Paper – 16: Direct Tax Laws and International Taxation

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Full Marks: 100 **Time allowed: 3 hours**

Answer question No. 1 which is compulsory and any five from the rest.

1. **a)** Ria, Gia and Ira are persons ,aged 30 years, 34 years and 35 years respectively, of Indian origin, though their residential status is non-resident. During the Previous Year relevant for the Assessment Year 2016-17, their income from investment in India is as follows (INR) :

[5]

Particulars	**Ria**	**Gia**	**Ira**
a. Interest on deposits with public limited companies received on March 31, 2016	35,000	80,000	1,50,000
b. Interest on Government securities received on December 31, 2015	2,25,000	2,20,000	2,70,000
c. Interest on deposits with private limited companies on September 30, 2015	Nil	1,00,000	8,80,000
Tax deducted at source, i.e., @ 20.6 per cent in respect of foreign exchange assets (a) and (b); and @ 30.9 per cent in respect of (c)	53,560	92,700	3,58,440

Determine the amount of tax liability/refund for the Assessment Year 2016-17. Also discuss whether the assessee should opt under section 115-I, i.e., not to be governed by provisions of sections 115C to 115-I.

b) B, an Indian citizen gives the following particulars of his income and expenditure. **[5]**

Particulars	**Amount (₹)**
Business income	1,10,000
Long term capital gain	2,00,000
Short term capital gain on sale of shares taxable u/s 111A	10,000
Other short-term capital gain	5,000
Donation to the Prime Minister's National Relief Fund	11,000
Donation to the Government of India for promotion of family planning	3,000
Donation to an approved institution	12,000
Payment of medical insurance premium on own life	5,000

c) Sampat filed a return of income declaring an income of ₹ 6,25,000. Assessing Officer added unexplained cash credits of ₹ 2,00,000 and assessed the income at ₹ 8,25,000. Sampat filed an appeal to Commissioner (Appeal) who further enhanced the income by ₹ 1,12,500 to ₹ 9,37,500.

Now, Sampat decided not to go for further appeal. Assessing Officer wants to levy penalty under Section 271(1)(c) on ₹ 3,12,500. Is the Assessing Officer justified? **[5]**

d) Megabyte Inc. of France and R Ltd. of India are associated enterprises. R Ltd. imports 3,000 compressors for Air Conditioners from Megabyte Inc. at ₹ 7,500 per unit and these are sold to Pleasure Cooling Solutions Ltd at a price of ₹ 11,000 per unit. R Ltd. had also imported similar products from Cold Inc. Poland and sold outside at a Gross Profit of 20% on Sales. Megabyte Inc. offered a quantity discount of ₹ 1,500 per unit. Cold Inc. could offer only ₹ 500 per unit as Quantity Discount. The freight and customs duty paid for imports from Cold Inc. Poland had cost R Ltd. ₹ 1,200 per piece. In respect of purchase from Cold Inc., R Ltd. had to pay ₹ 200 only as freight charges.
Determine the Arm's Length Price and the amount of increase in Total Income of R Ltd. **[5]**

2. a) X did not file any return of income for the Assessment Year 2015-16. The Assessing Officer assessed his income at ₹3,20,000 under section 144 after giving him show cause notice to which X did not respond. Besides the tax, the interest was charged under sections 234A, 234B and 234C. The notice of demand of ₹22,500 (including interest) was sent to X on 5-3-2016 which was received by him on 7-3-2016. Advise X, the procedure of filing an appeal?

[6]

2. b) What are the Powers of authorities while conducting surveys u/s 133 of the Income tax Act 1961? **[5]**

2. c) A, B and C Ltd. are three members of an AOP, sharing profit and losses in the ratio 2:2:1. The AOP discloses its income for the PY 2016-2017 as below:

(i) Long-term Capital Gains - ₹ 4,00,000
(ii) Business Profits - ₹ 6,00,000

Determine tax liability of AOP in the following cases:

(i) C Ltd. is an Indian company
(ii) C Ltd. is a foreign company **[5]**

3. a) R (29 years) and S (28 years) are two partners of R&S Co. (a firm of Cost Accountants). On March 31, 2015, there is no provision for payment of salary and interest to partners. On April 1, 2015, the deed of partnership has been amended to provide salary and interest as follows: **[10]**

