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Question Paper	
Direct Tax Laws Full	**Duration**: 180
Details: Full Test 1	**Marks**: 100

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

PAPER – 7: DIRECT TAX LAWS AND INTERNATIONAL TAXAXTION

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Question in Division A, working notes are not required.

All questions relate to Assessment Year 2022-23, unless stated otherwise in the question.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

Q-1 Case Study 1:

Inderjeet receives Rs.30,000/- p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of Rs. 15,000 p.m. forming part of retirement benefit. He owns a motor car (engine capacity exceeds 1.6 lts) which is used by him for personal as well as official purposes. The original cost of car is Rs. 350,000/- Expenditure incurred by employer on running and maintenance of the motor car during the relevant previous year amounted Rs. 25,000/-. The salary of driver paid by the employer amounted Rs. 48,000/-

He was granted an option on 1-7-2020 by the company to purchase 500 equity shares at a price of Rs.250 per share. The period, during which the option can be exercised to purchase 500 shares at a pre-determined price of Rs.250 per share commencing on 1-7-2020 and ending on 31-3-2022, Mr. Inderjeet exercised the option on 15-3-2021 to purchase 500 shares. Fair market value on the said date was Rs. 500/- on the Bombay Stock Exchange and Rs. 600/- on the National Stock Exchange. The NSE has recorded the higher volume of trading in that share. The company has allotted him 500 shares on 24th April 2021. The fair market value on the date of allotment was 800 per share on NSE and Rs. 850 on the BSE, which has recorded the higher volume of trading in that share.

During the previous year, the employee was reimbursed Rs. 24,000/- as medical expenses incurred by him which includes Rs. 7,000/- spent in Government hospital. He is also engaged in the business of plying, hiring or leasing of goods carriages. He held 4 heavy goods vehicle (Gross weight of each being 13000 kg.) for the entire year and 3 goods carriage other than heavy goods vehicle which were acquired on 15th July 2021.

On 30th December, 2021, he gets by gift a commercial flat from the elder brother of his father (stamp duty value is Rs. 25,00,000/-). From the following information determine —

1. The taxable value of car facility for assessment year 2022-23 will be –

A. Rs. 33,400
B. Rs. 73,000
C. Rs. 39,600
D. Rs. 32,400

2. The taxable value of employee stock option plan will be –

A. Rs. 1,25,000
B. Rs. 1,75,000
C. Rs. 2,75,000
D. Rs. 3,00,000

3. The taxable value of medical facility in this case shall be-

A. Rs. 9,000

B. Nil

C. Rs. 17,000

D. Rs. 24,000

4. His income under the head Salary shall be-

A. Rs. 7,48,000

B. Rs. 7,38,000

C. Rs. 7,08,400

D. Rs. 7,15,400

5. His deemed profits u/s 44AE shall be-

A. Rs. 8,26,500

B. Rs. 5,62,500

C. Rs. 4,20,000

D. Rs. 3,78,000

6. The amount chargeable to tax under the head Income of other sources in the hands of Tapas is-

A. Rs. 25,00,000

B. Rs. 24,50,000

C. Rs. 20,00,000

D. Nil

(2 × 6 = 12 Marks)

Q-2 Case Study 2:

An investment fund (Investment Fund I) incorporated in India in the form of a LLP has 35 unit holders each holding 2 units.

The particulars of income of Investment Fund I for the P.Y. 2021-22 is as follows:

(i) Business income — Rs. 14 lakh;

(ii) Long-term capital gains — Rs. 21 lakhs; and

(iii) Income from other sources — Rs. 7 lakhs.

Another investment fund (Investment Fund II) incorporated in India in the form of a company has 50 unit holders each holding 4 units. All unit holders have held the units for a period of more than a year.

The particulars of income of Investment Fund II for the P.Y. 2021-22 is as follows:

(i) Business loss — (Rs.10 lakh);

(ii) Long-term capital losses – (Rs. 20 lakhs); and

(iii) Income from other sources — Rs. 6 lakhs.

