

**Paper – 16: Direct Tax Laws and International
Taxation**

Postal Test Paper_P16_Final_Syllabus 2016_Set 2

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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) What do you mean by annexure less return? What is the manner of filling the return of income? [5]

b) R, S and T Ltd. (a widely held domestic company) are members in an AOP for the Previous Year 2015-2016. They share profit and losses in the ratio 30%, 40% and 30%. Taxable business income of AOP is determined at ₹ 8,00,000.

Personal incomes of the partners are given below:

R - House Property ₹ 90,000

S – Short-term Capital Gain ₹1,00,000

R deposits ₹ 20,000 in CTDS-15-year account in Post Office in February 2016. S purchases NSC VIII-Issue for ₹ 25,000 in December 2015.

Determine the tax liability of the AOP and its partners. [5]

c) What are the salient features of Income computation and disclosure standards relating to effect of changes in foreign exchange rates and discuss significant deviations between ICDS VI and AS 11. [5]

d) A resident assessee, earned foreign exchange of ₹ 78,800. The foreign income was also subjected to tax deduction of ₹ 8,800 at source in the foreign country with which India had no agreement for avoidance of double taxation. The assessee claimed relief under Sec. 91 of the Income-tax Act in respect of the whole foreign income. Discuss his contention with reference to decided case laws. [5]

2. a) What is written down value to be adopted for the amalgamated company in cases, where the full eligible depreciation had not been availed by the amalgamating company? [5]

2. b) During the previous year 2016-2017, D furnishes the following particulars of his incomes and losses: [6]

(a)	Income under the head –Salaries (computed)	90,000
(b)	Income from house property in Chennai	1,20,000
(c)	Loss from self-occupied house property in Agra	1,50,000
(d)	Income from cloth business	1,65,000
(e)	Loss from computer business	1,20,000
(f)	Income from speculation business	66,000
(g)	Loss from speculation business	75,000
(h)	Short-term capital gain on sale of shares	60,000
(i)	Short-term capital loss on sale of shares	66,000
(j)	Long-term capital gain on sale of land	60,000
(k)	Income from card games	30,000
(l)	Loss from card games	24,000
(m)	Casual and non-recurring income	20,000
(n)	Dividend from Indian company	21,000

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Assuming that he had in the previous year 2015-2016 an unabsorbed business loss of 30,000 from the cloth business, compute total income of X for the assessment year 2017-2018.

2. c) Discuss the exceptions in the section 78(2) of the Income Tax Act 1961. [5]

3. a) From the particulars given below by X during the financial year 2016-17 find out the amount of deduction u/s 80D: [6]

Cases	Assessee (50 yrs)	Wife (45 yrs)	Daughter (18 yrs)	Father (80 yrs)	Mother (75 yrs)
Case A: Medical insurance premium	15,000	10,000	5,000	—	20,000
Preventive check-up/medical expenditure	—	3,000	2,000	20,000	1,000
Case B: Medical insurance premium	—	—	—	—	15,000
Preventive check-up/medical expenditure	—	—	5,000	30,000	—

3. b) Ram, an individual had filed a return of income of ₹4,00,000 for the Assessment Year 2016-17. He paid a sum of ₹10,000 as tax whereas the tax payable on such income was ₹20,600 (including Education Cess + SHEC). His income is assessed at ₹4,90,000 and the tax payable on the assessed income is ₹29,870. Ram wishes to file an appeal against the above order. Advise Ram about the procedure of filing an appeal? [5]

3. c) Discuss in brief the provisions relating to advance ruling. [5]

4. a) State the salient features and applicability of Income Declaration scheme 2016. [5]

4. b) Shri Mungeri Ram Temple Trust (Regd.) derived ₹6,00,000 income from the property held under charitable trust during the Previous Year 2015-2016. About 40% of the income has been received by the end of the financial year. The trust could spend ₹60,000 for charitable purposes during the year 2015-2016 and 40% receipts, received by the year end in 2015-2016, are being planned to be applied for charitable purposes during the Previous Year 2016-2017. Compute its income for the said two years if the amount planned to be spent during Previous Year 2016-2017 for charitable purposes is ₹1,00,000. [5]

4. c) Following particulars were provided by Mr. D:

Particulars	Amount (₹)
Income from Mr. D's business	90,000
Salary derived from an educational institution by Mrs. D; she is the Principal of that institution	50,000
Interest on Company deposits were made in the name of Master K (Minor son). These deposits were made in the name of K by his father's Father about 6 years ago.	12,000
Receipts from sale of paintings and drawings made by minor S (Minor Daughter of Mr. and Mrs. D and a noted child artist)	60,000
Income by way of lottery earning by Master P (Minor son of Mr. and Mrs. D)	28,000

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Discuss whether the above will form part of the total income of any individual, duly considering applicability of clubbing provisions in each case, and also compute the total income of Mr. D. [6]

