

Working notes should form part of the respective answers.

All questions relate to Assessment Year 2021-22

unless stated otherwise in the question.

1. ABC LTD., a manufacturing company, is engaged in the manufacturing of leather products since 01-11-2019 in the State of Tamil Nadu. As per Statement of Profit and Loss Account for the year ended 31st March, 2021, the company showed profit of ₹ 1,20,00,000 after debiting or crediting the following items :
- (i) The opening and closing stock for the year were ₹ 55 lakhs and ₹ 54 lakhs respectively. Opening stock was overvalued by 10% and Closing stock was undervalued by 10%.
- (ii) ABC LTD. paid ₹ 10 Lakhs in foreign currency as sales commission during the year without deducting tax at source to Mr. John, a citizen of U.S.A and non-resident, for procuring orders from outside India.
- (iii) ₹ 45,000 paid in cash to Mr. Raj employee of the company at the time of his retirement.
- (iv) Profit on sale of 2000 shares of M/s. VKL LTD, a listed company ₹ 3,50,000. These shares were sold on 7-10-2020 for ₹ 250 per share. The highest price of VKL LTD. quoted on the stock exchange as on 31-01-2018 was ₹ 175 per share. The said shares were acquired for ₹ 75 per share on 10.06.2015. STT paid both at the time of purchase and sale of shares.
- (v) STCG derived from transfer of a Capital asset on which no depreciation is allowable under the Act ₹ 75,000.

- (vi) Profit of ₹ 6 lakhs on sale of plot of land on, 24-07-20 to XYZ LTD, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by ABC LTD. on 30-09-2019.
- (vii) Credits to statement of Profit and Loss Account include dividend of ₹ 50,000 received on September 6, 2020 from a domestic company.
- (viii) ₹ 20,000 paid for expenses in connection with the inauguration of a new branch opened for expanding the business.
- (ix) ₹ 20,000 paid as penalty to Government for company's failure in performance of a contract within stipulated time. There was delay of 4 months and according to the agreement the company had to pay a penalty of ₹ 5,000 per month to the Government.
- (x) An amount of ₹ 5 lakhs was paid to the manager of the company under Voluntary Retirement Scheme.
- (xi) Interest of ₹ 75,000 paid by bank remittance, on deposits made by non-resident buyers of goods manufactured by the company. The said payments were made outside India without deduction of tax.

Additional information :

- (1) During the year F.Y. 2020-21, the company has employed 56 additional employees. All these employees contribute to a recognized provident fund. 39 out of 56 employees joined on 1-6-2020 on a salary of ₹ 15,000 per month, 14 joined on 1-7-2020 on a salary of ₹ 45,700 per month, and 3 joined on 1-11-2020 on a salary of ₹ 22,000 per month. The salaries of 9 employees who joined on 1-6-2020 are being settled by bearer cheques every month. Audit under section 44AB has been done before the due date.

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(2) The company has paid through bank ₹ 1,20,000 to National Fund for Rural Development.

(3) The Company opted for concessional rate of tax and exemption from MAT under Section 115BAB for Assessment year 2021-22. 2217

Compute the total income and tax payable for the Assessment Year 2021-22 clearly stating the reasons for treatment of each item.

2. (a) (i) Samay Impex Ltd. was amalgamated with Delhi Impex Ltd. on 01-04-2020. All the conditions of Section 72A are complied with. Samay Impex Limited has the following carried forward losses as assessed upto Assessment year 2020-21: 4

Sr. No.	Particulars	Amount in ₹
1.	Speculative loss	5,00,000
2.	Unabsorbed depreciation	18,00,000
3.	Unabsorbed expenditure of capital nature on scientific research	2,00,000
4.	Business Loss	1,25,00,000

Delhi Impex Limited has computed a profit of ₹ 175 lakhs for the financial year 2020-21 before setting off the eligible losses of Samay Impex Ltd. but after providing depreciation @ 15% per annum on ₹ 160 lakhs, being the consideration at which plant and machinery were transferred to Delhi Impex Ltd.

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The written down value of above Plant and Machinery of Samay Impex Limited as per Income Tax Act, 1961 as on 31-03-2020 was ₹ 100 lakhs. The above profit of Delhi Impex Ltd. includes speculative profit of ₹ 15 lakhs.

