

## Paper 16 - Direct Tax Laws and International Taxation

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Full Marks: 100

Time allowed: 3 hours

The figures in the margin on the right side indicate full marks.  
Working notes should form part of the answer.

**PART – I**

**Answer Question Number 1 which is compulsory**

1. Choose the correct alternative and also provide your justification: [10×2=20]
- (i) Interest expenses claimed by an entity to its associated enterprises shall be restricted to a certain percentage of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is less. As per sec. 94B, what is the percentage?
- (a) 20%
  - (b) 25%
  - (c) 30%
  - (d) 50%
- (ii) What shall be the interest payable by any assessee, who fails to credit adequate equalisation levy to the account of the Central Government within specified period?
- (a) 1% of such levy for every month or part of a month by which such crediting of the tax is delayed
  - (b) ₹ 100 for every day during which the failure continues
  - (c) Equal to the amount of equalisation levy
  - (d) ₹ 100 for every day during which the failure continues subject to maximum of amount failed to pay.
- (iii) Which of the following is one of the conditions to be satisfied to consider a transaction as transfer for the purpose of capital gain in case where a sole proprietary concern sells or otherwise transfers any capital asset to a company?
- (a) Proprietor must hold at least 10% of the total voting power of the company.
  - (b) Proprietor must hold at least 25% of the total voting power of the company.
  - (c) Proprietor must hold at least 50% of the total voting power of the company.
  - (d) Proprietor must hold at least 51% of the total voting power of the company.
- (iv) As per section 142A, a Valuation Officer should send a report to the Assessing Officer within \_\_\_\_\_ from the end of the month in which a reference is made by the Assessing Officer under section 142A.
- (a) 12 months
  - (b) 6 months
  - (c) 1 months
  - (d) 2 months
- (v) The specified limit beyond which anonymous donation is taxable:
- (a) Higher of 1% of the total donations received or ₹ 50,000
  - (b) Higher of 5% of the total donations received or ₹ 50,000
  - (c) Higher of 1% of the total donations received or ₹ 1,00,000
  - (d) Higher of 5% of the total donations received or ₹ 1,00,000

- (vi) ICDS II (Valuation of Inventories) does not recognize the following cost formulae?
- (a) Simple Average Method
  - (b) Specific Identification Method
  - (c) First-in-First-Out Method (FIFO)
  - (d) Weighted Average Method
- (vii) In the context of Double Taxation Avoidance Agreements, the term Permanent establishment means a fixed place of business through which the business of an enterprise is wholly or partly carried on. It does not include:
- (a) a farm, plantation or other place where agricultural, pastoral, forestry or plantation activities are carried on
  - (b) the maintenance of a fixed place of business solely for the purpose of advertising, for the supply of information, for scientific research, or for similar activities which have a preparatory or auxiliary character, for the enterprise.
  - (c) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources
  - (d) a workshop
- (viii) In conducting an arm's length analysis of service-oriented industries such as limited risk distributor, advertising, marketing and engineering services, berry ratio is used and it measures:
- (a) the return on operating expenses
  - (b) amount of EBIT per rupee of asset invested
  - (c) ability of a company to cover its operating expenses through operating revenue
  - (d) None of the above.
- (ix) As per section 35DD of the Income-tax Act, the quantum of deduction of expenses incurred in case of amalgamation or demerger will be:
- (a) 1/10<sup>th</sup> of expenses so incurred for a period of 10 years commencing from the year in which amalgamation or demerger takes places.
  - (b) 1/5<sup>th</sup> of expenses so incurred for a period of 5 years commencing from the year in which amalgamation or demerger takes places.
  - (c) 33½% of expenses so incurred for a period of 5 years commencing from the year in which amalgamation or demerger takes places.
  - (d) 100% of expenses so incurred for a period of 5 years commencing from the year in which amalgamation or demerger takes places.
- (x) As per section 270A(8) of the Income-tax Act, the quantum of penalty in case of under-reported income which is in consequence of any misreporting thereof by any person, will be \_\_\_\_\_ of the amount of tax payable on under-reported income.
- (a) 50%
  - (b) 100%
  - (c) 150%
  - (d) 200%.

**PART – II**

Answer any five questions from question numbers 2 to 8. Each question carries 16 marks

[16x5= 80]

- 2.(a) From the given information, determine the amount of interest payable u/s 234A in the following cases:

	Mr. A (25 years old individual)	Mr. B (63 years old individual)
Due date of filing return for the assessment year 2022-2023	31.07.2022	31.07.2022
Date of return filed	Not filed	05.10.2022
Date of payment of self-assessment tax	Not paid	10.09.2022
Date of completion of assessment	10.01.2022	15.10.2022
Declared Income	—	9,50,000
Assessed Income	7,25,000	9,65,200
Advance tax paid during 2021-22	20,500	21,430
Tax deducted or collected at source	6,000	5,600

[8]

- (b) "Fund can be obtained from various sources have different characteristics in terms of risk, cost and control." — State the areas of the tax planning in relation to capital structure and lease or buy decision in this context. [8]

3. The following information are available in respect of P Ltd. Which is engaged in the business of manufacture of garments.

