and Central Excise Service who is qualified to be a member of CBEC* *c) A member from the Indian Legal Service* *d) Any person from the Indian Revenue Service*	**1**
	XVII	*Mr. Shiv was travelling from Delhi to Jodhpur on 05.07.2019 carrying FDRs of Rs.20 Lakhs. The said FDRs were seized by the police authorities and subsequently, requisitioned by the income-tax authorities u/s 132A. The requisition was made on 20.07.2019. Now, the Assessing Officer has issued notices to Shiv u/s 153A for A.Y. 2010-11 to A.Y. 2019-20. Whether the said notices issued by the Assessing Officer u/s 153A are valid?* *a) Invalid. Notices can be issued u/s 153A in the present case by the Assessing Officer only for A.Y. 2014-15 to A.Y. 2019-20, since FDRs do not constitute an asset for the purpose of section 153A.* *b) Invalid. Notices can be issued u/s 153A in the present case by the Assessing Officer for A.Y. 2014-15 to A.Y. 2020-21.* *c) Notices are valid for A.Y. 2014-15 to A.Y. 2019-20. However, for A.Y. 2010-11 to A.Y. 2013-14, notices can be issued u/s 153A only if the Assessing Officer has any evidence which reveals that income, represented in form of asset is greater than or equal to Rs.50 lakhs.* *d) Notices are valid for A.Y. 2010-11 to A.Y. 2019-20 as notices in case of requisition can be issued for 10 assessment years immediately preceding the A.Y. relevant to the P.Y. in*	**1**

which requisition is made.

XVIII *P Ltd. is a domestic company which filed its return of income for A.Y. 2020-21 declaring a total income of Rs.1,15,00,000. The assessment in its case was opened by the Assessing Officer by issuing notice u/s 143(2). The Assessing Officer doubted the genuineness of loans taken by the company and added an amount of Rs. 5,00,000 to the total income u/s 68 as cash credits. What shall be the effective rate at which the said income of Rs.5,00,000 shall be taxable in the hands of P Ltd.?* **1**

(a) 77.25 %
(b) 66.768 %
(c) 78 %
(d) 33.384 %

XIX *In the course of search operations under section 132 in May, 2020, Mr. Hari makes a declaration under section 132(4) on the earning of income in respect of P.Y.2019-20 not disclosed in the books of account. Mr. Hari explains the manner in which income was derived and pays the tax, together with interest in respect of such income. However, he does not disclose such income in his return of income filed on 31.7.2020. Is penalty leviable in this case, and if so what is the quantum of penalty?* **1**

a) No penalty is leviable since Mr. Hari has made a declaration under section 132(4)
b) Penalty@10% is leviable
c) Penalty@30% is leviable
d) Penalty@60% is leviable

XX *A Ltd. filed its return of income for A.Y.2020-21 on 30th September, 2020. The return is selected for regular assessment under section 143(3). The time limit for service of notice under section 143(2) in this case is –* **1**

a) 31.3.2021
b) 30.6.2021
c) 30.9.2021
d) 31.3.2022

Question No. XXI to XXV are based on the following information: **1**

M/s. MNO is a firm liable to tax@30%. The following are the particulars furnished by the firm for A.Y.2020-21:

	Particulars of total income	Rs.
(1)	As per the return of income furnished u/s 139(1)	40,00,000
(2)	Determined under section 143(1)(a)	50,00,000
(3)	Assessed under section 143(3)	65,00,000
(4)	Reassessed under section 147	85,00,000

Mr. N, a resident individual of the age of 58 years and a partner of the above firm, has not furnished his return of income for A.Y.2020-21. However, his total income assessed in respect of such year under section 144 is Rs.15 lakh.