Particulars	R	S
Salary	₹ 21,000 per month	₹ 23,000 per month
Interest	14 per cent per annum	14 per cent per annum

The Income and Expenditure Account of R&S Co. for the year ended March 31, 2015 is as follows:

Particulars	₹	**Particulars**	₹
Office Expenses	2,59,000	Receipt from clients	10,57,000
Salary to employees	80,000	Interest recovered from R and S on drawings	3,000
Income tax	41,000		
Salary to R	2,52,000		
Salary to S	2,76,000		
Interest on capital to R @	14,000		

14% p.a.			
Interest on capital to S @ 14% p.a.	21,000		
Net Profit (shared by R and S equally as per the terms of partnership deed)			
	10,60,000		**10,60,000**

Other Information:

1. Out of office expenses, ₹ 19,000 are not deductible by virtue of sections 30 to 37.
2. During the year the firm sells a capital asset for ₹ 8,10,000 (indexed cost of acquisition being ₹1,88,865).

Personal income and investments of partners are as follows:

Particulars	R	S
Interest from Government securities	5,70,000	5,23,000
Fixed Deposit interest	2,00,000	1,08,000
Deposit in public provident fund	1,00,000	85,000
Mediclaim insurance premium	12,000	11,000

3. b) From the following information, determine the tax liability of Z Ltd., domestic company, for the Assessment Year 2015-2016 and 2016-2017. **[6]**

Sl. No.	Assessment year	Book-profits (₹)	Total income (₹)
1	2015-2016	2,80,000	1,30,000
2	2016-2017	3,00,000	2,00,000

4. a) T and Q are individuals, who constitute an Association of Persons, sharing profit and losses in the ratio of 2:1. For the accounting year ended 31st March 2016, the Profit and Loss Account of the business was as under:

Particulars	₹ ('000)	Particulars	₹ ('000)
Cost of goods sold	6,250.00	Sales	9,900.00
Remuneration to:		Dividend from companies	25.00
T	130.00	Long-term Capital Gains	1,640.00
Q	170.00		
Employees	256.00		
Interest to :			
T	48.30		
Q	35.70		
Other expenses	111.70		
Sales-tax penalty due	39.00		
Net Profit	4,524.30		
	11,565.00		**11,565.00**

Additional information furnished:
(i) Other expenses included:

(a) entertainment expenses of ₹ 35,000;
(b) wristwatches costing ₹ 2,500 each were given to 12 dealers, who had exceeded the sales quota prescribed under a sales promotion scheme;

(c) employer's contribution of ₹ 6,000 to the Provident Fund was paid on 14th January 2016.
(d) ₹ 30,000 was paid in cash to an advertising agency for publicity.

(ii) Outstanding sales tax penalty was paid on 15th April 2016. The penalty was imposed by the sales tax officer for non-filing of returns and statements by the due dates.

(iii) T and Q had, for this year, income from other sources of ₹ 3,50,000 and ₹ 2,60,000, respectively.

Required to:

(i) Compute the total income of the AOP for the Previous Year 2015-2016.
(ii) Ascertain the tax liability of the Association for that year; and
(iii) Ascertain the tax liability for that year of the individual members.
[Ignore the application of Alternate Minimum Tax] **[10]**

4. b) What are the salient features of Income computation and Disclosure Standards relating to Government Grants and discuss its significant deviation between ICDS VII and AS-12? **[6]**

5. a) Shri Dubbawala Charitable Trust (Regd.) submits the particulars of its income / outgoing for the Previous Year 2015- 2016 as below : **[6]**

Sl/No.	Particulars	(₹)
(i)	Income from property held under trust for charitable purposes: (₹ 2,20,000 out of ₹ 10,00,000 is received in PY 2016-2017)	10,00,000
(ii)	Voluntary contributions (out of which ₹ 50,000 will form part of the corpus)	2,00,000

5. b) Salil was running a business. He died on 20th December, 2015, leaving behind his wife Sruti and two minor sons - Sampat and Samar. He did not have any will. Sruti is running the business for and on behalf of herself and the minor children. Salil owned two house properties. Discuss how the rental income and the business income of the financial year 31st March, 2016 will be assessed and in whose hands. **[5]**

5. c) During the P.Y. 2015-16, the gross total income of Mr. A is ₹4,00,000. During the P.Y. he pays the following premiums on Mediclaim insurance policy by cheque. Compute the amount of tax benefit under section 80 D.