From the information given above, choose the most appropriate answer to the following questions —

1. With respect to income of Investment Fund I for the P.Y. 2021-22-

A. Rs. 42 lakhs is taxable in the hands of the investment fund

B. Rs. 120,000 is taxable in the hands of each unit holder.

C. Rs. 21 lakh is taxable in the hands of investment fund; Rs. 60,000 is taxable in the hands of each unit holder.

D. Rs. 14 lakh is taxable in the hands of investment fund; Rs. 80,000 is taxable in the hands of each unit holder.

2. What is the applicable rate of tax on the component(s) of income of Investment Fund I for the P.Y. 2021-22 in the hands of Investment Fund I?

A. The entire income of Rs. 42 lakhs is taxable @ 30% (plus cess @4%).

B. N.A. , since Investment Fund I enjoys pass through status for all its income components.

C. Long-term capital gains is taxable @ 20% (plus cess @ 4%) and other income @ 30% (plus cess @ 4%)

D. Business income of Rs. 14 lakhs is taxable @ 30% (plus cess @ 4%)

3. With respect to income of Investment Fund II for the P.Y. 2021-22-

A. Income of Rs. 6 lakhs from other sources is taxable in the hands of Investment fund and losses of Rs. 30 lakhs can be carried forward by the investment fund.

B. Losses of Rs. 24 lakh, arrived at after set-off business loss against income from other sources, can be carried forward by the investment fund.

C. Business loss of Rs. 4 lakh can be carried forward by the investment fund, capital loss of Rs. 40,000 can be carried forward by each unit holder.

D. Income of Rs. 6 lakhs from other sources is taxable in the hands of investment fund and business loss of Rs. 10 lakh can be carried forward by the investment fund; long-term capital loss of Rs. 40,000 can be carried forward by each unit holder.

4. If, in the P.Y. 2022-23, Investment Fund II has business income of Rs. 15 lakh and long term capital gains of Rs. 25 lakhs, then, its total income for A.Y. 2023-24 would be:

A. Rs. 6 lakh

B. Rs. 10 lakh

C. Rs. 11 lakh

D. Rs. 36 lakh

(2 × 4 = 8 Marks)

Q 3: In which conditions, an agreement, after being entered, may be revised by the Board?

A. There is a change in critical assumptions or failure to meet a condition subject to which the agreement has been entered into.

B. There is a change in law that modifies any matter covered by the agreement but is not of the nature which renders the agreement to be non-binding.

C. There is a request from competent authority in the other country requesting revision of agreement, in case of bilateral or multilateral agreement.

D. All of the above

(2 Marks)

Q 4: A partnership firm consisting of three partners X, Y, and Z is engaged in the business of retail trade. Turnover of the business for the year ended 31st March, 2022 amounts to Rs. 180 lakh (Rs.100 lakh is received through banking channel). Bad debts written off in the books are Rs. 75,000. Interest at 12% p.a. is provided to partner. Z on his capital of Rs. 6 lakh as authorized by the partnership deed.

The firm had business loss of Rs. 50,000 and unabsorbed depreciation of Rs. 1,50,000 carried forward from A.Y. 2021-22. The firm opts for presumptive taxation u/s 44AD for A.Y. 2022-23. Compute the Total income of the firm for A.Y. 2022-23.

A. Rs. 12,40,000

B. Rs. 3,65,000

C. Rs. 10,90,000

D. Rs. 11,90,000

(2 Marks)

Q 5: In case of AOP where the share of the members are determinate but none of the members has taxable income exceeding maximum exemption limit, but one or more member is taxable at a rate higher than the maximum marginal rate, the tax shall be charged:

A. at the rate applicable to individual/HUF.

B. on that portion of Income of AOP which Is relatable to the member taxable at higher rate, at the rate applicable to such member and the balance taxable income at the rate applicable to individual/HUF.

