

Direct Tax laws & International Taxation

Nov 2019 – an analysis

May 2019 DT paper (new): an analysis and coverage

The syllabus of DT is very vast and the trick to scoring well is the last day revision of all the course. Thus before the exams I always release the SET's [Special emphasis topics] for *that* attempt, which in my perspective will cover 80% of the paper. As I firmly believe in smart study to score maximum marks alongwith conceptual clarity.



a) Past trend and comparative coverage in Nov 2019

The trick is in being able to target the paper smartly as well. We had given an analysis of the topics covered in the exams and mock tests from the previous 3 attempts before the exams

CA. Arvind Tuli

Module	Chapter	May-18	Nov-18	Mock Test 2019		May-19	Average		Nov-19	
				MCQ	Subjective		total	%age	total	%age
1	Basics				4		4	1%		
	House Property						0	0%		
	Salary						0	0%		
	TDS & TCS	9	14	4	11	8	46	10%	4	4%
2	B&P	7	20	6		14	47	11%	14	16%
3A	Capital Gains	13	15				28	6%		
	Business Reorganisation						0	0%		
3B	Other Sources			2			2	0%		
	Clubbing						0	0%		
	Set off or losses	4			5		9	2%		
	Deductions	11			3		14	3%		
	HUF						0	0%		
4A	Firms & AOP						0	0%	4	4%
	Charitable Trust	4	8		8	8	28	6%	8	9%
	MAT & AMT	14	14		14	8	50	11%	8	9%
	Returns of Income	3					3	1%		
4B	Assessments	3	6	3		8	20	4%		
	Appeals & Revisions	4	5	2	4		15	3%	8	9%
	Powers of ITA	4	8	1	4	4	21	5%		
	Settlement Commission	3					3	1%		
	Misc Topics	8					8	2%	6	7%
		5					5	1%		
	Interest penalties						0	0%	4	4%
					4		4	1%	4	4%
5	DTAA & Relief	6	9	1	10		26	6%	6	7%
	RS & PE	6	9				15	3%	6	7%
	Special Incomes of NR	6	6	2	2	9	25	6%		
	AAR & DRP	3		1	3	3	10	2%	6	7%

	Transfer Pricing	6	6	3	4	6	25	6%	12	13%
						6	6	1%		
	NJA				3		3	1%		
	E – Commerce transactions						0	0%		
	Conversion of Branch into Subsidiary						0	0%		
	Model Tax Conventions	3					3	1%		
	Application & Interpretation of tax treaties	3	6		6	6	21	5%		
	BEPS						0	0%		
	GAAR			2		4	6	1%		

MAY 19: Point wise sections covered and related coverage from topic in the notes

My view on the paper:

- As can be seen there is a 65% paper from topics marked in yellow and this can help in scoring marks
- The paper was relatively straight forward without too many unexpected questions

The Paper is always going to be relatively the same level after all its the CA Final direct tax paper. I always say the Indian chartered accountant exams are the toughest in the world , more so because of the competition , we have with so many brilliant students appearing in one attempt. Having said that this , in my view, this was a relatively simpler paper with more or less standard points raised.

I have always advocated the mastering of the 3 - Presentation , Timing & Concepts [PTC] to ensure success in the course. Thus If you had an in depth understanding of the concepts and had presented the paper with working notes to maximise marks and had completed the paper then the chances are that you will pass.

I will share a story of two students which I always tell in class

Anuradha: who after the paper came to me telling me that she cannot pass as she had only attempted 74 marks of the paper. She had written in detail all the working notes and was sure that whatever she had attempted, she had attempted well

Ankit: one of the best students I have had and could understand and grasp the concepts of taxation better than most. He had attempted the entire paper and completed it before time (almost one hour to spare) and had written most answers in short (totally correct but without explaining the reasons), was sure he is going to get an exemption.

The result - Anuradha got 64 and Ankit scored 32.

