

2020

DIRECT TAX : LAWS AND PRACTICE – HONOURS

Paper : DSE-5.2T

Full Marks : 80

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

Group - A

Answer *any four* questions.

1. (a) Can an Indian company be resident in India in a previous year, if its place of effective management, in that year, is in outside India? 2
- (b) A Japanese non-resident company sells goods to its Indian subsidiary company during the previous year 2019-20. State whether the income from the transaction will be deemed to accrue on arise in India u/s 9 of the Income Tax Act in the hands of the Japanese company. 4
- (c) From the following information, compute Tax liability of Mr. Ananda Mukherjee for the assessment year 2020-21 :

| | ₹ |
|----------------------------------|-----------|
| Salaries (computed) | 6,00,000 |
| Dividend from Indian Companies | |
| A. Ltd. | 10,00,000 |
| B. Ltd. | 4,00,000 |
| C. Ltd. | 5,00,000 |
| Expenditure for earning dividend | 2,00,000 |
| Deduction u/s 80C to 80U | 4,00,000 |

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2. (a) State when a transfer of asset is said to be a revocable transfer under section 63 of the Income Tax Act. 4
- (b) Mr. Mukherjee reports a turnover of ₹ 1.2 crore, of which 90% was received by account payee cheques during the previous year 2019-20.

State whether Mr. Mukherjee is eligible to opt for presumptive taxation for his income for the assessment year 2020-21 or not. If he is eligible, determine his income from business on presumptive taxation basis. 4

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- (c) Compute the amount of deduction u/s 80JJAA of Bluebell Fashions Ltd., an Indian company engaged in manufacturing of electric kettles, for the assessment year 2020-21. The company started its operation in a factory from 1st July, 2019.

| No. of employees | Period of employment | Monthly emoluments per employee (₹) |
|------------------|----------------------|-------------------------------------|
| 60 | 9 months | 20,000 |
| 20 | 8 months | 20,000 |
| 10 | 8 months | 30,000 |
| 30 | 4 months | 22,000 |

The company is subject to tax audit u/s 44AB of the Income Tax Act, 1961 and all the employees are participating in R.P.F. 7

3. (a) XYZ Ltd. has two main business activities : cement manufacturing and construction. The company started the cement business since 2010, but on 1st April, 2019, it has transferred the business at a lumpsum price of ₹ 26 crore.

The cement business had the following assets and liabilities as on 31.03.2019 :

| | ₹ in crore |
|------------------------|------------|
| Fixed Assets | 125 |
| Debtors | 20 |
| Stock-in-trade | 29.5 |
| Creditors | 165 |
| Contingent Liabilities | 4 |

Expenses on such transfer is ₹ 1.7 crore. Compute the amount of capital gains arising out of such transfer for the assessment year 2020-21.

[CII : 2010-11 : 167; 2019-20 : 289]

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- (b) Mr. Pinaky Sen (age 50 years), a resident individual disclosed the following information for the previous year 2019-20 :

| | ₹ |
|---|----------|
| (i) Income from business in India | 8,00,000 |
| (ii) Income from business in Zambia | 6,00,000 |
| (iii) Long-term capital gains on sale of land | 2,00,000 |
| (iv) Dividend from domestic companies | 1,50,000 |
| (v) Tax paid in Zambia | 1,20,000 |
| (vi) Deduction under chapter VI-A | 1,40,000 |

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

Compute the amount of tax payable by Mr. Pinaky Sen in India for the assessment year 2020-21.

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4. (a) State briefly the provisions of section 80IAC of the Income Tax Act regarding deduction of profit from eligible business of eligible start-up. 5
- (b) Transfer of capital asset from amalgamating company to amalgamated company does not attract capital gains liability —Discuss. 2+3
- (c) P. Jewellers Pvt. Ltd. has begun a new jewellery exporting undertaking in a special economic zone during the financial year 2013-14. The information relating to the undertaking for the P.Y. 2019-20 are given below :

| | | ₹ in lakhs |
|-------|---|------------|
| (i) | Business Profit of the undertaking | 72 |
| (ii) | Export Sales | 520 |
| (iii) | Domestic Sales | 80 |
| (iv) | Consideration received in India in respect of export by the undertaking | 498 |

Compute the deduction allowable u/s 10AA to P. Jewellers Pvt. Ltd. for the assessment year 2020-21. 5

5. (a) Moon Ltd., a manufacturing company, has received an insurance compensation of ₹ 13,50,000 on 10.06.2019 against loss of stock-in-trade in an accidental fire explosion in the factory. State with reason whether the amount received from the insurance company gives rise to capital gains or not. 3
- (b) Mr. Basu converts its capital assets (acquired on 06.06.2017 at ₹ 20,00,000) into stock-in-trade on 06.05.2018 (FMV : ₹ 20,70,000). The company, however, sold the stocks on 06.01.2020 for ₹ 23,40,000. Determine the amount of taxable income of Mr. Basu for the assessment year 2020-21. 5
[given : CII : 2017-18 = 272; 2018-19 = 280; 2019-20 = 289]
- (c) Transfer of capital asset between holding company and its wholly owned subsidiary is granted exemption from capital gains in the year of transfer but the exemption may be withdrawn in a subsequent previous year. Discuss the conditions for granting exemption and events that may cause withdrawal of such exemption. 2+5
6. (a) TW Ltd. has accumulated profits of ₹ 6,00,000. This excludes capitalised profits i.e. bonus shares of ₹ 2,50,000 issued by TW Ltd. in the last year. The company distributed assets of ₹ 7,00,000 to its shareholders during the previous year 2019-20. Show the taxability of the above transaction in the following cases in the hands of TW Ltd. for the assessment year 2020-21, if the market value of the assets on the date of distribution was :
- (i) ₹ 6,50,000,
- (ii) ₹ 8,00,000,
- (iii) ₹ 10,00,000. 3+3+3
- (b) During the previous year 2019-20, Mrs. Modak has received the following gifts :
- (i) Gift of ₹ 80,000 from her employer.
- (ii) Gift of ₹ 52,000 from her father's brother.
- (iii) Gift of a car from her friend (Fair market value is ₹ 10,00,000).
- (iv) Gift of immovable property whose stamp duty value is ₹ 4,00,000 from another friend.

