



FOR CA FINAL EXAM PREPARATION

CA Final 2019 Question Paper · Paper 7 Direct Tax Laws and International Taxation

EXAM

CA Final

YEAR

2019

TYPE

Question Paper

SUBJECT

Paper 7 Direct Tax Laws and International Taxation

DATE

May 2019

Final New Syllabus
Paper - 7
Direct Tax Laws &
International Taxation

(1)
LMT2

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 2019-20, unless stated otherwise in the question.

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Final New Syllabus
Paper - 7
Direct Tax Laws &
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PART – II

1. Sankar Ltd, engaged in the manufacture of footwear and leather products, **14**
for the past 8 years, reported a net profit of ₹ 272 lakhs as per the statement
of profit and loss for the year ended 31st March, 2019. The company was
subject to tax audit under section 44AB of Income Tax Act. The net profit is
arrived at after debiting or crediting the following amounts :
- (i) Depreciation charged on the basis of useful life of assets as per
Companies Act is ₹ 32 lakhs.
 - (ii) A sundry creditor whose amount of ₹ 32 lakhs was outstanding since
long time, has been settled for ₹ 26 lakhs on 31st March, 2019 based on
compromise settlement. The amount waived has been credited to the
statement of profit and loss.
 - (iii) Employers' contribution to EPF of ₹ 3 lakhs for the month of March,
2019 was deposited on 29th July, 2019.
 - (iv) Interest payments debited ₹ 30 lakhs (Includes interest on term loan of
₹ 25 lakhs availed on 1-4-2018 at interest rate of 12% p.a towards
purchase of machinery during the year.
 - (v) Payment of ₹ 30 lakhs to A & Co., a subcontractor for processing raw
leather without deduction of tax is debited to statement of profit &
loss. This amount includes ₹ 20 lakhs for purchase of chemicals and
₹ 10 lakhs towards labour charges which is separately shown in bills
submitted.

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LMT2**Additional Information :**

(1) The company has not made provision for an amount of ₹ 12 lakhs being a fair estimate of the amount as payable to workers towards periodical wage revision once in 3 years in respect of existing employees. The provision is estimated on a reasonable certainty of the revision once in 3 years.

(2) The written down values of assets before allowing depreciation as per Income Tax Rules are as under :

Factory Buildings : ₹ 180 lakhs;

Plant & Machinery : ₹ 170 lakhs (inclusive of ₹ 30 lakhs of machinery acquired on 1.11.2018 and put to use)

Computers : ₹ 15 lakhs

It may be noted that the above values have been duly recognised while providing depreciation in the books of accounts.

(3) During the year 2018-19, the company has employed 24 additional employees (qualified as “workman” under the Industrial Disputes Act, 1947). All these employees contribute to a recognized provident fund. 12 out of 24 employees joined on 1.6.2018 on a salary of ₹ 23,000 per month, 4 joined on 1.7.2018 on a salary of ₹ 26,000 per month, and 8 joined on 1.11.2018 on a salary of ₹ 20,000 per month. The salaries of 2 employees who joined on 1.6.2018 are being settled by bearer cheques every month.

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(4) Sales includes 5000 leather bags sold to M/s Sankar (firm) a related party at a price of ₹ 1,000 each. The selling price to others in the market is at ₹ 1,300 each.

(5) Employees contribution to EPF of ₹ 3 lakhs recovered from their salaries for the month of March 2019 and shown in the Balance Sheet under the head Sundry Creditors was remitted on 31st May, 2019.

Compute the total income and tax payable of Sankar Ltd. for the Assessment Year 2019-20. The turnover of the company for the year ended 31.3.2017 was ₹ 52 crores. Ignore the provisions of MAT.

2. (a) Alpha and Beta Tyres Limited, an Indian Company engaged in the manufacture of Tyres in Andhra Pradesh has adopted IndAS from 1-4-2016. The following particulars are provided for the year ended 31.3.2019 :

8

1. Net profit as per statement of profit and loss is ₹ 20 crores after debit and credit of the following items :

Items Debited :

- (i) Depreciation ₹ 18 crores. Included in depreciation is ₹ 3 crores being amount provided on revalued assets.
- (ii) Interest charged for delay in remittance of Tax Deducted at Source ₹ 20 lakhs.

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LMT2**Items Credited :**

- (i) Share Income from Association of Persons in which the company is a member ₹ 50 lakhs. (The AQP is charged to tax at Maximum Marginal Rate)
- (ii) Amount of ₹ 6 crores withdrawn from revaluation reserves on account of revaluation of assets.

Other Information :

1. The application of a financial creditor for corporate insolvency resolution process has been admitted by the Hyderabad Bench of the National Company Law Tribunal under section 7 of the Insolvency and Bankruptcy Code, 2016.
2. Brought forward business loss and depreciation.

Assessment Year	Business Loss	Depreciation
2015-16	₹ 3 crores	₹ 1 crore
2016-17	₹ 5 crores	₹ 2 crores

3. Items credited to other comprehensive income which will not be reclassified to profit or loss :
 - (i) Re-measurement of defined employee retirement benefits plan ₹ 50 lakhs.
 - (ii) Revaluation surplus of property, plant and equipment ₹ 1 crore.
4. The transition amount as on convergence date 1-4-2016 stood at ₹ 5 crores including capital reserve of ₹ 50 lakhs (credit balance).

