



FOR CA FINAL EXAM PREPARATION

CA Final 2021 Question Paper · Paper 7 Direct Tax Laws and International Taxation

EXAM

CA Final

YEAR

2021

TYPE

Question Paper

SUBJECT

Paper 7 Direct Tax Laws and International Taxation

DATE

January 2021

Final New Syllabus**Paper - 7**

(1)

Direct Tax Laws &**TLM2****JAN 2021**

Roll No.

Total No. of Printed Pages – **15**Total No. of Questions – **6**Maximum Marks – **70****GENERAL INSTRUCTIONS TO CANDIDATES**

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

PART – II**70 marks**

- (1) Question paper Comprises **6** questions. Answer Question No. **1** which is compulsory and any **4** out of the remaining **5** questions.
- (2) Working notes should form part of the answer.
- (3) Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.
- (4) All questions relate to Assessment Year 2020-21, unless stated otherwise in the question.

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PART – II

1. Dinkar Synthetics Ltd. engaged in the business of manufacturing of textile goods of suiting and shirting and operating since 2010 shows Net Profit of ₹ 75 lacs as per Profit and Loss Account for the year ended 31-03-2020. 14

Net profit has been calculated after debiting/crediting the following items :

- (1) The company used to include interest cost while valuing its stock of finished goods up to the financial year 2018-19. During the financial year 2019-20, the company changed its accounting policy to adopt AS-2 (Accounting standard on valuation of Inventories) as issued by the Institute of Chartered Accountants of India and thereby excluded interest costing while valuation of finished goods. This has resulted in a decrease in the year's profit by ₹ 13.50 Lacs. This policy will continue in future also.
- (2) The company has made provision for Gratuity based on actuarial valuation of ₹ 5 lacs. Actual gratuity paid amounting to ₹ 1,20,000 during financial year 2019-20 was debited to provision of Gratuity Account.
- (3) The company has debited to Profit and Loss account one time Franchise fees of ₹ 20 lakh paid to M/s. Robert Inc., a foreign company for obtaining franchise on 16th August, 2019. The relevant amount of TDS has been deducted and deposited by the company in time.

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(3)

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- (4) The company lost cash of ₹ 12,00,000 due to theft when it was withdrawn from the bank and taken to administrative office. It is not insured and hence fully charged as revenue expenditure.
- (5) On December 1, 2019 the company paid Royalty of ₹ 3,00,000 to Mr. Rozer (a non-resident individual) after deducting tax @ 10% under section 195 read with section 115A. The tax so deducted by the company is not deposited till November 30, 2020. However Mr. Rozer submits his return of income on July 31, 2020 after including ₹ 3,00,000 in his income and claiming of refund of ₹ 20,000.

On Scrutiny of records, the following further information and details were extracted :

- (i) The Company has sold a plot of land to Libra Ltd., a domestic company for ₹ 35 lacs on 15-04-2019. The same plot was purchased on 01-05-2017 for ₹ 26 lacs by Dinkar Synthetics Ltd. Dinkar Synthetics Ltd. held all the shares of Libra Ltd.
- (ii) The company has obtained a loan of ₹ 5 lakhs from Manu Textiles Private Limited in which it holds 16% voting rights. The accumulated profits of Manu Textiles Private Limited on the date of receipt of loan was ₹ 2 lacs.

TLM2**P.T.O.**

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(iii) The company has purchased a new motor car during the year for the purpose of business, on 23-08-2019 [to mark the date of incorporation of the company i.e. being 23 August] for ₹ 12,80,000 (including GST of ₹ 2,80,000). The depreciation on the above car has not been debited to the Profit and Loss Account.

(iv) The company has the following number of workers employed in the factory (all are covered in provident Fund)

Particulars of Employees	Number
No. of Employees as at 31-03-2019	480
Add : Additional Employees employed during the year	120
Less : Retrenchment of Employees in 2019-20	70
No. of employees as on 31-03-2020	530

The new employees have been recruited on mass recruitment basis on 01-07-2019 at a pay scale of ₹ 15,000 per month per person. Payment of salary is made through Account Payee Cheques only.