	₹
Sale proceeds of goods (domestic sale)	22,23,900
Sale proceeds of goods (export sale)	5,76,100
Amount withdrawn from general reserve (reserve was created in 1996-97 by debiting P&L A/c)	2,00,000
Amount withdrawn from revaluation reserve	<u>1,50,000</u>
Total	31,50,000
Less : Expenses	
Depreciation (normal)	6,16,000
Depreciation (extra depreciation because of revaluation)	2,70,000
Salary and wages	2,10,000
Wealth-tax	20,000
Income-tax	3,40,000
Outstanding customs duty (not paid as yet)	17,500
Proposed dividend	60,000
Consultation fees paid to a tax expert	21,000
Other expenses	<u>1,39,000</u>
Net profit	14,56,500

The company wants to claim the following deductions:

- Deduction under section 80-IB (30 per cent of ₹14,56,500).
- Depreciation under section 32 (₹5,36,000)

The following losses/allowances are available to set-off:

	For tax purposes (₹)	For accounting purposes (₹)
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Brought forward loss of 2015-16	15,20,000	5,00,000
Unabsorbed depreciation	—	69,000

Compute the net income and tax liability of P Ltd. for the assessment year 2022-23 assuming that P Ltd. has a (deemed) long-term capital gain of ₹60,000 under proviso (i) to section 54D(2) which is not credited in statement of profit and loss. [16]

4.(a) Which Orders are appealable before CIT (Appeal). [8]

(b) M/s. QQ Trading Co. is a sole proprietary concern and it was converted into a company w.e.f 01-09-2021. The sole proprietary concern had a block of Plant & Machinery (15%), whose WDV as on 1-4-2021 was ₹3,00,000, before the conversion. On 1st April itself, a new plant of the same block was purchased for ₹1,20,000. After the conversion, the QQ Trading Co. has purchased the same type of plant on 1-1-2022 for ₹1,60,000. Calculate the amount of depreciation that would be allocated between the concern & the company. [8]

5.(a) Voluntary subsidies paid by a holding company, to protect the capital investment, to its loss-making subsidiary, has been treated to be a revenue receipt by the Assessing Officer. Justify. [8]

(b) Yummy Restaurants (Marketing) Private Limited which is the appellant company is a fully owned subsidiary of YRIPL. Purpose of the organisation is that of cost advertisement and promotion to the franchised (economies). The Secretariat for Industrial Assistance approved this purpose. However, few conditions were laid down with regard to the functioning of the Appellant company. The Appellant was obligated to operate as a non-profit entity. And this non-profit entity was based on the principle of Mutuality. After the Assessment Year, the assessee (the Appellant) filled the returns as NIL for income stating its mutual character of this non-profit entity. This was not accepted by the Assessing Officer. Discuss with the help of case law. [8]

6.(a) Compute ALP through following information:

- A Ltd. is a distributor of IT products.
- A Ltd. purchases these products from its related party, P Ltd.
- A Ltd. also trades in laptops manufactured by X Ltd.
- P Ltd as well as X Ltd would supply the warranty replacements free of cost to A Ltd.
- Other details are as under:

Particulars	P Ltd. (AE)	X Ltd.
Purchase price of A Ltd.	₹15,000	₹22,000
Sale price of A Ltd.	₹ 18,000	₹26,000
Other expenses incurred by A Ltd.	₹500	₹ 700

[8]

(b) What do you understand by Foreign Tax Credit in the context of international taxation? which are the documents required for availment of such credit? [4+4=8]

7.(a) Mr. R, who is a resident Indian, has derived the following incomes for the previous year 2021-22 relevant to the A.Y. 2022-23:

a. Income from profession in India	₹ 2,44,000
b. Income from profession in country A (Tax paid in foreign country @ 5%)	₹ 4,50,000

Compute the tax liability of the assessee in India assuming that as per treaty between India and Country A, ₹4,50,000 is taxable in India. However foreign tax can be set off against the Indian tax liability. [8]

(b) Describe the International Transaction as per u/s 92B of the Income Tax Act. Specify few transactions which may be considered as Deemed International Transactions. [4+4=8]

8. Write short note (any four): [4×4=16]
- (a) Organisation of Tax Planning Cells.
  - (b) Tonnage Tax Scheme
  - (c) Comparative study of ICDS II with AS 2
  - (d) Tax on Income from Patent
  - (e) Computation of total undisclosed foreign income and asset as per Black Money and Imposition of Tax Act.