

2023

## COMMERCE

Paper : CC-104

(Direct Taxes)

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 Ltd., an Indian company, declared the following dividends during the P.Y. 2022-23 :

|  |             |
|--|-------------|
| 1. Interim Dividend for the P.Y. 22-23   | ₹ 4,00,000  |
| 2. Final dividend for the P.Y. 21-22   | ₹ 10,00,000 |
| 3. Investments distributed— Book value ₹ 4,00,000, Market value ₹ 7,00,000.<br>Accumulated Profit on the date of distribution ₹ 5,00,000 |             |

*Additional information :*

- (i) B Ltd. holds 15% equity shares in A Ltd.  
(ii) B Ltd. declared ₹ 2,50,000 as dividend for the P.Y. 21-22.  
(iii) B Ltd.'s interest on borrowings :

|   |          |
|---|----------|
| On funds borrowed and invested in shares of A Ltd.  | ₹ 45,000 |
| On funds borrowed and invested in shares of X Ltd.<br>(not generated dividend during 22-23) | ₹ 10,000 |
| On funds borrowed and not invested in shares.   | ₹ 15,000 |

- (iv) Losses incurred by B Ltd.: (i) from speculative business ₹ 3,00,000. (ii) from non-speculative business ₹ 50,000. B Ltd. has income from no other heads of income.

Compute: Taxable dividend and Deduction u/s 80 M available to B Ltd. when B Ltd. received:-

Alternative (a) all the dividends from A Ltd.

Alternative (b) dividends from A Ltd. except final dividend for 21-22.

12½

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2. On 01.04.22 X Ltd. borrowed ₹ 8,00,000 at 6% p.a. for purchase of Machine C. The machine was purchased on 01.05.22 for ₹ 8,00,000. Of the purchase price ₹ 1,00,000 was paid in cash. However, the machine was first put to use on 31.12.22. State the deductions available to the Assessee for the P.Y. 2022-23 when :

(a) Machine C forms part of a block of machinery (Rate of normal depreciation: 15%) and Machine C is eligible for additional depreciation. WDV of the block (with Machine A and B) on 01.04.22 : ₹ 7,00,000. Machine A is transferred on 01.02.23 for ₹ 5,00,000.

(b) Machine C is used for in-house scientific research.

12½

3. (a) The following is the detail of Demat Account of CTC India Ltd. (listed on BSE) regarding its investments in equity shares of JSW Automobiles Ltd. which is listed on NSE :

| Date of Credit | No. of Scripts | Particulars  |
|----------------|----------------|--|
| 02.02.2018     | 3,000          | Purchased directly in dematerialised form on 01.02.2018 @ ₹ 1,050 per share                  |
| 18.12.2019     | 2,800          | Dematerialised shares originally purchased on 15.10.2004 @ ₹ 250 per share in physical form. |
| 03.01.2023     | 5,800          | Bonus shares allotted on 02.01.2023 in the ratio of 1 : 1 in demat form.                     |

He sold 5,000 shares @ ₹ 1,200 per share on 10.02.2023 through NSE which were subject to payment of securities transaction tax @ 0.1%. Brokerage expenses incurred on transfer was 0.5% of the sales consideration.

In absence of trading of shares of JSW Automobiles Ltd. on 31.01.2018, the details relating to its prices quoted on NSE on 30.01.2018 are given hereunder :

| Open  | Highest | Average | Lowest | Close |
|-------|---------|---------|--------|-------|
| ₹ 965 | ₹ 980   | ₹ 966   | ₹ 955  | ₹ 962 |

You are required to calculate the capital gains of CTC India Ltd.

[Given CII: 2004-05: 113, 2017-18: 272, 2019-20: 289, 2022-23: 331]

(b) Mac India Ltd. has two divisions, viz., FMCG and Cosmetics. FMCG division manufactures branded toilet soap, shampoo etc., whereas Cosmetics division is engaged in producing branded cosmetic items and lifestyle products exclusively for the women. On 31.12.2022, the company decided to demerge its cosmetics division to Huda Beauty Ltd., an Indian company situated in Mumbai and listed in NSE. The Balance Sheet of Mac India Ltd. as on 31.12.2022 was as follows :