C. on that portion of income of AOP which Is relatable to the member taxable at higher rate, at the rate applicable to such member and the balance taxable Income at the maximum marginal rate.

D. at the rates given in Schedule I of the Income-tax Act.

(2 Marks)

Q 6: The reporting provision shall apply In respect of an International group for an accounting year, if the total consolidated group revenue as reflected in the consolidated financial statement (CFS) for the accounting year preceding such accounting year is above _________.

A. Rs. 6400 crore

B. Rs. 6500 crore

C. Rs. 5000 crore

D. Rs. 5500 crore

(1 Marks)

Q 7: A Inc. and B Inc., incorporated in Country A and Country B respectively, whose place of effective management is also in the said countries, are engaged in the business of operation of ships and aircraft, respectively. The details of receipts etc. during the P.Y. 2021-22 are as follows-

Particulars	A Inc.	B Inc.
Amount paid/payable in Mumbai on account of carriage of passengers:		
Shipped from Mumbai port to port in Country A	Rs. 20 lakhs	
From Mumbai airport to airport in Country B		Rs. 15 lakhs
Amount paid/payable in Country A/B on account of carriage of passengers:		
Shipped from Mumbai port to port in Country A	Rs. 5 lakhs	
From Mumbai airport to airport in Country B		Rs. 4 lakhs
Amount received/deemed to be received in India on account of carriage of passengers:		
Shipped from port in Country A to Mumbai port	Rs. 7 lakhs	
From airport in Country B to Mumbai airport		Rs. 8 lakhs
Amount received/deemed to be received in Country A/B on account of carriage of passengers:		
Shipped from port in Country A to Mumbai port	Rs. 22 lakhs	
From airport in Country B to Mumbai airport		Rs. 18 lakhs

Profit(pertaining to indian operations) computed as per books of account maintained by A Inc. and B Inc., after providing the deductions under the Income-tax Act, 1961	Rs. 2.20 lakhs	Rs. 1.20 lakhs

The profits and gains of business of A Inc. and B Inc. chargeable to tax in India under the Income-tax Act, 1961 for A.Y. 2022-23 is-

A. Rs. 2.20 lakhs and Rs. 1.20 lakhs, respectively, provided the books of accounts are audited u/s 44 AB of the Income-tax Act, 1961.

B. Rs. 2.025 lakhs and Rs. 1.15 lakhs, respectively.

C. Rs. 2.40 lakhs and Rs. 1.35 lakhs, respectively

D. Rs. 2.70 lakhs and Rs. 3.375 lakhs, respectively.

(1 Marks)

Q 8: The Commissioner of Income-tax is empowered to revise the assessment order of the Assessing Officer when the same is erroneous and pre-judicial to the interest of revenue. Such power is vested in the Commissioner of Income-tax under -

A. Section 263

B. Section 246A

C. Section 264

D. Section 263 and 264.

(1 Marks)

Q 9: In order to provide sufficient time to the Assessing Officer to complete the assessment in a case where reference is made to the Transfer Pricing Officer, section 92CA(3A) provides for determination of arm's length price of international transactions by the Transfer Pricing

Officer at least_________ before the expiry of the time limit u/s 153 or section 153B for making an order of assessment by the Assessing Officer.

A. 30 days

B. 90 days

C. 60 days

D. 45 days

(1 Marks)

Division B – Descriptive Questions

Question No. 1 is compulsory

Attempt any four questions from the remaining five questions

Q-1. XYZ Private Limited is engaged in manufacturing and selling ceramic titles. The net profit of the company as per its profit & loss Account for the year ended 31st march, 2022 is Rs. 150 lakh after debiting or crediting the following items.

(i) One – time license fee of Rs. 20lakh paid to a foreign company for obtaining franchise on 1st June, 2021.

(ii) Rs. 29000 paid to A & Co., a goods transport operator in cash on 31st January, 2022 for distribution of the company's produce to its warehouse.

(iii) Rent of Rs. 6 lakh received from letting out a part of its office premises. Municipal tax in respect of the said part of the building amounting to Rs. 15,000 remain unpaid.