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- (v) The Gross Turnover of the Company during the financial year 2017-18 is ₹ 450 crores and the company has not opted for Section 115BAA.

Compute the total income and tax payable of the company for Assessment Year 2020-21 as per the provisions of the Income-tax Act, 1961.

Ignore the provisions of MAT.

2. (a) RST LLP, a limited liability partnership set up a unit in Special Economic Zones (SEZ) in the financial year 2015-16 for production of refrigerators. The unit fulfills all the conditions of section 10AA of the Income tax Act, 1961. During the financial year 2018-19, it has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse become operational with effect from 1st April, 2019 and the expenditure of ₹ 75 lakhs was capitalized in the book on that date.

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Relevant details for the financial year 2019-20 are as follows :

Particulars	₹
Profit of unit located in SEZ	50,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehouse facility (before considering deduction under section 35AD)	1,05,00,000

Compute income tax (including AMT under section 115JC) payable by RST LLP for Assessment Year 2020-21.

TLM2**P.T.O.**

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(b) Wioni Inc., a company incorporated in Japan, is engaged in development of infrastructure and providing consultancy in the same field. During the Financial Year 2019-20, its shareholders met in India for three times. The first two meetings were held to discuss the modification of rights attached to various classes of shares and the third meeting was held to discuss and decide about sale of companies' assets situated in India. It provides the following additional information pertaining to Financial Year 2019-20 :

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- (i) Dividend declared by a Miani Inc., a Japan based Company : ₹ 54,000 [Miani Inc. holds 70% of its total assets in India].
- (ii) Fees for technical services received from Government of India : ₹ 4,54,000. The Government of India utilised such technical services for a development project carried out by it in Nepal.
- (iii) Interest received from Ms. O, a unit located in IFSC in respect of monies borrowed by Ms. O : ₹ 15,400 (Date of loan 24-12-2019)
- (iv) On 26-8-2019, the Wioni Inc. sold 5,000 equity shares held by it in an Indian Company for ₹ 89 per share. These shares were bought by the Wioni Inc. on 28th June, 2009 for ₹ 64 per share. Both the purchase and sale of shares were affected through a recognized stock exchange in India. Fair Market Value of these shares on 31-01-2018 was ₹ 70 per share.

You are required to compute the total income of Wioni Inc. for the assessment year 2020-21 briefly explaining the relevant provisions of the Income Tax Act, 1961.

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3. (a) GNK Trust, a charitable trust follow accrual system of accounting registered under Section 12AA of the Income Tax Act which provides services in the field of education. It furnishes the following particulars to you with respect to previous year 2019-20 :

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Particulars	₹
Gross Receipts received from students	24,41,000
Voluntary Contribution (including anonymous donation ₹ 1,85,000)	5,20,000
Dividend from Indian Companies	5,40,000
Income from mutual funds registered under section 10(23D)	2,85,000
Agricultural income	4,79,000

The following amounts are spent for the purposes of the trust :

Particulars	₹
Amount set aside during the year to be applied in the next 4 years for the purposes of the trust.	2,54,000
Payment to Mr. Lohia, one of the trustees as rent for the building where the trusts carry on its activities. The rent for similar property is ₹ 2,50,000	1,47,000
During the year the trust invited foreign teachers but made the payment in the next Financial Year	1,96,000
Other expenses for the purposes of the trust	16,79,000

Compute the total income of the trust and also the tax liability in order to avail the maximum benefits under the provisions of Income Tax Act, 1961.

TLM2**P.T.O.**

(8)

TLM2

- (b) Mr. Ramanuj Tiwari, aged 65 years resident of India derived the following Income for the financial year 2019-20 : 6

	₹
(1) Income from Business and Profession in India	6,00,000
(2) Dividend (gross) from a Company in Nigeria (Tax Paid in Nigeria ₹ 30,000)	1,50,000
(3) Royalty on Books from Spain	8,00,000
(₹ 7,60,000 has been received in India on 30-06-2019, Further ₹ 40,000 as TDS has been deducted in Spain on royalty)	
(4) Income from Other Sources as follows :	
• Saving Interest from Punjab and Sind Bank	15,000
• Interest Income on FDR's	2,15,000

Further, Mr. Ramanuj Tiwari incurred expenses to the tune of ₹ 1,20,000 on earning the royalty of ₹ 8,00,000. He has also deposited ₹ 1,50,000 in Public Provident Fund Account of his wife during the year.