| Particulars  | Amount (₹)       |                  |                  |
|--|------------------|------------------|------------------|
| <b>I. Equity &amp; Liabilities</b>                         |                  |                  |                  |
| <b>Share Capital :</b>                                     |                  |                  |                  |
| Paid-up Share Capital: 1,20,000 Equity Shares of ₹ 10 each |                  |                  | 12,00,000        |
| <b>Reserves &amp; Surplus :</b>                            |                  |                  |                  |
| Securities Premium   |                  |                  | 2,00,000         |
| Revaluation Reserve for Plant of Cosmetics Division        |                  |                  | 1,00,000         |
| General Reserve  |                  |                  | 8,00,000         |
| <b>Non-current Liabilities :</b>                           |                  |                  |                  |
| Bank Loan from IDBI  |                  |                  | 4,00,000         |
| <b>Current Liabilities :</b>                               |                  |                  |                  |
| <b>Creditors :</b>   |                  |                  |                  |
| FMCG Division  | 3,00,000         |                  |                  |
| Cosmetics Division   | 1,00,000         |                  | 4,00,000         |
|  |                  |                  | <b>31,00,000</b> |
| <b>II. Assets :</b>  |                  |                  |                  |
| <b>Non-current Assets :</b>                                |                  |                  |                  |
| <b>Fixed Assets :</b>                                      |                  |                  |                  |
| Land   | —                | 5,00,000         | 5,00,000         |
| Building   | 3,50,000         | —                | 3,50,000         |
| Plant & Machinery  | 5,00,000         | 3,00,000         | 8,00,000         |
| <b>Investments :</b>                                       |                  |                  |                  |
| (Fair market value ₹ 6,50,000)                             | 2,00,000         | —                | 2,00,000         |
| <b>Current Assets :</b>                                    |                  |                  |                  |
| Debtors  | 1,10,000         | 90,000           | 2,00,000         |
| Stock-in-trade   | 3,90,000         | 4,60,000         | 8,50,000         |
| Cash & Bank Balance  | 50,000           | 1,50,000         | 2,00,000         |
|  | <b>16,00,000</b> | <b>15,00,000</b> | <b>31,00,000</b> |

In the scheme of demerger, it was decided that for each equity share of ₹ 10 each (fully paid-up) of Mac India Ltd., 2 equity shares of ₹ 10 each (fully paid-up) of Huda Beauty Ltd. were to be issued to the existing shareholders of the demerged company. Mac India Ltd. acquired the land on 15.03.2011, the fair market value of which as on 31.12.2022 was ₹ 25,00,000.

Sugar Cosmetics Ltd. held 30,000 equity shares in Mac India Ltd., which were acquired by it on 20.06.2012 at a cost of ₹ 5,00,000. Sugar Cosmetics Ltd. sold all original equity shares of Mac India Ltd. on 30.09.2022 for a consideration of ₹ 9,50,000 and paid brokerage expenses @ 0.5% of the gross sales consideration. Huda Beauty Ltd. also sold the land on 05.03.2023 for ₹ 25,00,000 and incurred expenses of ₹ 50,000.

Discuss tax treatment in the hands of Sugar Cosmetics Ltd. and Huda Beauty Ltd. for the assessment year 2023-24.

[Given CII for FY 2010-11: 167, 2012-13: 200, 2022-23: 331]

5+7½

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4. (a) Addidas Enterprise Ltd., a popular manufacturer and marketer of export quality branded footwear and leather handbags for both men and women. It is presently operating with two units. Unit A was set up in Special Economic Zone on 01.06.2008 and it started manufacturing on and from 15.07.2008. However, Unit B was set up in domestic tariff area on 01.04.2012. The following information is derived from the Statement of Profit and Loss of the company for the year ended 31st March, 2023 :

| Particulars              | Amount ( ₹ in Lakhs) |        |
|--------------------------|----------------------|--------|
|                          | Unit A               | Unit B |
| Export Turnover          | 250                  | 10     |
| Domestic Turnover        | 20                   | 130    |
| Net Profits of the Units | 38                   | 13     |

*Additional Information :*

- (i) Expenses amounting to ₹ 1.00 Lakh was debited to statement of profit and loss, but disallowed u/s 40A(3) of the Income Tax Act, 1961.
- (ii) Export turnovers of Unit A and B included freight and insurance charges of ₹ 10.00 Lakhs and ₹ 1.00 Lakh respectively.
- (iii) Brought forward business loss of Unit C (closed down by the company on 20.04.2018) pertaining to the assessment year 2016-17 was ₹ 22.00 Lakhs.
- (iv) During the previous year 2022-23, the following workmen were newly appointed in Unit A :
  - (I) 50 casual workers employed on 01.04.2022 (with a monthly emolument of ₹ 12,000 each).
  - (II) 25 regular workmen employed on 01.08.2022 (with a monthly emolument of ₹ 25,000 each). Out of these 25 workmen, only 10 workmen qualify as "workman" under the Industrial Dispute Act, 1947.
  - (III) 20 regular supervisor employed on 15.11.2022 (with a monthly emolument of ₹ 20,000 each).
- (v) An amount of ₹ 5.00 Lakhs was contributed to a recognised political party of India through NEFT.
- (vi) Out of the profits, an amount of ₹ 30.00 Lakhs was transferred to SEZ Re-investment Reserve Account in the previous year 2018-19. Only a sum of ₹ 20.00 Lakhs was utilised in acquisition of a special purpose new machinery on 20.03.2022, which was first put to use in Unit A on 30.03.2022.
- (vii) The company had transferred ₹ 20.00 Lakhs to SEZ Re-investment Reserve Account out of profits during the previous year 2022-23.

