

EJT2

Roll No.

Total No. of Printed Pages – 15

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 as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book, will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book 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 answer book.
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, and (b) the answer book in respect of descriptive type answer book with OMR cover page 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.
4. All question relate to Assessment Year 2022-23 unless stated otherwise in the question.

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PART – II

1. M/s Kaveri Ltd., a manufacturing company, having an annual turnover of **14**

₹ 6,000 lakhs, shows a net profit of ₹ 850 lakhs after debit / credit of following amounts to its Statement of Profit and Loss account for the year ended 31st March, 2022 :

- (a) Depreciation as per Companies Act ₹ 65 lakhs.
- (b) Employer's contribution to EPF of ₹ 18 lakhs together with similar amount of Employee's contribution for the month of March, 2022 was remitted on 20 May, 2022. (The due date for the remittance to the credit of employee's EPF account being 15 April, 2022.)
- (c) GST paid includes an amount of ₹ 10,500 charged as penalty for delayed filing of returns and ₹ 15,400 towards interest for delay in deposit of tax.
- (d) An amount of ₹ 10 lakhs was incurred on notified skill development project u/s. 35CCD.
- (e) Loss of ₹ 20 lakhs, on destruction of an old machinery by fire in the factory and ₹ 5 lakhs received as scrap value on this machinery. The insurance company did not admit the claim of the company on the charge of gross negligence.

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- (f) Dividend ₹ 15 lakhs received from a foreign company in which the company holds 32% of the equity share capital of the company, ₹ 50,000 was also expended on earning this income.
- (g) Profit of ₹ 15 lakhs on sale of a building to X Ltd., a domestic company, the entire shares of which are held by the assessee company. The building was acquired by Kaveri Ltd. on 1 December, 2020.

Additional information :

- (i) Normal depreciation computed as per Income Tax Rules is ₹ 92 lakhs.
- (ii) During the previous year 2020-21, the company has purchased a new plant and machinery worth ₹ 20 lakhs on 10 January, 2021. Balance of Additional depreciation on this machine is not included in the depreciation computed for the previous year 2021-22.
- (iii) The company had credited in the account of a sub-contractor, an amount of ₹ 7 lakhs on 31st March, 2021 towards repairs of factory building. The tax deducted on such payment was remitted on 31st December, 2021.
- (iv) On 15th May, 2022, M/s Kaveri Ltd. declared and distributed dividend of ₹ 20 lakhs.

Compute the total income and tax payable by M/s Kaveri Ltd. for the Asst. Year 2022-23 clearly stating the reasons for treatment of each item.

Assume that the company has opted for section 115BAA for the A.Y. 2022-23.

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2. (a) Buildwell Ltd., a Real Estate Investment Trust, registered under relevant SEBI Regulations, holds 51% shares in HATS Ltd. Buildwell Ltd. provides the following information about its income for the FY 2021-22. 8

- (i) Interest income from HAT Ltd. – ₹ 10 crores
- (ii) Dividend income from HAT Ltd. – ₹ 3 crores
- (iii) Short-term capital gains on sale of developmental properties – ₹ 1 crore
- (iv) Interest received from investments in unlisted debentures of Companies – ₹ 10 lakhs
- (v) Rental income from directly owned real estate assets – ₹ 2.5 crores

Mr. Vijay, a resident Indian holds 70% of the units of the REIT. He does not have any other income during the year.

Compute the total income and tax payable in the hands of M/s Buildwell Ltd. and Mr. Vijay.

Note : HATs Ltd. has opted to pay tax under Section 115BAA and

Mr. Vijay has opted for Section 115 BAC. Ignore TDS implications.

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(b) Ms. Black and Brown S.A., (BnB) a company incorporated in Country **6**

X, appointed Mr. Lal Singh as an agent in India. Lal Singh habitually maintains in India stock of goods or merchandise and regularly delivers the same on behalf of various non-resident entities including BnB. BnB does not have a permanent establishment or a fixed place of profession in India. Also, there is no DTAA between India and Country X.

BnB earned the following incomes from India during the FY 2021-22 :

Income from delivery of goods by Mr. Lal Singh ₹ 2 crores.

Fee for technical services ₹ 55 lakhs (After deducting ₹ 6 lakhs spent on earning such income)

Long-term capital gains from sale of unlisted debentures of White Ltd., an Indian Company (subscribed in US\$) ₹ 14 lakhs

BnB had paid a sum equal to ₹ 50 lakhs as tax in Country X in respect of the above-mentioned income earned from India.

