

2018

COMMERCE

Paper : CC-104

(Direct Tax)

Full Marks : 40

*The figures in the margin indicate full marks.**Candidates are required to give their answers in their own words
as far as practicable.*

Module-I

Marks-25

Answer *any two* questions.

12½×2

1. (a) Wilisoft Ltd., an Indian company engaged in development and exporting of computer software applications and IT enabled products, has two industrial undertakings, one located in Special Economic Zone (Unit S) and another located in Domestic Tariff Area (Unit D). It furnishes the following particulars for its 2nd year of operations ended on 31st March, 2018 :

Particulars	Amount (₹ in Lakhs)	
	Unit S	Unit D
Total Turnover	45.00	30.00
Export Turnover (Inclusive of ₹ 1.25 Lakhs for onsite development of computer software outside India by Unit S)	30.00	2.50
Profit earned [After claiming bad debts u/s 36(1)(vii) in Unit S]	15.75	9.00

Additional Information :

- Plant and machinery used in the business (used for more than 180 days during the previous year 2016-17) had been depreciated @15% on Straight Line Method basis and depreciation of ₹ 2.25 Lakhs was charged to Statement of Profit and Loss in the proportion of turnover during the previous year.
- Out of export turnover, ₹ 25 Lakhs were realized in time and balance ₹ 5 Lakhs became irrecoverable due to bankruptcy of one of the foreign buyers in Unit S.
- The above export turnover of Unit S included ₹ 1.25 Lakhs for sale proceeds directly credited by the client in a separate bank account maintained by Wilisoft Ltd. outside India with RBI's approval.

You are required to compute the amount of exemption under section 10AA of the Income Tax Act, 1961 allowable to Wilisoft Ltd. for the assessment year 2018-19.

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- (b) P Ltd. acquired and installed Machinery Z, costing ₹ 400 crores, (eligible for additional depreciation) on 01.11.17 in its factory located in the backward area of West Bengal. WDV of the concerned block on 01.04.17 (consisting of Machinery X and Machinery Y) was ₹ 600 crores. On 01.12.2017 Machinery X is sold for ₹ 700 crores. Rate of depreciation applicable to the block is 15%. State the tax implication of the events, assuming that a single time payment of ₹ 100 crores, in respect of Z, was made otherwise than by crossed cheque/bank draft. $5+(2\frac{1}{2}+2+2+1)$
2. (a) On 01.05.2017 C Ltd., a foreign company, was amalgamated with D Ltd, an Indian company. Under the scheme of amalgamation C Ltd. transferred capital assets to D Ltd. E Ltd. holding 600 equity shares in C Ltd. (acquired on 01.04.2014) at a cost of ₹ 3,00,000 was allotted shares in D Ltd. in the ratio of 3 for 5 held. On 01.11.2017 E Ltd. sold 450 shares in D Ltd. for ₹ 3,50,000. State the capital gains implication of: the transfer by C Ltd., surrender of shares by E Ltd. to C Ltd. and transfer of shares in D Ltd. by E Ltd. [CII : 2014-15 → 240, 2017-18 → 272]
- (b) (i) Deepaveer Private Ltd., a closely held company, is very much popular in the market for its DV Jeans Brand and other allied products in the area of ladies and gents garment. It has paid up share capital of ₹ 20,00,000 (200,000 Equity Shares of ₹ 10 each) and Reserves and Surplus (consisting of accumulated revenue profits) of ₹ 7,50,000 as on 31st March, 2017.
- Mr. Rajeet Kapoor is a shareholder of the company holding 50,000 of its equity shares. The company gave an interest-free loan of ₹ 5,00,000 to Mr. Kapoor by an account payee cheque on 05.07.2017. Mr. Kapoor repaid the loan amounting to ₹ 3,00,000 by an account payee bank draft on 30.03.2018.
- Examine the effect of the borrowal and repayment of the loan by Mr. Kapoor on the computation of his total income for the assessment year 2018-19.
- (ii) Would your answer to (i) above differ if the amount of loan granted by Deepaveer Private Ltd. is ₹ 8,00,000 instead of ₹ 5,00,000?
- (iii) Would your answer to (i) above differ if the loan has been granted by Deepaveer Public Ltd.? $(2+2+3\frac{1}{2})+(3+1+1)$
3. (a) Compute the amount of deduction under Chapter VIA of the Income Tax Act, 1961 available to NP Computers Services India Ltd., an Indian manufacturing company (having turnover of ₹ 1.05 Crores during the P.Y. 2017-18), for the Assessment Year 2018-19 from the following details :

