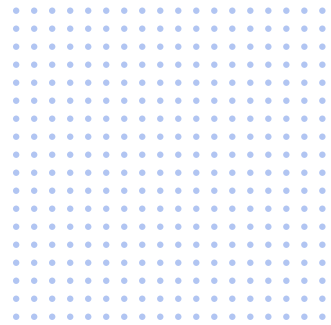




FOR CMA FINAL EXAM PREPARATION

CMA Final 2024 Question Paper · Paper 15 Direct Tax Laws and International Taxation

EXAM

CMA Final

YEAR

2024

TYPE

Question Paper

SUBJECT

Paper 15 Direct Tax Laws and International Taxation

DATE

June 2024

FINAL EXAMINATION

June 2024

P-15(DIT)
Syllabus 2022**DIRECT TAX LAWS AND INTERNATIONAL TAXATION**

Time Allowed: 3 hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Wherever considered necessary, suitable assumptions may be made and clearly indicated in the respective the answer.

All workings must form part of the relevant answer.

Section-A**(Answer Question No. 1 which is compulsory)**

1. Choose the correct alternative from the four alternatives given. 2×15=30

- (i) Vinayak (P) Ltd. has total income (computed) of ₹ 32,00,000 for the assessment year 2024-25. It has not opted sections 115BA or 115BAA or 115BAB. Its annual turnover was always less than ₹ 50 crores. How much is the income tax payable by Vinayak (P) Ltd. for the assessment year 2024-25 (including surcharge and HEC)?

- (A) ₹ 8,32,000
(B) ₹ 9,98,400
(C) ₹ 10,98,240
(D) ₹ 13,31,200

- (ii) Balu is employed in ABC Ltd. from 1st November, 2023 after he discontinued his proprietary business in textiles. He was given rent-free accommodation at Kolkata from the same date. His basic salary was ₹ 1,00,000 per month and DA ₹ 50,000 per month (eligible for retirement benefits). How much is the perquisite value of rent-free accommodation in the hands of Balu for the assessment year 2024-25?

- (A) ₹ 1,80,000
(B) ₹ 1,12,500
(C) ₹ 75,000
(D) ₹ 37,500

- (iii) Kailash is a resident individual who owns an apartment in Singapore acquired on 19.08.2020. He had disclosed only 60% of its value in his income-tax returns. The Assessing Officer received this information of partial non-disclosure on 18.02.2024 and issued a notice under section 10 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 on 10.04.2024. What would be value of asset liable to tax under the said Act?
- (A) Fair Market Value of the asset as on 19.08.2020
(B) 40% of fair market value of the asset as on 19.08.2020
(C) 40% of fair market value of the asset as on 01.04.2024
(D) 40% of fair market value of the asset as on 01.04.2023
- (iv) Chinta Co-operative Society is engaged in manufacturing activity and was set up and registered on 20th April, 2023. Its total income (computed) for the previous year 2023-24 was ₹ 22,50,000. How much is the income tax payable by it under section 115BAE of the Act? Note: Consider both surcharge and HEC.
- (A) ₹ 7,02,000
(B) ₹ 5,85,000
(C) ₹ 4,68,000
(D) ₹ 3,86,100
- (v) TBF Ltd., an Indian company deducted ₹ 1,20,000 from various payments as TDS for the first quarter of financial year 2023-24. However, it has failed to file TDS return for the said quarter. How much shall be the amount of fee payable by it for default in furnishing TDS return?
- (A) ₹ 100 for every day during which the failure continues subject to a maximum of ₹ 1,20,000.
(B) ₹ 100 for every day during which the failure continues subject to a maximum of ₹ 1,00,000.
(C) ₹ 200 for every day during which the failure continues subject to a maximum of ₹ 1,20,000.
(D) ₹ 200 for every day during which the failure continues subject to a maximum of ₹ 1,00,000.