(iv) Rs. 2 lakh, being contribution to a University approved and notified under section 35(1)(ii).

(v) Rs. 3 lakh, being loss due to destruction of a machinery caused by a fire due to short circuit. The Insurance Company did not admit the claim of the company.

(vi) Rs. 4 lakh and Rs. 1 lakh being amounts waived by a bank out of principal and arrears interest respectively in a one-time settlement. The loan was obtained for meeting working capital requirement four years back.

(vii) 1 lakh, being amount payable to a contractor (who does not have Permanent Account Number) for repair work at the company's factory. Tax of Rs. 2,000 was deducted and paid in time.

(viii) Dividend of Rs. 0.10 lakh from P. limited on 1,000 equity shares of Rs. 10 each purchased at Rs. 100 per share on 10th October, 2021. The rate of dividend declared is 100%, the record date being 1st December, 2021. The shares were sold on 1st March, 2022 at 80 per share. Loss of Rs. 0.20 lakh has been debited to Profit & Loss Account.

(ix) Depreciation on tangible fixed assets Rs. 1 lakh.

Additional Information:

(a) Depreciation on tangible fixed assets as per Income-tax Rules Rs. 1.75 lakh.

(b) The company has obtained a loan of Rs. 2 lakh from ABC Private Limited in which it holds 16% voting rights. The accumulated profits of ABC Private Limited on the date of receipt of loan was Rs. 0.50 lakh.

Compute total income of XYZ Private Limited indicating reasons for treatment of each item. Ignore the provision relating to minimum alternate tax.

(14 Marks)

Q-2 (A) (i): Ajay, a non-resident Indian, has the following sources of income in India during previous year 2021-22:

	Particulars	Rs.	Rs.

(i)	Income from house property located in India (computed)		2,70,000
(ii)	Dividend from Indian companies		75000
(iii)	Interest on debentures of Indian Company (Subscribed in convertible foreign exchange)	1,00,000	
	Less: Interest on loan taken for purchase of debentures	20,000	80,000
(iv)	Long-term capital gains on sale of debentures subscribed in US $:		
	Cost in 2003-04	4,00,000	
	Sale in 2021-22	6,00,000	
		2,00,000	
	Less: Commission to brokers	6,000	1,94,000

Compute tax payable by Ajay for assessment year 2022-23, if he opts for the provisions of Chapter XII-A of the Income tax Act.

(4 Marks)

Q-2 (A) (ii): Mr. X, a trader in gold and silver jewellery furnishes you with the following information –

(1) On 14th May, 2021, X purchases 100 grams of gold bullion the rate of Rs. 30,000 per 10 gram as his stock-in-trade.

(2) This stock-in-trade is not sold till 31st March, 2022. FMV of gold bullion on 31st March, 2022 is Rs. 31,500 per 10 grams.

(3) The above inventory of 100 grams gold bullion is converted into capital asset on 10th July, 2022. FMV of Gold bullion on 10th July, 2022 is Rs. 31,750 per 10 grams.

(4) X transfers 50 grams of gold bullion on 25th March, 2023 at the rate of Rs 32,500 per 10 grams.

Find out tax consequences of these transaction (assume that X has not undertaken any other transaction during the previous year's 2021-22 and 2022-23).

(4 Marks)

Q-2 (B): Amar P Ltd., Bangalore is engaged in IT Enabled services. It is the subsidiary of ABC Inc. in US. It also provides similar services to a company SAK Ltd. at Singapore. Its billing and other information is as given hereunder –

(i) Billing per month to ABC Inc. USD 85000

(ii) Billing per month to SAK Ltd. USD 70000

(iii) ABC Inc. has provided a loan of USD 100000 to Amar P Ltd. toward purchase of hardware for executing its project. Rate of interest charged for the said loan is at 3% p.a.

(iv) Direct and indirect cost incurred are USD 100 and USD 200 per hour respectively.

