

Paper 7 – Direct Taxation

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Time Allowed: 3 Hours

Full Marks: 100

Answer Question No. 1 which is compulsory and any FOUR from Question No 2 to 7.

1.

(a) Fill in the blanks:

5 x 1 = 5

- (i) When traders opts for presumptive income declaration u/s 44AD, advance tax is payable on before _____ of the previous year.
- (ii) Commute pension received by a state government is exempt upto _____.
- (iii) _____ number of ICD's issued as such.
- (iv) Unabsorbed depreciation can be carried forward for _____.
- (v) Non furnish of PAN, TDS on dividend shall be _____.

(b) Choose the most appropriate alternative.

5 x 1 = 5

- (i) ICDS IX stands for _____.
 - (a) Accounting Policies
 - (b) Inventories
 - (c) Borrowing Costs
 - (d) None of the above

- (ii) Condition of payment of advance tax when such amount exceeds by _____.
 - (a) ₹ 5,000
 - (b) ₹ 7,500
 - (c) ₹ 10,000
 - (d) None of the above

- (iii) Surcharge in case of a domestic company if the income exceeds ₹ 10 crore.
 - (a) 5%
 - (b) 10%
 - (c) 12%
 - (d) None of the above

- (iv) Form for application of PAN is _____.
 - (a) Form 49A
 - (b) Form 26AS
 - (c) Form 26AC
 - (d) None of the above

- (v) The provision of Best Judgement Assessment is covered under section.
 - (a) Section 139(1)
 - (b) Section 140
 - (c) Section 144
 - (d) None of the above

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(c) State true or false with reasons:

5 x 2 = 10

- (i) Two number of cost formula is stated under ICDS on "Inventories".
- (ii) Time period for acquisition or construction of self occupied house property for claiming deduction of interest is 3 years.
- (iii) Quantum of deduction allowed under section 80EE i.e interest on loan taken for residential house property is ₹ 75,000.
- (iv) Taxability of salary paid by foreign government to its employee serving in India is taxable under the head salary.
- (v) Scheduled bank are authorised to issue Zero Coupon Bond.

Answer:1.a.

- i. 15th March
- ii. Fully exempt
- iii. Ten (10)
- iv. Indefinite period
- v. 20%

Answer:1.b.

- i. C
- ii. C
- iii. C
- iv. a
- v. C

Answer:1.c.

- i. False:**
Three number of cost formula is stated under ICDS on "Inventories".
- ii. False:**
Time period for acquisition or construction of self occupied house property for claiming deduction of interest is 5 years.
- iii. False:**
Quantum of deduction allowed under section 80EE i.e interest on loan taken for residential house property is ₹ 50,000.
- iv. True:**
Taxability of salary paid by foreign government to its employee serving in India is taxable under the head salary.
- v. True:**
Scheduled bank / Public Sector bank are authorised to issue Zero Coupon Bond.

2. a.) Mr Amit is an purchasing officer in a company in Jaipur. He has furnished the enumerated information for the previous year 2016-17. Compute his taxable income from salary for the A.Y 2017-18 assuming the population of Jaipur is 26 Lakh as per 2001 census.

- (i) Basic salary ₹ 17,000 p.m.
- (ii) Bonus ₹ 5,000.
- (iii) Dearness allowance ₹ 3,000 p.m
- (iv) Travelling allowance ₹ 45,000 p.m. He spends 30,000 for official purpose.
- (v) Reimbursement of medical bills ₹ 25,000(treatment was done in government hospital in India)
- (vi) He lived in an belonging to the company. Its fair rent is ₹ 15,000 per month. The company has provided on this bungalow the facility of a watchman and a cook each of whom is being paid a salary of ₹250 p.m. The company paid in respect of bungalow ₹ 5,000 for electric bills and ₹ 3,000 for

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water bills.

(vii) He has been provided with 1.5 ltrs engine capacity car for official and personal use. The maintenance and running expenses of the car (including driver) are borne by the company.

(viii) The following amounts are deposited in his provident fund account a. Own contribution ₹ 24,000, b. Company contribution ₹ 30,000, c. Interest @ 12% p.a ₹ 12,600.