XXI *M/s. MNO is deemed to have under-reported its income since:* **1**
(1) Income determined under section 143(1)(a) exceeds income declared as per return of income furnished u/s 139(1)
(2) Income assessed under section 143(3) exceeds income determined under section 143(1)(a)
(3) Income reassessed under section 147 exceeds income assessed under section 143(3)
The correct answer is –

a) (1) and (2) above

		b) (1) and (3) above c) (2) and (3) above d) (1), (2) and (3) above	
	XXII	Mr. N is deemed to have under-reported his income since: (1) He is a partner of a firm which has under-reported its income (2) He has not filed his return of income (3) His assessed income exceeds Rs.2,50,000 The correct answer is – a) (1) and (2) above b) (1) and (3) above c) (2) and (3) above d) (1), (2) and (3) above	1
	XXIII	Assuming that the underreporting of income is not on account of misreporting and none of the additions or disallowances made in assessment qualifies under section 270A(6), penalty leviable on M/s. MNO under section 270A at the time of assessment would be: a) Rs.3,12,000 b) Rs.1,56,000 c) Rs.4,68,000 d) Rs.2,34,000	1
	XXIV	Assuming that the underreporting of income is on account of misreporting and all the additions or disallowances made in reassessment qualifies under section 270A(6), penalty leviable on M/s. MNO under section 270A at the time of reassessment would be: a) Rs.3,12,000 b) Rs.2,34,000 c) Rs.12,48,000 d) Rs.6,24,000t	1
	XXV	Assuming that the under-reporting of income is not on account of misreporting, the under-reported income of Mr. N and penalty leviable on Mr. N under section 270A would be: a) Under-reported income Rs.15,00,000; penalty u/s 270A Rs.2,34,000 b) Under-reported income Rs.12,50,000; penalty u/s 270A Rs.97,500 c) Under-reported income Rs.15,00,000; penalty u/s 270A Rs.1,36,500 d) Under-reported income Rs.12,50,000; penalty u/s 270A Rs.1,36,500	1
	XXVI	Mr. Akash and Mr. Manish are partners in AM & Co. They were engaged in business of selling packaging material in the state of UP. In order to save tax, they sold goods to their respective HUFs. HUFs further sold goods to their customers. This arrangement led to tax saving of Rs. 2 lac for A.Y. 2020-21 by AM & Co. Revenue took a stand that this is a case of "Tax Evasion" and issued notice u/s 148 to the firm AM & Co. On the basis of judicial decisions, what is the correct nature of this arrangement undertaken by Mr. Akash and Mr. Manish: a) Tax Planning b) Tax Avoidance c) Tax Evasion d) Tax Management	1
	XXVII	For A.Y, 2019-20 XYZ Ltd. filed its return of income on 14.09.2019 declaring total income of Rs.80 Lakhs. The Assessing Officer issued notice under Section 143(2) to XYZ Ltd. on 23.09.2020 stating that there are certain points in connection with the return of income submitted by the Company on which he would like to seek some other information. The Company attended the	1