Knowing the subject and scoring marks are totally different and one must understand the marking scheme and examination pattern to be able to score marks and that's what I lay stress on. We are enclosing the scanned images of the paper with comments for your appraisal

Am giving here a detailed question by question analysis of the paper

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Roll No.

Total No. of Printed Pages – 12

Total No. of Questions – 6

Maximum Marks – 70

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No bar code sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 marks

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

All questions relate to Assessment Year 2019-20 unless stated otherwise in the question.

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P.T.O.

NOTE

in RED: I have marked the applicable Sections
in Green: I have marked the topic no of my notes
where this was covered.

(2)
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PART - II

Add. Dep

1. M/s XYZ Private Ltd, located in Mysore is in the business of manufacturing confectionery items which is listed in the Eleventh schedule. The Company had also set up a chocolate manufacturing unit during the year 2016 at Cheruvu village in Ranga Reddy District, a notified backward area in the State of Telangana. - rate of Add Dep & 32AD
- The Statement of Profit and Loss for the year ended 31st March, 2019 showed a net profit of ₹ 500 lakhs after debit/credit of the following items :

14

Items debited

- (1) Depreciation based on useful life of assets ₹ 300 lakhs
- (2) Repairs and maintenance expenses include ₹ 0.20 lakhs spent on an air conditioner installed in the residence of a director
- (3) An amount of ₹ 10 lakhs were spent on salaries and materials purchased for scientific research and development
- (4) An amount of ₹ 10 lakhs was paid to an employee on his voluntary retirement in accordance with a scheme of voluntary retirement
- (5) Purchase of raw materials include purchase of wheat in cash for ₹ 20 lakhs from a Mandi on different dates exceeding ₹ 10,000 per day
- (6) The Company has paid ₹ 5 lakhs as regularization fee to the Municipal Corporation of Mysore to regularize the deviation from the sanctioned plan in construction of the factory building.

Sec 32
[8.2.3]
Sec 30
[8.2.2-1]
Sec 35
[8.2.10]

Sec 35DDA
[8.2.8cc]

40A(3)
[8.2.7-2]

37(i)
[8.2.5k]

CIT v Mullaia
Developers.

32

[Topic
8.2.3]

Additional Information :

- (1) The Company has capitalized glow sign board ₹ 10 lakhs installed in the premises of a dealer

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(3)

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- (2) Closing stock includes 1000 pieces of imported machinery spares at its landed cost as on the date of import at US \$ 20 per piece. Exchange rate on the date of import was 1 US \$ = ₹ 68. Exchange rate on 31-3-2019 was 1 US \$ = ₹ 70. The market value per piece as on 31-3-2019 was US \$ 21.

43 AA

[Topic 8.2.4c]

- (3) One of the sundry creditors for supply of rice flour was settled on 28-3-2019 for ₹ 25 lakhs as against his outstanding balance of ₹ 30 lakhs due to non-supply of the required quality.

41(1)

[Topic 8.2.12-5]

However the entire amount was offset against an amount recoverable from the sister concern of the sundry creditor.

- (4) The written down value of assets as on 1-4-2018 was as follows :

1. Factory buildings ₹ 500 lakhs
2. (a) Plant and machinery ₹ 1000 lakhs
(b) New plant and machinery installed and put to use at Cheruvu, on 1-12-2017 ₹ 300 lakhs and on 1-5-2018 ₹ 600 lakhs.
(c) Machinery which was sold to M/s ABC Ltd. on 1-4-2012 at its WDV for ₹ 25 lakhs were re-acquired on 1-8-2018 for ₹ 50 lakhs.
3. Lorries and Vans ₹ 100 lakhs.
4. Office Equipment ₹ 50 lakhs.
5. Computers purchased and installed in office on 2-1-2019 ₹ 25 lakhs.

Sec 32

[Topic 8.2.3]

Expl 4
to 43(1).

[Topic 8.2.3u]

Compute total income of XYZ Private Ltd. for the Asst. year 2019-20.

Ignore MAT.

