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FOR CA FINAL EXAM PREPARATION

CA Final 2020 Question Paper · Paper 7 Direct Tax Laws and International Taxation

EXAM	YEAR	TYPE
CA Final	2020	Question Paper

SUBJECT

Paper 7 Direct Tax Laws and International Taxation

DATE

November 2020

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

LFD2

NOV 2020

Roll No. .....

Total No. of Printed Pages – **11**

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. MP Ltd. is engaged in the manufacture of textile since 01.05.2010. Its Statement of Profit and Loss for the financial year ended 31st March, 2020 shows a profit of ₹ 560 lakhs after debiting or crediting the followings items : **14**

   (a) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 52 lakhs.

   (b) Industrial power tariff concession of ₹ 5.40 lakhs, received from Madhya Pradesh Government was credited to Statement of Profit and Loss.

   (c) Contribution of ₹ 2.50 lakhs to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.

   (d) Profit of ₹ 8 lakhs on sale of a plot of land to AVM Limited a domestic company, the entire shares of which are held by the assessee company. The plot was acquired MP Ltd. on 30th June, 2018.

   (e) Payment of ₹ 3.50 lakhs towards transportation of various materials procured by one of its units to M/s Bansal Transport, a partnership firm, without deduction of tax at source. The firm opts for presumptive taxation under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.

   (f) Bonus paid to staff includes an amount of ₹ 1.50 lakhs which was provided for in the books on 31.03.2019 but has been paid in August 2019.

   (g) Interest of 15 lakhs paid on loans taken specifically for purchase of plant and machinery. Out of this, 5 lakhs is for upto the period till such machinery was commissioned.

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(h) A debtor who owed the company an amount of ₹ 20 lakhs was declared insolvent and hence, was written off by debiting the Statement of Profit and Loss.

(ı) ₹ 5 lakhs, being the additional compensation received from the State Government pursuant to an interim order of Court in respect of land acquired by the State Government in the previous year 2014-15.

(j) In order to expand its overseas business the company planned online advertisement campaign for which it engaged Fastex Inc., a London based company not having any PE in India and paid ₹ 5 lakhs for services availed. No tax/TDS was deducted by the company.

(k) ₹ 2 lakhs paid to consultant for expert opinion on new business set- up.

Additional Information:

(i) Normal depreciation computed as per Income-tax Rules on the book assets is ₹ 71 lakhs.

(ii) Debenture of face value of 1500 lakhs having 5 years tenure were issued at a discount of 3% and were subscribed in full.

(iii) The company received a bill for ₹ 3 lakhs on 31st March, 2020 from a supplier of cotton for supply made in March, 2020. The bill was omitted to be recorded in the books in March, 2020. Payment against the bill was made in April, 2020 and necessary entry was made in the books then. The same has been considered in closing inventory valuation during physical verification conducted on 31.03.2020.

(iv) The company has purchased 1000 bales of cotton at ₹ 5,000 per bale from Enpee LLP, a firm in which majority of the directors are partners. The normal selling price in the market for the same material is ₹ 4,600 per bale.

Compute total business income of the company for A.Y.2020-21 giving a brief explanation to each item of addition or deletion. Ignore MAT provisions and the provisions of section 115BAA.

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2. (a) Asma Rani Public Charitable Trust runs a hospital cum Rehabilitation Centre to treat patients suffering from leprosy. The trust is registered u/s 12AA and following cash system of accounting, furnishes the following information : **10**

