

**Paper 16 – Direct Tax Laws
And
International Taxation**

Time Allowed: 3 Hours

Full Marks: 100

Answer Question No. 1 which is compulsory and any FIVE from Question No 2 to 8.

Section-A

1. Multiple Choice Questions:

10x 1 = 10

- i. Maximum limit of deduction in respect of rent paid u/s 80GG is _____
 - A. 2,000
 - B. 2,500
 - C. 3,000
 - D. 5,000
- ii. Arm's length price is to be determined by applying any of the following methods:
 - A. Fair market value method
 - B. Resale price method
 - C. Stamp duty value method
 - D. None of the above
- iii. Prosecution can be launched and the taxpayer can be punished if he commits willful failure to produce before the tax authorities the accounts and documents as demanded under section _____.
 - A. 139
 - B. 142 (1)
 - C. 148
 - D. None of the above
- iv. The provision of section 80JAA is applied to the business of manufacture of goods in a factory where workmen are employed for not less than _____ days in a previous year.
 - A. 100 days
 - B. 200 days
 - C. 300 days
 - D. 600 days
- v. Penalty to produce the information and documents within the period allowed s/s 286(6) is _____.
 - A. ₹ 2,000 per day
 - B. ₹ 3,000 per day
 - C. ₹ 5,000 per day
 - D. None of the above
- vi. Penalty for failure to furnish the information and the document as required u/s 92D(4) by constituent entity of an International group referred to new Section 286 will attract penalty of ₹ _____.
 - A. ₹ 2.5 Lakh
 - B. ₹ 5 Lakh
 - C. ₹ 10 Lakh
 - D. None of the above
- vii. For every non corporate taxpayer to whom the provisions of AMT apply is required to obtain a report from a Chartered Accountant in Form _____ on or before the due date of filling the return of income.
 - A. Form I
 - B. Form 29
 - C. Form 29A
 - D. Form 29C
- viii. Where assessed income is more than 2 Lakh then fees for filing an appeal with ITAT would be _____.
 - A. ₹ 500
 - B. ₹ 1000

MTP_ Final _Syllabus 2016_ Dec 2017_Set 2

- C. ₹ 1500
D. 1% of assessed income subject to a maximum of ₹ 10,000
- ix. The loss of a speculation business of any assessment year is allowed to be set off only against the profit and gains of _____.
- A. Business and profession
B. Other sources
C. Speculation business
D. None of the above
- x. As per section 245(D)(1) on receipt of application under section 245C, the settlement commission shall within _____ days from the date of receipt of the application issue a notice to the applicant requiring him to explain as to why the application made by him be allowed to proceed with.
- A. 5 days
B. 7 days
C. 10 days
D. None of the above

Section-B

(Answer any Five Questions out of seven questions)

2(a) Determine the Gross Total Income of X and his wife from the following particulars for the year ending 31.3.2017: **8 Marks**

- (i) X and his wife are partners in a firm carrying on cloth business, their respective shares of profit being ₹ 78,000 and ₹ 60,000.
- (ii) Their 16 years old son has been admitted to the benefits of another firm, from which he received ₹ 80,000 as his share of profit in the firm and ₹ 90,000 as interest on capital, The capital was invested out of the minor's own funds amounting to ₹ 9,00,000.
- (iii) A house property in the name of X was transferred to his wife on 1.12.2016 for adequate consideration. The property has been let at a rent of ₹ 30,000 p.m.
- (iv) Debentures of a company of ₹ 1,40,000 and ₹ 1,12,000 purchased two years ago are in the names of X and his wife respectively, on which interest is receivable at 10% p.a. His wife had in the past transferred ₹ 70,000 out of her income to X for the purchase of the debentures in X's name.
- (v) X had transferred ₹ 50,000 to his wife in the year 2011 without any consideration which was given as a loan by her to Y. She earned ₹ 20,000 as interest during the earlier previous years which was also given on loan to Y. During the financial year 2016-17, she received interest at 10% p.a. on ₹ 70,000.
- (vi) X transferred ₹ 75,000 to a trust, the income accruing from its investment as interest amounted to ₹ 7,500, out of which ₹ 5,000 shall be utilized for the benefit of his son's wife and ₹ 2,500 for the benefit of his son's minor child.