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5. Tax payable under the regular provisions of the Income Tax Act is ₹ 0.73 crores.

(i) Compute Minimum Alternate Tax payable by the company for the Assessment Year 2019-20.

(ii) Compute the amount of MAT credit eligible for carried forward.

(b) The following data is furnished by Mr. Sumedh, a non-resident and a person of Indian Origin, for the financial year ended 31-3-2019 : 6

A : Long term Capital gains arising of transfer of foreign exchange asset on 31.7.2018 : (computed) ₹ 6,50,000

Expenditure wholly and exclusively incurred in connection with such transfer. (not considered above) ₹ 80,000

Interest on deposits held with Private Limited Companies : ₹ 5,90,000

Interest on Government Securities : ₹ 95,000

Interest on deposits with public limited companies : ₹ 2,60,000

Dividends from Domestic Companies : ₹ 75,000

B : Savings and Investments :

Investment in notified savings certificates referred to in Section 10(4B) on 30.3.2019 : ₹ 2,00,000

Investment in shares of Indian Public Limited Companies on 31.12.2019 : ₹ 3,00,000

C : Tax deducted at source : ₹ 1,83,800

Compute balance tax payable / refund due for the assessment year 2019-20 in accordance with special provisions applicable to non-resident.

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3. (a) M/s Mahan Charitable Trust is running an Educational Institution with hostel facility for the orphan children. It is registered under section 12 AA. 8

The details of income and expenditure of the Trust are as given below :

- (a) Voluntary contributions received during the year ₹ 150 lakhs.

This includes :

- (i) Corpus donation ₹ 20 lakhs
- (ii) Donation of ₹ 20 lakhs from Mr. Michael a foreign donor which was received on 31-3-2019.
- (b) Salary paid to teachers and administrative staff ₹ 40 lakhs.
- (c) Other general expenses ₹ 10 lakhs include payment to a grocery stores of ₹ 30,000 by crossed cheque.
- (d) A land belonging to the Trust in a nearby village which was purchased in the year 2013-14 for ₹ 5 lakhs was sold for ₹ 10.50 lakhs and another land adjacent to the Trust premises was purchased for ₹ 12 lakhs to be used as playground for the children.
- (e) Five laptops costing ₹ 50,000 each were purchased during the year for teaching purposes.

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(f) The Trust had accumulated ₹ 30 lakhs under section 11(2) in the financial year 2014-15 for constructing a school building. Amount spent for the said purpose till 31-3-2019 was ₹ 27 lakhs. The project is completed with a saving in project cost.

(g) Two additional rooms measuring 1500 sq. ft each was constructed in the existing hostel for the children. Cost of construction is ₹ 1200 per sq. ft.

(h) It made a corpus donation of ₹ 20 lakhs to a charitable trust registered u/s 12 AA having similar objects.

Compute taxable income of Mahan Charitable Trust for the assessment year 2019-20. Support your answer with necessary working notes.

- (b) Beta Inc. having its business in Singapore has advanced a loan of SD 1,60,000 to Beta Ltd, Mumbai. Book value of total assets of Beta Ltd was ₹ 125 lakhs. Beta Ltd provides software backup support to Beta Inc. Beta Ltd has spent 50,000 manhour during the financial year 2018-19 for the services rendered to Beta Inc. The cost for Beta Ltd is SD 75 / manhour. Beta Ltd has billed Beta Inc. at SD 90.75 / manhour. 6

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Gama Ltd. in Mumbai which has a similar business model, provides software backup support to Olive Inc. in Penang, Malaysia. Gama Ltd's cost and operating profits are as hereunder :

Particulars	INR in lakhs
Direct costs	600
Indirect costs	200
Operating profits	200

- (1) Calculate Arms Length Price for the transaction between Beta Ltd and Beta Inc. based on the above data of Gama Ltd using the Transactional Net Margin Method. Assume 1SD = ₹ 45.
- (2) Explain, if there is any adjustment to be made to the total income of Beta Ltd.

Note : SD = Singapore Dollars

4. (a) Deer Co Ltd engaged in the business of manufacture of furniture items 2
on contract basis. It sub-contracted the production of cushion for the chairs to M/s Lion & Co, a sole proprietary concern. The sub-contractor M/s. Lion & Co procured the raw materials for production of cushions, performed further labour works and supplied the same to Deer Co Ltd. It raised its bill on Deer Co Ltd, showing the cost of raw materials ₹ 4,00,000 and labour charges ₹ 1,50,000 separately. Explain briefly the tax deduction requirement in the hands of Deer Co Ltd.

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- (b) M/s PMPC, a partnership firm, is engaged in the manufacture of cardboard carton boxes used in packaging industry. During the year it has sold cutting waste generated amounting to ₹ 30 lakhs to M/s PAPC Ltd, a paper manufacturing company. It uses such cutting waste purchased as raw material for its production. 2

Discuss the implication of this transaction with respect to tax collected at source.