You are required to compute the total income/loss of Delhi Impex Ltd. for Assessment year 2021-22.

The set off should be on the basis of order provided under section 72(2).

- (ii) The Government compulsorily acquired land of Mr. Shivam in April 2019 and paid compensation of ₹ 20 lakhs in June 2020. The land was acquired by Mr. Shivam in June 2003 for 12 lakhs. He had filed for additional compensation through Court and was awarded ₹ 18 Lakhs in February 2021 but this amount was received only during May 2021. Compute the taxable capital gain from the above transaction indicating the relevant assessment year. Expenses in connection with compulsory acquisition were ₹ 30,000 and for obtaining enhancement of compensation was ₹ 1 lakh. 4

Cost inflation index :

FY 2003-04 109 ✓

FY 2019-20 289 ✓

FY 2020-21 301

FY 2021-22 317

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- (b) Alpha Inc. having its business in Singapore has advanced a loan of SD 1,50,000 to Alpha Ltd., Bhubaneswar. Book value of total assets of Alpha Ltd., was ₹ 120 lakhs. Alpha Ltd. provides software backup support to Alpha Inc. Alpha Ltd., has spent 30,000 man hours during the financial year 2020-21 for the services rendered to Alpha Inc. The cost to Alpha Ltd., is SD 80 / man-hour. Alpha Ltd., has billed Alpha Inc. at SD 85 / man-hour.

Gama Ltd. in Bhubaneswar which has a similar business model, provides software back up support to Beta Inc. in Penang, Malaysia. Gama Ltd.'s cost and operating profits are as hereunder :

Particulars	Amounts (in lakhs)
Direct costs	500
Indirect costs	100
Operating profits	100

- (a) Calculate Arm's Length Price for the transaction between Alpha Ltd. and Alpha Inc. based on the above data of Gama Ltd. using the Transactional Net Margin Method. Assume 1 SD = ₹ 55.
- (b) Is any adjustment required be made to the total income of Alpha Ltd.

Note : SD = Singapore Dollars

3. (a) Ramnarayan Foundation Trust was formed on 01-04-2006. It applied for registration u/s. 12AA of the Act and got the registration approved from prescribed authority with effect from 01-04-2010. The trust got the exemption from payment of taxes satisfying the conditions laid down in Sections 11 to 13 from 01-04-2010. The trust got dissolved on 29-12-2019.

The Balance Sheet of the Trust on the Date of Dissolution was as under :

Liabilities	Amount (₹)	Assets	Amount (₹)
Corpus of the trust	6,00,000	Land and Building	12,00,000
Reserves (created out of accumulated amount of 15% each year)	3,00,000	Investment in Equity Shares – Quoted	4,00,000
Loan taken for purchase of Land and Building	9,00,000	Investment in Equity Shares – Unquoted (in Z Ltd.)	1,50,000
Loan taken for the purchase of unquoted shares (taken in year 2007-08)	1,00,000	Cash	1,00,000
		Bank Balance	50,000
Total	19,00,000	Total	19,00,000

Additional information :

- FMV of Land and Building is ₹ 50,00,000
- 50% of the Unquoted shares were acquired during the year 2007-08.
- Market Value of quoted shares on the date of dissolution is ₹ 18,00,000.
- Land and Building is acquired out of agricultural income.

(v) With respect to Z Ltd. in which the trust invested in unquoted shares, the following additional information was available as on 29-12-2019 :

- (a) 1,00,000 Equity Shares with face value of ₹10 each
- (b) Total Book Value of the assets (other than bullion, jewellery) is ₹ 60,00,000
- (c) Market Value of bullion and jewellery is ₹30,00,000.
- (d) Liabilities amounting to ₹ 35,00,000.

(vi) The trust distributed the assets on dissolution, valuing ₹ 8,00,000 to another trust registered u/s 12AA of the Act before 31-12-2020.

Compute the tax payable by Ramnarayan Foundation Trust for the A.Y. 2021-22 u/s 115TD.

(b) Mr. Anil Talpade, aged 62 years, a resident individual, furnishes the following particulars of income earned by him in India and in Brazil for the previous year 2020-21. India does not have a double taxation avoidance agreement with Brazil.