		assessment proceedings and the Assessment Order for A.Y. 2019-20 was passed under Section 143(3) by the Assessing Officer on 31.05.2021. Determine whether the said Assessment Order is barred by limitation. *a) Yes, the Assessment Order is barred by limitation as the time limit for passing Assessment Order expired on 31.03.2021.* *b) Yes, the Assessment Order is barred by limitation as the time limit for passing Assessment Order expired on 31.03.2020.* *c) No, the Assessment Order is not barred by limitation as the time limit for passing Assessment Order expires on 31.12.2021.* *d) No, the Assessment Order is not barred by limitation as the time limit for passing Assessment Order expires on 31.03.2022.*	
	XXVIII	*After serving proper notice under the respective sections, which of the following assessments can be concluded without giving opportunity of being heard to assessee?* *a) Assessment under section 143(3)* *b) Re-assessment under section 147* *c) Assessment under section 144* *d) Assessment under 153A in conformity with the directions issued under section 144C(5)*	**1**
	XXIX	*Your client Mr. Satish, did not oppose during the proceedings of scrutiny assessment. The Assessing Officer passed the order with a demand to be paid. Mr. Satish, however, now he feels that he missed to report a major expenditure during filing of return and proceedings. Assuming he can act in time limit, the remedial course available to him is to –* *a) File an appeal before Commissioner of Income- tax (Appeals) under section 246A(1)* *b) Move a revision petition before the Principal Commissioner or Commissioner of Income - tax under section 264* *c) Either of the above. However revision option can be opted for only if time limit for filing appeal has expired, unless Mr. Shah has waived his right of appeal* *d) He cannot opt for remedial course since he did not oppose during proceedings.*	**1**
	XXX	*You are representing Ms. Deepak in proceedings initiated under section 147. You had appeared couple of times and shared the submissions as asked by Assessing Officer. How ever, before conclusion, it came to your knowledge, that Ms. Deepak was not served the notice for assessment properly. What can be the possible course of action?* *a) Appeal on the ground of invalid notice to CIT(A)* *b) Object against non-service of notice anytime before completion of assessment* *c) Appeal on the ground of invalid notice to Appellate Tribunal* *d) Not object, since you have appeared and co -operated in the proceedings*	**1**
	XXXI	*Which of the followings are the consequences to be borne by an assessee on account of filing of return of income for A.Y. 2019 -20 after the due date prescribed under section 139(1) of the Income-tax Act, 1961?* *(i) Liability to pay interest u/s 234A.* *(ii) Liability to pay late filing fee u/s 234F.* *(iii) Unabsorbed depreciation cannot be carried forward.* *(iv) Deduction u/s 80-IA will not be available.* *(v) Belated return of income cannot be revised.* *(vi) Business loss incurred cannot be carried forward to subsequent years.* *a) (i), (ii), (iv), (v), (vi)*	**1**

		b) (i), (ii), (iv), (vi) c) (i), (iii), (iv), (v), (vi) d) (i), (ii), (iv), (v)	

Descriptive Questions

Q.2	*ABC Ltd. has approached the Supreme Court under a special leave petition. There has been a delay of 439 days in filing the appeal under section 260A for which reason ABC Ltd. requested for a condonation of delay under section 14 of Limitation Act, 1963. The company submitted that the delay was on account of pursuing an alternate remedy of filing a miscellaneous application before the Income-tax Appellate Tribunal (ITAT) under section 254(2).* *From the above facts, examine whether delay in filing appeal under section 260A can be condoned under section 14 of Limitation Act, 1963 where the stated reason for delay is the pursuance of an alternate remedy by way of filing an application before the ITAT under section 254(2) for rectification of mistake apparent on record.*	3
Q.3	*M/s. Uranus LLP filed its return of income for the A.Y. 2017-18 on 23-07-2017. The assessment u/s 143(3) was completed on 27th April, 2018. The Assessing Officer made two additions to the income of the LLP, namely, Rs. 12 lakhs towards unexplained investment u/s 69 and Rs. 4 lakhs u/s 40(b) due to excess interest paid to partners.* *The LLP, being aggrieved, contested the addition of Rs. 12 lakhs under section 69 and filed an appeal before the Commissioner (Appeals). The appeal was decided on 12th February, 2020 against the LLP.* *In March, 2020, the LLP approaches you to know whether it should apply for revision to Principal Commissioner u/s 264 or for rectification u/s 154 to the Assessing Officer as regards disallowance u/s 40(b). You are required to advise the LLP, keeping in mind the relevant provisions of income-tax law.*	3
Q.4	*M/s. Pluto LLP filed its return of income for A.Y.2019-20, declaring total income of Rs. 25 lakhs, on 2nd October, 2020. On processing of return, the total income determined under section 143(1)(a) was Rs. 30 lakhs, after disallowing claim for deduction under section 10AA on account of late furnishing of return of income. Thereafter, on scrutiny, the Assessing Officer made some additions under section 40(a)(ia) and section 43B and passed an assessment order under section 143(3) assessing total income of Rs. 40 lakhs. Later on, the Assessing Officer noticed that certain income had escaped assessment and issued notice for reassessment under section 148. The total income reassessed under section 147 was Rs. 45 lakhs.* *Considering that none of the additions or disallowances made in the assessment or re - assessment as above qualifies under section 270A(6), compute the amount of penalty to be levied under section 270A of the Income-tax Act, 1961 at the time of assessment under section 143(3) and at the time of reassessment under section 147 (Assume under- reporting of income is not on account of misreporting).*	6
Q.5	*The assessment of Lambda Ltd. was completed under section 143(3) with an addition of Rs. 22 lakhs to the returned income. The assessee-company preferred an appeal before the Commissioner (Appeals) which is pending now.* *In this backdrop, answer the following:* *(i) Based on fresh information that there was escapement of income for the same assessment year, can the Assessing Officer initiate reassessment proceedings when the appeal is pending before Commissioner (Appeals)?* *(ii) Can the Assessing Officer pass an order under section 154 for rectification of mistake in respect of issues not being subject matter of appeal?* *(iii) Can the assessee-company seek revision under section 264 in respect of matters other than those preferred in appeal?* *(iv) Can the Commissioner make a revision under section 263 both in respect of matters covered in appeal and other matters?*	8
Q.6	*Examine the correctness or otherwise of the following statements with reference to the provisions of the Income-tax Act, 1961:*	4

