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Answer Paper	
Direct Tax Laws	Duration: 75
Details: Test – 1	Marks: 40

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.

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ANS 1:**Computation of Total Income of Laxmi Tea Ltd**

Particulars	Amounts in Rs.	Amounts in Rs.
Profit and Gain from Business and Profession		
Net profit as per Profit & Loss Account		5,50,00,000
Add: Items debited but to be considered separately or to be disallowed		
Depreciation as per accounts	40,00,000	
Repairs to factory building to the extent of amount spent by withdrawal from Tea Deposit Account [WN-2]	10,00,000	
Goods and services tax not paid [WN-4]	10,00,000	
Contribution to Employees' Welfare Trust disallowed u/s 40A (9) [WN-6]	2,00,000	62,00,000
		6,12,00,000
Less: Amount credited to profit & loss account but not chargeable to tax:		
Profit on sale of green tea leaves plucked in own gardens (agricultural income, hence exempt u/s 10(1))		20,00,000
		5,92,00,000

Less: Deductions allowable while computing business income		
Depreciation as per Income tax Rules	55,00,000	
Payment of new loan converted from arrear interest [WN-7]	2,00,000	57,00,000
		5,35,00,000
Deduction under section 33AB for making deposit in an account with NABARD as per scheme approved by the Tea Board, being lower of the following two amounts:		
Amount deposited	2,50,00,000	
40% of the profit from business of growing and manufacturing tea computed under the head "profits and gains from business and profession" before making this deduction (53,50,00,000 × 40%)	2,14,00,000	2,14,00,000
		3,21,00,000
Less: 60% of above, being agricultural income as per Rule 8		1,92,60,000
Business income/Total Income		1,28,40,000

Working Notes:

(1) The term loan was taken for purchasing machinery for use in a tea factory. Thus, the term loan was used for the purpose of business. Hence, interest on term loan is allowable as deduction under section 36(1)(iii).

(2) As per Section 33AB, where any amount standing to the credit of the assessee in the account maintained with NABARD is utilized by the assessee for the purpose of any expenditure

in connection with eligible business in accordance with the scheme approved by the Tea Board, such expenditure shall not be allowed as deduction, Therefore, the amount of Rs.10 lacs withdrawn and utilized for repairs to factory building is to be disallowed.

(3) In case of issue of bonus shares, there is no inflow of fresh funds or increase in capital employed. Consequently, there is no increase in capital base of the company, therefore, stamp duty and registration fee in connection with such issue of bonus shares is allowable as revenue expenditure under section 37(1). - **CIT v. General Insurance Corporation [2006] 286 ITR 232 (SC).**

(4) According to Section 43B, any tax, duty, cess or fee is allowed as deduction if they are actually paid on or before the due date of filing return of income under section 139(1) irrespective of the method of accounting followed the assessee.

Further, it was held in **CIT v. Udaipur Distillery Company Limited [2004] 268 ITR 305 (Raj)**, that actual payment requires that amount must flow from the assessee to the public exchequer as such as specified in section 43B. Therefore, goods and services tax liability shall be disallowed on account of non-payment.

(5) In **CIT v. T. Veerabhadra Rao, K. Koteswara Rao & Co. [1985] 155 ITR 152 (SC)**, it was held that the successor of a business is entitled to write off the predecessor's debt as a bad debt and claim deduction as the benefit of deduction in respect of bad debt is not accrued to the assessee by way of personal relief but relates to the business.

Therefore, the assessee is entitled to deduction in respect of debt transferred from the amalgamating company, Saraswati Tea Limited.

(6) As per Section 40A(9), any contribution made by the assessee as an employer to any fund, trust, company, association of persons, body of individuals, society registered under the Societies Registration Act or other institution for any purpose shall be disallowed, except where such contribution is paid to a recognised provident fund or approved superannuation fund or

approved gratuity fund. Therefore, contribution to the Employees' Welfare Trust is to be disallowed.

(7) As per Section 43B, a deduction of any sum, being interest payable on any loan or borrowing from a public financial institution shall be allowed, if such interest has been actually paid and such interest which has been converted into a loan or borrowing shall not be deemed to have been actually paid.

As per **Circular No. 7/2006, dated 17-7-2006** the unpaid interest, whenever actually paid to the financial institution, will be in the nature of revenue expenditure deserving deduction in the computation of income. Therefore, irrespective of the nomenclature, the deduction will be allowed in the previous year in which the converted interest is actually paid.

Accordingly, the sum of Rs.2 lacs, being installment paid in February, 2022 shall be allowed as deduction while computing business income.

(12 Marks)

ANS 2:

Computation of total income of Mr. X (amounts in Rs.)

Salary (computed)	5,50,000
Short term capital gains u/s 111A	45,000
Gross Total Income	5,95,000
Less: Deduction under Chapter VI-A	
(i) Contribution to PPF [Section 80C]	5,000

(ii) Donations [Section 80G] [WN- 1]	82,250
Total income	5,07,750

Working Notes:

(1) Calculation of amount eligible for deduction under section 80G (amounts in Rs.)