- (c) Maha Bank Ltd accepted fixed deposits of ₹ 20 crores in the name of Registrar General of the High Court and issued a fixed deposit receipt in compliance with a direction passed by the court in relation to certain proceedings. The Bank did not deduct tax on the interest accrued. The AO issued a notice to the bank to show cause as to why it should not be treated as an assessee in default under sections 201(1) and 201 (1A) for not deducting tax at source on interest accrued. Examine whether the bank is correct in not deducting tax on the interest accrued. 4

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“Blue Moon” a popular television channel incurred the following expenses :

- (a) It paid ₹ 50 lakhs as prize money to the winner of a famous quiz programme “Who will be a Millionaire ?”
- (b) It paid ₹ 6 lakhs to a cameraman for shooting multi-episodes of a long documentary serial.

Examine TDS obligations in the hands of television channel for the abovesaid payments.

- (d) ABC & Co, an Indian LLP is solely engaged in the manufacture and export of engine, engine parts including cooling systems and engine valves. It had supplied auto components worth ₹ 72 crores during financial year 2018-19 to XYZ LLP, a foreign LLP located in Germany, controlled by A & B the partners of Indian LLP along with their relatives. Against the aggregate value of transactions entered into as mentioned above, the Indian LLP incurred an operating expenditure of ₹ 60 crores leaving an operating profit of ₹ 4.50 crores.

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- (i) Compute the primary adjustment required to be made in AY 2019-20, if any, assuming that the Indian LLP exercised a valid option for application of safe harbour rules prescribed under Rule 10TD read with section 92CB of Income Tax Act.
- (ii) Examine the applicability of safe harbour rules, if the Foreign LLP is located in Notified Jurisdictional Area.

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5. (a) Mr. Harish, a resident of India, for the financial year ended on 31-3-2019, owned 4

- (i) a land in Canada purchased in September, 2003
- (ii) a flat in New Jersey (USA) purchased in April 2004 and
- (iii) a shop in a commercial complex in Finland purchased in June 2004.

He also has authority to operate a bank account (maintained with Citibank, London) of a company in which his son and daughter are 100% shareholders since April 2017.

He has been served with notices u/s 148 for the Assessment Years 2004-05 to Assessment Years 2018-19 based on the information that he has not disclosed source of income for those asset acquisitions in his income tax returns in India.

Are the notices issued u/s 148 tenable in law ?

- (b) The Assessing Officer surveyed a popular cinema hall by name “Thriller” which is within his jurisdiction at 12 o’clock in the midnight for collecting information which may be useful for the purpose of Income-tax Act, 1961. The concerned cinema hall is kept open for business everyday between 9 p.m. and 1 a.m. The owner of the cinema hall claims that the A.O. could not enter his business premises after sunset and at late in the midnight. The Assessing Officer wanted to take away with him the books of account kept at the premises of the cinema hall. Examine the validity of the claim made by the owner of cinema hall and the proposed action of the Assessing Officer. 4

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- (c) Balmart Inc. of USA entered into the contract with three Indian startup companies operating in e-commerce segment, namely Klipkart Ltd., Mozon Ltd., and Run Run Ltd. for supplying know-how to develop an electronic retailer network. **3**

Balmart Inc. made an application to the Authority for Advance Rulings (AAR) on the rate of withholding tax on receipts applicable to it. Klipkart Ltd. also made an application to the Assessing Officer for determination of the rate at which tax is deductible on the payments made to the said non-resident company. The Authority for Advance Rulings (AAR) rejected the application of Balmart Inc. on the ground that the question raised in the application is already pending before an Income-tax authority.

Examine whether the rejection of application by the AAR is justified in law.

- (d) Raghu Ltd made a payment of ₹ 3,00,000 on 30-6-2018 towards procuring online advertisement space to a foreign company which had no place of business in India. The company remitted the equalization levy on 23-3-2019. Calculate interest and penalty payable by Raghu Ltd, if any. **3**

LMT2**P.T.O.**

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6. (a) You are appointed as the taxation manager of Tatla Well Ltd. In the context of tax planning, what all are the tests that are to be satisfied for the tax planning strategy to be successful ? State them briefly. **4**

- (b) Mr. Srinivasan was a Central Government pensioner, who expired on 10-5-2019. An amount of ₹ 10 lakhs in cash was deposited into his savings bank account maintained in a nationalized bank on 28-2-2019, which was reported by the banker u/s 285 BA. A notice was issued by the Assessing Officer to Mrs. Srinivasan who is his legal representative to file his Return of Income. Mrs. Srinivasan has approached you as a Tax Consultant as to the course of action to be undertaken by her, since she is unaware of her deceased husband's financial dealings. **4**

What will be your advice to Mrs. Srinivasan ?

- (c) Examine and state the correctness or otherwise of each of the following statements in the context of international tax treaties between the countries and answer in brief with reasons / contents thereof : **6**

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- (i) "Providing assistance in the collection of the fair and legitimate share of tax by the countries involved" is the sole objective of Tax Treaties entered among Countries.
- (ii) A Protocol is an integral part of the Tax Treaty and has the same binding force as the main clauses therein.
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