

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 15

Time Allowed – 3 Hours

Maximum Marks – 100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium, answer in Hindi, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Answer any **five** questions from the remaining **six** questions.

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer-book shall be valued and subsequent extra question(s) answered shall be ignored.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the respective answers.

All questions relate to **Assessment Year 2018-19**, unless stated otherwise in the question.

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1. (a) Ram, Rahim & Robert are equal partners of SSK & Co., which was formed w.e.f 01.06.2017. The firm is an authorized dealer of watches manufactured by a reputed company. It reported Net Profit as per profit and loss account of ₹ 2,50,000 after debit / credit of the following items 10
- (i) Depreciation on generator and computers ₹ 1,10,000.
- (ii) Working partners' salary ₹ 30,000 per month for each partner.
- All the partners are working partners and the salary paid is authorized by the deed of partnership.

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- (iii) Interest on capital to partners @ 18% per annum. The total interest on capital of the firm debited to profit and loss account being ₹ 3,60,000.
- (iv) Donation to registered political parties ₹ 80,000 by cash and ₹ 70,000 by electronic transfer.
- (v) Monthly rent paid to partner Ram for use of his premises as godown ₹ 30,000 and it is occupied from 01.10.2017. The market rent for the premises is ascertained at ₹ 15,000 per month. No tax was deducted at source on the rent paid.
- (vi) Sponsorship fee for local Cricket tournament ₹ 4,00,000.
- (vii) The firm incurred ₹ 5 lakhs by way of expenditure towards the cost of gold coins awarded to customers on the first day of their showroom inauguration. The cost of each gold coin was less than ₹ 10,000 and one coin was given for each of the buyers on that day selected through lucky dip. No tax was deducted at source on such gold coins given to the customers.

Additional information :

- (i) Depreciation on tangible assets allowable u/s. 32 ₹ 2,37,500.
- (ii) One registered trademark was acquired on 10.07.2017 for ₹ 3,00,000. The firm used the trademark w.e.f. 01.12.2017 since there was some dispute in title of the previous owner and was cleared through court decree only in November 2017.

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- (iii) The total turnover for the firm for the year ended 31.03.2018 was ₹ 80 lakhs. Amount realized by cash ₹ 20 lakhs and the balance of sale proceeds were received through credit card / RTGS / NEFT before 31.03.2018.

You are required to compute the total income of the firm applying regular provisions and presumptive provisions contained in section 44AD of the Income Tax Act, 1961 (Act). Advise the procedural requirement on opting any of the provisions for the purpose of the Act.

- (b) Arnold Ltd. (incorporated in UK) has a branch office (PE) in India. **10**
The Net Profit of the Branch as per the statement of profit and loss for the year ended 31.03.2018 was ₹ 83 lakhs. It includes the following :
- (i) Dividend from Indian companies (listed) ₹ 8,00,000.
 - (ii) Dividend from Indian companies (unlisted) ₹ 4,00,000.
 - (iii) Interest received from MMS Ltd. of Mumbai ₹ 7,00,000. The amount was received by the Indian company MMS Ltd. in foreign currency as per loan agreement dated 01.04.2014 (section 194LC applicable).
 - (iv) Fee for technical services received from Barun Co. Ltd., Kolkata ₹ 25,00,000. The agreement was made on 10.08.2007 and was approved by Central Government. Expenditure incurred for providing technical service amounts to ₹ 6,00,000.

Additional information :

Total income chargeable to tax as per regular provisions of the Income-tax Act, 1961 (Act) is ₹ 20,00,000 (without considering the items (i) to (iv) above).

You are required to compute the book profit tax under section 115JB of the Act for the assessment year 2018-19 and also the total income-tax liability of the assessee.

Your working should be supported by notes.

2. BG (P) Ltd. is engaged in multiple businesses. The Net Profit as per the statement of profit and loss was ₹ 52 lakhs for the year ended 31.03.2018. A scrutiny of the statement of profit and loss revealed the following items which were debited / credited therein **16**
- (i) Share income @ 25% from a partnership firm ABC & Co. of Pune ₹ 9,50,000.
- (ii) The company paid ₹ 1 lakh as service charges to a call centre for attending the calls of customers and suppliers. Tax was deducted at source on such payment @ 2%.
- (iii) Expenditure incurred ₹ 8 lakhs for digging of wells near the factory for use by public under Corporate Social Responsibility Scheme as per the Companies Act, 2013.