Particulars	₹
Profits and Gains of Business or Profession	13,20,000
Income from Other Sources	1,10,000
Long-term Capital Gains	4,00,000

It employed the following 15 employees during the previous year 2017-18 :

7 Casual Workmen on April 1, 2017 (with a monthly salary of ₹ 8,000 each)
5 Storekeepers on May 1, 2017 (with a monthly salary of ₹ 9,000 each)
3 Supervisors on June 1, 2017 (with a monthly salary of ₹ 25,000 each)

(3)

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Out of 5 storekeepers and 3 supervisors employed on May 1, 2017 and June 1, 2017 respectively, only 3 storekeepers and 2 supervisors respectively qualify as a "workman" under the Industrial Dispute Act, 1947.

The company made the following payments during the previous year 2017-18 :

Particulars	₹
Donation by account payee demand draft to recognised Political Party	1,16,500
Donation by cheque to Prime Minister's National Relief Fund	75,000
Donation by cheque to Jawaharlal Nehru Memorial Fund	85,000
Donation by account payee demand draft to the Indian Olympic Association	50,000
Donation by cheque to Swacch Bharat Kosh [not spent in pursuance of Section 135(5) of the Companies Act, 2013]	68,000
Donation by cheque to approved charitable institution	70,000
Donation by cheque to a charitable institution for construction of a rest house only for a particular religious community.	40,000

(b) Right to use spectrum, with life ten years, acquired by Q Ltd. at a cost of ₹ 15,00,000 and paid for in the year of acquisition, was sold on 15.09.2017 for ₹ 14,00,000 after using it for two years. State the WDV of the right on 01.04.2017 and the tax consequence of the transfer for Q Ltd.
5+(3+2+2½)

4. (a) L Ltd. (in liquidation) distributed on 01.07.17 shares in ITC Ltd., held as investments (market value ₹ 12,00,000), among its shareholders. Such securities were acquired by L Ltd. on 01.07.13. P Ltd., holding 10% voting power [1,000 shares in L Ltd. (acquired on 01.04.17 at a cost of ₹ 50,000)] received 500 shares in ITC Ltd. Share Capital and Accumulated profit of L Ltd. on 01.07.17 were ₹ 10,00,000 and ₹ 5,00,000 respectively. On 01.12.17 P Ltd. sold 300 shares in ITC Ltd. for ₹ 1,25,000.

State the capital gains implication of the distribution by L Ltd., surrender of shares by P Ltd. to L Ltd. and transfer of shares in ITC Ltd. by P Ltd.

[CII : 2013-14 → 220, 2017-18 → 272]

(b) Terminal Depreciation and Balancing Charge are mutually exclusive. Discuss with examples.
(2+4+3)+3½

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Module-II**Marks : 15**Answer *any one* questions.

5. (a) Pink Ltd., a domestic Company furnished the following information for the previous year 2017-18 :

Particulars	₹
(i) Dividend received from A Ltd., an Indian subsidiary co.	5,20,000
(ii) Expenses incurred to earn the above dividend	20,000
(iii) Dividend received from B Ltd., a domestic company	3,50,000
(iv) Dividend received from C Ltd. (incorporated in Italy and Pink Ltd. held 32% of share capital)	4,30,000
(v) Dividend received from D Ltd. (incorporated in France and Pink Ltd. held 21% of share capital)	3,75,000
(vi) Expenses incurred to earn dividend from D Ltd.	55,000
(vii) Business income (computed without considering the above dividends)	40,50,000

Rate of corporate tax 30%, surcharge and cess as applicable.

Compute tax payable by Pink Ltd. for the assessment year 2018-19.