Donation to	Qualifying Sum	% Eligible	Deduction
(A) Donation where maximum limit is not applicable :			
(i) National Children Fund	20,000	100%	20,000
(ii) Contribution to Swachh Bharat Kosh	7,500	100%	7,500
(iii) Contribution to Clean Ganga Fund	2,500	100%	2,500
(iv) Contribution to National Fund for control of Drug Abuse	5,000	100%	5,000
(v) Prime Minister's Drought Relief Fund	10,000	50%	5,000
(B) Donation where maximum limit is applicable i.e. 10% of Adjusted GTI:[Note]			
(i) State Government for family planning	30,000	100%	30,000
(ii) Approved charitable institution - restricted to (Rs. 54,500 – Rs. 30,000) = Rs.24,500 or 25,000, whichever is lower.	24,500	50%	12,250

Total deduction u/s 80G			82,250
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Note: Computation of Adjusted Gross Total Income (amounts in Rs.) –

Gross total income		5,95,000
Less: Short term Capital Gains u/s 111A	45,000	
Deduction u/s 80C	5,000	50,000
Adjusted GTI		5,45,000

(2) Donation to trust for benefit of particular religious community and food packets given to approved charitable institution for distribution to poor are not eligible for deduction under section 80G.

(6 Marks)

ANS 3:

The relevant computations are as under –

Alternative 1: Partnership firm:

Profits as estimated of the firm		20,00,000
Less: Interest on capital (Rs.20,00,000 × 12% × 3)		7,20,000
Book Profits		12,80,000
Less: Salary allowable u/s 40(b) being the lower of the following two –		

(i) Maximum limit i.e. $(Rs.3,00,000 \times 90\% + Rs.9,80,000 \times 60\%)$	8,58,000	
(ii) Actual remuneration ($Rs.3,00,000 \times 3$)	9,00,000	8,58,000
Taxable Income		4,22,000
Tax Liability @31.2% (rounded off to Rs.10)		1,31,660
Partners (Each) :		
Interest		2,40,000
Salary		2,86,000
Taxable income		5,26,000
Tax liability (inclusive of HEC) (rounded off to Rs.10)		18,410
Total tax liability of the firm along with its partners		1,86,890

Alternative 2: Company:

Profits as estimated of the company	20,00,000
Less: Interest on loan ($16,00,000 \times 12\% \times 3$)	5,76,000
Less: Salary ($Rs.3,00,000 \text{ p.a.} \times 3$)	9,00,000
Taxable Income	5,24,000
Tax liability @ 25.168% (rounded off to Rs.10)	1,31,880
Profits after tax (available for distribution as dividends)	3,92,120

Directors (Each):	
Salary after standard deduction [Rs.3,00,000 – Rs.50,000]	2,50,000
Dividend	1,30,707
Interest	1,92,000
Taxable Income	5,72,710
Tax liability (inclusive of HEC after rebate) (rounded off to Rs.10)	16,780
Total tax liability (income –tax and Directors' tax liability)	1,82,220

Advice: The constitution of the business as company is better alternative than partnership firm being the liability is lower in case of company.

(7 Marks)

ANS 4:

Under-reported income will be calculated as follows (amount in Rs) -

A = Total income assessed under general provisions	11,75,000
B = A - under-reported income - misreporting of income (Rs.11,75,000 –Rs. 60,000 – Rs.75,000)	10,40,000
C = Book profit	41,80,000
D = Book profit - under-reported income - misreporting of income (Rs 41,80,000 - Rs1,20,000) (Rs.60,000 which is deducted under B will not be deducted again from D)	40,60,000

Under-reported income = (A - B) + (C-D) (out of which Rs 60,000 is misreporting of income)	2,55,000
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Tax on under-reported income: Tax on under reported income/misreporting of income will be calculated as per Section 270A(10). As the assessee is a company, tax on under-reported income is calculated at the applicable rate without separately calculating value of X any Y **(amt. in Rs)-**

Computation of penalty under section 270A :	
Tax on under-reported income -	
- 31.2% of Rs.1,95,000 (Rs 1,20,000 + Rs. 75,000)	60,840
- 31.2% of Rs.60,000	18,720
Penalty leviable under section 270A:	
-50% of tax payable (under-reported income)[See Note]	30,420
- 200% of tax payable (misreporting of income)	37,440

Note: X Ltd. may apply under section 270AA for grant of immunity from imposition of penalty.

(5 Marks)

ANS 5:

Dispute Resolution Committee [Section 245MA] [Inserted by Finance Act, 2021 w.e.f. 01-04-2021] : The relevant provisions are discussed as under-

(1) Dispute Resolution Committee (DRC): The Central Government shall constitute, one or more Dispute Resolution Committees. This committee shall resolve disputes of such persons or class of person which shall be specified by the Board.

(2) Optional Scheme: The assessee would have an option to opt for or not opt for the dispute resolution through the DRC in respect of dispute arising from any variation in the specified order in his case and who fulfils the specified conditions.