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- (iv) Grant received from State Government for acquisition of generator ₹ 10 lakhs. The generator was acquired on 01.06.2017 for ₹ 35 lakhs. A sum of ₹ 5 lakhs was paid as advance by cash to the supplier of generator. The grant amount received is credited to statement of profit and loss. Depreciation charged on ₹ 35 lakhs @ 15%.

Note : Assume that the company is not eligible for additional depreciation.

- (v) During the year, the company bought textile goods from local suppliers. Cash payment was made exceeding ₹ 10,000 but below ₹ 20,000 in a day to 15 suppliers aggregating to ₹ 2,00,000.
- (vi) Depreciation debited to statement of profit and loss ₹ 10 lakhs (it includes ₹ 8 lakhs being depreciation on assets revalued).
- (vii) Provision for deferred tax debited to statement of profit and loss ₹ 6,50,000.
- (viii) Trade creditors ₹ 5,00,000 were outstanding for more than 5 years and there is no business relationship with them. The amount was unilaterally transferred to credit of statement and profit and loss.
- (ix) Royalty income in respect of patents chargeable under section 115BBF ₹ 12,00,000.
- (x) Depreciation eligible under section 32 (before considering adjustment of any of the items described above) ₹ 12,25,000.

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Additional information :

- (a) The assessee executed only one civil construction contract of the value of ₹ 15 lakhs. The contractee withheld 20% of the contract amount which would be released only after 2 years. The amount withheld has not been credited to statement of profit and loss.
- (b) During the year 1,00,000 equity shares of ₹ 10 each was issued for ₹ 25 per share. The fair market value of the shares as per rule 11UA of the Income-tax Rules, 1962 was determined @ ₹ 17 per share.
- (c) During the year, the company advanced ₹ 5,50,000 to one of the directors (having 22% of equity shares and equivalent voting rights in the company) to meet his personal expenses. The company has accumulated profit of ₹ 25 lakhs as on 31.03.2017.

You are required to compute the total income for the assessment year 2018-19 stating clearly the reasons for treatment for each of the items given above.

3. (a) Mr. A is taxable in case of certain income as per the Income Tax Act, 1961. The DTAA, which is applicable to him excludes the income earned by him from the purview of tax. Is Mr. A liable to pay tax on the income earned by him under Income Tax Act, 1961 ? 4
- (b) Answer the following in the context of international transactions : 3×2
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- (i) Company X and Company Y who have entered into Advance Pricing Agreements (APA) and eligible for rollback provisions merged to form Company XY. Is the Company XY eligible for rollback provisions as it was formed on merger of Company X and Company Y ?

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- (ii) Proceedings before the TPO were stayed by court order and it was subsequently lifted. The time limit for completion of assessment after excluding the period of stay due to court order is only 30 days. Within how many more days, the TPO has to pass his order ?
- (iii) The gross total income of Sachin Co. Ltd., Pune was ₹ 70 lakhs which is wholly attributable to a unit located in SEZ since April, 2011. Adjustments to total income made by the Assessing Officer by applying the transfer pricing provisions, enhanced the total income by ₹ 50 lakhs. What is the total income of the assessee chargeable to tax and explain why ?
- (c) BNG Ltd., a domestic company has deducted TDS of ₹ 28,451 during the Qtr 1 of FY 2017-18. They had filed the TDS return for Qtr 1 on 15.09.2017. The Income Tax Department had sent a notice of demand to the company, wherein a fee was levied under section 234E of the Income Tax Act, 1961 (Act) for ₹ 8,800. The Company paid the demand raised by the Department and also claimed such payment as business expenditure during the AY 2018-19. Discuss whether the demand raised by the Department is correct, as per the provisions of the Act. Also, explain whether fee paid under section 234E can be claimed as deduction while computing the income under the head "Profits and gains of business or profession".

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4. Answer any **four** out of the following five cases. Your answer should cover (i) Issues involved; (ii) Provisions applicable; (iii) Analysis; and (iv) Conclusion :