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2. (a) M/s ABC LLP is engaged in export of computer software from a Special Economic Zone. The net profit of the firm as per its Profit & Loss Account for the year ended 31-3-2019 was ₹ 250 lakhs after debit/credit of the following items :

8

Sec 10AA
[24.2]

- (1) Depreciation ₹ 20 lakhs
- (2) Remuneration to its working partners ₹ 200 lakhs
- (3) Interest provided on the current account balance of the partners @ 15% pa ₹ 15 lakhs
- (4) Advertisement in a souvenir published by a political party ₹ 2 lakhs

Sec 32

Sec 40(b)
[16.2]

Sec 37(2B)
[8.5-12]

Additional Information :

- (1) The firm commenced business on 1-4-2017
- (2) Depreciation allowable as per Income Tax Rules is ₹ 25 lakhs
- (3) Payment of remuneration to working partners is authorized by the Partnership Deed
- (4) Brought forward business loss and depreciation from Asst. Year 2017-18 was ₹ 50 lakhs and ₹ 30 lakhs respectively.
- (5) The total export turnover of the firm was ₹ 25 crores. Amount of export turnover realized within six months was ₹ 15 crores.

40(b)

Compute the tax payable by the firm u/s 115 JC and the amount of tax credit allowed to be carried forward. Give working notes for your answer.

Sec 115JC
[18.4]

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- (b) Akanksha Ltd, an Indian Company, is engaged in the provision of Contract R & D services relating to generic pharmaceutical drug, to Palak Inc., a foreign company which guarantees 18% of the total borrowings of Akanksha Ltd. Palak Inc. is non-resident in India for P.Y. 2018-19. Akanksha Ltd assumes insignificant risk.

6

Sec 92A
[28.1-4]

The aggregate value of transactions entered into by Akanksha Ltd. with Palak Inc., in the P.Y. 2018-19 is ₹ 75 crores. The declared Operating profit margin of Akanksha Ltd. is ₹ 7.50 crores and the Operating Expenses is ₹ 34 crores.

In the light of the above facts, please discuss whether the transfer price declared by the Akanksha Ltd., who have exercised a valid option for application of safe harbour rules, will be acceptable to the Income Tax Authorities.

Sec 92CB

[28.3-6]
Ques covered.

3. (a) The registration granted u/s 12AA of the Income Tax Act on 1-4-2009 to M/s S Charitable Trust, was cancelled on 31-1-2019 on a finding that the Trust was merged, with another entity neither having similar objects nor registered under Sec 12 AA. An appeal was preferred against the order of cancellation, which was dismissed by the Appellate authorities. The order confirming the cancellation was received on 31-3-2019.

8

Sec 115TD

[17.5]

The Balance Sheet of M/s S Charitable Trust as on 31-1-2019, and its other information is as given hereunder :

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(All amounts are in lakhs of Rupees)

Particulars	
Liabilities	
Capital fund	800.00
Sundry creditors	335.00
Total	1135.00
Assets	
Land (existing since 1-4-2008)	100.00
Land and buildings purchased in the year 2015	800.00
2000 equity shares of ₹ 1000 each in M/s X Ltd. shares are listed in Bombay Stock Exchange (at face value)	20.00
Balance in current account of a nationalized bank	10.00
Balanced in fixed deposits with scheduled banks	200.00
Cash in hand	3.50
Tax Deducted at Source	1.50
Total	1135.00

Additional Information :

- (1) Stamp duty value of the land (existing since 2008) as on 31-1-2019 was ₹ 120.00 lakhs but if sold in the open market, the property would fetch ₹ 250 lakhs as per a registered valuer's certificate.

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- (2) Land and building (purchased in 2015), if sold in the open market will fetch ₹ 1000 lakhs as per a registered valuer's certificate. Stamp duty value as on 31-1-2019 was ₹ 1050 lakhs.
- (3) The highest and lowest value per share of M/s X Ltd. traded on 31-1-2019 was ₹ 1098 and ₹ 1051 respectively.
- (4) Included in Sundry Creditors is ₹ 30 lakhs provided on estimated basis to contractors for which no bills are received.