8 Marks

2. b.) Mr. Pankaj furnishes the following particulars for the previous year relevant to the A.Y 2017-18.

7 marks

Profit & Loss A/c for the year ending 31.3.2017

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salary to staff	22,000	By Gross profit	2,50,000
To entertainment expenses	13,000		
To general expenses	11,000		
To Bad debt	4,500		
To reserve for bad debts	10,000		
To advertisement expenses	7,000		
To interest on Pankaj capital A/c	3,000		
To expenditure on acquisition of patents rights	28,000		
To telephone expenses	12,000		
To depreciation	10,000		
To provision on income tax	4,000		
To Net Profit	1,25,500		
	2,50,000		2,50,000

Other Information:

- (i) Salary paid to staff includes salary paid to a relative which is unreasonable to the extent of ₹ 3,100.
- (ii) Provision for income tax is excessive to the extent of ₹ 3,000.
- (iii) Depreciation on tangible assets according to the income tax provisions comes to ₹ 9,500.
- (iv) Patent were acquired on 4th November 2016.
- (v) During the P.Y 2016-17 the following payments were made and the same have not been debited to profit and loss account of 2016-17.
 - (a) ₹ 3,000 paid on 10.09.2016 on account of outstanding custom duty of the previous year 2015-16, and
 - (b) ₹ 5,000 paid on 15.12.2016 on account of outstanding sales tax of the P.Y 2015-16.

Find out the taxable income of Mr Pankaj for the A.Y 17-18. Due date of filing return of income of assessment years 16-17 and 17-18 is 30th September of the relevant A.Y.

Answer.2.a

Particulars	Amount (₹)	Amount (₹)
Basic salary (₹ 17,000 x 12)		2,04,000
Bonus		5,000
Dearness Allowance		36,000
Travelling allowance (₹ 45,000 – ₹ 30,000)		15,000
Electricity bill paid by employer		5,000
Water bill paid by employer		3,000
Value of accommodation at concessional rate (being 15% of salary i.e ₹ 2,24,000) (₹ 2,04,000 + 5,000 + 15,000)	33,600	

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Less: Rent paid	21,600	12,000
Benefit of cook		3,000
Benefit of watchman		3,000
Benefit of car (₹ 1,800 + ₹ 900) (₹ 2,700 x 12)		32,400
Employers contribution to RPF in excess of 12% of salary (₹ 30,000 – ₹ 24,480)		5,520
Interest on PF @ 12%	12,600	
Less: Exempt @ 9.5%	<u>9,975</u>	2,625
Gross Salary		3,26,545
Less: Deduction u/s 16		Nil
Income from salary		3,26,545

Note: Medical reimbursement is exempt in full as treatment was done in a Government Hospital.

Answer.2.b.

Computation of Taxable Income of Mr Pankaj for the Assessment Year 2017-18.

Particulars	Amount (₹)	Amount (₹)
Profit and loss as per PL A/c		1,25,500
Add:		
Salary paid to relative	3,100	
Reserve for bad debts	10,000	
Interest on X's Capital A/c	3,000	
Expenditure on Acquisition of Patent rights	28,000	
Depreciation in excess of income tax provisions	500	
Provision for income tax (full amount)	<u>4,000</u>	48,600
Less:		
Sales tax for the A.Y 2016-17	5,000	
Depreciation on patent rights (12.5% of ₹ 28,000)	<u>3,500</u>	8,500
Income from business or profession /Gross total income		1,65,600

3. a.) Sagar has a house property in Delhi whose particulars are as under:

Municipal Vale ₹ 3,00,000 , Standard rent ₹ 3,12,000, Municipal taxes paid ₹ 50,000, Interest on money borrowed for acquiring the house after 1.4.2014 ₹ 1,60,000, Period of occupation for own residence 2 months, and actual rent for 10 months ₹ 35,000 p.m.

Compute the income from house property for assessment year 2017-18.

8 marks

3. b.) Rajat acquired shares of G Ltd on 15.12.1998 which were sold on 15.5.2016 for ₹ 20,50,000. Expenses of transfer were ₹ 20,000. He invested ₹ 3,00,000 in the bonds of Rural Electrification Corporation Ltd. on 16.10.2016.