Compute taxable gifts in the hands of Mrs. Modak. 6

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7. From the following information, compute tax on total Income and tax payable by Mr. Pal (58 years) for the assessment year 2020-21 :

| | ₹ | |
|--------------------------------------|-----------|------|
| LTCCG on sale of land | 1,00,000 | |
| STCCG on sale of gold | 40,000 | |
| STCCG u/s 111A | 30,000 | |
| LTCCG u/s 112A | 1,20,000 | |
| Dividend from L & T (Indian company) | 11,00,000 | |
| Profits and Gains from Business | 6,00,000 | |
| Loss from House Property | 2,00,000 | |
| Winning from Lottery (after TDS@30%) | 70,000 | |
| Donation to National Defence Fund | 80,000 | |
| Donation to Rajiv Gandhi Foundation | 40,000 | 10+5 |

8. (a) Manab is engaged in manufacture and sale of textiles. State admissibility/not admissibility of the following expenses/payments :

- ₹ 2,00,000 paid for advertisement in a souvenir published by a political party registered with Election Commission of India.
- Interest on bank loan of ₹ 3,00,000 paid on 09.12.19 (Date of submission of return 30.09.19).
- Expenditure for approved scientific research to IIT, Delhi ₹ 4,00,000.
- Payment to a supplier in cash ₹ 1,00,000 (as supplier is not ready to accept bank payment).
4×1½

- (b) From the following information, compute tax liability of XYZ LLP for the assessment year 2020-21:

| | ₹ |
|---|-----------|
| (i) Business income (after taking deduction of ₹ 15,00,000 u/s 35AD) | 90,00,000 |
| (ii) Dividend received from DC Ltd. (Domestic Co.) | 5,50,000 |
| (iii) Dividend received from a foreign Co. | 50,000 |
| (iv) Donation to National Defence Fund | 1,00,000 |
| (v) Deduction u/s 80JJAA | 4,00,000 |

Rate of tax of LLP-30%, rate of AMT-18.5%, surcharge and cess as applicable.

Group - BAnswer *any one* question.

9. The following is the Profit and Loss Account of a partnership firm, MNC Associate, for the year ending 31.03.2020 :

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|-------------------------------------|---------------|--|---------------|
| To Establishment and other expenses | 9,70,000 | By Gross profit b/d | 28,17,000 |
| To Depreciation | 1,70,000 | By Long-term capital gain on sale of land | 3,20,000 |
| To Interest to partners @ 14%p.a. | | By Interest from govt. bonds | 55,000 |
| M | 1,40,000 | | |
| N | 1,40,000 | | |
| C | 1,40,000 | | |
| To Salary to partners | | | |
| M | 1,44,000 | | |
| N | 1,44,000 | | |
| C | 1,44,000 | | |
| To Net Profit | 12,00,000 | | |
| | 31,92,000 | | 31,92,000 |

Other information :

- (i) Depreciation allowable as per IT rules is ₹ 2,00,000.
(ii) Establishment expenses includes ₹ 60,000 on account of bonus to employees which as remain unpaid till the date of return.
(iii) Deductions allowable U/S 80G and U/S 80JJAA are ₹ 80,000 and ₹ 60,000 respectively.

Compute total income and tax liability of the MNC Associate for the assessment year 2020-21.

Please Turn Over

10. Mr. Pakrashi is engaged in the business of readymade garments. Following is the Profit and Loss Account for the year ended 31st March, 2020 : 16+4

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|--|---------------|--|---------------|
| To Office expenses | 2,30,000 | By Gross profit b/d | 15,08,600 |
| ” Salaries | 1,80,000 | ” Interest on Bank Fixed Deposit | 13,000 |
| ” Provision for tax | 65,000 | ” Discount received | 5,000 |
| ” Fire insurance premium for factory | 11,000 | ” Bad debt recovered | 18,000 |
| ” Interest on loan | 83,500 | (disallowed in earlier year’s assessment) | |
| ” Audit fees | 15,000 | ” Refund of Income Tax | 3,400 |
| ” Contribution to IIT, Delhi for approved scientific research | 50,000 | | |
| ” Donation to National Children’s Fund | 20,000 | | |
| ” General expenses | 76,500 | | |
| ” Depreciation | 1,40,000 | | |
| ” Net Profit | 6,77,000 | | |
| | 15,48,000 | | 15,48,000 |

Other information :

- (i) Interest on loan includes ₹ 20,000 represents interests on money borrowed for the construction of building for self occupation of Mr. Pakrashi.
- (ii) Audit fees includes ₹ 3,000 paid to a Chartered Accountant for conducting income-tax appeal.
- (iii) Salaries include ₹ 15,000 paid to an employee by bearer cheque.
- (iv) General expenses include ₹ 12,000 paid on health insurance on the health of Pakrashi and ₹ 18,000 as life insurance premium on the life of wife.
- (v) Written Down Value of the block of Plant and Machinery (rate of depreciation 15%) as on 01.04.2019 was ₹ 8,60,000. A new machine to this block was acquired and put into use from 01.10.2019 costing ₹ 90,000.

Compute total income and tax payable by Mr. Pakrashi for the assessment year 2020-21.