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S. No.	Particulars	Amount (₹)
1.	Gross Salary in India	4,50,000
2.	Professional Income received in Country Brazil	5,80,000
3.	Dividend Income in Country Brazil	88,000
4.	Rent from House Property Situated in Country Brazil	1,80,000
5.	Interest Income on FDR'S with Bank of Baroda, Pune Branch.	62,000
6.	Paid interest on Housing Loan to Punjab National Bank, Pune branch for the residential property, where he and his family resides	2,00,000
7.	Investment in Public Provident Fund	1,50,000
8.	Medical insurance Premium paid for himself	32,000

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Assume the tax rate in Country Brazil is 16%.

Compute the total income and tax liability of Mr. Anil Talpade for the Assessment Year 2021-22 assuming he opts for Section 115BAC complying with all the necessary rules.

4. (a) (i) Mr. Z, a resident individual, starts a new business on 01-11-2020 4
for sale of unique T-shirts. He obtained a valid PAN in his name
and registers himself on ABC.com (a Singapore based website),
an e-commerce operator, for sale of his products in India.

Mr. Z sold goods worth ₹ 60 lakhs through ABC.com upto
31-03-2021. E-commerce operator credited the following payments
from time to time payable to Mr. Z in its books of accounts.

31-12-2020 ₹ 20 lakhs

28-02-2021 ₹ 15 lakhs

Full and final payments have been released by ABC.com to Mr.
Z on 31-03-2021 after deducting a commission of 10% on gross
sale proceeds.

Mr. Z received ₹ 10,00,000 directly in his bank out of above ₹ 60
lakhs through PayTM Wallet directly connected by ABC.com to
the account of Mr. Z.

Discuss the TDS provisions applicable on the above transactions
alongwith the date and amount of tax deductible.

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- (ii) Raghav Motors Ltd., Ludhiana is a dealer in cars of Ford and Maruti Cars and also runs a service station. The sale of cars of Raghav Motors Ltd. for F.Y. 2019-20 is ₹ 9.80 crores. The sale of spare parts and service station is ₹ 60 lakhs for F.Y. 2019-20.
- M/s. Om Ltd., dealing in textile manufacturing, bought following cars from Raghav Motors Ltd. during F.Y. 2020-21 for business purposes :

Model of Car	Date of Invoice	Value of Car in ₹ In Lacs
Maruti	14-07-2020	37 lakhs
Maruti	12-08-2020	19 lakhs
Ford	18-10-2020	8 lakhs
Maruti	05-11-2020	12 lakhs

The payment against each invoice was made on the date of invoice itself.

You are required to calculate the amount of TCS applicable, if any, to be collected by Raghav Motors Ltd. as per relevant provisions of Section 206C.

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- (b) The following data is furnished by Mr. Ashish, a non-resident and a person of Indian Origin, for the financial year ended 31-3-2021 : 6

Particulars	Amounts (₹)
Long-term capital gains arising on transfer of specified foreign exchange asset on 31-05-2020 (computed)	8,50,000
Expenditure wholly and exclusively incurred in connection with such transfer (not considered above)	30,000
Interest on deposits held with private limited companies	2,93,000
Interest on Government Securities	1,00,000
Income from Short Term Capital gains u/s 111 A	2,00,000
Investment in notified savings certificates of Central Government on 30-3-2021	1,50,000
Investment in shares of Indian public limited companies on 31-12-2021	1,80,000
Tax deducted at source	1,55,000

Compute balance tax payable/refund due for the assessment year 2021-22 in accordance with special provisions applicable to non-residents.

5. (a) Your answer should cover these aspects :

- Issue Involved
- Provisions Applicable
- Analysis and
- Conclusion

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- (i) Nikhil, an individual, furnished his return of income for Assessment Year 2018-19 declaring income of ₹ 80,000 from Short Term Capital Gains on sale of shares and paid tax thereon at 15%. The Assessing Officer issued intimation under section 143(1) accepting the return of income but however, levied tax @ 30% on such income. The assessee filed an application under section 154 claiming that he erroneously offered to tax the gains arising on sale of shares as Short Term Capital Gains instead of Long Term Capital Gains, STT paid, which are exempt from tax. The Assessing Officer passed a rectification order allowing relief in part by computing tax @ 15% but refused to grant the refund on the ground that it was not claimed in the return of income furnished and the issue was beyond the ambit of section 154. Thereafter, the assessee furnished a revision petition u/s 264, which was rejected by the Commissioner of Income Tax on the plea that the scope of section 154 of the Income Tax Act was limited and had to be strictly based on the return of income furnished and that intimation under section 143(1) was not an order and not assessable to revisionary jurisdiction. Is the rejection of the revision petition under section 264 by the CIT valid ?