Compute:

- Compute Capital Gain for the A.Y 2017-18.
- State the period for which the bonds should be held by the assessee. What will be the consequences if such bonds are sold within the specified period.
- What will be the consequences if Rajat takes a loan against the security of such bonds.

7 marks

Answer:3.a.

Computation of income from house property

Particulars	Amount (₹)	Amount (₹)
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Gross Annual value shall be higher of the following two		
(a) Expected rent (Municipal value ₹ 3,00,000 or FRV ₹ 4,20,000 whichever is higher i.e ₹ 4,20,000 but restricted to Standard rent i.e ₹ 3,12,000)	3,12,000	
(b) Actual rent received or receivable (₹ 35,000 x 10)	3,50,000	3,50,000
Less: Municipal taxes paid		50,000
		3,00,000
Net Annual Value		
Less: Deduction u/s 24		
(a) Statutory deduction @ 30%	90,000	
(b) Interest on money borrowed for acquisition of house	<u>1,60,000</u>	2,50,000
Income from House property		50,000

Note: FRV has been determined on the basis of actual rent i.e ₹ 35,000 x 12 = ₹ 4,20,000

Answer:3.b.

(a)

	Amount (₹)	Amount (₹)
Sales consideration		2,050,000
Less: Expenses on transfer	20,000	
Indexed cost of acquisition 5,00,000 x 1125/351	16,02,564	1,622,564
		4,27,436
Less: Exemption under section 54EC		3,00,000
Taxable Long Term Capital Gain		1,27,436

- (b) R should not transfer into money such bonds within 3 years from the date of their acquisitions. If these bonds are transferred into money within 3 years, capital gain of ₹ 3,00,000 exempt under section 54EC earlier, will be long term capital gain of the P.Y in which such assets is transferred into money.
- (c) If any loan is taken against the security of such bonds, it will be treated as if it converted into money as such capital gain exempt earlier on such bonds, shall be long term capital gain of the previous year in which such loan is taken against the security of such bonds.

4. a.) Prabir submits you the following particulars of his income for the assessment year 2017-18.

7 marks

Particulars	Amount (₹)
Income under the head Salary	7,00,000
Income under the head house property	4,00,000
Dividends from domestic company	15,00,000
Compute tax payable by him	

4. b.) Please compute the advance tax payable by Mr. Pankaj from the following estimated income for the financial year 2016-17:

8 marks

Particulars	Amount (₹)
Income from salary	5,00,000
Interest on Government securities	6,000
Interest on bank deposit	2,000
Rent from house for the year	1,00,000
Winning from horse race (gross)	20,000
Contribution towards PPF	10,000
Agricultural Income	2,00,000
TDS by the employer on salary	30,150

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Answer:4.a.

Computation of total income of Prabir for the Assessment Year 2017-18

Particulars	Amount (₹)	Amount (₹)
Income under the head salary (computed)		7,00,000
Income under the head house property		4,00,000
Income from other sources	1,500,000	
Less: Exemption u/s 34	1,000,000	5,00,000
Gross Total Income		
Less: Deduction u/s 80C to 80U		Nil
Total Income		1,600,000
Tax payable		50,000
Tax on dividend exceeding ₹ 10,00,000 (5,00,000 x 10%)		
Tax on remaining ₹ 1,100,000		1,55,000
Add: SHEC and Education cess @ 3%		6,150
Tax payable		1,61,150

Answer:4.b.

