

**Paper 16- DIRECT TAX LAWS AND INTERNATIONAL TAXATION**

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**Full Marks: 100**

**Time allowed: 3 hours**

**Section - A**

**1. Multiple Choice Questions with Justification:**

**[10x2=20]**

- (i) As per section 178(3), the \_\_\_\_\_ of a company has to intimate the tax authority before he parts with any of the assets of the company or the properties in his hands and has to set aside the amount if any intimated to him by the tax authorities.
- (a) Managing Director
  - (b) Manager
  - (c) Chartered Accountant
  - (d) Liquidator
- (ii) Prosecution can be launched and the taxpayer can be punished if he commits wilful failure to produce before the tax authorities the accounts and documents as demanded under section \_\_\_\_\_.
- (a) 154
  - (b) 147
  - (c) 143(1)
  - (d) 142(1)
- (iii) Any mistake which is apparent from the record in any order passed by the Assessing Officer can be rectified under section \_\_\_\_\_.
- (a) 154
  - (b) 147
  - (c) 143
  - (d) 254
- (iv) MAT stands for \_\_\_\_\_
- (a) Minimum Alternate Tax
  - (b) Minimum Allowed Tax
  - (c) Minimum Applicable Tax
  - (d) Minimum Adjustable Tax
- (v) The Commissioner of Income-tax (Appeals) is the \_\_\_\_\_ appellate authority
- (a) First
  - (b) Second
  - (c) Third
  - (d) Fourth
- (vi) As per section 115QA(3), tax to credit of Government in case of distributed income of domestic company for buy-back of shares shall be deposited within \_\_\_\_\_ days from date of payment of any consideration to the shareholder on buy-back of shares.
- (a) 7 days
  - (b) 14 days
  - (c) 10 days
  - (d) 30 days

- (vii) Provisions relating to advance ruling are provided in sections \_\_\_\_\_.  
 (a) 80C to 80U  
 (b) 245A to 245L  
 (c) 237 to 245  
 (d) 245N to 245V
- (viii) As per section \_\_\_\_\_ when any specified domestic transaction is carried out between associated enterprises, the said transaction should be carried out at arm's length price.  
 (a) 90  
 (b) 91  
 (c) 92  
 (d) 90A
- (ix) Section \_\_\_\_\_ deals with methods of computation of arm's length price.  
 (a) 94  
 (b) 93  
 (c) 92C  
 (d) 91
- (x) Arm's length price is to be determined by applying \_\_\_\_\_.  
 (a) Resale Price Method  
 (b) Fair Market Value Method  
 (c) Stamp Duty Value Method  
 (d) Indexed Cost of Acquisition Method

**Section-B**  
**(Answer any five questions out of seven questions)**

**2.(a)** Calculate interest u/s 234A in the following cases –

Name of the assessee	A	A Ltd.	B
Due date of furnishing return	31 <sup>st</sup> July	30 <sup>th</sup> September	31 <sup>st</sup> July
Date of filing return	4 <sup>th</sup> December	30 <sup>th</sup> January	Not filed
Date of completion of assessment	1 <sup>st</sup> March	15 <sup>th</sup> April	15 <sup>th</sup> February
Income as per return	₹ 5,80,000	₹ 5,00,000	--
Assessed Income	₹ 6,10,000	₹ 5,50,000	₹ 12,00,000
Advance tax paid	₹ 10,000	₹ 25,000	₹ 80,000
Tax deducted at source	₹ 10,000	₹ 15,000	₹ 80,000
Tax paid along with return	₹ 6,000	₹ 1,50,000	--

Ignore interest under any other section.

**[8]**

**(b)** What are the objectives of tax planning?

**[8]**

**3.** Compute gross total income of Minakshi Ltd. under the head Profits & gains of business or profession for the assessment year 2018-19

Profit & Loss A/c for the year ended 31/3/2018

Particulars	Amount	Particulars	Amount
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To Opening stock	4,00,000	By Sales	17,80,000
To Purchases of raw material	5,00,000	By Closing Stock	5,00,000
To Conversion cost	4,00,000	By Interest on debenture	10,000
To Customs duty	1,70,000	By Bad debt recovery	25,000
To Salary and wages	80,000	(Previously allowed)	
To Bonus to employee	15,000	By Interest on income tax Refund	6,000
To Carriage inward	20,000	By Rent from house property	40,000
To Advertisement	30,000		
To Interest	2,000		
To Carriage outward	38,000		
To Depreciation	50,000		
To Provision for income tax	20,000		
To Compensation paid to director	1,00,000		
To Provision for bad debt	10,000		
To Audit fees	20,000		
To Bad debt	30,000		
To Traveling expenses	25,000		
To Municipal tax	5,000		
To Net profit	4,46,000		
	23,61,000		23,61,000