Compute the Total Income and Tax Payable by Mr. Ramanuj Tiwari for the Assessment Year 2020-21 assuming India does not have Double Taxation Avoidance Agreement with Nigeria and Spain.

TLM2

(9)

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4. (a) Examine the liability to deduct tax at source in respect of the following independent situations : **2×4**
=8

(i) M/s Mexil Ltd. is engaged in the business of manufacturing certain article or thing for which the raw material is imported from Russia. For the purpose of making payment to the supplier, the assessee entered into a bank guarantee with BDFH Bank, an Indian Bank against the payment of ₹ 1,10,000 as bank guarantee commission for the Financial Year 2019-20.

(ii) StudyKart, an online education provider and a trust registered under section 12AA of the Income Tax Act, pays ₹ 98,000 during the Financial Year 2019-20, to Mr. Monty, a non-resident for providing web based lectures.

(iii) On 31st December, 2019, Mr. Nitin, a resident individual whose gross turnover was ₹ 97 lakhs during the preceding previous year, paid ₹ 65 lakhs to Mr. Basant, a resident individual, as contract payment for repairing his office building.

(iv) Fly Fly Ltd., an airlines company paid ₹ 10 lakhs to Airports Authority of India as landing and parking charges of its aircrafts.

TLM2**P.T.O.**

(10)

TLM2

- (b) On 1-4-2019, Vihaan Ltd., an Indian company, advanced a loan of ₹ 6 crores to Yuvan Inc., a company resident in Singapore. As on the date of loan, the book value of total assets in the books of Yuvan Inc. was ₹ 4 crores. In the Financial Year 2018-19, Yuvan Inc. had revalued its assets and accordingly the value of assets had increased by ₹ 2 crores. Yuvan Ltd. paid the entire loan along with interest thereon on 31st August, 2019. During the Financial Year 2019-20, Vihaan Ltd. also entered into an agreement with Yuvan Inc. to provide 20 thousand medical equipments at a cost of ₹ 7,400 per unit. The assessing officer treats them as associate enterprise and wants to re-compute the income of Vihaan Ltd. at arms' length price. You are required to answer the following questions in this respect :

- (1) Would Vihaan Ltd. and Yuvan Ltd. be treated as associate enterprises for the purpose of transfer pricing adopted by the Assessing Officer ? If yes, why ?
- (2) Calculate the arms length price of Vihaan Ltd. which sells the same equipments at the rate of ₹ 9,000 per unit to Y Ltd. and at the rate of ₹ 9,500 per unit to X LLP (both of them are unrelated parties in respect of Vihaan Ltd.) Vihaan Ltd. is not a wholesale dealer.
- (3) What are the options available to Yuvan Inc. in respect of such increase in transfer price by Income Tax Authorities, if Vihaan Ltd. accepts such transfer price ?

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TLM25. (a) Answer any **two** out of the following **three** :**2×4****=8**

- (i) Ms. Maya, a resident individual, engaged in the jewellery making, filed her return of income showing income of ₹ 19,80,000. The assessing officer completed the assessment under section 143(3) as the assessee participated in the assessment. The assessing officer disallowed a sum of ₹ 3,69,000 as unexplained cash. The assessee claims that the assessment is void as no notice under section 143(2) was served to the assessee. You are required to judge the validity of assessee's claim.
- (ii) In respect of a civil suit, the Calcutta High Court appointed a receiver in respect of properties of Ms. Ghosh and Sons HUF. One such property was situated at Delhi which was sold by the Income Tax Department to Mr. Devang. The karta of the HUF, Mr. Ghosh, objected to such sale stating that no leave was taken from Calcutta High Court for such sale. An application was also filed by the department to take the permission for such sale. The Calcutta High Court passed an order whereby it directed a civil suit to be pursued at Delhi. However, it overlooked the provisions of section 293 of the Income Tax Act, which puts a bar on filing suit in any civil court against an income-tax authority in respect of any proceedings under the Income-Tax Act. The said order was recalled for review by the high court and error apparent was corrected. Discuss the validity of action taken by the Calcutta High Court.