2(b) Determine the deduction u/s 80QQB in each of the following cases for Assessment Year 2017-2018 **8 Marks**

Particulars	A	B	C
Royalty on Books covered by Sec. 80QQB	5,40,000	6,00,000	8,00,000
Rate of Royalty as % of value of Books	18%	15%	20%
Whether Lump sum payment for assignment of all interest in Copyright	No	No	Yes

MTP_ Final _Syllabus 2016_ Dec 2017_Set 2

Expenditure for earning Royalty	1,80,000	1,80,000	2,40,000
Is Royalty received from abroad	Yes	No	Yes
Amount remitted to India till 30.09.2016	3,60,000	NA	7,00,000

3. PKJ Corporation LLP, is carrying on two businesses, viz. Textile Manufacture and Operation of Cold Chain Facility. It gives you the following information for the year ended 31st March 2017.

Net Profit as per Profit & Loss Account:

From Textile Manufacture	10,25,000
From Operation of Cold Chain Facility	20,50,000

The following items are debited to Profit & Loss Account:

- (i) Interest on Capital payable to Partners @ 15% on Total Capital of ₹ 100 Lakhs.
- (ii) Working Partner Salary ₹ 36 Lakhs (i.e. ₹ 1 Lakh each per month for 3 partners).
- (iii) Depreciation on Textile Factory Building ₹ 5 Lakhs.
- (iv) Depreciation on Plant & Machineries of Textile Business ₹ 35 Lakhs.
- (v) Keyman Insurance Policy premium paid ₹ 1,55,000.

Other Information:

Eligible Depreciation u/s 32 for the Previous Year 2016-2017 are -

- (i) On Plant & Machineries of Textile Business ₹ 27 Lakhs.
- (ii) On Factory Building relating to Textile Business ₹ 4 Lakhs.

The Assessee set up and operating a Cold Chain Facility since 1st April 2015. It incurred Capital Expenditure towards Construction of Cold Chain Facility during the period from 1st June 2013 to 31st March 2015 as under:

- Cost of Land (acquired on 1st June 2013) ₹ 30 Lakhs.
- Cost of Construction of Building and Machineries installed till 31st March 2015 ₹ 50 Lakhs.

The Income of the Firm for the Previous Year 2014-2015 (Assessment Year 2016-2017) is given below:

- Income from Textile Manufacture ₹ 12 Lakhs.
- Income from Cold Chain Facility ₹ 60 Lakhs (before deduction u/s 35 AD)

The Firm originally had 4 equal Partners and one Partner retired on 31-03-2016. The Partnership Agreement authorizes payment of Salary and Interest on Capital which are debited to Profit & Loss Account.

You are requested to compute the Total Income of the Firm for the Assessment Year 2017-2018.
Note: Ignore Alternate Minimum Tax (AMT) under Section 115JC. **16 Marks**

4(a) Discuss the power of Principal Commissioner or Commissioner to condone delay in filling a return of loss. **8 Marks**

4(b) State the tax planning procedure in case of amalgamation of a company. **8 Marks**

5(a) Can the Commissioner initiate revision proceedings under section 263 on the ground that the Assessing Officer order not initiating penal proceedings was erroneous and prejudicial to the interest of the revenue, in case of where non initiation of penal proceedings was a pre condition for surrender of income by the assessee. Discuss with the relevant case law. **8 Marks**

MTP_Final_Syllabus 2016_Dec 2017_Set 2

5(b) Whether the Tribunal is right in holding that the rectification order under section 154 was not proper especially when the audit had raised an objection that the interest income was to be brought to tax under the he 'Income from other sources'? Discuss with the relevant case law.

8 Marks

6(a) Boulevard Inc. French Company, holds 40% of Equity in the Indian Company Vista Technologies Ltd (VTL). VTL is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes Boulevard Inc.