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- (a) Bose & Co. is a partnership firm consisting of 4 partners with equal shares. The partnership firm is engaged in execution of civil construction contracts with State Government authorities. The partnership firm deposited ₹ 50 lakhs in State Bank of India (SBI) for the purpose of obtaining guarantee as and when the tenders were applied by the firm. It also kept ₹ 10 lakhs in fixed deposit with Canara Bank being the surplus funds of the firm. The firm credited interest on bank deposits of ₹ 4,00,000 from SBI and ₹ 80,000 from Canara Bank in Profit and Loss account and computed working partners' salary based on the resultant book profit. The Assessing Officer wants to tax interest incomes as income under the head 'other sources' and accordingly reduced the amount allowable by way of working partners' salary. Is the action of the Assessing Officer tenable in law ?
- (b) Shri Chandok is running a factory in Nagpur for the past 10 years. He sold the factory building for ₹ 80 lakhs and the consideration was appropriated as ₹ 20 lakhs for the building and ₹ 50 lakhs for the land underneath the building. The factory building is the only asset of the block on which depreciation was claimed and whose WDV was ₹ 1,80,000. The indexed cost of acquisition of land amount to ₹ 22 lakhs. He deposited ₹ 48 lakhs in capital gain bonds of NHAI within 2 months after the sale of the factory building. The Assessing Officer disallowed the claim of exemption on the reasoning that capital gain

on transfer of depreciable asset being short-term is not eligible for exemption under section 54EC. Is the action of the Assessing Officer valid in law ?

- (c) Govind Charitable Trust registered under section 12AA is engaged in imparting Yoga to the public. Its aggregate annual receipt was ₹ 60 lakhs and it spent only ₹ 40 lakhs by way of remuneration to Yoga teachers and by way of administration expenses. The trust applied for approval under section 80G to the Commissioner of Income-tax. The application was rejected on the ground that it had not spent 85% of its income for charitable purposes. Decide the validity of the rival contentions.
- (d) Syed & Co., a dealer in motor cycles conducted motor cycle race on the occasion of its 25th year anniversary. The prize was given to first 3 winners by way of a luxury motor cycle which was worth ₹ 2 lakhs each. The assessee did not deduct tax at source on the prize given to the winners. The Assessing Officer treated the assessee as an assessee in default and passed order under sections 201(1) and 201(1A). The assessee seeks your advise on the validity of the order and other legal consequences. Advise.
- (e) Dravid (P) Ltd. is engaged in manufacture of electrical items. It received deposit from the distributors and supplied goods in the market through the distributors. It could not locate some distributors with whom there was no transaction for the past 5 years or so. The income-tax assessment was completed under section 143(3) but the issue of unclaimed deposits of distributors was never discussed. The Assessing

Officer issued a notice under section 148 after 4 years from the end of the relevant assessment year but without quantifying the amount of income which had escaped assessment. The assessee challenged the matter in appeal by contending that the Assessing Officer without being definite of the quantum of income escaping assessment could not have initiated reassessment proceedings. Decide the validity of the contention of the assessee.

5. (a) Ricky, a foreign national and a cricketer came to India as a member of South African Cricket Team in the year ended 31st March 2018. He received ₹ 4 lakhs for participation in matches in India. He also received ₹ 1.5 lakhs for an advertisement of a product on Radio. He wrote an article for a local newspaper and received ₹ 20,000 for it. During his stay in India, he also won a prize of ₹ 25,000 from horse racing in Kolkata. He has no other income in India during the year. You are required to do the following :
- (i) Compute his tax liability in India for AY 2018-19.
- (ii) Comment whether these incomes are subject to deduction of tax at source.
- (iii) Comment whether he is liable to file return of Income in India for AY 2018-19.
- (iv) What would have been his tax liability, had he been a match referee instead of cricketer ?

- (b) M/s. Fly Airlines incorporated as a company in UK operated its flights to India and vice versa during the financial year 2017-18 and collected charges of ₹ 95 lakhs for carriage of passengers and cargo out of which, ₹ 45 lakhs were received in London in Pounds for the passenger fare booked from London to Delhi. The total expenses for the year on operation of such flights were, ₹ 165 lakhs. Compute the Income chargeable to tax of the foreign airlines. 4

- (c) The Assessing Officer has made two additions in the assessment of Rohit & Co. (sole proprietorship firm) : 4

- (i) Disallowance under section 43B of ₹ 10 lakhs
- (ii) Unexplained cash credits of ₹ 80 lakhs.

The firm filed an appeal before CIT(A) with respect to the second addition only. The CIT(A) confirmed the addition. Further, the assessee has filed an appeal to the Appellate Tribunal w.r.t. addition of unexplained cash credit against the order of CIT(A). The Appellate Tribunal has also confirmed the addition. He then preferred the revision petition before Principal CIT under section 264 for disallowance under sec 43B. The petition has been rejected on the ground that the assessment was subject matter of an Appellate Tribunal. Is the petition maintainable ?