Computation of Estimated Income:

Particulars	Amount (₹)	Amount (₹)
Income from Salary		
Gross Salary	5,00,000	
Less: Deduction	Nil	5,00,000
Income from House Property		
Rent Received	1,00,000	
Less: Deduction u/s 24 (a) @ 30%	30,000	70,000
Income from Other sources		
Interest on Government securities	6,000	
Interest on Bank Deposit	2,000	
Winning from Horse race (Gross)	20,000	
		28,000
Less: Deduction u/s 80C to 80U		
Contribution towards PPF	10,000	(10,000)
Total taxable Income		5,88,000

Computation of Estimated Tax payable

Particulars	Amount (₹)	Amount (₹)
Step 1: Tax on Agricultural and Non Agricultural Income (2,00,000+5,88,000)=₹ 7,88,000	6,000	
Tax on winning horse race 30% of ₹ 20,000	78,600	84,600
Tax on remaining Income ₹ 7,68,000		
Step 2:		
Add agricultural income to basic exemption limit (2,00,000+2,50,000)=4,50,000		
Tax on 4,50,000	20,000	
Step 3: Tax paid under step 1 – step 2 (84,600-20,000)		64,600
Add: Education cess & SHEC @ 3%		1938
Advance tax (rounded off)		66,540

Advance tax payment schedule

Particulars	Due date	%	Amount (₹)
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1 st Instalment	15 th June, 2016	15%	9,981
2 nd Instalment	15 th Sept, 2016	45%	19,962
3 rd Instalment	15 th Dec, 2016	75%	19,962
4 th Instalment	15 th Mar, 2017	100%	16,635

5. a.) Gross Total Income of Mr P aged 30 yrs as computed under Income Tax Act for the A.Y 17-18 is ₹ 4,00,000. He used to deposit ₹ 50,000 in a PPF Account.

Compute tax liability of Mr P assuming that he has agricultural Income of

- A. Nil
- B. ₹ 4,000
- C. ₹ 3,50,000

8 marks

5. b.) Mrs. Banerjee who is resident in India provides the following information. Compute her taxable income for the A.Y 17-18 and tax thereon.

7 Marks

Particulars	Amount (₹)
Gross salary	3,30,000
Rent of house property	1,20,000
Interest on fixed deposits with bank (gross)	14,000
Deposit in PPF	80,000
Tuition fee paid for 3 children @ 15,000 p.a. per child	45,000
LIP on her life taken on 1-5-2013 (sum assured ₹ 2,00,000)	25,000

Answer:5.a

For Case A and B

As the agricultural income of Mr P in the two cases A & B is Nil and ₹ 4,000 so, there will be no partial integration and the Income Tax will be calculated as under;

Particulars	Amount (₹)
Gross Total Income	4,00,000
Less: Deduction u/s 80C to 80U	
Section 80C	
-Deposit in PPF	50,000
Net Taxable Income	3,50,000
Tax on ₹ 3,50,000	10,000
Less: Rebate u/s 87A	5,000
	5,000
Add: Education Cess & SHEC @ 3%	150
Tax Payable	5,150

Case: C when agricultural Income is ₹ 3,50,000

Particulars	Amount (₹)	Amount (₹)	Amount (₹)
Step-1 Add agricultural income and non agricultural income and calculate tax on the aggregate as if such aggregate income is the total income.	3,50,000 <u>3,50,000</u>	7,00,000	65,000
Step-2 Add agricultural income with maximum exemption limit available in case of the assessee and compute tax on such amount as if it is the total income.	3,50,000 <u>2,50,000</u>	6,00,000	45,000

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Step-3 Deduct the amount of income tax from step 1 - step 2			20,000
Less: Rebate u/s 87A			5,000
			15,000
Step-4 Add surcharge if applicable plus education cess and SHEC @ 3%			450
Tax Payable			15,450

Answer:5.b.

Computation of total income of Mrs Banerjee for the Assessment Year 2017-18.

Particulars	Amount (₹)	Amount (₹)
Income Under the head "salaries"		
Gross Salary	3,30,000	
Less: Deduction u/s 16	Nil	3,30,000
Income under the head –House Property		
Annual Rent	1,20,000	
Less: Standard deduction @ 30%	36,000	84,000
Income from other sources		
Interest on fixed deposit with bank		14,000
Gross Total Income		4,28,000
Less: Deduction u/s 80C		1,30,000
Total Income		2,98,000
Tax on ₹ 2,98,000	4,800	
Less: Rebate u/s 87A	4,800	
Note: Deduction u/s 80C		
PPF	80,000	
Tuition fees for 2 children	30,000	
LIP limited to 10% of sum assured	20,000	1,30,000

6. a.) When an income is treated as deemed income in respect of undisclosed income / investment?

