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Question 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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Q-1: Laxmi Tea Ltd. is engaged in growing and manufacturing tea in Assam and West Bengal. The company's P&L A/c for the year ended 31st March, 2022 shows a net profit of Rs. 550 lacs after debiting or crediting the following amounts:

- (a) Depreciation Rs. 40 lacs.
- (b) Interest Rs.2 lacs on term loan from a bank for purchase of machinery for one of its tea factories.
- (c) Repairs to factory building amounting to Rs.15 lacs for which a sum of Rs.10 lacs was withdrawn from Tea Deposit account maintained with National Bank for Agricultural and Rural Development (NABARD) as per Section 33AB of the Income-tax Act.
- (d) Profit from sale of green tea leaves plucked in own gardens Rs.20 lacs.
- (e) Rs.5 lacs on account of stamp duty and registration fees for the issue of bonus shares.
- (f) Rs.10 lacs, being goods and services tax dues of earlier years determined during the year on disposal of appeals by the appellate authority, for which the company has furnished a bank guarantee to the Commercial Tax Authority.
- (g) Rs.5 lacs written off as bad in respect of a trade debt transferred from Saraswati Tea Ltd. in previous year 2012-13 pursuant to a scheme of amalgamation approved by the jurisdictional High Court.
- (h) Rs.2 lacs contributed to Employees' Welfare Trust.
- (i) Interest on inter-corporate deposit Rs.1 lakh and Rs.1.50 lacs for February, 2022 and March, 2022 respectively, for which tax deducted at source was paid to the Central Government in June, 2022.

Following additional information are furnished by the management:

- (i) Depreciation as per Tax Audit Report under Section 44AB Rs.55 lacs.

- (ii) One financial institution converted arrear interest of Rs.10 lacs into a new loan in financial year 2019-20, which is repayable in five annual installments. The company has paid Rs. 2 lakh towards the installment due for the financial year 2020-21 in February, 2022.
- (iii) A sum of Rs.250 lacs deposited in NABARD on 15th June, 2022 as per provision of Section 33AB.

Compute total income of the company for the Assessment Year 2022-23 stating the reasons for each item. Ignore provision relating to Minimum Alternate Tax.

(12 Marks)

Q-2: Compute total income of Mr. X from the following -

Particulars	Amount in Rs.
(a) Salary (computed)	5,50,000
(b) Short term capital gains u/s 111A	45,000
(c) Contribution to PPF	5,000
(d) Contribution to Swachh Bharat Kosh	7,500
(e) Contribution to Clean Ganga Fund	2,500
(f) Contribution to National Fund for control of drug abuse	5,000
(g) Contribution to National Children Fund	20,000
(h) Contribution to Prime Minister's Drought Relief Fund	10,000
(i) Donation to trust for benefit of particular religious community	7,500

(j) Payment to State Government for family planning	30,000
(k) Food packets given to approved charitable institution for distribution to poor	25,000
(l) Payment to approved charitable institution	25,000
All donations are made through account payee cheque.	

(6 Marks)

Q-3: A, B and C are planning to start a retail business. The profits of business for the year are estimated to Rs. 20 lakhs. Two alternatives are available regarding selection of form of organization:

(a) A partnership firm:

- (i)** Capital introduced by each partner Rs. 20 lakhs.
- (ii)** Interest on capital @ 12%.
- (iii)** Salary Rs. 300,000/- p.a. to each.
- (iv)** Profits are to be distributed equally.

(b) A company:

- (i)** Share capital of Rs.4 lakhs each.
- (ii)** Loan of 16 lakhs by each @ 12%.
- (iii)** Salary Rs.3,00,000 p.a. to each (payable by account payee cheque).
- (iv)** Remaining profits are to be distributed equally as dividend.

Advise, which alternative is better from tax point of view.

(7 Marks)

Q-4: The following information is noted from the records of X Ltd. for the assessment year 2022-23 (annual turnover of X Ltd. is more than Rs 400 crore since 2019-20):

Particulars	General Provisions (Rs)	MAT (Rs)
Income/book profit as per return of income	10,00,000	40,00,000
Add: Addition on estimated basis (not representing under-reported income)	40,000	Nil
Add: Misreporting of income (sale to D Ltd. not recorded in books of account as discovered by the Assessing Officer) (as per assessment order)	60,000	60,000
Add: Under-reported income (weighted deduction is wrongly claimed u/s 35) (as per Nil assessment order)	75,000	Nil
Add: Under-reported income (deferred tax which appeared on the debit side of profit and loss account, not added by X Ltd.) (as per assessment order)	Nil	1,20,000
Net income/book profit (as per assessment order)	11,75,000	41,80,000

Compute the penalty under the relevant applicable provision.

(5 Marks)

Q-5: Explain the provisions relating to Dispute Resolution Committee for small and medium taxpayers.