- Gross Receipts from Hospital ₹ 560 Lakhs
- Gross Receipts from Rehabilitation Centre ₹ 220 Lakhs
- Fees not realized from patients as at 31/3/2020 ₹ 36 lakhs
- Administration Expenses paid for hospital ₹ 335 Lakhs
- Administration Expenses paid for Rehab. Centre ₹ 138 Lakhs
- Acquired a building for ₹ 150 lakhs on 1/5/2019 for expansion of Rehab. centre (Cost of land included there in ₹ 85 lakhs). Stamp duty value of Land & Building on the date of registration was ₹ 185 lakhs.
- Grant received from State Govt. – ₹ 7.50 lakhs
- Administration expense includes payments of ₹ 12 lakhs to resident doctors & contractors on which TDS is required to be deducted u/s 192 & 194 C but such TDS has not been deducted.
- Voluntary contributions (including Corpus Donations for ₹ 10 lakhs) is ₹ 20 Lakhs. These contributions are included in Gross Receipts of hospital.
- Anonymous donations received – ₹ 8 Lakhs.
- Amount donated to Jan Kalyan Trust registered u/s 12AA running similar hospital in Bihar (includes Corpus donation of ₹ 5 Lakhs from hospital receipts) - ₹ 11 Lakhs.
- Repayment of loan taken earlier for construction of Rehab. Centre- ₹ 6.65 Lakhs.
- The trust set apart ₹ 25 lakhs for acquiring another table & equipment for OT but the amount was spent in Oct'2020. Form 10 was filed and A.O. was duly informed as required u/s 11(2). Investment made in the units of UTI (mode prescribed u/s 11(5)) of ₹ 15 lakhs upto 31/03/2020.

Compute the Total Income of the trust and its I.T. Liability for the A.Y. 2020-21.

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(b) Answer any **one** out of the following two questions : **4×1 =4**

(i) M/s Kashdash (P) Ltd. an Indian company in the business of event management throughout India withdraws ₹ 10 lakhs in cash on 7th day of each month during the financial year 2019-20 from its current account with Union Bank, for local payments and for payment of wages and incentives to temporary employees engaged by it for different events. It did not made any single payment of ₹ 10,000 or more to any person in a day. Examine the liability for tax deduction at source in the present case.

(ii) M/s TQ Inc. a foreign company seconded some employees to its collaborator M/s Tekwel Ltd., an Indian company, for working on a turnkey project for setting up a pharmaceutical factory. These employees worked with M/s Tekwel Ltd., throughout the P.Y. 2018-19. The employees were in receipt of salary from M/s Tekwel Ltd. They were also in receipt of special allowance directly from M/s TQ Inc. in foreign currency outside India. M/s Tekwel Ltd., deducted tax under Section 192, on the component of salary paid by it, without taking into account the special allowance paid abroad by M/s TQ Inc. in foreign currency to these employees.

For this reason, the Revenue authorities treated M/s Tekwel Ltd. as an 'assessee-in-default' under Section 201 for non-deduction of tax at source on the "special allowance" component of salary paid by M/s TQ Inc. under Section 192. Is such treatment by the Revenue Authorities and the consequent levy of interest and penalty justified ?

3. (a) The net result of the business carried on by a branch of a foreign company in India for the financial year ended 31.03.2020 was a profit of ₹ 20 lakhs after charge of the following expenses : **6**

i. Depreciation for the current financial year of ₹ 15 lakhs.

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ii. Unabsorbed depreciation for previous financial year of ₹ 17 lakhs.

iii. Capital Expenditure incurred for promoting family planning amongst its employees of ₹ 7 lakhs. 7 Lakhs is one fifth of the total expenditure incurred on promoting family planning.

iv. Expenditure incurred for Scientific research ₹ 11 lakhs.

v. Business loss brought forward for A.Y. 2019-20 of ₹ 25 lakhs.

vi. Deductions under chapter VI-A of ₹ 20 lakhs.

vii. Head Office expenses of ₹ 125 lakhs allocated to the branch.

Compute income to be declared by the branch in its return for the Assessment Year 2020-21.