- (b) Red Yellow LLP furnished the following information for the previous year 2017-18 :

Particulars	₹
(i) Business income	75,00,000
(ii) Deduction u/s 35AD	12,00,000
(iii) Long-term capital gain on sale of land	5,00,000
(iv) Income from other sources (including dividend from a domestic company ₹ 70,000)	2,20,000
(v) Donation to National Defence Fund	75,000
(vi) Deduction u/s 80JJAA	2,75,000

Other information :

- (i) Business income is computed without considering deduction u/s 35AD but after considering depreciation of ₹ 3,00,000 in respect of assets on which Sec. 35AD to be claimed.
- (ii) Rate of AMT-18.5%, surcharge and cess as applicable. Compute tax payable by Red Yellow LLP for the assessment year 2018-19.

- (c) Mrs. Raju (Age 47 years), a resident individual disclosed the following information for the previous year 2017-18 :

	₹
(i) Income from profession in India	8,20,000
(ii) Long-term capital gain on transfer of listed shares subject to STT on both acquisition and transfer	1,30,000
(iii) Income from other sources	1,80,000
(iv) Deduction uender chapter VI-A	1,20,000
(v) Income from business in Zambia	5,00,000
(vi) Tax paid in Zambia	1,25,000

Govt. of India does not have Double Taxation Avoidance Agreement with Zambia.

Compute relief u/s 91 and tax payable by Mrs. Raju in India for the assessment year 2018-19.

[Tax rate : upto ₹ 2,50,000—NIL, ₹ 2,50,001 – ₹ 5,00,000 – 5%, ₹ 5,00,001 – ₹ 10,00,000 – 20%; Above ₹ 10,00,000 – 30%. Surcharge and cess as applicable] 4+6+(4+1)

6. (a) LNT Foods Ltd. furnished the following information for the year ended 31.03.2018. Compute the tax payable by the company for the assessment year 2018-19 and tax credit to be carried forward, if any.

(I) Net profit as per the Schedule III of the Companies Act : ₹ 23,80,000

(II) Debit side of the P/L A/c includes :

	₹
Income tax	1,10,000
Provision for an unascertained liability	65,000
Proposed dividend	80,000
Depreciation (including on revalued assets : ₹ 50,000)	3,70,000
Deferred tax liability	40,000
Fine paid to Customs Authority	25,000
Securities Transaction Tax (STT)	4,500
Dividend Distribution Tax (DDT)	16,000

(III) Credit side of the Profit and Loss A/c. includes :

	₹
Profit on Sale of long-term equity shares after payment of STT	1,20,000
Amount withdrawn from general reserve	75,000

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Other information :

- (i) Depreciation as per the IT Rules ₹ 3,45,000.
(ii) The company is eligible to a deduction u/s 80 JJAA of ₹ 70,000.
(iii) The company has the following b/f business losses and unabsorbed depreciation :

	For accounting purpose	For tax purpose
B/f Business loss from A.Y. 2013-14 (₹)	2,00,000	3,00,000
Unabsorbed Depreciation (₹)	3,00,000	2,00,000

(iv) Tax credit brought forward u/s 115JAA ₹ 22,900.

(v) Normal corporate tax rate is 30.9% and MAT rate is 19.055%.

- (b) Mind Tree Ltd. has declared dividend amounting ₹ 45 lakhs on 28th October 2017. You are required to compute the dividend distribution tax payable by Mind Tree Ltd. u/s 115-O. For this, the company has also provided the following details of dividend received by it during the previous year 2017-18 :

Dividend received from	Name of the company	Total amount of dividend declared (₹)	Date of declaration	Date of payment	Holdings in the nominal value of the equity capital by Mind Tree Ltd.
GP Ltd.	Domestic	89,90,000	21.09.2017	30.09.2017	70%
TMT (Pvt.) Ltd.	Domestic	1,12,60,400	12.10.2017	Not yet paid	54%
Snow White Inc.	Foreign	73,50,000	05.08.2017	05.09.2017	61%
BPC Plc.	Foreign	16,68,000	05.09.2017	19.09.2017	34%

GP Ltd. and TMT (Pvt.) Ltd. both have paid dividend distribution tax u/s 115-O on their respective dividend distribution made during the previous year 2017-18. Applicable Dividend Distribution tax rate is 20.35765%.