7 Marks

6. b.) List down the instances of other income which are chargeable to the Head of Income from other sources.

8 Marks

Answer:6.a.

In the following cases when the assessee is unable to provide satisfactory explanation regarding the nature and sources of the following, they will be charged to tax as income of the previous year:

(a) Cash credit [Section 68]: Where any sum is found credited in the books of an assessee during the previous year and the assessee has no satisfactory explanation for the source of such cash credit;

(b) Unexplained investment [Section 69]: where during the financial year the assessee has made investments which are not recorded in the books of the assessee and the assessee fails to offer satisfactory explanation;

(c) Unexplained money, etc. [Section 69A]: Where in the financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and the assessee is unable to offer explanation;

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(d) Undisclosed investment etc. not fully disclosed [Section 69B]: Where in the financial year the assessee has made investments or is found to be the owner of any bullion, jewellery, etc. and the amount spent on them are in excess of the amount recorded in the books of account and the assessee offers no explanation about such excess amount;

(e) Unexplained expenditure, etc. [Section 69C]: where in the financial year the assessee has incurred any expenditure and he offers no explanation about the source of such expenditure;

(f) Amount borrowed or repaid by hundi [Section 69D]: Where any amount is borrowed on hundi from, or any amount due thereon is repaid to, any person otherwise than through an account payee cheque.

Answer:6.b.

The list of incomes provided under Section 56, which are chargeable under this head, is not exhaustive.

The following are the instances of other incomes which are chargeable under this head:

- i. income from subletting ;
- ii. casual income ;
- iii. interest on bank deposits or deposits with companies, or loans ;
- iv. insurance commission ;
- v. directors' fees ;
- vi. family pensions ;
- vii. ground rent ;
- viii. agricultural income from land situated outside India ;
- ix. income from vacant land ;
- x. income from undisclosed sources ;
- xi. remunerations of the Member of Parliament ;
- xii. examiner's fees received by a teacher from institutions other than his employer ;
- xiii. interest on securities of foreign Governments ;
- xiv. income from royalty, if not charged under the head —Profits and gains of business or profession ;
- xv. income from fisheries ;
- xvi. interest on employee's contribution to the unrecognised provident fund ;
- xvii. gratuity received by a director, who is not an employee of the company ;
- xviii. income from racing establishments ;
- xix. income from granting of grazing rights ;
- xx. director's commission for standing guarantor to bankers or for underwriting shares of a new company ;
- xxi. income received after discontinuation of business ;
- xxii. annuity payable under will or contract or trust deed (not being annuity from the present or former employer) ; (xxiii) annuity payable to the lender of trademark ;
- xxiii. interest on tax refunds u/s 214;
- xxiv. interest earned prior to commencement of business ;
- xxv. income from hoardings on business premises.

7. Write a short note on the followings:

5 x 3=15 Marks

- a) Deduction in respect of rent paid.
- b) Return of loss Section 139(3).

c) Site Restoration Fund (Section 33ABA).

Answer:7.a.

Deduction in respect of rent paid [Section 80GG]:

An individual, being either a salaried employee or a self-employed person, who is not in receipt of any house rent allowance but has to incur expenditure for any rented accommodation, can claim deduction under this section.

Amount of deduction:

(a) ₹5,000p.m.

(b) 25% of the adjusted total income, or

(c) Rent paid less 10% of adjusted total income, whichever is least.

Adjusted total income for this purpose means total income before deduction u/s 80GG but after allowing deductions u/s 80C to 80U, long-term capital gains, short-term capital gains specified u/s 111A and income mentioned under Sections 115A to 115D.

Conditions:

1. The assessee or his spouse or any minor child, or the Hindu undivided family of which he is a member, does not own any residential accommodation at the place where he ordinarily resides or performs his duties in connection with his employment or business or profession carried on by him.
2. Where the assessee owns any accommodation at any other place, it is not assessed to tax as a self-occupied house under Section 23(2)(a) or 23(2)(b).

Answer:7.b.