(vi) Anil a resident has derived (i) short-term capital gain of ₹ 35,000 from sale of shares (STT paid); (ii) long-term capital gain of ₹ 80,000 from sale of shares (STT paid); and (iii) ₹ 9,000 on sale of crypto currency held for 38 months. How much is the total amount of tax payable by Anil in respect of the capital gains? (ignore surcharge and HEC)

- (A) Nil
- (B) ₹ 5,550
- (C) ₹ 6,600
- (D) ₹ 7,950

(vii) Tarun, a resident sold Virtual Digital Asset (VDA) with the help of a broker through an Exchange. The sale consideration was ₹ 6,05,000 (excluding GST / commission). How much is the amount of TDS applicable in respect of sale of VDA?

- (A) ₹ 60,500
- (B) ₹ 30,250
- (C) ₹ 12,100
- (D) ₹ 6,050

(viii) Raghav Industries (P) Ltd. was subjected to a search under section 132 and a sum of ₹ 300 lakhs by way of cash was found as undisclosed income. Raghav Industries (P) Ltd. has unabsorbed depreciation of ₹ 200 lakhs. How much of the unabsorbed depreciation is eligible for set off against cash found as a result of search, representing undisclosed income?

- (A) NIL
- (B) ₹ 200 lakhs
- (C) ₹ 100 lakhs
- (D) ₹ 50 lakhs

- (ix) Swami sold his residential house on 21st April, 2023 for ₹ 110 lakhs and earned long-term capital gains of ₹ 60 lakhs. He bought a new residential house in March, 2024 for ₹ 55 lakhs in order to claim eligible exemption under the Income-tax Act. What would you call this action of Swami reinvesting the long-term capital gain by way of acquisition of a new residential house?
- (A) Tax Planning
(B) Tax Evasion
(C) Tax Management
(D) Tax Avoidance
- (x) Higgs Ltd. which has entered into international transactions attracting transfer pricing provisions, declared a final dividend of 10% on its paid-up capital of ₹ 20 crores on 23.08.2024. It has received dividend of ₹ 80 lakhs (gross) on 23.11.2023 from a business trust. How much is the quantum of deduction allowable under section 80 M?
- (A) ₹ 200 lakhs
(B) ₹ 80 lakhs
(C) ₹ 120 lakhs
(D) NIL as the dividend received is liable to tax.
- (xi) For Roberts Inc. of Italy which of the following would mean that it has a Permanent Establishment (PE) in India?
- (A) Use of facilities solely for the purpose of storage or display of goods belonging to the enterprise.
(B) Operating a factory in India.
(C) Maintenance of goods belonging to the enterprise solely for the purpose of processing by another enterprise.
(D) Maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise or of collecting information, for the enterprise.

- (xii) What is Berry Ratio in relation to the computation of the arm's length price of an international transaction?
- (A) Gross profit / Operating expenses
 - (B) EBITDA / Shareholders funds
 - (C) Net profit / Gross profit
 - (D) Long term debts / Shareholders funds
- (xiii) While determining the ALP of the transactions between A Ltd., Mumbai and its holding company Bee Inc., UK, there was an addition of ₹ 300 lakhs to the total income of A Ltd. How much should be paid by way of tax (including surcharge and HEC) by A Ltd. in order to avoid secondary adjustment?
- (A) ₹ 93,60,000
 - (B) ₹ 62,89,920
 - (C) ₹ 54,00,000
 - (D) ₹ 46,80,000
- (xiv) Mittal Ltd., Pune exported goods to its holding company Glory Ltd., UK for ₹ 20 crore and it has failed to keep and maintain information and documents in respect of ₹ 5 crore. How much is the quantum of penalty leviable for such failure in the hands of Mittal Ltd.?
- (A) ₹ 1,50,000
 - (B) ₹ 5,00,000
 - (C) ₹ 10,00,000
 - (D) ₹ 25,00,000
- (xv) Which of the following method of computing arm's length price is not a 'Transaction Based Method'?
- (A) Comparable Uncontrolled Price Method
 - (B) Resale Price Method
 - (C) Cost Plus Method
 - (D) Profit Split Method

Section-B

Answer any five questions from Question No. 2 to Question No 8.