	(i) The Commissioner (Appeals) cannot admit an appeal filed beyond 30 days from the date of receipt of order by an assessee. (ii) The Appellate Tribunal is empowered to grant indefinite stay for the demand disputed in appeals before it.	
Q.7	Mr. Singh"s income tax assessment for the Assessment Year 2011-12 was made by the Assessing Officer on 30th November, 2013 after making certain disallowance under Section 40A(3). Mr. Singh preferred an appeal to the Commissioner (Appeals) contesting the disallowance and the Commissioner (Appeals) passed the order of appeal on 31st December, 2016. The Assessing Officer gave the appeal effect by passing an order on 1st February, 2017. Thereafter, Mr. Singh noticed that the Assessing Officer did not consider brought forward loss of Assessment Year 2010-11, though such loss was assessed by the Assessing Officer and duly claimed by Mr. Singh in the return of income for the Assessment Year 2011-12. Mr. Singh filed an application under Section 154 of the Income Tax Act on 1st January, 2020. The Assessing Officer rejected the application on the ground that such application was time-barred. Explain with reasons, the correctness or otherwise of the contention of the Assessing Officer.	6
Q.8	The appeal of Mr. Kumar, a non-resident pertaining to the assessment year 2018-19 is pending before Income Tax Appellate Tribunal. The issue involved in the appeal is taxability of certain income in India. The same issue persists for the assessment year 2019-20. Mr. Kumar's friend, Mr. Rangachari, who is also a non-resident, has obtained an advance ruling under Chapter XIX-B of the Income-tax Act on identical issue. Mr. Kumar proposes to use the said ruling for his assessment pertaining to assessment year 2019-20. Advise Mr. Kumar whether his proposal is tenable.	4
Q.9	Discuss the validity of following statements: (i) Mr. A has long term capital gain of Rs. 1 lakhs from sale of listed shares for the year 2019-20. He has no other income chargeable to tax. As the long term capital gain is exempt upto Rs. 1 lakhs under section 112A, he need not file his return of income for the Assessment Year 2020-21. (ii) A belated return under section 139(4) cannot be furnished after the end of the relevant assessment year. (iii) A belated return filed under section 139(4) cannot be revised. (iv) Where the return is filed without payment of self-assessment tax it would be deemed as defective return.	8
Q.10	(i) Mr. Bharadwaj (age 50) returned to India in April, 2018 after remaining outside India for 22 years. He continued to hold a bank account outside India during the financial yaer 2019-20. In September, 2018 the Assessing Officer wants to issue a notice under section 148 for the assessment year 2007-08 in order to tax a vacant land purchased (outside India) out of income chargeable to tax in India and which excepted assessment previously. Is the issue of notice valid in law? (ii) A notice under section 143(2) was served on Mr. Imaan for the assessment year 2019-20 on 05.09.2020. State the time limit within which the assessment would be completed in his case. (iii) Can the Joint Commissioner issue directions to the Assessing Officer for completion of assessment in a particular case ? Is such direction binding on the Assessing Officer ? (iv) In the assessment order passed under section 143(3) dated 10.10.2020 for the assessment year 2018-19 there is an error apparent on record by not allowing set off of brought forward depreciation. The assessee wants to know the time limit for passing order of rectification under section 154. State.	8
Q.11	Short Note: Assessment of persons leaving India.	4
Q.12	Fried pepper Inc (FPI), a foreign company, is supplying frozen chicken to several Indian concerns, including LMN & Co. FPI has made an application to the AAR for determination of the rate of tax to be applied on its total income arising from the said operations in India. LMN & Co, has made an application to the ITO, TDS Ward for determination of the rate of tax to be deducted at source from payments to be made to FPI.	6