(b) Explain in brief whether the transaction - Interest of ₹ 5,00,000 paid on money borrowed by Mr. Smith (a Non-Resident) for the purpose of doing business of garments at Mumbai to Mr. John (who is also a Non-Resident) attracts income tax in India in the hands of recipient in the Assessment Year 2020-21. **2**

(c) KVS Ltd., the assessee, has sold goods on 12.01.2020 to L Ltd., located in notified jurisdictional area (NJA), for ₹ 10.50 crores. During the current financial year KVS Ltd. charged ₹ 11.50 crores from AJ of New York and ₹ 12 crores from KP of London for sale of identical goods and both of which are neither associated enterprise of KVS Ltd. nor they are situated in any NJA. While sales to AJ and KP were on CIF basis, the sale to L Ltd., was on FOB basis, which paid ocean freight and insurance amounting to ₹ 20 lakhs on purchases from KVS Ltd. **6**

India has a Double Taxation Avoidance Agreement with the U.S.A. and U.K.

The assessee has a policy of providing after sales support service to the tune of ₹ 14 lakhs to all customers except L Ltd. which procured the same locally at a cost of ₹ 18 lakhs.

Compute the ALP for the sales made to L Ltd., and the amount of consequent increase, if any, in the profit of the assessee company.

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4. (a) Mahadev & Sons Ltd. is a Public Company whose account have been prepared in accordance with provisions of Schedule III of the Company's Act. Its P&L for the year ended 31st March, 2020 shows a Net Profit of ₹ 27 Lakhs. The Company informs the following debit/credits have been made in the P&L a/c before arriving at the above stated Net Profit. **6**

	Credits to the P&L A/c		Debits to the P&L A/c
1	Net Agricultural income in India – 11 Lakhs	1	Expenses relating to 10 AA undertaking - 16 Lakhs
2	Profits of Industrial undertaking Covered & qualified for deduction u/s 10AA – 30 Lakhs	2	Depreciation relating to P.Y. 2018-19 b/f 13 Lakhs
3	Amount withdrawn from reserve created in P.Y. 2018-19 (Book profit was not increased by the amount transferred to the reserve in the year 2018-19) - 4 Lakhs	3	Business Loss relating to P.Y. 2018-19 b/f 10 Lakhs
4	LTCG on sale of equity shares on which STT paid - 3.50 Lakhs	4	Current Year Depreciation 12 Lakhs
5	Amount withdrawn from Revaluation Reserve - 10 lakhs	5	Interest to bank not paid upto filing of ROI 5 Lakhs
		6	Provision for unascertained liability 3 Lakhs
		7	Income-Tax 6 Lakhs
		8	Penalty for infraction of Law 2 Lakhs

Further Information:

- Depreciation for current year includes ₹ 5 Lakhs towards revaluation of assets.

Compute the book profits of the Company for the year ended 31.03.2020 liable to tax under MAT.

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(b) Explain the expression "Round Trip Financing" in relation to Impermissible Avoidance Agreement (IAA). 4

(c) M/s Manish & Co., a proprietary concern of Mr. Manish failed to furnish its Return of Income (ROI) for A.Y. 2018-19 within the due date u/s 139(1). The A.O. in turn lodged a complaint against the proprietor u/s 276CC. The tax payable on assessed income as reduced by the tax deducted at source and advance tax paid was ₹ 1,65,000. Mr. Manish filed an appeal before CIT(A) against the order of assessment and got part relief. Accordingly, A.O. passed an order giving effect to the order of CIT(A). The tax payable as per said order of A.O. was ₹ 8500. The A.O. accepted the order of CIT(A) and did not prefer an appeal against it to ITAT. 4

M/s Manish & Co. seek your advice on the maintainability of proceedings u/s 276CC.

Also, briefly mention would your answer be different if Manish and Co. is a private limited company.

5. (a) Mr. Lal Singh created Lal Singh Welfare Trust in June 2019 by duly executing in writing a trust deed. He appointed Ms. Vinita as the trustee. The trust was created to take care of his old parents and his 2 uncles (both being older brothers of his father) where all are dependent on Mr. Lal Singh and continue to live together in their native village in Rajasthan. The income arising out of assets of the trust is to be allocated amongst the beneficiaries each year as per the sole discretion 6

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of Ms. Vinita. The beneficiaries to the trust have no other source of income. The income of the trust during P.Y. 2019-20 was ₹ 10 lakhs. Calculate the tax liability of the trust for A.Y. 2020-21. Would your answer differ if father of Mr. Lal Singh was receiving a monthly pension of ₹ 25000 apart from the trust ?

