

2022

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

Answer *any two* questions.

1. (a) Caterpillar Footwear Ltd. is an Indian company having turnover of ₹ 4.50 crores during the previous year 2021-22. It furnishes you the following for the previous year 2021-22 :

Particulars	₹
Profits and Gains of Business or Profession	71,50,000
Long-term Capital Gains	2,00,000
Income from Other Sources (Dividend received from Theeta Ltd., an Indian listed company)	2,50,000

The company has 500 employees in its payroll till the previous year 2020-21, details of which are provided below :

455 employees were employed up to previous year 2018-19.
25 employees were employed on 1st June, 2019 with a monthly remuneration of ₹ 20,000 each.
20 employees were employed on 1st December, 2020 with a monthly remuneration of ₹ 15,000 each.

10 employees were employed on 1st October, 2021 with a monthly remuneration of ₹ 15,000 each.

The company made the following payments through net banking during the previous year 2021-22:

Particulars	₹
Donation to PM CARES fund	2,00,000
Donation to local authority for promotion of family planning	3,00,000
Donation for renovation works to notified temple	2,50,000

The company distributed dividend of ₹ 6,00,000 on 30.06.2021 to its shareholders.

You are required to calculate total deduction available to the company under Chapter VIA for the assessment year 2022-23.

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- (b) India Ltd. is a company situated in SEZ. In previous year 2017-18 (which is the 11th previous year of getting deduction u/s 10AA) it created a SEZ Reinvestment Reserve Account for ₹ 10,00,000 for which it was granted deduction u/s 10AA. Till previous year 2020-21, the company could utilise ₹ 6,00,000 for acquisition of plant and machinery and put them to use. Discuss the tax treatment in assessment year 2022-23.
- (c) Explain the term 'Export Turnover' under the provisions of Sec 10AA of Income Tax Act, 1961.

9+1½+2

2. (a) A depreciable asset was acquired by an Indian company at a cost of ₹ 3,00,000 on 01.04.2019. At the time of acquisition charges incurred: carrying charges ₹ 10,000; unloading charges ₹ 20,000; interest on borrowed fund up to the date of first using the asset for commercial production ₹ 40,000 and installation charges ₹ 30,000.

The wdv of the asset on 01.04.2021 ₹ 2,90,000. On 01.06.2021 the asset is transferred for ₹ 2,60,000. Discuss the tax consequence of the transfer when the assessee is engaged in the business of generation of power and :

Case (A) : has opted for wdv method of depreciation. The block is a single item block.

Case (B) : has not opted for wdv method of depreciation.

wdv ₹ 2,90,000 on 01.04.2021 stated above is same in both the cases.

- (b) If the asset is transferred for ₹ 3,50,000, would your answer differ in the cases stated above?

7+5½

3. (a) Balaji Creations Ltd. has three units, of which two units (Film unit and VFX unit) are engaged in film related activities and the third unit (Computer unit) is engaged in producing computer hardware, software and providing IT enabled services.

On 1st April, 2021, management of Balaji Creations Ltd. sold its computer unit to its subsidiary Mahismati Computers Ltd. (in which Balaji Creations Ltd. holds 75% equity shares) as a going concern by way of slump sale for an agreed upon lump sum consideration of ₹ 4.20 crores. The consideration is as per Income Tax Rules.

The Balance Sheet of Balaji Creations Ltd. as on that date (includes) :

	(₹ in Crores)
Current Liabilities :	
Creditors :	
Computer Unit	0.32
Fixed Assets :	
Computer Unit	1.74
Current Assets :	
Debtors :	
Computer Unit	1.20

Inventories :	
Computer Unit (Market Value ₹ 0.80 crores)	0.84
Investments :	
Computer Unit (Market Value ₹ 0.40 crores)	0.32
Cash & Bank Balance :	
Computer Unit	0.30

The details of the fixed assets of computer unit are as under :

	₹ in crores
Copyright	0.04
Land (at book value after revaluation)	0.50
Machinery	1.20
	1.74