TLM2**P.T.O.**

(12)

TLM2

(iii) Ms. RSRZ and Co. Ltd., sold one of its factory building for ₹ 14 lakhs on 19-4-2019. The building was acquired on 1-4-2009 and the assessee was using it for manufacturing activity and accordingly depreciation was also being claimed. After sale of the building, the assessee reinvested the amount of capital gain in long-term specified assets under section 54EC and claimed exemption there-under. The AO rejected the claim for exemption by the assessee and regarded that since the asset sold was depreciable assets, provisions of section 50 will be applicable and accordingly the assessee is not entitled to exemption under section 54EC. Discuss the validity of AO's claims.

- (b) Meenakshi Urban, is a cooperative society engaged in providing credit facilities to its members for the previous year 2019-20, it provides you the following information :

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Particulars	₹
Interest received from deposit with other cooperative societies	5,47,000
Interest received from members (including ₹ 2,63,000 for personal purposes of a member)	11,85,000
Rent Received (per month)	36,000
Income from Agency business	2,87,500
Interest received from deposit of idle funds of members	2,04,000
Expenses incurred on agency business	1,24,000
Brought forward loss from earlier years (Financial Year 2018-19)	98,000

Compute the total income of the co-operative society after allowing eligible deduction under section 80-P, if any, and also the tax payable thereon.

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6. (a) (i) Mr. Mahesh received the draft order from the assessing officer as per section 144C of the Income Tax Act, 1961 due to variations determined by the Transfer pricing officer in the arms length price. But Mr. Mahesh did not prefer to file the objection against the draft order before the Dispute Resolution panel, instead, he preferred to file appeal before the CIT appeals under section 246A against the final order received from the Assessing Officer.

2×4
=8

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

- (ii) The assessing officer has initiated the penalty proceedings under section 270A for under-reporting of income and launched prosecution proceedings under section 276C for willful evasion of tax at the time of completion of Re-assessment of Mr. Pradeep under section 147 of Income Tax Act, 1961.

Mr. Pradeep filed an application for the immunity from imposition of penalty and prosecution before the assessing officer. Is he entitled to file application for immunity from penalty and prosecution under section 270A and 276C respectively before the Assessing Officer ?

TLM2**P.T.O.**

(14)

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- (b) Horizon Ltd., Russia holds 35% shares in Identika Ltd. India. Identika Ltd. develops software and does both onsite and offsite consultancy services for the customers. Identika Ltd. during the year billed Horizon Ltd. Russia for 120 man-hours at the rate of ₹ 1,800 per man hour. The total cost (direct and indirect) for executing this work amounted to ₹ 2,25,000.

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However Identika Ltd. billed Sundry Ltd., India at the rate of ₹ 2,800 per man hour for the similar level of manpower and earned a Gross Profit of 50% on its cost.

The transactions of Identika Ltd. with Horizon Ltd. and Sundry Ltd. are comparable subject to the following differences :

- While Identika Ltd. derives technology support from the Horizon Ltd., there is no such support from Sundry Ltd. The value of technology support received from Horizon Ltd. may be put at 18% of normal gross profits.
- As Horizon Ltd. gives business in large volumes, Identika Ltd. offered to Horizon Ltd., a quantity discount which may be valued at 10% of normal gross profits.
- In the case of rendering services to Horizon Ltd., Identika Ltd. neither runs any risk nor incurs any marketing costs. On the other hand, in the case of services to Sundry Ltd., Identika Ltd. has to assume all the risk and costs associated with the marketing function which may be estimated at 12% of the normal gross profits.

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- Identiq Ltd. offered one month credit to Horizon Ltd. The cost of providing such credit may be valued at 2% of the gross profits. No such credit was given to Sundry Ltd.

Compute the Arm's Length Price alongwith Income to be increased under the Cost plus Method with reference to Section 92C read with Rule 10B.

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