	The AAR wants to reject the application of FPI on the ground that the matter is already pending before the income-tax authority. Is this stand tenable in law?	
Q. 13	*Search under section 132 was conducted in the premises of Mr. Balaji on 15.12.2019. Incriminating materials such as unaccounted sale deed dated 08.10.2011 for ` 60 lakhs and company deposits dated 05.07.2008 for ` 30 lakhs were found in addition to unaccounted transactions of his business by name Balaji Traders which commenced from 01.04.2015. The assessment under section 143(3) for the assessment year 2018-19 is pending and reassessment proceeding for the assessment year 2017- 18 was also pending on the date of search.* *(i) State the assessment years for which notice can be issued for making post search assessments.* *(ii) What will happen to regular assessment under section 143(3) and reassessment under section 147 because of search?* *(iii) Can the unaccounted company deposits be subjected to tax in case Mr. Balaji is a non-resident?*	**6**
Q. 14	*Venkat & Co. a partnership firm was constituted on 01.06.2015 with four partners. All the partners contributed ` 10 lakhs each by way of capital. While examining the return of the Assessment Year 2016-17, the Assessing Officer verified the source of investments made by the partners. Not satisfied with the explanation of the partners/firm, the Assessing Officer assessed to tax ` 25 lakhs as unexplained cash credit under section 68 of the Act in the hands of the firm. Decide the validity of the action of the Assessing Officer.*	**4**
Q. 15	*Saraswati Ltd. has received a proper notice under section 148 for the Assessment Year 2017-18 on 22.03.2020. They also anticipate similar notices for the Assessment Years 2014-15 and 2015-16 for which they have already furnished return of income and for which assessments have been completed. On a scrutiny of the books of account produced, you have seen huge amounts of income which has escaped taxation. The tax effect for AY 2017-18 is ` 35 lakhs and for AYs 2014-15 and 2015-16 the differential tax is likely to exceed ` 1 crore.* *The company seeks your advice as to what should be done now. Advise the company suitably.*	**7**
Q. 16	*Short Notes:-* *(a) Best Judgement Assessment* *(b) Memorandum of Cross Objection* *(c) Condonation of delay in filling appeal before CIT (Appeal)*	**12**
Q. 17	*The assessment of X Ltd. for AY 2018-19 was pending and in a meanwhile for AY 2014-15 the High Court gave decision in favour of the assessee on 10/02/2019 towards refund of Rs. 10 Lakhs. The HC order is received by CIT on 03/03/2019. AO gave the effect to order on 17/08/2019. In light of the above, answer following:* *(i) Calculate the amount of interest u/s 244A on the assumption that the tax was paid on 01/05/2018 on the basis of the notice of demand served u/s 156 for AY 2014-15.* *(ii) Whether the AO can withhold the refund due for AY 2014-15?* *(iii) Whether the refund due for AY 2014-15 could be adjusted against the demand raised for AY 2018- 19.*	**6**
Q. 18	*X Plc, a foreign company, registered in UK, derives its value substantially from investments made in India. Mr. Jack, a UK resident, transfers the shares to Mr. Amit, a resident and ordinarily resident in India. Based on this, answer the following:* *a) Whether Mr. Amit is liable to deduct tax u/s 195 towards the amount paid to Mr. Jack for acquiring the shares of X Plc.* *b) What would be your answer if Mr. Jack holds only 3% voting power in X Plc.* *c) Whether Mr. Amit shall be obligated to file ROI u/s 139(1) considering the fact that his total income is on Rs. 2,00,000 from various sources for the relevant AY* *d) What would be your answer if X Plc is a foreign portfolio investor and Mr. Jack sold shares of X Plc to Mr. Amit* *e) Does location of fund manager in India attract chargeability of FII in India.*	**8**
Q. 19	*Examine the correctness or otherwise of the following propositions in the context of the Income - tax*	**3**