(3) Specified order : It means such order, including draft order as may be specified by the Board, and,

(a) Aggregate sum of variations proposed or made in such order does not exceed Rs. 10 lakh;

(b) Such order is not based on search initiated u/s 132 or requisition u/s 132A in the case of assessee or any other person or survey u/s 133A or information received under an agreement referred to in section 90 or section 90A;

(c) Where return has been filed by the assessee for the assessment for the assessment relevant to such order, total income as per such return does not exceed Rs. 50 lakh.

Thus, only those disputes where the returned income is Rs. 50 lakh or less (if there is a return) and the aggregate amount of variation proposed in specified order is Rs. 10 lakh or less shall be eligible to be considered by the DRC.

If the specified order is based on a search initiated u/s 132 or requisition made u/s 132A or survey initiated under 133A or information received under an agreement referred to in section 90 or section 90A, of the Act, such specified order shall not be eligible for being considered by the DRC.

(4) Persons not eligible to opt for dispute resolution : The following persons are not eligible for dispute resolution :

(a) In respect of whom an order of detention has been made under the provisions of the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974.

Such order of detention should not have been revoked before the expiry of the time stipulated under the relevant provisions of such Act, either on the basis of report of Advisory Board or review under the relevant provisions of that Act. Further, such order of detention should not have been set aside by a court of competent jurisdiction.

The proviso to clause (a) (I) (A) of Explanation of section 245MA reads as follows-

- (i)** Such order of detention, being an order to which the provisions of section 9 or section 12A of the said Act do not apply, has been revoked on the report of the Advisory Board u/s 8 of the said Act or before the receipt of the report of the Advisory Board; or
- (ii)** Such order of detention being an order to which the provisions of section 9 of the said Act apply, has not been revoked before the expiry of the time for, or on the basis of, the review u/s 9(3), or on the report of the Advisory Board u/s 8, read with section 9(2), of the said Act; or
- (iii)** Such order of detention, being an order to which the provisions of the section 12A of the said Act apply, has not been revoked before the expiry of the time for, or on the basis of, the first review under sub-section (3) of the said section, or on the basis of the report of the Advisory Boards u/s 8, read with section 12A(6), of the said Act; or
- (iv)** Such order of detention should not have been set aside by a court of competent jurisdiction;
- (b)** In respect of whom prosecution for any offence punishable under the provisions of the Indian Penal Code, the Unlawful Activities (Prevention) Act, 1967, the Narcotic Drugs and Psychotropic Substances Act, 1985, the Prohibition of Benami Transactions Act, 1988, the Prevention of Corruption Act, 1988 or the Prevention of Money-laundering Act, 2002 has been instituted and he has been convicted of any offence punishable under any of those Acts;
- (c)** In respect of whom prosecution has been initiated by an income-tax authority for any offence punishable under the provisions of this Act or the Indian Penal Code or for the purpose of enforcement of any civil liability under any law for the time being in force, or such person has been convicted of any such offence consequent upon the prosecution initiated by an Income-tax authority;

(d) Who is notified u/s 3 of the Special Court (Trail of Offences Relating to Transactions in Securities) Act, 1992;

(e) If a person fulfills such other conditions, as may be prescribed.

(5) **Powers to reduce or waive any penalty imposable under this Act or grant immunity from prosecution:**The DRC shall have the powers to reduce or waive any penalty imposable under this Act or grant immunity from prosecution for any offence punishable under this Act in case of a person whose dispute is resolved under this Chapter.

(6) **Faceless scheme for Dispute Resolution :** The Central Government may make a scheme, by notification in the Official Gazette, for the purposes of dispute resolution under this Chapter, so as to impart greater efficiency, transparency and accountability by-

(a) Eliminating the interface between the Dispute Resolution Committee and the assessee in the course of dispute resolution proceedings to extent technologically feasible;

(b) Optimizing utilization of the resources through economies of scale and functional specialization;

(c) Introducing a dispute resolution system with dynamic jurisdiction.

The Central Government may, for the purposes of giving effect to the scheme, by notification in the Official Gazette direct that any of the provisions of this Act shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified in the said notification:

Provided that no such direction shall be issued after 31-03-2023.

(7) Every notification shall as soon as may be after the notification is issued, be laid before each House of Parliament.

(5 Marks)

MCQ's

1. A

Explanation: Computation of WDV-

Particulars	Block-1 Plant & Machinery (15%)	Block-2 Furniture & Fitting (10%)	Block-3 Factory Building (10%)
WDV as on 1-4-2021	-	-	-
Add: Actual cost of asset acquired during the year-	62,00,000	37,00,000	8,00,000
	62,00,000	37,00,000	8,00,000
Less: Sales	Nil	Nil	Nil
WDV as on 31-3-2022	62,00,000	37,00,000	8,00,000
Less: depreciation at block rate	9,30,000	3,70,000	80,000
WDV as on 1-4-2022	52,70,000	33,30,000	7,20,000

2. C

Explanation: No; transport subsidy, interest subsidy and power subsidy received from Government are profits derived from the business of the Industrial undertaking and hence, eligible for deduction u/s 80-IB. However, duty drawbacks belong to the category of ancillary profits and hence, deduction u/s 80-IB cannot be claimed in respect of such receipt.

3. B

4. B

5. A