(v) Amar P Ltd. Work 9 hours per day for 15 days to execute the projects for ABC Inc. and 8 hours per day for 15 days to execute projects for SAK Ltd. Services was provided by the company to both its customers throughout the year.

(vi) Warranty was provided to SAK Ltd. For a period 2 years. Cost of warranty is calculated at 1% of direct cost incurred. The cost of warranty is neither included in the direct not indirect cost.

Assume conversion rate 1 USD = Rs. 64 Compute Arm's Length Price as per the cost-plus method and the amount to be added if any to the income of Amar P Ltd.

(6 Marks)

Q-3 (A): Hindustan Charitable Foundation was formed as a trust on 01-04-2006 .It applied for registration u/s 12AA of the Act and got the registration approved from prescribed authority from 01-04-2011. The trust got the exemption from payment of taxes satisfying the conditions laid down in Sections 11 to 13 from01-04-2011. The trust got dissolved on 01-12-2020.

The Balance Sheet of the Trust on the date of dissolution was as under:

Liabilities	Rs.	Assets	Rs.
Corpus of the trust	8,00,000	Land and Building	20,00,000
Reserves (created out of accumulated amount of 15% each year)	4,00,000	Investment in Equity Shares – Quoted	6,00,000
Loan taken for purchase of Land and Building	17,00,000	Investment in Equity Shares - Unquoted (in X Ltd.)	4,00,000
Loan taken for purchase of unquoted shares (taken in year 2008-09)	2,00,000	Cash	50,000
		Bank Balance	50,000
Total	**31,00,000**	**Total**	**31,00,000**

Additional information:

(1) FMV of Land and Building is of Rs.1,20,00,000;

(2) 50% of the Un-Quoted shares are acquired during the year 2008-09;

(3) Market Value of quoted shares on the date of dissolution is Rs. 30,00,000;

(4) Land and Building is acquired out of the agricultural income;

(5) With respect to X Ltd. in which the trust invested in unquoted shares, the following additional information are available as on 01-12-2020 :

   a. 2,00,000 Equity Share with face value of 10 each;

   b. Total Book Value of the assets (other than bullion, jewellery) is 1,00,00,000;

   c. Market value of bullion and jewellery is 50,00,000; and

   d. Liabilities amounting to 60,00,000.

(6) Upon dissolution, the trust distributed the assets valuing Rs.10,00,000 to another trust registered under section 12AA of the Act before 31-12-2021.

Compute the tax payable by the Hindustan Charitable Foundation for the A.Y.2022-23 under scetion115TD.

(8 Marks)

Q-3 (B): PQR LLP, a limited liability partnership set up a unit in special Economic Zone (SEZ) in the financial year 2016-17 for production of washing machines. The unit fulfills all the condition of section 10AA of the Income-tax Act. During the financial year 2019-20, it has also set up a ware housing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to Rs.75 lakhs (including cost of land Rs. 10 lakhs). The warehouse become operational with effect from 1st April, 2020 and the expenditure of Rs. 75 lakhs was capitalized in the books on that date.

Relevant details for financial year 2020-21 are as follow:

Particular	**Rs.**
Profits of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profits from operation of warehousing facility (Before considering deduction under section 35AD)	1,05,00,000

Compute income tax (including AMT under section 115JC) payable by PQR LLP for A.Y.2021-21

(6 Marks)

Q-4 (A) (i): The following issues arise in connection with the deduction of tax at source under Chapter XVII-B. Discuss the liability for the tax deduction in these cases:

(1) An employee of the Central Government receives arrears of salary for the earlier 3 years. He inquires whether he is liable for deduction of tax on the entire amount during the current year.

(2) A.T.V Channel pays Rs. 10 lakhs as prize money to the winner of a Quiz Programme.

(3) State bank of India pays Rs. 50,000 per month as rent to the Central Government for a building in which one of its branches is situated.

(4) A television company pays Rs. 50,000 to a cameraman for shooting of a documentary film.