	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.*	
Q. 20	*The assessment of Mr. Sahaj for A.Y.2012-13 was made on 28.3.2014 making an addition of Rs. 3,25,000 for a certain income received during the P.Y.2011 -12. The assessee contested the addition before Commissioner (Appeals) but lost the case. The Appellate Tribunal passed an order on 26.2.2019 holding that the said income was not taxable in the P.Y.2011 -12 but the same was taxable in the year of accrual, being P.Y.2006-07 relevant to A.Y.2007-08. The Assessing Officer issued notice under section 148 for A.Y.2007-08 in March 2019 bringing to tax the sum of Rs. 3,25,000. Is the notice valid?*	**4**
Q. 21	*Cash of Rs. 51 lacs was seized on 12.9.2019 in a search conducted as per section 132 of the Act. The assessee moved an application on 27.10.2019 to release such cash after explaining the sources thereof, which was turned down by the department (not satisfied with the explanation given by the assessee). Can the department withhold the explained money? Examine.*	**3**
Q. 22	*An assessee had credited a sum of Rs. 80,000 in cash in the account of Manan, said to represent a loan obtained from him. The Assessing Officer, having gone into the genuineness of the transaction, disbelieved the story of loan and treated the sum of Rs. 80,000 as the income of the assessee from undisclosed sources. He also started proceedings under section 271D and levied a penalty of Rs. 1,00,000 on the assessee for having accepted the loan in contravention of section 269SS. Examine the correctness of the levy.*	**3**
Q. 23	*The assessment of Vijaya Ltd. was completed under section 143(3) with an addition of Rs. 28 lakhs to the returned income. Vijaya Ltd. preferred appeal before the Commissioner (Appeals) which is pending now.* *In this backdrop, examine the following issues:* *(I) Can the Assessing Officer pass an order under section 154 for rectification of mistake in respect of issues not being subject matter of appeal?* *(II) Can the assessee-company seek revision under section 264 in respect of matters other than those preferred in appeal?* *(III) Can the Commissioner make a revision under section 263 both in respect of matters covered in appeal and other matters?*	**3**
Q. 24	*"The term 'Advance ruling' includes within its scope, a determination by the Authority for Advance Rulings only in relation to a transaction undertaken by a non-resident applicant". Discuss the correctness or otherwise of this statement, as per the income tax law.*	**2**
Q. 25	*"Proceedings cannot be initiated under the Act, unless a proper notice to this effect has been served upon." In this context answer:* *(I) What are the prescribed modes of service of such notice?* *(II) On whom should the notice be addressed and served upon in the cases where the assessee is a* *- dissolved firm* *- partitioned HUF.*	**4**
Q. 26	*X, an individual whose total sales in the business of food grains for the year ending 31.3.2020 was Rs. 205 lakhs, did not maintain books of account for P.Y.2019-20, even though his turnover exceeded Rs.50 lakhs in the P.Y.2018-19. The Assessing Officer levied penalty of Rs. 25,000 under section 271A for non-maintenance of books of account and penalty of Rs. 1,02,500 under section 271B for not getting the books audited as required by section 44AB. Is the Assessing Officer justified in levying penalty under section 271B?*	**3**
Q. 27	*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 1.1.2019. The bench could not function thereafter till 1.2.2020 and therefore, the disputed matter could not be disposed off. The Assessing Officer attached the bank account on 16.2.2020 and recovered the amount*	**4**