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The assessee firm M/s. Karishma Transport Services entered into contract with a cement company for transporting cement to various places in India for a yearly contract exceeding 10 crores. As the assessee did not have transport vehicles of its own, it engaged the services of other transporters for the said purpose. The cement company effected payments to the assessee towards transportation charges after deduction of tax at source. In its return of income, the assessee showed the income arising out of the business of transport contracts. While making payment to truck operators or owners, the assessee had not deducted tax at source. The Assessing Officer has disallowed 30% of the expenditure for non- deduction of tax as it exceeded the threshold limit specified under the Income tax Act. Is the contention of Assessing Officer valid ?

- (ii) A scheme of arrangement was approved by the Delhi High Court pursuant to which the assessee company bought back 5,00,000 shares at the rate of ₹ 18,000 per share for a total consideration of ₹ 900 crores held by its sole shareholder and holding company in Mauritius. 4

In its return of income, it declared the details of the transaction but denied the liability to pay any tax on the said transaction. Pursuant to notice under section 143(2), an assessment order was passed rejecting the assessee's contention that the transaction was not a buyback in terms of section 115QA but a buy-back pursuant to a scheme approved by the High Court, and holding the assessee liable to pay tax at 20% on the distributed income of ₹ 900 crores.

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The assessee filed a writ petition with High Court against this portion of the assessment order. The Department submitted that since the remedy of appeal was available to the assessee, the writ petition should not be entertained.

In light of the above facts, Please discuss whether the assessee company is right in filing a writ petition ?

(b) M/s. XYZ.com, an e-commerce operator, incorporated in China has no physical presence in India. It has no permanent establishment in India.

(a) It sells goods worth ₹ 1.20 crores to Indian residents.

(b) Service provided to persons resident in India by way of sale of online advertisement, When amount of bill (or aggregate amount of bills) to a recipient of service during the financial year does not exceed ₹ 1 Lakh per recipient of service (Gross amount of all bills is ₹ 70 Lakhs).

(c) Service provided to non-residents by way of sale of online advertisements, which target resident Indian customers, amounting to ₹ 20 Lacs.

The above data pertains to Financial year 2020-2021. Discuss the implications of Equilisation levy on XYZ.com for the Assessment year 2021-22.

6. (a) M/s. Highway Drive Limited incorporates a wholly owned subsidiary M/s. Highway Roads Limited in India during the F.Y. 2016-17. Its main business is to develop infrastructure facility and is eligible for deduction u/s 80-IA. Accordingly the company has claimed deduction u/s 80-IA for the AY 2021-22. 4
- (i) Highway Roads Limited derives income other than income from developing infrastructure facilities and discloses such income as income from developing infrastructure facilities, thus enjoying the benefit u/s 80-IA.
- (ii) Highway Roads Limited purchases the supplies for the development of infrastructure facilities from M/s. Highway Drive Limited at a price lesser than the fair price, thus transferring the income of M/s. Highway Drive Limited to M/s. Highway Roads Limited and enjoying the benefit of section 80-IA on such income.

Can GAAR be invoked in both the instances mentioned above ?

- (b) As per Income Tax Act, The Assessing Officer is empowered to provisionally attach any property of the assessee if he is of the opinion that it is necessary to do so for the purpose of protecting the interests of the revenue. 4

Can the Assessing Officer revoke Provisional attachment of Property if the assessee furnishes a bank guarantee. If yes, from whom and to what extent of value of the Bank guarantee needs to be furnished as per Law.

Is the Assessing Officer empowered to invoke such Bank guarantee under any circumstances ? Discuss.

- (c) (i) In what context is the term "Thin Capitalisation" used ?

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Is there any threshold limit prescribed by the Act for claiming deduction u/s. 94B of the Act for addressing Thin Capitalisation ?

Discuss its applicability to different entities. Whether any entities are excluded from its application ? *Bank*

- (ii) There are two types of DTAA made by India with other countries
i.e. Limited DTAA's and Comprehensive DTAA's. Explain the terms.

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