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Question Paper	
Direct Tax Laws	**Duration**: 75
Details: Test – 5	**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.

Q 1:- X Ltd. is an Indian company. It renders services to its associated enterprise Y Inc of US. During the previous year 2019-20, X Ltd. charges 8% on cost for providing services to Y Inc. However, X Ltd. have earned a margin of 11% on cost if similar services were provided to unconnected foreign entities. The Assessing Officer makes transfer pricing adjustments to the tune of 3% which comes to an addition of Rs. 15 crore to the reported income of X Ltd. (date of assessment order: December 20, 2020). The adjustment is accepted by X Ltd. Discuss Its tax consequences in AY 2021-22 and AY 2022-23 in the following two situations MCLR and other income for FY 2021-22 is Rs.2 crore:

Situation 1- X Ltd. does not pay additional income-tax as per section 92CE(2A) and has not repatriated the amount till 31-03-2022.

Situation 2 - X Ltd. pays additional income tax on the entire excess money on November 1, 2021 under section 92CE(2A) of the Income tax Act, 1961.

(7 Marks)

Q 2:- XYZ Ltd., a foreign company, furnishes you with the following information. Determine its tax, liability:

1. Interest received from Government of India from investment in government bonds in foreign currency Rs. 5,00,000; expenditure incurred to earn such income Rs.10,000.
2. Interest received from infrastructure debt fund Rs. 625,000/-; expenditure incurred on collection Rs. 25,000/-.
3. Interest received from Indian concern from investment made in debentures in Indian currency Rs. 485,000/-; expenditure incurred on account of collection Rs.25,000/-.
4. Royalty derived from Indian concern in accordance with agreement entered on 01-4-2012 Rs. 480,000/-. (Such foreign company does not have any permanent establishment in India)
5. Dividend from shares in Indian company Rs. 95,000; expenditure incurred thereon Rs. 5,000/-.

6. Interest received from Indian company in respect of loan given to it on 1-8-2013 Rs. 1,00,000/-.

The company has paid Rs.15,000/- as contribution towards Prime Minister's National Relief Fund.

(7 Marks)

Q 3:- Mr. Kamesh, an individual resident in India furnishes you the following particulars of income earned in India, Country "X" and Country "Y" for the previous year 2021-22. India has not entered into double taxation avoidance agreement with these two countries.

Particulars	Amount in Rs.
Income from profession carried on in India	7,50,000
Agricultural income in Country "X" (gross)	50,000
Dividend received from a company incorporated in Country "Y" (gross)	1,50,000
Royalty income from a literary book from Country "X" (gross)	6,00,000
Expenses incurred for earning royalty	50,000
Business loss in Country "Y" (Proprietary business)	65,000
Rent from a house situated in Country "Y" (gross)	2,40,000
Municipal tax in respect of the above house (not allowed as deduction in country Y.	10,000

Note: Business Loss in Country "Y" not eligible for set off against other incomes as per law of that country.

The rates of tax in Country "X" and Country "Y" are 10% and 25% respectively.

Compute total income and tax payable by Mr. Kamesh in India for Assessment Year 2022-23 if he has not opted for the provisions of section 115BAC.

(7 Marks)

Q 4:- MNO & Co., a non-resident entity based in London, owns and operates an electronic facility through which it affects online sale of goods manufactured by it. The following are its receipts from the previous year 2020-21:

Sl No.	Particulars	Rs. in lakhs
(i)	Receipts from sale of goods to persons resident in India	145
(ii)	Receipts from sale of goods to persons not resident in India but resident in other parts of South- East Asia Out of the said sum, Rs.60 lakhs relates to receipts from persons using internet protocol address located in India.	99

Discuss the equalization levy implications of such receipt in the hands of MNO & Co., if –

(i) MNO & Co. has no permanent establishment in India

(ii) MNO & Co. has a permanent establishment in India, and the sale of goods is effectively connected to the permanent establishment in India

Would your answer change if out of the receipts in (b) above, only 45 lakhs relates to receipts from persons using internet protocol address located in India?

(7 Marks)

Q 5:- How the term treaty is defined as per Vienna Convention on Law of Treaties, 1969. What is the role of Vienna Convention application and interpretation of Tax Treaties?

(7 Marks)

MCQ's

1. If ABC Ltd. has two Units. Unit 1 R engaged in power generation business and Unit 2 is engaged in manufacture of wires. Both the units were set up in Karnataka in the year 2015. In the year 2020-21, twenty lakh metres of wire are transferred from Unit 2 to Unit 1 at Rs.125 per metre when the market price per metre was Rs. 180. Which of the following statements is correct?

A. Transfer pricing provisions would be attracted in this case

B. Transfer pricing provisions would not be attracted in this case since Unit 1 and Unit 2 belong to the same company and are not associated enterprises.

C. Transfer pricing provisions would not be attracted in this case as it is not an international transaction since both Units are in India. However, for the purpose of Chapter VIA deduction, the profits of power generation business shall, however, be computed as if the transfer has been made at the market value of Rs.180 per MT.

D. Transfer pricing provisions would not be attracted in this case due to reasons mentioned in both (B) and (C) above.

2. Mr. Anuj (Age 65) resident of India has total Income in India of Rs.6lakhs. His income from a foreign country with which there is no DTAA between Indian and that Country, was Rs.2lakh (converted). He paid Income –tax at 20% on the foreign income in that country. His net tax liability for the assessment year 2022-23 after relief u/s 91 is.

A. Rs. 54,080/-

B. Rs.41,200/-

C. Rs. 54,600/-

D. 82,400/-

3. Mr. Rajesh, a resident Indian, is an employee of M/s. ABC Ltd., Bangalore. In addition to the salary income from M/s. ABC Ltd., he also earns interest from fixed deposits. M/s. PQR Inc., a foreign company not having permanent establishment in India, rendered online advertisement services to Mr. Rajesh, for which Mr. Rajesh made a payment of Rs.2 lakhs in the F.Y. 2021-22. Which of the statements is correct?

A. The transaction is subject to equalization levy since payment exceeding Rs. 1 lakh has been made for online advertisement services by a resident to a non-resident not having permanent establishment in India.

B. Equalization levy @ 6% has to be deducted from the consideration of Rs. 2 lakhs payable to M/s. PQR Inc.

C. Both (A) and (B)

D. The transaction is not subject to equalization levy

4. The Authority of Advance ruling shall not allow an application where the question raised in the application is:

A. In relation to a transaction which has been undertaken or proposed to be undertaken by a non-resident

B. In relation to a transaction which has been undertaken or proposed to be undertaken by a resident with a non-resident, involving question of taxability of such non-resident

C. In relation to determination of any question of law or fact

D. In relation to determination of fair market value

5. What would be considered as dualistic view in interpretation of treaties under Vienna Convention.

A. International law and domestic law are part of same system and DTAA override domestic law

B. International Law and National Law are separate systems, and DTAA becomes part of the National Legal system by specific incorporation/ legislation

C. Wherein amendment in domestic provisions would override the existing DTAA

D. None of above

(1 × 5 = 5 Marks)