You are required to determine the total income of the company as well as exemption u/s 10AA of the Income Tax Act., 1961 considering it has no other sources of income.

- (b) ABC Limited furnished the following information regarding its income during the PY ending on 31.03.23 :

|   | Amount in (₹) |
|---|---------------|
| Taxable income from business                        | 78,000        |
| Income from interest from fixed deposits with Banks | 11,000        |
| Donations made to :                                 |               |
| National foundation for communal harmony            | 2,000         |
| Approved University of National Eminence            | 3,000         |
| Prime Minister's Draught Relief Fund                | 15,000        |
| Approved charitable institutions                    | 7,300         |
| Government for charitable purpose                   | 3,000         |
| Approved institution for promoting family planning  | 5,000         |

Calculate total income of the company after considering deductions under Ch. VIA of the Income Tax Act. 7½+5

### Module - II

Answer *any one* question.

5. DP Ltd. furnished the following information for the year ended 31.03.2023 :

|   |                  |
|---|------------------|
| (I) Net profit as per the statement of Profit and Loss following the Companies Act, 2013                  | ₹<br>2,16,60,000 |
| (II) Expenses included in the Statement of Profit and Loss :  |                  |
| Income Tax paid   | 1,00,000         |
| Deferred Tax liability  | 5,00,000         |
| Provision for Warranty  | 7,00,000         |
| Depreciation (including depreciation on account of revaluation of assets : ₹ 4,00,000)                    | 14,50,000        |
| Other expenses  | 7,50,000         |
| (III) Income included in the Statement of Profit and Loss :   |                  |
| Short-term Capital Gains on transfer of shares (Computed u/s 111A)  | 1,00,000         |
| Short-term Capital Gains on transfer of land  | 3,00,000         |
| Long-term Capital Gains on sale of Building   | 15,00,000        |
| Dividend from domestic companies  | 1,00,000         |
| (IV) Other information :  |                  |
| (i) Depreciation as per the IT Rules  | 4,75,000         |
| (ii) Out of the amount of provision for warranty ₹ 3,00,000 is considered to be an ascertained liability. |                  |
| (iii) Deduction allowable u/s 80G   | 6,00,000         |

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- (iv) 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. 2018-19 | —                      | 1,10,000                    | —                 | 2,00,000                    |
| A.Y. 2019-20 | 2,00,000               | 1,45,000                    | —                 | 6,00,000                    |
| A.Y. 2020-21 | 1,50,000               | 1,30,000                    | 80,000            | 1,80,000                    |

- (v) Tax credit brought forward u/s 115JAA ₹ 70,000

- (vi) Other expenses includes :

₹ 75,000 incurred for purchase of materials from a related person. Fair market value ₹ 50,000.

₹ 60,000 paid in cash to the same supplier on the same date against the same bill.

- (vii) Applicable corporate tax rate is 30% and MAT rate is 15%. Surcharge and cess as applicable.

Compute the tax payable by the company for the assessment year 2023-24 and tax credit to be carried forward, if any.

15

6. (a) Compute tax liability of SVF LLP from the following information relating to P.Y. 2022-23 :

|   | ₹         |
|---|-----------|
| (i) Income from business A (specified u/s 35AD)                                 | 59,00,000 |
| (ii) Income from business B   | 38,00,000 |
| (iii) Dividend income from domestic company                                     | 2,70,000  |
| (Interest on borrowed capital for investment in shares of the company ₹ 57,500) |           |
| (iv) Deduction allowable u/s 80G  | 1,00,000  |
| (v) Deduction allowable u/s 80JJAA  | 4,80,000  |
| (vi) AMT credit brought forward   | 95,000    |

Income from business A above is calculated after deduction u/s 35AD of ₹ 75,00,000. Normal and additional depreciation in respect of assets on which deduction u/s 35AD has been claimed would be ₹ 11,25,000 and ₹ 15,00,000 respectively.

Compute tax liability of the LLP and AMT credit to be carried forward, if any, for the assessment year 2023-24. Regular Income Tax rate is 30% and AMT rate is 18.5%. Surcharge and HEC as applicable.

(7)

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(b) Mr. Nigam (age 54 years), a resident Indian, has provided the following income details for the previous year 2022-23 :

|  | ₹         |
|--|-----------|
| Loss from business carried on in India       | 4,60,000  |
| Income from business carried on in country B | 12,70,000 |
| Agricultural income from country B           | 1,90,000  |
| Long-term capital gains                      | 80,000    |
| Long-term capital gains u/s 112A             | 1,50,000  |
| Fixed deposit interest from SBI              | 3,00,000  |
| Deduction available u/s 80C                  | 1,50,000  |

- India has not entered into any double taxation avoidance agreement with country B.
- Tax paid on business income and agricultural income in country B is @ 15%.

Compute tax payable by Mr. Nigam in India for the assessment year 2023-24.

[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 HEC as applicable]

7+8