Return of Loss (Section 139(3)):

A person wishing to carry forward and set off of losses under the following heads must file return within the due date prescribed under Section 139(1):

(i) loss under the head —Profits and gains of business or profession [u/s 72(1)];

(ii) any loss computed in respect of speculation business. [u/s 73(2)] ;

(iii) any loss in respect of a business specified in Section 35AD which has not been fully set off [Section 73A (2)];

(iv) losses under the head —Capital gains [u/s 74(1)];

(v) loss on maintaining race horses [u/s 74A (3)];

Except in the case of a company and cases covered under the first proviso to Section 139(1), it is not necessary to furnish return if the total income is below the taxable limit. But in the case of losses mentioned above, the right of the assessee to carry forward losses shall be lost unless return is furnished within the due date prescribed in Explanation 2 to Section 139(1).

Answer:7.c.

Site Restoration Fund (Section 33ABA):

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An assessee who is carrying on business consisting of the prospecting for, or extraction or production of petroleum or natural gas, or both in India pursuant to an agreement with the Central Government for such business, can claim deduction under this section in respect of:

- (a) Any amount deposited with the SBI to a special account in accordance with the scheme approved by the Central Government, or
- (b) Any amount deposited to the Site Restoration Account in accordance with the scheme approved by the Central Government.

The amount shall be deposited before the end of the relevant previous year.

Amount of deduction: Subject to the fulfillment of the specified conditions, the amount of deduction shall be the lower of the following amount:

- (i) The aggregate of amount deposited under (a) and (b) above,
- (ii) 20% of the profits of such business before making any deduction under this section and any adjustment for brought forward loss of earlier years.

Section-B (20 Marks) **International Taxation and Transfer Pricing**

Answer question No. 8 which is compulsory and any one from Question No.9 and 10

8. a) Fill in the blanks:

[4 x 1=4 Marks]

- a. Any income arising from an international transaction shall be computed having regard to the _____.
- b. The provision of Section _____ will apply only if the aggregate value of specified domestic transactions entered into by the taxpayer during the year exceeds a sum of 20 crore.
- c. Uncontrolled transaction is a transaction between enterprises other _____.
- d. _____ transaction services means services related to transaction which involve two or more countries.

8. b) Select the suitable answer:

[4 x 1=4 Marks]

a. An organisation is said to be associated enterprise when one guarantees at least ___ of the total borrowings of other enterprise or vice versa.

- A. 5%
- B. 10%
- C. 15%
- D. None of the above

b. The _____ is a useful indicator of comparative performance by showing the ability of a company to control its costs relative to its level of sales.

- A. Profit
- B. Ratio

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- c. Maintenance and keeping of information and document by person entering into an international transaction is covered under section _____.
- A. 92
 - B. 92C
 - C. 92D
 - D. 90
- d. Advance pricing agreement shall be valid for such period not exceeding _____ consecutive previous years.
- A. 3 yrs
 - B. 4 yrs
 - C. 5 yrs
 - D. None of the above

Answer:8.a.

- a. Arm length price
- b. 92
- c. Associated enterprise
- d. Cross border

Answer:8.b.

- a. B
- b. A
- c. C
- d. C

9. a. Discuss in brief Resale Price Method (RPM).

6 Marks

9. b. State the meaning of Specified Domestic Transaction (Section 92 BA)?

6 Marks

Answer:9.a.

Resale Price Method (RPM)

Step I: Identify the price at which property purchased or services obtained by the enterprise from an associated enterprise is resold or are provided to an unrelated enterprise.

Step II: Reduce the normal GP margin accruing to the enterprise or to an unrelated enterprise from the purchase and resale of the same or similar property or from II) obtaining and providing the same or similar services, in a comparable uncontrolled transaction (s).

Step III: Reduce expenses incurred by the enterprise in connection with the purchase of property or obtaining of services.

Step IV: Adjust for functional and other differences, including differences in accounting practices, if any, between the international transaction and the comparable uncontrolled transactions, or between the enterprises entering into such transactions, which could materially affect the amount of gross profit margin in the open market.

Step V: Arm's Length Price = Step I

Less Step II & III Add / Less Step IV.

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Answer:9.b.