Each question carries 14 marks.

14×5=70

2. Moonshine Ltd. engaged in manufacturing activity was incorporated in the year 2010. It has reported a Net Profit of ₹ 82,00,000 for the year ended 31st March, 2024 in its Statement of Profit and Loss. The following information is given to you:

- (i) Opening stock ₹ 36,00,000. It is undervalued by 10%.
- (ii) Closing stock ₹ 33,00,000. It is overvalued by 10%.
- (iii) Employees contribution to recognized provident fund ₹ 24 lakhs. Of this, ₹ 4,00,000 representing contribution for 2 months was remitted 10 days beyond the prescribed 'due date'.
- (iv) Employer's contribution to recognized provident fund ₹ 24 lakhs. The whole amount of the entire year was remitted on 21.05.2024.
- (v) Paid commission to Mr. Quinto, a non-resident agent for procuring orders for sale of goods in Japan ₹ 3 lakhs. No tax was deducted at source though the entire payment was made before the end of the previous year.
- (vi) Depreciation debited in the books ₹ 16,50,000. Depreciation under section 32 in respect of assets other than (vii) below, computed as per Income-tax rules, 1962 was ₹ 19,50,000.
- (vii) Acquired a machinery for ₹ 20 lakhs on 05.08.2023. It was installed and put to use from 10.10.2023.
- (viii) Paid as interest for late filing of GST return ₹ 50,000.
- (ix) Paid ₹ 2,00,000 by way of fee for increasing its authorized share capital.
- (x) A vacant plot was sold for ₹ 24 lakhs to Jupiter (P) Ltd. being its wholly owned subsidiary company. The stamp duty value of the plot was ₹ 30 lakhs. The profit on sale of plot as per books of account of ₹ 10 lakhs is credited in the Statement of Profit and Loss.
- (xi) On 1st August, 2023, the company sold a factory building for ₹ 80 lakhs (being the only building owned by it). The WDV of the building as on 1st April, 2023 was ₹ 34 lakhs. The building was used for business for the past 7 years. The company bought capital gain bonds of NHAI for ₹ 46 lakhs in November, 2023 for the purpose of availing exemption under section 54EC.

The company has not opted for section 115BAA. You are requested to assess the total income of Moonshine Ltd. for the assessment year 2024-25 by giving reasons for treatment of each item given above.

14

3. (a) Amar (aged 35) owns 2 residential house properties, of which, one is used for own residential purpose and the other is let out for a monthly rent of ₹ 50,000. He bought these houses by taking housing loan from SBI. During the financial year 2023-24, he paid interest on housing loan amounting to ₹ 2,50,000 each for both the houses and total principal repayment of ₹ 2,00,000. He is doing business by name Mercury Traders in which his income (computed) amounts to ₹ 11,80,000.

Determine his income as per section 115BAC and regular provisions. Also **suggest** which one should be opted by Amar for the assessment year 2024-25. 7

- (b) MNO (P) Ltd. requires ₹ 100 lakhs for expansion of business. The entity has three options:

Particulars	Option 1	Option 2	Option 3
	₹	₹	₹
Equity Share of ₹ 10 each	80,00,000	60,00,000	40,00,000
12% Debentures	20,00,000	30,00,000	60,00,000
14% Loan from Bank	—	10,00,000	—

Rate of return on capital infused is expected @ 15% (before tax) and the income-tax rate is 31.2%. **Suggest** which of the option should be selected by MNO (P) Ltd. by showing your calculations to justify the same. 7

4. (a) Rosy (P) Ltd. incorporated in April, 2018 is engaged in manufacturing activity with 4 equal shareholders. The company has paid up share capital of ₹ 40 lakhs with each equity share of ₹ 10 each, fully paid up. As per the provisions of Income-tax Act, 1961 it has the following as on 31st March, 2023: (i) Brought forward business loss ₹ 30 lakhs; and (ii) Unabsorbed depreciation ₹ 20 lakhs. For the previous year 2023-24 also it is expected that the company would have unabsorbed depreciation of ₹ 10 lakhs though it would not have any business loss for the year as per the provisions of Income-tax Act, 1961. The Board of Directors of the company desire to carry out business restructuring by issuing equity shares for ₹ 160 lakhs to new investors in March, 2024.