Additional information :

- (i) Computer Unit of the company is in existence since 1st April, 2017.
- (ii) The company acquired land for computer unit at a cost of ₹ 0.30 crores on 30th June, 2017 and the stamp duty value of the same as on 1st April, 2021 is ₹ 0.52 crores.
- (iii) The WDV of the machinery of Computer Unit as on 31st March, 2021 u/s 43(6) is ₹ 1.13 Crores.
- (iv) Copyright was acquired on 1st April, 2020, on which no depreciation has been charged. Rate of depreciation allowed under Income Tax is @25%.
 - (A) State the tax implication of the transfer in the hands of Balaji Creations Ltd. for the assessment year 2022-2023.
 - (B) Will your answer to the above differ if Balaji Creations Ltd. acquires another 25% equity shares of Mahismati Computer Ltd. on 31st March, 2021?

[Given CII for FY 2017-2018 : 272, 2020-2021 : 301, 2021-2022 : 317]

- (b) Raalia Ltd., a steel manufacturing company holds 100% shares of Simplex Construction Ltd., an Indian real estate developer company based on eastern India. Raalia Ltd. acquired a land for expansion of its factory on 1st January, 1997 at a cost of ₹ 1,00,000 (fair market value of which on 1st April, 2001 was ₹ 2,00,000). Raalia Ltd. sold the said unused industrial land to its 100% subsidiary Simplex Construction Ltd. on 1st May, 2021 for a consideration of ₹ 18,00,000 and Simplex Construction Ltd. received the industrial land as stock-in-trade of its real estate business. The stock-in-trade was sold by Simplex Construction Ltd. on 1st March, 2022 for ₹ 25,00,000 and incurred ₹ 1,00,000 as expenses on transfer.

Discuss the tax implications in the hand of Raalia Ltd. for the relevant assessment year(s).

[Given CII for FY 2001-2002 : 100, 2021-2022 : 317]

(7½+1)+4

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4. (a) Land (cost of acquisition on 27th March, 2002 was ₹ 4,00,000) of PT Ltd. was compulsorily acquired by the Central Government on 1st February 2010 for which a compensation of ₹ 8,00,000 was awarded to it on 26th February, 2011.

Being aggrieved by the amount of compensation, PT Ltd. filed a suit for additional compensation in the Kerala High Court and the Kerala High Court ordered to award him an additional compensation of ₹ 22,00,000 on 5th October, 2019 which PT Ltd. received on 25th October, 2019.

The Central Government, being not satisfied by the judgement of the Kerala High Court, filed a petition in the Supreme Court on 15th November, 2020 and the apex court after hearing both the parties, decided on 20th March, 2022 that the additional compensation should have been ₹ 18,00,000 instead of ₹ 22,00,000. The Supreme Court also ordered for payment of interest of ₹ 2,00,000, which was received by the assessee on 31st March, 2022.

Discuss the tax treatment in the hands of PT Ltd. for the assessment year 2022-2023.

- (b) On 31.03.2021, Balance Sheet of Steel division of M. Ltd., an Indian company, shows 1,000 equity shares of ITC Ltd. acquired on 01.01.2021 for ₹ 1,00,000. On 01.09.2021 market value of such shares were ₹ 1,50,000. On that date the company :

Event (a) : converted the shares into stock-in-trade of its share-broking business.

These shares were sold :

Alternative (i) on 28.02.2022 for ₹ 2,75,000

Alternative (ii) on 01.05.2022 for ₹ 2,75,000.

Event (b) : distributed the shares among its shareholders. On 01.09.2021 balance in General reserve was ₹ 90,000. Share Capital of the company, on that date, includes capitalized profit of ₹ 80,000.

State the tax implication of each of the events separately.

5½+7

Module - II

Answer *any one* question.