1. Mr. A ₹ 10,000
2. Mrs. A ₹ 8,000
3. Son (not dependent) ₹4,000
4. Daughter (dependent) ₹8,000
5. Father (not dependent) ₹2,500
6. Mother (dependent) (age 68 years & resident in India) ₹3,000 **[5]**

6. a) Sampat filed a return of income declaring an income of ₹6,25,000. Assessing Officer added unexplained cash credits of ₹ 2,00,000 and assessed the income at ₹ 8,25,000. Sampat filed an appeal to Commissioner (Appeal) who further enhanced the income by ₹ 1,12,500 to ₹9,37,500. Now, Sampat decided not to go for further appeal.

Assessing Officer wants to levy penalty under section 271(1)(c) on ₹3,12,500. Is the Assessing Officer justified? **[5]**

6. **b)** "Contravening an order passed by the tax authorities in respect of dealing with seized assets may attract prosecution and can result in imprisonment and fine". Critically comment. **[6]**

6. **c)** In a case where the undisclosed income is represented in the form of investment in asset and such asset is partly from income that has been assessed to tax earlier, then what shall be the method of computation of undisclosed income represented by such undisclosed asset for the purposes of the Scheme? **[5]**

7. **a)** Kalpesh Kumar is musician deriving income of ₹75,000 from concerts performed outside of India. Tax of ₹10,000 was deducted at source in the country where the concerts were performed. India does not have any double tax avoidance agreement with that country. His income in India amounted to ₹8,25,000. Computed tax liabilities of Kalpesh Kumar for the assessment year 2016-17 assuming he has deposited ₹1,00,000 in Public Provident Fund, ₹50,000 in LIC and Medical Insurance premium in respect of his father ₹20,000. **[5]**

7. **b)** The following are the particulars of income earned by Mr. Jawan, a resident but not ordinary resident for the assessment year 2016-17:
Income from profession in India ₹14 lakhs
Income from business outside India but controlled in India ₹10 lakhs
Income from house property outside India ₹4 lakhs
Life insurance premium ₹2 lakhs

There is no double taxation avoidance agreement between India and other country in which he earns income. Compute total income and tax payable by him. **[6]**

7. **c)** Discuss the relevance of cost accounting principle in arm's length pricing. **[5]**

8. **a)** Rustom Ltd., an Indian company, is the subsidiary company of Airlift Ltd. an Indian company. Rustom Ltd. Has purchased goods from Airlift Ltd. @ ₹ 84 per unit. The same goods are purchased from unrelated entities @ ₹ 80 per unit. Check the applicability of the transfer pricing provisions in the above case and advise the company on penalty provisions, if any, which could be initiated against it by the tax authorities (Assumed that quantum of transactions exceeds ₹ 20 Cr. in aggregate). **[5]**

8. **b)** J Inc. of Korea and CD Ltd, an Indian Company are associated enterprises. CD Ltd manufactures Cell Phones and sells them to J.K.& F Inc., a Company based at Nepal. During the year CD Ltd. supplied 2,50,000 Cellular Phones to J Inc. Korea at a price of ₹3,000 per unit and 35,000 units to JK & F Inc. at a price of ₹5,800 per unit. The transactions of CD Ltd with JK & F Inc. are comparable subject to the following considerations - Sales to J Inc. are on FOB basis, sales to JK &F Inc. are CIF basis. The freight and insurance paid by J Inc. for each unit @ ₹700. Sales to JK &F Inc. are under a free warranty for Two Years whereas sales to J Inc. are without any such warranty. The estimated cost of executing such warranty is ₹500. Since J Inc.'s order was huge in volume, quantity discount of ₹200 per unit was offered to it.

Compute the Arm's Length Price and the subsequent amount of increase in the total Income of CD Ltd, if any. **[6]**

8. **c)** "Tax Avoidance is an area of concern across the world. The rules are framed in different countries to minimize such avoidance of tax". Discuss in relation to the statement the rule framed by Indian Government to tap tax avoidance in order to increase revenue collection. **[5]**