Additional information:

- (a) Minakshi, holder of 21% share, sold goods to the company for ₹ 40,000 though market value is lower by ₹ 10,000. Payment to her made by way of bearer cheque.
- (b) Advertisement expenses relate to purchase of a machinery for advertisement. Depreciation allowed on such machinery is ₹ 2,250.
- (c) Ritu, holder of 21% share, purchased goods from the company for ₹ 30,000 though market value is ₹ 35,000. She made payment by way of bearer cheque.
- (d) Purav, who supplies more than 25% of goods, sold goods to company for ₹ 10,000 however, market value of such goods was ₹ 8,000.
- (e) Outstanding salary ₹ 20,000 is paid on 30-12-2018.
- (f) Bonus is not paid till due date of furnishing return.
- (g) Provision for bad debts is in excess of ₹ 1,000.
- (h) Salary paid in excess of requirement to non-relative ₹ 2,000 and to relative of director ₹ 6,000.
- (i) Traveling expenses is on traveling of Minakshi for 10 days out of which she used 8 days for acquiring a new machine from Jaipur for company and 2 days for meeting her relative. However, Minakshi agreed to refund proportionate cost.
- (j) On 31-7-2017, company purchased a machine from Jaipur costing ₹ 5,00,000.
- (k) Customs duty paid on 30-11-2018. However, company paid ₹ 5,000 on 30-7-2017 outstanding customs duty of earlier year
- (l) Company incurred capital expenditure of ₹ 1,00,000 for promoting family planning among its workers.
- (m) Carriage inward shows the expenditure incurred for acquiring machine from Jaipur.
- (n) Interest paid is related to loan taken for purchasing debenture.
- (o) As on 1-4-2017, company holds following assets –

Assets	Rate	Value
Plant & Machinery	15%	6,00,000
Furniture	10%	1,00,000

Compute gross total income for assessment year 2018-19. Ignore provision of sec. 115JB.

**[16]**

- 4.(a)** A is an association governed by the provisions of sec. 44A of the Income-tax act. The subscription receipts for the year ended 31st March, 2018 were ₹ 60,000. The expenditure in the normal course of its activities was ₹ 85,000. Its other income taxable under the Act works out to ₹ 75,000. On these facts, you are consulted as to:
- A. How A's taxable income will be determined for assessment year 2018-2019.
- B. In case the association did not have the other income taxable will there be any difference in the computation of its income? **[8]**

- (b)** Bright Ltd. incurred ₹ 52.75 lakhs during the period April, 2017 to June, 2017 on advertisement, professional fees, administration cost, etc. for the purpose of public issue of ₹ 55 crore in July, 2017 and had, therefore, accounted all such expenses under the head 'share issue expenses'. However, the clearance for the public issue was not given by SEBI. The company in its return of income filed for the year ended 31<sup>st</sup> March, 2018 had claimed such expenses as revenue expenses which were disallowed by the Assessing Officer. The company seeks your opinion. Advise. **[8]**

- 5.(a)** Critically comment with the help of a case law:  
"Tips collected by hotel from customers and paid to employees couldn't be taxable as salary and hence TDS u/s 192 is not applicable". **[8]**

- (b)** Write brief note on ICDS – II. **[8]**

- 6.(a)** Mahesh, aged 64 years, is resident and ordinarily resident in India. His income is ₹ 16,80,000 from a business in India and ₹ 5,45,000 from a business in a foreign country with whom India has agreement for avoidance of double taxation (ADT). According to the ADT agreement, income is taxable in the country in which it is earned and not in other country. However, in the other country, such income can be included for computation of tax rate.

According to the tax laws of the foreign country, Mahesh has paid ₹ 32,000 as tax in that country. During the previous year, Mahesh has paid ₹ 28,000 as tuition fee for his daughter in India and ₹ 90,000 as tuition fee for his son outside India for full time education. Mahesh has also received an interest of ₹ 48,000 on Government securities. Find out the tax liability of Mahesh for the assessment year 2018-19. **[8]**

- (b)** Write short note on "berry ratio". **[8]**

- 7.(a)** 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.

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Compute the Arm's Length Price and the subsequent amount of increase in the Total Income of CD Ltd, if any. **[8]**

**(b)** How to compute total undisclosed foreign income and asset u/s 5 of Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015? **[8]**

**8. Write short note:**

**[4x4=16]**

**(a)** Power of income tax authority u/s 131

**(b)** Revision u/s 263

**(c)** Factor for determining Most Appropriate Method

**(d)** 'Case' in light of provision of settlement commission