(5) State Government pays Rs. 20,000 as commission to one of its agent on sale of lottery tickets.

(6) A turf Club awards a jack-pot of Rs. 5 lakhs to the winner of one of its races.

(4 Marks)

Q-4 (A) (ii): Tulsi Private Ltd., a company engaged in ship breaking activity, sold some old and used plates, wood etc., in respect of which it did not collect tax from the buyer. The company claimed that such items are usable as such. Hence, these are not 'scrap' to attract the provision for collection of tax at source. The Assessing Officer treated such items in the nature of 'scrap' and raised a demand u/s 201(1) and interest u/s 201(1A).

It the action of the Assessing Officer in treating such items as 'scrap' tenable in law? Discuss.

(4 Marks)

Q-4 (B): The following data is furnished by Mr. Sumedh, a non-resident and a person of Indian Origin, for the financial year ended 31-03-2021: (amounts in Rs.)

A: Long -term Capital gains arising of transfer of foreign exchange asset on 31-07-2020 (computed)	6,50,000
Expenditure wholly and exclusively incurred in connection with such transfer (not considered above)	80,000
Interest on deposit held with Private limited	5,90,000
Companies:	

Interest on Government Securities	95,000
Interest on deposit with public limited companies	2,60,000
Dividend from Domestic Companies	75,000
B: Saving and Investments:	
Investment in notified saving certificate referred to in section 10(4B) on 30-03-2021	2,00,000
Investment in shares of Indian Public limited companies on 31-12-2021	3,00,000
C: Tax deduction at source	1,83,800

Compute balance tax payable/refund due for the assessment year 2021-22 in accordance with special provisions applicable to non-resident.

(6 Marks)

Q-5 (A) (i): Mr. X failed to furnish his return of income whose due date of filing the return for the A.Y.2020-21 was 30-09-2020. However, he furnished the same on 12-11-2020 and he also paid the self-assessment tax of Rs. 88,000 (inclusive of interest of Rs. 1,600 u/s 234A; and Rs. 6,400 u/s 234B) on the same date. He had paid an advance tax of Rs. 20,000 and tax of Rs. 30,000 was deducted from his income. The assessment was completed by the Assessing Officer on 3-4-2021 in which Mr. X's tax liability was ascertained at Rs. 3,50,000 (without giving credit for advance tax or TDS on self-assessment tax).

Subsequently, a notice under section 148 was issued to Mr. X on 15-10-2021 by the Assessing officer in respect of the A.Y. 2020-21 requiring him to furnish a return of income by 20-12-

2021. In response to such notice, Mr. X filed the return on 10-2-2022. The tax liability as determined by the Assessing officer on reassessment on 15-9-2022 is Rs. 5,00,000 (without giving credit for advance tax, TDS or self-assessment tax).

Determine interest leviable on Mr. X u/s 234B(1)& 234B(3), ignoring the interest u/s 234A and 234C.

OR

Q: A Foreign Company entered into contracts with several Indian Companies for installation of mobile telephone system and made an application to the Authority for advance ruling on the rate of withholding tax on receipts from India companies. One of the Indian companies made an application to its Assessing Officer for determination of the rate of tax at which tax is deductible on payment to the said Foreign Company. The Authority for Advance Rulings rejected the application of the Foreign Company on the grounds that the question raised in the application is already pending before an income tax authority. Is the rejection of the application of the Foreign Company justified in law?

Macline Cola Co. of UK entered into contracts with three Indian companies namely ABC Ltd., Pepsi Co. Ltd. and Coca Cola Ltd. for supplying know-how. Macline Cola Co. made an application to the Authority of Advance Ruling (AAR) on the rate of withholding tax on receipts applicable to it.

Also Coca Cola Ltd. also made an application to the Assessing Officer for determination of the rate at which tax is deductible on the payment made to non-resident company i.e. Macline Cola Co.

The Authority for Advance Ruling (AAR) rejected the application of Macline Cola Co. on the ground that the question raised in the application is already pending before an Income-tax authority.