(5 Marks)

MCQ's

1. Delta Limited is engaged in growing and manufacturing rubber in India. It commenced its operations for 1st April, 2021. It acquired plant and machinery (second hand), factory building and furniture at a cost of Rs. 62 lakhs, Rs. 37 lakhs and 8 lakhs, respectively, in the P.Y. 2021-22 by way of ECS through bank account. Assuming that all the assets were put to use for more than 180 days during the P.Y. 2021-22 you are required to compute the written down value of each block as on 1st April, 2022

- A. Rs. 52.70 lakhs; Rs. 33.30 lakhs and Rs. 7.20 lakhs
- B. Rs. 58.75 lakhs; Rs. 35.71 lakhs and Rs. 7.72 lakhs
- C. Rs. 58.28 lakhs ; Rs. 35.52 lakhs and Rs. 7.68 lakhs
- D. Rs. 59.675 lakhs; Rs. 36.075 lakhs and Rs. 7.8 lakhs

2. XYZ Ltd. engaged in the business of manufacture of steel, claimed deduction under section 80-IB on the profits and gains of business, which included transport subsidy, interest subsidy and power subsidy received from the Government and duty drawback receipts. XYZ Ltd. contended that all the above receipts are profits derived from the business of the industrial undertaking and are hence, eligible for deduction under section 80-IB. Is the contention of XYZ Ltd. correct?

- A.** Yes; transport subsidy, Interest subsidy, power subsidy and duty drawback are profits derived from the business of the industrial undertaking and hence, eligible for deduction u/s 80-IB
- B.** No; none of the above receipts can be treated as profits “derived” from the business of the industrial undertaking and hence, deduction u/s 80-IB cannot be claimed in respect of any such receipt
- C.** 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
- D.** No; transport subsidy, interest subsidy and power subsidy received from Government are ancillary profits and hence, deduction u/s 80-18 cannot be claimed In respect of such receipts. However, duty drawbacks are profits derived from the business of the industrial undertaking and hence, deduction u/s 80- IB can be claimed in respect of such receipt

3. Under the provisions of tax treaty between Indian and Uganda, any capital gains arising from the sale of shares of Indian company would be taxable only in Uganda if the transferor is resident of Uganda except where the transferor hold more than 10% interest in the capital stock of Indian company. A Company named X Ltd being resident in Uganda, makes an investment in Indian company via 2 wholly owned subsidiaries named P ltd and Q Ltd located in Uganda. Each subsidiary holds 9.95% holding in Indian company, the total adding 19.9% of equity of Indian Co. The subsidiaries sells the shares of the Indian Co. and claim exemption as each is holding less than 10% equity shares in Indian Co. Can GAAR be invoked to deny treaty benefit.

- A.** No the GAAR shall not be invoked to deny treaty benefit and X ltd has complied with the technical requirements of the treaty

- B.** The provisions of the GAAR shall be invoked as above is the arrangement of splitting the investment through two subsidiaries with the intension of obtaining the tax benefit under the treaty and reveals a tainted element of abuse of Tax Laws.
- C.** The transaction is entered to take the benefit of tax by just satisfying the technical requirements of the law, thus an tax avoidance arrangement.
- D.** In absence of specific SAAR the provisions of GAAR shall be invoked to tackle the Tax avoidance

4. Mr. Ram, a resident individual aged 55 years, has not furnished his return of income for A.Y.2022-23. However, the total income assessed in respect of such year u/s 144 is Rs.12 lakhs. Determine the quantum of penalty leviable u/s 270A?

- A.** Penalty leviable is Rs.1,79,400, being tax payable on total income of Rs.12lakh
- B.** Penalty leviable u/s is Rs.89,700 being 50% of tax payable on Rs.12lakh
- C.** Penalty leviable u/s 270A is Rs.53,300 being 50% of tax payable on under-reported income of Rs.9.50 lakh(i.e. Rs.12 lakh-basic exemption limit of Rs.2.50 lakh)
- D.** Penalty leviable u/s 270A is Rs.1,06,600 being of tax payable on under-reported income of Rs.9.50 lakh(i.e. Rs.12 lakh-basic exemption limit of Rs.2.50 lakh)

5. Mr. Champak Goyal wants to make an application for previous year 21-22 u/s 245C to the settlement commission. Additional undisclosed income shown in application is Rs. 65,00,000 for previous year 21-22. Return was filled for previous year 21-22 and Rs. 35,00,000/- was shown as income in the return and Rs. 8,88,375/- was paid in the form of tax. Calculate additional income tax payable by Mr. Champak for submitting this application-

- A.** 22,98,188/-
- B.** 22,05,378/-
- C.** 8,88,375/-

D. 32,17,500/-

(1 × 5 = 5 Marks)