	of Rs. 15 lacs against the arrear demand of Rs. 25 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.	
Q . 28	*The assessee had a diagnostic laboratory in Kollam and a branch at Kottarakara. A survey under Section 133A was conducted, consequent to which the assessee filed its return of income. On the basis of certain incriminating documents and materials unearthed during the survey, a notice under section 148 was issued. Subsequently, the incomes were assessed for assessment years 2009-10 and 2010-11 under section 143(3) read with section 147. The assessment was completed under section 143(3) read with section 147. However, a notice under section 143(2) was not issued.* *Whether failure to issue notice under section 143(2) would vitiate the assessment under section 147, notwithstanding the assessee's participation in the proceedings? Would section 292BB come to the rescue of the Revenue authority if they omit to issue notice under section 143(2)?*	**3**
Q . 29	*Kamal made an application to the AO for sale of gold bars seized during search u/s 132 and adjustment of tax liability on undisclosed income surrendered during search. The AO rejected the application of the Kamal on the ground that only when the assessment is completed and tax demand is crystallized, recovery can be initiated. Can the Kamal application, for adjustment of tax liability on income surrendered during search by sale of seized gold bars, been entertained where assessment has not been completed?*	**3**
Q . 30	*The petitioner is a dealer in real estate at Amritsar. A search was conducted on August 21, 2009 at his business and residential premises under section 132(1) subsequent to which the assessee filed an application before the Settlement Commission under section 245C(1). The case was settled before the Settlement Commission on December 12, 2014. Pursuant to the assessment after settlement, the petitioner was unable to pay the amount due by the stipulated date. He sought an extension for 14 months but was only given time until July 31, 2015.The assessee filed a writ petition before the High Court seeking quashing / modification of the Settlement Commission's order granting partial extension of time. By the time the matter was heard by the Supreme Court, he had paid off all pending amounts. Whether payment of sums due, after the deadline stipulated by the Settlement Commission, would save the petitioner from withdrawal of immunity from prosecution?*	**3**
Q . 31	*Mr. Vallish had approached the Settlement Commission for waiver of interest under sections 234A to 234C of the Income-tax Act, 1961. The Settlement Commission partially waived the interest but refused to grant interest on refund on the grounds that section 244A does not provide for payment of interest in such cases. Further, the Settlement Commission contended that its power to waive interest does not enable it to provide for payment of interest under section 244A. Discuss the correctness of the Settlement Commission's action in denying to grant interest on refund.*	**3**
Q . 32	*Mr. Surya filed its return of income for A.Y. 2019-20 on 6th June, 2019. The return is selected for regular assessment u/s 143(3) for which notice u/s 143(2) was not served to Assessee. He still participated in proceedings. The proceedings were deemed to be valid as per A.O due to Sec 292BB which cures the defects identified in notice u/s 143(2) once assessee participate in proceedings.* *State whether the Non-Issuance of the notice is a defect not curable under section 292BB inspite of participation by the assessee in assessment proceedings if not, whether the assessment order can be challenged by the Mr. Surya.*	**3**
Q . 33	*XYZ Ltd has filed its return of income for A.Y. 2019-20 on 19.11.2019. On 03.01.2020, XYZ ltd decided to amalgamate with PQR Ltd & the same was approved by High Court w.e.f. 01.04.2019. PQR Ltd have intimated these amalgamation on 30.04.2020 to Assessing Officer. Notice u/s 143(2) was issued to XYZ Ltd on 25.09.2020 which was followed by section 142(1). TPO passed an order making an adjustment in respect of royalty. A draft assessment order was passed in the name of the amalgamating Co, XYZ Ltd. The amalgamated company, PQR Ltd, participated in the assessment proceedings and also filed an appeal before the Dispute Resolution Panel (DRP) as successor in interest of XYZ Ltd. No objection was taken by PQR Ltd before the DRP that the draft assessment order was passed in the name of XYZ Ltd. The DRP issued its final assessment order on October 31, 2023 in the name of XYZ Ltd. In appeal before the Tribunal, the assessee, PQR Ltd, raised the objection that the*	**3**