5. **a)** 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. **b)** An assessee in terms of a divorce decree was bound to maintain his minor child. He transfers money to a bank for this purpose. Is clubbing u/s 64 possible? [5]
5. **c)** Can the Commissioner initiate revision proceedings under section 263 on the ground that the Assessing Officer's order not initiating penal proceedings was erroneous and prejudicial to the interest of the Revenue, in a case where non-initiation of penal proceedings was a pre-condition for surrender of income by the assessee? Discuss with relevance to suitable case law. [6]
6. **a)** Can the repayment of loan by passing mere adjusting book entries by the assessee be taken to be in contravention of provisions of section 269 T to attract penalty under section 271 E? Discuss with relevance to suitable case law. [6]
6. **b)** Whether the Tribunal has erred in law in deleting the penalty under section 271 (1)(c) of the Act when concealed income had been brought to tax under section 147/148 of the Act? [5]
6. **c)** The following details have been supplied by the Karta of a Hindu undivided family during the previous year 2016-2017:
You are required to compute total income of the family for the relevant assessment year. [5]

(a)	Profits from business	4,80,000
(b)	Salary paid to the Karta by the family	80,000
(c)	Salary received by the Karta from his services elsewhere	80,000
(d)	Director's fees received by the Karta	20,000
(e)	Rental income from property belonging to the family	1,60,000
(f)	Dividends from Indian company	40,000
(g)	Long-term capital gains on transfer of building belonging to the family	24,000
(h)	Short-term capital gains on transfer of shares(family property)	32,000
(i)	Donation to Ramakrishna Mission	20,000
(j)	Share of profits from a partnership entered into by the Karta on behalf of the family	40,000

7. **a)** NBR Medical Equipments Inc. (NBR) of Canada has received an order from a leading UK based Hospital for development of a hi-tech medical equipment which will integrate the best of software and latest medical examination tool to meet varied requirements. The order was for 3,00,000 Euros. To execute the order, NBR joined hands with its subsidiary Precision Components Inc. (PCI) of USA and Bioinformatics India Ltd (BIL), an Indian Company. PCI holds 30% of BIL. NBR paid to PCI and BIL Euro 90,000 and Euro 1,00,000 respectively and kept the balance for itself. In the entire transaction, a profit of Euro 1,00,000 is earned. Bioinformatics India Ltd incurred a Total Cost of Euro 80,000 in execution of its work in the above contract. The relative contribution of NBR, PCI and BIL may be taken at 30%, 30% and 40% respectively. Compute the Arm's Length Price and

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the incremental Total Income of Bioinformatics India Ltd, if any due to adopting Arms Length Price determined here under. **[5]**

7. **b)** Branco Inc., French Company, holds 45% of Equity in the Indian Company Chirag Technologies Ltd (CTL). CTL is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes Branco Inc. During the year, CTL had spent 2,400 Man Hours for developing and maintaining software for Branco Inc, with each hour being billed at ₹1,300. Costs incurred by CTL for executing work for Branco Inc. amount to ₹ 20,00,000. **[6]**

CTL had also undertaken developing software for Harsha Industries Ltd for which CTL had billed at ₹2,700 per Man Hour. The persons working for Harsha Industries Ltd. and Branco Inc. were part of the same team and were of matching credentials and caliber. CTL had made a Gross Profit of 60% on the Harsha Industries work. CTL's transactions with Branco Inc. are comparable to the transactions with Harsha Industries, subject to the following differences:

- a)** Branco Inc. gives technical know-how support to CTL which can be valued at 8% of the normal gross profit. Harsha Industries does not provide any such support.
b) Since the work for Branco involved huge number of man hours, a quantity discount of 14% of Normal Gross Profits was given.
c) CTL had offered 90 Days credit to Branco the cost of which is measured at 2% of the Normal Billing Rate, No such discount was offered to Harsha Industries Ltd. Compute ALP and the amount of increase in Total Income of Chirag Technologies Ltd.

7. **c)** Discuss the Concept of Base Erosion & Profit shifting. **[5]**

8. **a)** A Ltd. an Indian company purchases microwave ovens from its parent company situated in US. The same are sold to third party customers in India. The price of the microwave oven set is ₹ 9,000 and the same is sold for ₹ 12,000. A Ltd. also purchases washing machines from another company in UK who is not a related party for ₹ 10,000. The washing machines are sold to customers in India for ₹ 12,000. A Ltd. performs the same functions in case of both purchases of microwave oven and washing machines, that is reselling the goods to the Indian customer. Both the products are sold in the same market and in the same conditions. **[6]**

8. **b)** Discuss the provision of advance pricing agreement (APA). **[5]**

8. **c)** A resident assessee, earned foreign exchange of ₹78,800. The foreign income was also subjected to tax deduction of ₹8,800 at source in the foreign country with which India had no agreement for avoidance of double taxation. The assessee claimed relief under Sec. 91 of the Income-tax Act in respect of the whole foreign income. Discuss his contention with reference to decided case laws. **[5]**