5. (a) Raven & Crow LLP furnished the following information for the previous year 2021-2022 :

(i) Income from Unit P in SEZ (without considering deduction u/s 10AA)	35,00,000
(ii) Deduction u/s 10AA	10,00,000
(iii) LTCG on sale of equity shares (computed u/s 112A)	5,00,000
(iv) Income from other sources (including dividend from a foreign company of ₹ 1,50,000)	3,00,000
(v) Deduction u/s 80G	50,000
(vi) Deduction u/s 80JJAA	4,00,000

Rate of tax – 30%; rate of AMT – 18.5%. surcharge and cess as applicable.

Compute tax payable by Raven & Crow LLP and AMT to be carried forward (if any) for the assessment year 2022-23.

- (b) Mrs Tania (age 62 years), a resident of India has derived the following income from Zaire with whom no DTAA exists :
- Royalty (related to profession) on patents and brought into India ₹ 15,00,000. Expenses incurred to earn royalty ₹ 3,00,000.
 - Agricultural income from land ₹ 6,00,000.
- She also earns ₹ 5,50,000 as income from profession in India.

Other information :

- She deposited ₹ 1,65,000 in PPF.
- Royalty income is subject to deduction of ₹ 3,00,000 u/s 80 RRB in India.
- Agricultural income is exempt from tax in Zaire.
- Tax paid in Zaire ₹ 2,62,000.

Compute relief u/s 91 and tax payable in India by Tania for the assessment year 2022-2023 (Ignore Sec 115BAC).

- (c) Dove Ltd. a resident company has income from business in India of ₹ 10,00,000 and income from business in Hongkong of ₹ 4,00,000. Rate of tax in Hongkong is 20%. As per DTAA with Hongkong, income from Hongkong is taxable in India but full credit is allowed.

Compute tax payable in India by Dove Ltd. for the assessment year 2022-23. (6+1)+(4+1)+3

6. (a) Bengal Bio-fertilizer Private Company Ltd., an Indian company, has furnished the following information for the year ended 31.03.2022. Compute tax liability of the company for the assessment year 2022-2023 and tax credit, if any, to be carried forward.

	(₹)
(i) Net Profit as per the Statement of Profit and Loss following the Companies Act, 2013	11,00,000
(ii) Expenses included in the Statement of Profit and Loss :	
□ Deferred Tax Liability	4,00,000
□ Provision for Income Tax	1,00,000
□ Provision for Warranty	1,10,000
□ Depreciation (including depreciation on account of revaluation of assets : ₹ 40,000)	1,70,000
(iii) Income included in the Statement of Profit and Loss :	
□ Short-term Capital Gains (Computed u/s 111A)	50,000
□ Long-term Capital Gains (Computed u/s 112A)	1,00,000
(iv) Other information :	
(A) Depreciation as per the IT Rules : ₹ 1,50,000.	
(B) Out of the amount of provision for warranty ₹ 30,000 considered to be an ascertained liability.	

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(C) The company has the following brought forward business losses and unabsorbed depreciation :

	For accounting purpose		For tax purpose	
	Business Loss (₹)	Unabsorbed Depreciation (₹)	Business Loss (₹)	Unabsorbed Depreciation (₹)
A.Y. 2017-18	–	10,000	–	20,000
A.Y. 2018-19	20,000	45,000	–	60,000
A.Y. 2019-20	90,000	30,000	80,000	1,80,000

(D) The company is eligible for a deduction under section 80JJA of ₹ 4,90,000.

(E) Tax credit brought forward u/s 115JAA amounts to ₹ 90,000.

(b) A domestic company, Nandy Construction Ltd., provided the following income details for the previous year 2021-22.

	(₹ in crores)
– Income from business	560
– Dividend received from Indian subsidiary companies	40
– Dividend received from foreign subsidiary companies	22

Dividend of ₹ 58 crores was declared and distributed by the Nandy Construction Ltd., to its equity shareholders in September 2022.

Compute tax liability of Nandy Construction Ltd. for the A.Y. 2022-23 (Ignore MAT). 11+4