Based on the above information, calculate the exit tax payable by the Charitable Trust and state the latest day on which the said tax has to be paid. Give working notes wherever necessary.

- (b) Mr. S is a performing musician, resident of India. He has the following income for the year ended 31-3-2019.

6

- (1) Income from music performances in India ₹ 5,00,000.
- (2) Income from Country A with which India does not have any Double Taxation Avoidance Agreement ₹ 5,00,000. Tax deducted from this income was at 20%.
- (3) Income from Country B during January 2018 ₹ 1,00,000, July 2018 ₹ 1,00,000 and January 2019 ₹ 3,00,000. Tax with held by Country B is at 10%.
Country B follows Calendar year for its tax purposes. India has entered into a Double Taxation Avoidance Agreement with country B.
- (4) Rent received from his property at Chennai ₹ 30,000 per month.
- (5) Contribution to PPF is ₹ 1,50,000.

Sec 91
[25-2]

Sec 90
[25-2]

Compute tax payable by Mr. S for the Assessment Year 2019-20. Give necessary working notes for your answer.

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similar Ques
covered in
Topic 25.2.5
Pg 11 to 22
P.T.O.

(8)

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4. (a) Examine the applicability of TDS provisions and TDS amount in the following cases as per provisions of Income Tax Act, 1961 with reference to A.Y. 2019-20 : 4

(1) Payment of fees of ₹ 28,000 for technical services and of ₹ 35000 for Royalty to Mr. Raj Pal who is having PAN.

Sec 194J.
[72-12]

(2) Payment of ₹ 2,25,000 made to Mr. Anthony for compulsory acquisition of his house as per the law of State Government.

Sec 194LA

- (b) M/s A Ltd. had admitted ₹ 180 lakhs as its total income in its return filed for the Assessment Year 2016-17 on 15-9-2016. The total income was enhanced to ₹ 200 lakhs as per the Order u/s 143(3) passed on 20-9-2018 by the Assessing Officer. Subsequently on an information that there was concealment of income, reassessment proceedings were initiated and an order for reassessment was passed on 20-10-2019 determining a total income of ₹ 250 lakhs.

4

Sec 234A, B, C

193.34 & b
Similar
Ques.

The Company had the following prepaid taxes to its credit :

The deducted at source ₹ 5 lakhs

Advance Tax paid on

4-6-2015 ₹ 8 lakhs

14-9-2015 ₹ 17 lakhs

14-12-2015 ₹ 16 lakhs

15-3-2016 ₹ 14 lakhs

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(9)

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Self-Assessment tax paid on 15-9-2016 ₹ 2.50 lakhs

Tax paid on 25-9-2018 ₹ 7 lakhs

The return in response to the reassessment notice was filed after 20 days from the due date mentioned in the notice. Assume the tax rate to be 33.063%.

Determine interest payable by the Company under various sections of the Income Tax Act on account of reassessment. Give necessary explanations for your answer.

(c) State with reasons whether the following income of the non-resident is deemed to accrue or arise in India :

(1) M/s XYZ Highway Ltd, a resident Indian company is engaged in the business of building highway projects in India. It has borrowed US \$ 250 million from a financial institution resident in US to invest in one of its ongoing projects in India. The rate of interest charged is 8% pa. Assume 1 US \$ ₹ 69. Will your answer differ in case the money is invested in one of its ongoing projects in Sri Lanka ?

3

Sec 9
[4.4]

(2) Mr. A a non-resident, staying in England, holds 10% of the total share capital in M/s ABC Ltd. a company incorporated in England. M/s ABC Ltd. directly owns assets in India. Mr. A has transferred his entire share capital to Mr. B an Indian resident when he was in England.

3

Sec 9
[4.4]

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5. Answer any two out of following 3 questions :

- (a) (i) The assessment of Saxena Ltd. was completed under section 143(3) of the Income Tax Act, 1961 with an addition of income of ₹ 23.50 lacs to the returned income. The assessee company preferred an appeal before the Commissioner of Appeals which is pending now. 4

In view of the above said facts, please answer the following questions with reference to the latest provisions applicable to A.Y. 2019-20 :

- (1) Can the Commissioner make a revision under section 263 both in respect of matters covered in appeal and other matters ?