Required :

- Discuss the tax consequences of the proposal of Rosy (P) Ltd.
- What would be your answer in case Rosy (P) Ltd. is an eligible start-up in terms of section 80-IAC?

7

- (b) Dravid (age 45) is a non-resident but an Indian citizen. On 11.04.2021, he bought 10,000 equity shares of PQR Ltd., a listed Indian Company for USD 5 per share. Dravid sold all the shares on 12.06.2023 for ₹ 770 per share (STT paid). Out of the sale proceeds, Dravid bought 11,550 equity shares of another listed Indian company by name EFG Ltd. on 13.07.2023 for ₹ 500 per share. Also, he subscribed to REC bonds for ₹ 10 lakhs on 15.09.2023. The buying and selling rates of US Dollars on different dates are as follows:

Date	TT Buying Rate	TT Selling Rate
11.04.2021	70	74
12.06.2023	76	78
13.07.2023	80	84

Cost inflation index F.Y.2021-22 = 317; F.Y.2023-24 = 348

Assess the capital gain of non-resident Dravid for the assessment year 2024-25. 7

5. (a) Briefly state remedial measures and time limit to the assessee who is aggrieved of the following:

- Order passed under section 143(3) by the Assessing Officer.
- Order passed under section 263 by the Commissioner of Income-tax.
- Order passed under section 254 by ITAT.

7

- (b) Julian (P) Ltd. provides the following information in respect of plant and equipment for the year ended 31st March, 2024:

Block 1 – Plant and machinery (Rate of Depreciation 15%)

(i) Opening WDV ₹ 15,00,000

(ii) Purchase of a new plant on 31.10.2023 (put to use on 30th November, 2023)

Original cost of the plant ₹ 12,00,000

Trade discount 10%

Total amount paid ₹ 10,80,000

(iii) Expenses on installation of plant ₹ 40,000.

(iv) Cost of stand by equipment required for operating the new plant ₹ 80,000.

(v) Cost of machinery spare parts ₹ 70,000.

Also, it gave the value of securities held as stock in trade as on 31st March, 2024 as under:

Security	A	B	C	D		E	F	G	H	
Category	Equity shares				Total	Debt security				Total
Actual cost of purchase	100	120	140	200	560	150	105	125	220	600
Net realisable value as on 31.03.2024	75	150	120	190	535	160	90	135	230	615

You are required to **compute** (i) depreciation on plant and equipment; and (ii) carrying value of securities as per applicable Income Computation and Disclosure Standards for the assessment year 2024-25. 7

6. (a) Explain methods of Bilateral relief in Double Taxation Avoidance Agreements (DTAAs) and briefly state how unilateral relief is provided in the Income-tax Act, 1961. 7

- (b) Madhu, an Indian resident aged 34 is a trainer in marketing. He takes online classes for persons resident in Country Y. For the year ended 31st March, 2024, he gives the following details about his income:

- (i) Dividend from Indian Companies ₹ 2,87,500. Interest on moneys borrowed for investment in shares ₹ 90,000.
- (ii) Amount received from online classes from Country Y residents ₹ 45,000 p.m. Tax rate on such income in Country Y 15% without any basic exemption limit.
- (iii) Long-term capital gains on sale of listed shares of Indian companies (STT paid) ₹ 26,00,000 (computed without indexation) and ₹ 24,00,000 (computed with indexation). Capital gain was computed without considering the investment of ₹ 10,00,000 in capital gain bonds of REC within the prescribed time.