(b) During the Previous Year 2019-20, Ms. Sujata, a citizen of India is a resident of both India and a foreign country with which India has a Double Taxation Avoidance Agreement (DTAA), which provides that "the income would be taxable in country where it is earned and not in other country, but would be included for computation of tax rate in such other country." **6**

Her income is ₹ 5,75,000 from business in India and ₹ 14,00,000 from business in foreign country. In foreign country the rate of tax is 20%. During the year she paid a premium of ₹ 35,000 to insure the health of her mother, also a non-resident, aged 83 years, through her credit card. You are required to compute the tax payable by Ms. Sujata in India for the A.Y.2020-21. Also, show the tax payable by Ms. Sujata in India, had there been no DTAA with such foreign country.

(c) An assessee received a notice u/s 148 stating reasons for reassessment. The assessing officer completed reassessment based on fresh grounds that were different from original reasons which prompted the reassessment. **2**

Stating legal provisions briefly discuss whether the reassessment based on fresh grounds would be valid when the original reason which prompted the reassessment, does not survive.

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6. (a) Simran (P) Ltd. holds 55% of shares in Al Kuber Ltd., a Company incorporated in Dubai. Al Kuber Ltd. has its offices in India also. Details relating to Al Kuber Ltd. for year ended March 2020 are as stated below : **5**

(Amt in ₹ crores)

Particulars	India	Dubai
• Fixed Assets after considering Depreciation for tax purposes	1500	650
• Intangible Assets	225	1075
• Other Assets (value as per books of A/c)	800	1900
• Income from trading operations. The above figure includes:	730	1370
a. Income from transactions where sales are to AE	20	40
b. Income from transactions where purchases are from AE	30	55
c. Income from transactions where sales/purchases are to/from AE	45	80
• Interest & Dividend from investments	560	320
• No. of employees	70	90
✓ Unskilled employees out of the above mentioned total employees (resident in respective countries)	5	30
• Payroll expenses on employees	940	1250
✓ Payroll expenses on Unskilled employees out of the above mentioned total Payroll expenses	100	415
• No. of Board Meetings held	3	4

Determine the Residential Status of Al Kuber Ltd. for A.Y. 2020-2021.

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(b) Mr. Anand, a resident of Bangalore has 2 house properties, one situated in Bangalore and the other in Jaipur. The house property at Jaipur was purchased in April 1998 and the Bangalore house was purchased during May 2008. Mr. Anand transferred his house property at Jaipur in the name of his son, Prateek on his 10th birthday in July 2002. **4**

In Sept. 2019, TRO has served a notice on Mr. Anand for recovering outstanding tax arrears of ₹ 150 lakhs relating to A.Y. 2016-17 in respect of his proprietorship business. TRO simultaneously attached both houses for recovering the tax arrears along with interest.

Mr. Prateek has been staying in the house property at Jaipur with his wife for last 4 years after he got separated from his father. The current value of house at Jaipur is ₹ 45 lakhs and Bangalore is ₹ 90 Lakhs.

Mr. Prateek seeks your advice on the validity of action taken by TRO in attaching the Jaipur property.

(c) ND Ltd., an Indian Company has borrowed ₹ 90 crores on 01-04-2019 from M/s. TM 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, this loan is guaranteed by M/s TY Inc. incorporated in UK. M/s. TD Inc, a non-resident, holds shares carrying 40% of voting power both in M/s ND Ltd. and M/s TY Inc. **5**

Net profit of M/s. ND Ltd. for P.Y. 2019-20 was ₹ 11 crores after debiting the above interest, depreciation of ₹ 5 crores and income-tax of ₹ 4 crores.

Calculate the amount of interest to be allowed to be claimed under the head "Profits and gains of business or profession" in the computation of M/s ND Ltd. giving appropriate reasons. Also explain allowability of such disallowed interest , if any.

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