6. (a) MCM is a firm, liable to tax at the rate of 30% and has filed its return of income. The following information are provided to you :

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(i)	Returned Total income	–	₹ 1,00,00,000
(ii)	Total income determined U/s 143(1)(a)	–	₹ 1,20,00,000
(iii)	Total income assessed U/s 143(3)	–	₹ 1,60,00,000
(iv)	Total income reassessed U/s 147	–	₹ 1,90,00,000

Considering that none of the additions or disallowances made in the assessment or re-assessment as above qualifies under sec 270A(6), compute the amount of penalty to be levied U/s 270A of the Income Tax Act, 1961 at the time of assessment U/s 143(3) and at the time of reassessment U/s 147. (Assume under-reporting of income is not on account of misreporting.)

- (b) Discuss the following in the context of provisions of Income Tax Act, 1961 :

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Penalty to be imposed on an assessee is to be based upon the law as it stood at the time that default was committed or upon the law as it stands in the financial year in which the assessment was made. Suppose, an assessee files return of income in response to a notice of reassessment, and any concealment was detected, and at that time the laws relating to imposition of penalty was different from the provisions at the time when the original return was filed. Which law should be applicable in this case ?

- (c) Smt. Laxmi (age 70), a resident individual furnishes you the following particulars for the previous year 2017-18 : 6

Particulars	₹
Income from business in India (computed)	6,00,000
Loss from let out property at Chennai	4,40,000
Dividend received from a domestic company	12,00,000
Business income in country "B" (tax paid thereon at 20%)	4,00,000
Rental income from property at Mumbai (computed)	1,80,000

Note : Assume that there is no double taxation avoidance agreement between India and country "B".

Compute the total income and tax payable by Smt. Laxmi for the assessment year 2018-19.

7. (a) Mathi Charitable Trust registered under section 12AA, following cash system of accounting, furnishes you the following information : 10
- Gross receipts from hospital by name "Full Cure" ₹ 400 lakhs.
 - Gross receipts from college by name "India Arts College" ₹ 180 lakhs (offering recognized degree courses).
 - Corpus donations by way of cheque ₹ 30 lakhs and by way of cash ₹ 5 lakhs.

- (iv) Anonymous donations by cash ₹ 10 lakhs.
- (v) Administrative expenses for hospital ₹ 220 lakhs and for college ₹ 100 lakhs.
- (vi) Fees not realized from patients ₹ 20,60,000 and from students of the college ₹ 6,50,000 as on 31st March, 2018.
- (vii) Depreciation on assets of the trust ₹ 18,00,000. The entire cost of assets ₹ 300 lakhs claimed as application in the earlier years.
- (viii) Acquired a building for ₹ 120 lakhs on 01.06.2017 for expansion of hospital (cost of land included therein ₹ 100 lakhs). Stamp duty value of the land and building on the date of registration of sale deed ₹ 140 lakhs.
- (ix) The trust gave donation of ₹ 25 lakhs to Gandhiji Free Trust having objects of charitable nature registered under section 12AA but not similar to the objects of the donor trust.

You are required to compute the total income of the trust and its income-tax liability in such a manner that it can avail the optimal benefit within the four corners of the Income-Tax Act, 1961.

Note : The trust does not want to seek accumulation of income by virtue of section 11(2) of the Act.

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(b) Decide the following cases :

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- (i) Amin Co. (P) Ltd. is a dealer of motor cars manufactured by Zeet Ltd. Amin Co. (P) Ltd. paid through banking channel ₹ 110 lakhs to Zeet Ltd. for purchase of cars in January 2018. Of the total motor cars so purchased, 4 motor cars cost ₹ 11 lakhs each and 7 motor cars are for the balance amount. Decide whether any TDS / TCS provisions will apply. Will your answer be different if Amin Co. (P) Ltd. is not a dealer of motor cars and had acquired the same for the purpose of plying cars on hire ?
- (ii) Mr. Ramesh is employed in Raghu Ltd. as senior executive. He availed leave travel assistance (LTA) of ₹ 60,000 in January 2018. He did not produce any evidence for the expenditure incurred. His salary income (computed) before allowing exemption for LTA is ₹ 12,50,000. Mr. Ramesh claimed interest on moneys borrowed for acquisition of his residential house of ₹ 96,000 but did not produce the name, address and PAN of the lender. As employer, how will you treat the claim of exemption of LTA and deduction of housing loan interest claimed by Mr. Ramesh ?
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