During the year, VTL had spent 2,000 Man Hours for developing and maintaining software for Boulevard Inc, with each hour being billed at ₹ 1,250. Costs incurred by VTL for executing work for Boulevard Inc. amount to ₹ 18,00,000.

VTL had also undertaken developing software for Bal Industries Ltd for which VTL had billed at ₹ 2,700 per Man Hour. The persons working for Bal Industries Ltd and Boulevard were part of the same team and were of matching credentials and caliber. VTL had made a Gross Profit of 50% on the Bal Industries work.

VTL's transactions with Boulevard Inc. is comparable to transactions with Bal Industries, subject to following differences –

1. Boulevard gives technical know how support to VTL which can be valued at 8% of the Normal Gross Profit. Bal Industries does not provide any such support.
2. Since the work for Boulevard involved huge number of man hours, a quantity discount of 14% of Normal Gross Profits was given.
3. VTL had offered 90 Days credit to Boulevard the cost of which is measured at 2% of the Normal Billing Rate. No such discount was offered to Bal Industries Ltd.

Compute ALP and the amount of increase in Total Income of Vista Technologies Ltd.

8 Marks

6(b) Mr. Agarwal, a Resident Indian and aged 67 years, has derived following income during the Previous Year 2016-17:

8 Marks

Particulars	Amount (₹)
Income from Business in India	2,50,000
Commission (Gross) from a Company in Hong Kong (Tax Paid in Hong Kong ₹ 60,000)	3,00,000
Dividend (Gross) from a Company in Hong Kong (Tax Paid in Hong Kong ₹ 18,000)	90,000
Interest on Fixed Deposits and Savings Accountant with banks in India	2,00,000
India has no Double Tax Avoidance Agreement with Hong Kong. Compute the Income and Tax payable by Mr. Agarwal for Assessment Year 2017-18.	

7(a) Speedy Motors Ltd, an Indian Company, declared Income of ₹ 20 Crores computed in accordance with Chapter IV-D but before making any adjustments in respect of the following transactions for the year ending on 31.03.2017:

- (a) Royalty of \$ 50,00,000 was paid to Fista Ltd for use of technical know-how in the manufacturing of va However, Fista Ltd had provided the same know-how to another Indian Company for \$ 45,00,000. The manufacture of Van by Speedy Motors Ltd is wholly dependent on the use of technical know-how, respect of which Fista Ltd has exclusive rights.
- (b) Loan of Euro 5 Crores with interest @ 10% p.a. advanced by Hughes Ltd, French Company, was outstanding on 31.03.2017. The Total Book Value of assets of Speedy Motors Ltd on the date was ₹ 500 Crores. Hughes Ltd had also advanced similar loan to another Indian Company @ 8% p.a. Total Interest paid for the year was EURO 0.5 Crore.
- (c) 7,000 Vans sold to Hitech Ltd which holds 41% Shares in Speedy Motors Ltd at a price which is less by \$ 100 each van than the price charged from Bento Ltd.

Briefly explain the provisions of the Act affecting all these transactions and compute Taxable Income Speedy Motors Ltd for A.Y.2017-2018 assuming that the value of 1\$ and of 1 EURO was ₹ 65 and ₹ 75 respectively, throughout the year.

8 Marks

7(b) Amit is musician deriving income of ₹ 1,00,000 from performed outside of India. Tax of ₹ 10,000 were deducted at source in the country where the concerts were performed. India does not have any double avoidance taxation agreement with that country. His income in India amounted to ₹ 8,30,000. Compute tax liabilities of Amit for the assessment year 17-18 assuming he has deposited ₹ 50,000 in Public Provident Fund. ₹ 80,000 in LIC and Medical insurance premium in respect of his father ₹ 25,000. **8 Marks**

8. Short Notes (Answer any four questions out of five)

(4 x 4=16 Marks)

- A. Power of officer to whom authority is given for search and seizure.
- B. Associate Enterprise.
- C. Penalty for failure to furnish statement [Section 271 H].
- D. Meaning of Advance Ruling and Applicant.
- E. Can application made under section 245C(1) to settle commission be revised?