Meaning of specified domestic transaction [Sec 92BA]

For the purposes of this section and sections 92, 92C, 92D and 92E, "specified domestic transaction" in case of an assessee means any of the following transactions, not being an international transaction, namely:

- (i) any expenditure in respect of which payment has been made or is to be made to a person referred to in clause (b) of sub-section (2) of section 40A;
- (ii) any transaction referred to in section 80A;
- (iii) any transfer of goods or services referred to in sub-section (8) of section 80-IA;
- (iv) any business transacted between the assessee and other person as referred to in sub-section (10) of section 80-IA;
- (v) any transaction, referred to in any other section under Chapter VI-A or section 10AA, to which provisions of sub-section (8) or sub-section (10) of section 80-IA are applicable; or
- (vi) any other transaction as may be prescribed,

and where the aggregate of such transactions entered into by the assessee in the previous year exceeds a sum of ₹ 5 crore upto 31.3.2016 or ₹ 20 crore w.e.f. 1.4.2016 onwards.

10. a. Swinhoe LLP of France and Rani Ltd. of India are associated enterprises. Rani Ltd. imports 3,000 compressor for Air conditioner from Swinhoe at ₹ 7,500 per unit and these are sold to Paharpur Cooling Solutions Ltd at a price of ₹ 11,000 per unit. Rani had also imported similar products from Cold Ltd and sold outside at a Gross Profit of 20% on Sales.

Swinhoe offered a quantity discount of ₹ 1,500 per unit. Cold could offer only ₹ 500 per unit as Quantity Discount. The freight and customs duty paid for imports from Poland had cost Rani ₹ 1,200 a piece. In respect of purchase from Cold Ltd. Rani had to pay ₹ 200 only as freight charges. Determine the Arm's Length Price and the amount of increase in Total income of Rani Ltd.

6 Marks

10. b. State the provision in relation to maintenance and keeping of information and document by persons entering into an international transaction.

6 Marks

Answer:10.a.

Computation of Arm's Length Price of Products bought from Swinhoe, France by Rani Ltd.

Particulars	₹
Resale Price of Goods Purchased from Swinhoe	11,000
Less: Adjustment for differences	
(a) Normal gross profit margin @ 20% of sale price [20% × ₹11,000]	2,200
(b) Incremental Quantity Discount by Swinhoe [₹ 1,500 – ₹ 500]	1,000
(c) Difference in Purchase related Expenses [₹ 1,200 – ₹ 200]	1,000
Arms Length Price	6,800

Computation of Increase in Total Income of Rani Ltd

Particulars	₹
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Price at which actually bought from Swinhoe LLP of France	7,500
Less : Arms Length Price per unit under Resale Price Method	6,800
Decrease in Purchase Price per Unit	700
No. of Units purchased from Swinhoe	1,000
Increase in Total Income of Rani Ltd [3,000 Units × ₹ 700]	₹ 21,00,000

Answer:10.b.

Maintenance and keeping of information and document by persons entering into an international transaction [or specified domestic transaction] [Sec 92D]

- (1) Every person who has entered into an international transaction &[or specified domestic transaction] shall keep and maintain such information and document in respect thereof, as may be prescribed'.
- (2) Without prejudice to the provisions contained in sub-section (1), the Board may prescribe the period for which the information and document shall be kept and maintained under that subsection.
- (3) The Assessing Officer or the Commissioner (Appeals) may, in the course of any proceeding under this Act, require any person who has entered into an international transaction t0[or specified domestic transaction] to furnish any information or document in respect thereof, as may be prescribed under sub-section (1), within a period of thirty days from the date of receipt of a notice issued in this regard :

Provided that the Assessing Officer or the Commissioner (Appeals) may, on an application made by such person, extend the period of thirty days by a further period not exceeding thirty days.

Report from an accountant to be furnished by persons entering into international transaction [or specified domestic transaction].

92E. Every person who has entered into an international transaction [or specified domestic transaction] during a previous year shall obtain a report from an accountant and furnish such report on or before the specified date in the prescribed form duly signed and verified in the prescribed manner by such accountant and setting forth such particulars as may be prescribed.