India does not have DTAA with Country Y. You are required to **assess** the total income of Madhu and tax payable in India assuming that he opted out of section 115BAC. 7

7. (a) Fast Growth Ltd. is an Indian company belonging to Bolo Group and it is engaged in sale of air-conditioners throughout India. Eric Inc. of USA having 28% shareholding in Fast Growth Ltd. is engaged in manufacture of air-conditioners and belongs to Bolo Group. During the financial year 2023-24, Fast Growth Ltd. purchased 20,000 air-conditioners manufactured by Eric Inc. of USA for a price of ₹ 70,000 per unit. Identical units manufactured by unrelated parties were purchased by it at ₹ 65,000 per unit. Eric Inc. gave credit period of 1 month to Fast Growth Ltd. and whereas unrelated parties gave credit period of 2 months to Fast Growth Ltd. The cost of capital may be taken @12% per annum and the supply be assumed as uniform throughout the year.

Required :

- (i) Determine the ALP per unit and the income addition, if any, to be made to the total income of Fast Growth Ltd. for the assessment year 2024-25; (ii) If primary adjustment is proposed to be made by Fast Growth Ltd. on suo moto basis **state** the time limit for repatriation of excess money; (iii) **State** the consequence of non-repatriation of excess money; (iv) Tax liability if such repatriation of excess funds is not opted by Fast Growth Ltd.; and (v) Consequence of repatriation of money by Zeet Inc. of Canada being another company belonging to Bolo Group. 7
- (b) On 01.04.2023, Deer Ltd. an Indian company borrowed ₹ 120 crore from Shine Inc. a company incorporated in Country Z for interest @ 8% per annum. The said loan is repayable in a period of 8 years. The loan was guaranteed by Tiger Inc. of Country Z who has 33% shareholding in Deer Ltd. and who deposited matching amount of loan with Shine Inc.

For the year ended 31st March, 2024 Deer Ltd reported a Net Profit of ₹ 5 crores after debiting (i) interest on the above loan ₹ 9 crore; (ii) provision for income-tax ₹ 3 crore; (iii) depreciation ₹ 5 crore; and (iv) amortisation ₹ 2 crore.

Deer Ltd. wants to know **how much** of interest paid to Shine Inc. is eligible for deduction while computing the income under the head 'Profits and gains of business or profession' and your answer must **explain** the legal position besides computation of interest allowable or otherwise. 7

8. Present your answer for the following situations under the headings: (i) Issue involved; (ii) Provisions applicable; (iii) Analysis of the issue; and (iv) Conclusion.

- (a) KL Ltd. is an Indian company engaged in the business of leasing and hire purchase of capital equipments by Indian entities (being its borrowing customers). For the purpose of its business activities viz. leasing and hire purchase, it borrowed USD 7,00,000 from a foreign company. Due to exchange fluctuations the loan amount repaid was higher by ₹ 10 lakhs. It claimed the excess payment due to exchange fluctuation as an expenditure under section 37(1). The Assessing Officer was of the view that it was financed by the assessee KL Ltd. for the purpose of purchase of capital asset by the customers in lease / hire purchase by them.

- (i) **Discuss** the validity of the claim of the assessee as regards excess payment made due to exchange fluctuation; and (ii) **Will your** answer be different, in case the assessee has not claimed the same as revenue expenditure originally but makes a fresh claim before the appellate tribunal. 7

- (b) Shakti (P) Ltd., an Indian company earned fee for technical services from Power Inc., a company resident in USA amounting to ₹ 2 crores. The company paid ₹ 30 lakhs as federal taxes in USA. During the course of assessment proceedings in India, the Assessing Officer allowed the foreign tax credit to the extent of ₹ 20 lakhs only from income-tax payable in India by Shakti (P) Ltd. The company accepted the non-allowance of foreign tax credit to the extent of ₹ 10 lakhs, however it wants to claim deduction of the disallowed portion of foreign tax as business expenditure deductible from its income chargeable to tax in India.

Discuss the correctness of the assessee's claim.

7