Explain whether the rejection of application by the AAR is justified in law?

(4 Marks)

Q-5 (A) (ii): The Assessment of CNK Associates, a partnership firm, for the assessment year 2018-19 was made u/s 143(3) on 31-7-2021. The Assessing Officer made two additions to the income of the assessee viz. (a) addition of Rs. 2 lakhs under section 40(a)(ia) due to non-furnishing of evidence of payment of TDS and (b) addition of Rs. 5 lakhs on account of unexplained cash credit. The assessee contested addition on account of unexplained cash credit in appeal to the Commissioner (Appeals). The appeal was decided in January, 2022 against the assessee. The assessee approaches you for the your suggestion as to whether it should apply for revision to the Commissioner under section 264 or rectification to the Assessing Officer under section 154 as regards disallowance under section 40(a)(ia). What should be your suggestion?

(4 Marks)

Q-5 (B): M/s. Raghuram Co. Ltd. , Mumbai entered into following agreements with various nonresident entities during the previous year 2020-21:

(i) Paid Rs. 4,40,000 to M/s. Neil Inc., a company based in USA for online advertisement of its products. M/s. Neil Inc., does not have a PE in India.

(ii) Paid Rs. 55,000 to Mr. David, a non-resident individual, against providing digital space for online advertisement of its products.

(iii) Paid Rs. 170,500 to M/s LOX Ltd., for providing a platform for sale of its used furniture items. M/s. LOX Ltd., is a company based in New Zealand and does not have a PE in India.

Discuss the relevant provisions of Income-tax Act, in respect of such agreements and also state the tax implications of such payments.

(6 Marks)

Q-6 (A)

(i): M/s. Solaris Chemicals Ltd. is a company incorporated in India. It sets up a unit in a Special Economic Zone (SEZ) in F.Y. 2019-20 for manufacturing of chemicals. It claims deduction of profits earned from that unit as per section 10AA of the Act. Is GAAR applicable in such a case?

(ii): M/s Solaris Chem Ltd. is a company incorporated in India. It sets up a unit in a Special Economic Zone (SEZ) in F.Y. 2019-20 for manufacturing of chemicals. It has another unit for manufacturing chemicals in a non-SEZ area. It transfers the product of non-SEZ unit at a price lower than the fair market value and does only some insignificant activity in SEZ UNIT. Thus, it is able to show higher profits in SEZ unit than in non-SEZ unit, and consequently claims higher deduction in computation of income. Can GAAR be invoked to deny the tax benefit?

(6 Marks)

Q-6 (B): The tax payable by Mr. Kamal as per his income shown in return of income is Rs. 2,00,000. On account of delay in furnishing return and payment of advance tax, he is required to pay interest under section 234A, 234B and 234C of Rs. 10,000, Rs. 20,000 and Rs. 8,000 respectively and fee u/s 234F of Rs. 5,000. He had paid Rs. 40,000 as advance tax and a sum of Rs. 60,000 was deducted at source from his income. Mr. Kamal's total income includes income earned in a country outside India on which he had paid income tax of Rs. 10,000 in that country. The whole of sum paid outside India is eligible for double taxation relief in India. Compute amount of self-assessment tax required to be paid by Mr. Kamal.

What will be the consequences if Mr. Kamal pays self-assessment tax of – **(a)** Rs. 1,05,000; **(b)** Rs. 35,000

(4 Marks)

Q-6 (C): Ravinder, a non-resident had maintained his permanent house both in U.A.E and in India during the previous year ended on 31-3-2021 but was having his habitual abode in U.A.E. because of employment. He had income in India from dividend, interest and capital gains during the previous year ended on 31-3-2021 which are not subject to tax under any law in force in U.A.E. There exists a DTAA between India and U.A.E. Ravinder claims that none of the income earned by him in India shall be subject to tax in India because of the benefits available to him under DTAA.

Is the contention of Ravinder correct?

(4 Marks)