Sec 263
[21.4.1c
concept of
merger]
Sec 264
[21.4.2d]

- (2) Can the assessee company seek revision under section 264 in respect of matters other than those preferred in appeal ?

- (ii) Being aggrieved by the order of the ITAT, Delhi, an assessee filed an appeal with Honourable High Court of Delhi with a delay of 439 days in filing the appeal. While filing the appeal, the assessee made an application for condonation of delay also citing the reasons that the delay is on account of "pursuing an alternate remedy by way of filing an application before ITAT under section 254(2) for rectification of mistake apparent from the records." Does the contention of the assessee is maintainable ?

Sec 260A

[21.3.1
case covered
in Supplement
Module for
Nov 19 - 147

- (iii) State with reasons the penalty leviable on each of the 4 independent instances. 4

- (1) The premises of A Ltd. was searched, and undisclosed income of ₹ 20 crores was determined. The Company did not admit the undisclosed income in a statement u/s 132(4) but declared the same in a return furnished, and paid the tax with interest thereon.

Sec 271AB
[23.1]

CIT v Spunacorn
India (P) Ltd
[2018] (SC)

(11)

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- (2) M/s ABC Trust an eligible investment fund has filed a statement of its activities for the year ended 31-3-2019 on 31-7-2019. Sec 271FAB
[25.3.2]
- (3) Meena Caterers has received ₹ 1 lakh in cash and ₹ 9 lakh by account payee crossed cheque from Mr. Arvind for rendering catering services on the occasion of his daughter's wedding. Sec 269ST
271DA
[8.2.7c]
- (4) Mrs. P is a trader who is subject to audit u/s 44AB. She has reported cash collections from various Sundry Debtors, but has discovered that she omitted to include 2 more debtors in the statement already filed. She has reported the omission to the authorities within 15 days. Sec
[23.1]
- (b) Briefly explain the binding nature and applicability on various persons of advance ruling under the Income Tax Act, 1961. Can an application made for obtaining "Advance Ruling" be withdrawn. 6
Sec. 245N
[27]
6. (a) M/s SB & Co. is a partnership firm carrying on trading activity. It has filed all its returns promptly up to the Assessment Year 2018-19. The firm suffered losses year after year due to market conditions and some of its major debtors defaulted in payment of their dues. It was decided by the partners on 28-6-2018, when the scrutiny assessment for the Assessment Year 2016-17 was in progress, that the business of the firm should be discontinued and a notice of discontinuance of business was given to the Assessing Officer on 10-7-2018. In these circumstances, you are required to advise on the tax implications for the firm. 4
Sec 78
Sec 189.
Sec 188A
[16.1]

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(12)

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- (b) Mr. A an agriculturist has made an agreement to sell his 10 acres of agricultural land situated in a remote village at a price of ₹ 1 lakh per acre to Mr. B, for constructing a farmhouse. Mr. A has received an advance of ₹ 1 lakh by way of a crossed cheque. Later on, the agreement was rescinded as Mr. B could not pay the balance amount within the stipulated time as per the agreement. Mr. A returned the advance by a crossed cheque. The assessing officer has proposed to levy a penalty u/s 271 D on Mr. A. Examine the validity of the Assessing Officer's action.

4

Sec 271D
[24.6]

- (c) (i) Explain with reasoning that the following statement is correct or not. Your answer should be based on the provisions of the Income Tax Act, 1961.

3

Sec 92CA
[28.3]

Whether Assessing Officer (AO) can complete the assessment of income from international transaction in disregard of the order passed by the Transfer Pricing Officer (TPO) by accepting the contention of assessee.

- (ii) An advance pricing agreement once entered by the tax payer with the Income Tax authorities cannot be modified or revised.

Sec 92CC.
3

[28.3.10]

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