	assessment proceedings were continued in the name of the non-existent entity XYZ Ltd and that the final assessment order which was also made in the name of a non-existent entity would be invalid. The Tribunal set aside the final assessment order on the ground that it was void ab initio, having been passed in the name of a non-existent entity. The High Court affirmed the decision of the Tribunal. *Would participation of the amalgamated company, PQR Ltd, in the assessment proceedings operate as an estoppel against law?*	
Q . 34	*Mr.Y filed an appeal to High court & while filing the appeal it also mentioned the question of law on which the appeal was based . HC accepted such appeal & provided it's decision based on the question asked by Mr.Y u/s 260A(2) without framing substantial question of law u/s 260A(3).* *Whether while deciding an appeal is it mandatory for HC to frame substantial question of law or can it decide based on question urged by appellant?*	**3**
Q . 35	*Mr. Pritesh has filed his appeal at appellate tribunal but the appeal was dismissed only with the reason that assessee had not appeared on the appointment date of hearing given by Tribunal & not on the merits of the case.* *Whether appeal can be filed to High court by Mr. Pritesh?*	**3**
Q . 36	*In A.Y.2016-17, the Vikas Co-op bank claimed deduction under section 36(1)(v) in respect of its contribution towards gratuity fund for the benefit of its employees. No disallowance was made in respect of such contribution in assessment order passed under section 143(3).* *Whereas in A.Y.2020-21, the Assessing Officer issued a notice under section 148, recording reasons to believe that the Vikas Co-op bank has not disclosed fully and truly all material facts necessary for assessment, since it failed to produce Commissioner's order of approval of the gratuity fund for the purpose of claiming deduction under section 36(1)(v). Thus, he came to a conclusion that the income of the assessee to the extent of contribution towards gratuity fund has escaped assessment under section 147.* *Whether, in this case, re-opening the assessment under section 148 was merely on account of a change of opinion of the Assessing Officer, there being no failure on the part of the assessee to disclose truly and fully all material facts.*	**3**
Q . 37	*HelpAll, a trust registered under section 12AA, ran an educational institution. It paid rent for the building occupied by it. The Assessing Officer found that the TDS by the assessee was deposited belatedly and imposed a penalty under section 271C equal to the amount of tax payable. The explanation offered by the HelpAll Trust for the delay is that the clerk failed to discharge her duties properly. It was also noticed that the assessee had been making the payments piecemeal throughout the year and not deducting the tax on its payment in the respective months.* *The HelpAll Trust contended that it is a trust registered under section 12AA, and therefore, not obliged to carry out an audit as provided under section 44AB. Only those persons covered under section 44AB would have to deduct tax at source under section 194-I.* *Whether the contention of the HelpAll Trust was tenable under law?*	**3**
Q . 38	*A receiver was appointed by the Gujarat High Court in a suit filed in 1957 in respect of properties, including one in New Delhi, owned by the HUF of Mr. Sumeet. The property at New Delhi was sold to Mr. Pritesh by the Income-tax Department for recovery of income- tax dues of the HUF. Mr. Sumeet objected stating that no leave was obtained from the Gujarat High Court by the Department for such sale. The Department filed an application in the suit praying for leave to complete the sale of the Delhi property in favour of Mr. Pritesh. Thereafter, many appeals/applications were preferred by both the respondents and appellants. While passing an order, the Gujarat High Court made an error apparent from record, overlooking section of 293 of the Income-tax Act, 1961, in directing a civil suit to be pursued at Delhi. The said order was recalled for review and error apparent was corrected. After review, Gujarat High Court restored the writ to be heard on its own merits.* *whether the High Court is justified in recalling and reviewing its order to correct an apparent error, i.e., overlooking the provisions of section 293 of the Income- tax Act, 1961 and directing a civil suit to be pursued.*	**3**

Q . 39	*Rose N, LLP of UK, carried business in India against which a demand of Rs. 50 lakhs for A.Y 2017-18 is outstanding. The LLP does not have any assets in India and has also closed the business. The Tax Recovery Officer (TRO) cannot recover such demand by having attachment on the assets of Rose N, LLP located in UK.*	**4**