You are required to discuss the relevant provisions of Income-tax Act with respect to the taxability of incomes earned by BnB in India and compute the tax payable by BnB on above income.

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3. (a) Examine each of the following independent cases of charitable trust/
institutions for the assessment year 2022-23 : **8**

(i) Raj Charitable trust registered under Section 12AB, received corpus donation of ₹ 5 lakhs during the previous year 2021-22. The trust intends to utilize it during the previous year 2022-23 and claimed that since the donor gave the donation with a specific direction that it is towards the corpus of the trust, it is exempt from tax under Section 11(1)(d). Further, during the year the trust took a loan of ₹ 20 lakhs from a nationalized bank and out of it applied ₹ 18 Lakhs on the construction of its building. The trust claimed ₹ 18 lakhs as application for charitable purposes during the year.

(ii) Smile Foundations is a 'not for profit' trust that runs a secondary school. The total receipts consisting of voluntary contributions and the government grants of the trust during the previous year 2021-22 amounted to ₹ 30 lakhs (₹ 14 lakhs and 16 lakhs respectively). Is the trust required to get an approval to claim exemption under Section 10(23C) ?

(iii) Mani Foundations is a charitable trust registered under Section 12AB. On 31.07.2021 it gets an approval under Section 10(23C) also. The trust intends to know whether it can enjoy the benefits of both the sections that is, Section 11 and Section 10(23C).

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- (iv) Little Angels is a charitable institution registered under Section 12AA. To continue claiming the benefits of the exemption provisions contained in Section 11 & 12 for the assessment year 2022-23, it wants to apply for re-registration under Section 12AB. What would be the effective date for making the application for re-registration under Section 12AB ?

The trust wants to confirm whether the registration granted under Section 12AB has the same perpetual validity as granted under Section 12AA.

- (b) Mr. Chetan, an Indian citizen aged 51 years, left India on 1st April 2018 to settle in Country Y. But owing to some personal unavoidable circumstances, he returned back to India permanently on 1st June 2021.

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He has a residential property in Country Y from which he earned an income of \$ 25,000 for the year ended 31st March 2022. He is eligible for basic exemption limit of \$ 8,000 and on balance income he paid income tax @20% in Country Y. The tax was paid on 10th May 2022 from his bank account in India.

His income from business in India is ₹ 5,00,000 for the year ended on 31st March 2022. He also received dividend amounting to ₹ 1,25,000 from an Indian company and interest of ₹ 11,500 on saving bank account with SBI, during the year.

The exchange rates of 1 \$ on various dates is given below :

1.04.2021 – ₹ 74; 31.03.2022 – ₹ 75; 10.05.2022 – ₹ 75.5;

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Compute the net tax liability of Mr. Chetan in India for the assessment year 2022-23 on the assumption that there is no DTAA between India and Country Y.

Assume that the assessee does not opt for the provisions of Section 115BAC.

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4. (a) In respect of the following independent case scenarios you are required to discuss the provisions related to tax deducted/collected at source and amount of tax deductible for the year ended 31st March 2022.

- (i) Mr. Rajat, aged 79 years, a retired resident individual, maintains a savings bank account (S) and a fixed deposit account (F) with ABC Bank, Delhi. He provides the following details to ABC Bank in respect of financial year 2021-22 :

Interest on (S)	₹ 75,100
Pension from employer (received in savings account S)	₹ 55,000 per month
Interest from fixed deposit account (F)	₹ 1,20,000

He does not have any other income during the financial year 2021-22. Assume that Mr. Rajat did not opt for Section 115BAC.

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(ii) High and Tall Ltd., a real estate development company, entered into a Joint Development Agreement with Mr. John, a resident individual whereby Mr. John would transfer a plot of land measuring 10 acres for a part consideration of ₹ 6 crores to be paid on the date of agreement, i.e., 1.6.2021. High and Tall Ltd. has planned to develop a high-rise apartment complex on such land by 31.3.2024. Upon completion of the project, High and Tall Ltd. would transfer 6 flats in the apartment to Mr. John as final settlement. The EMV of the flats is estimated to be ₹ 1.20 crores each as on 31.3.2024.

(iii) M/s Aryan Ltd. a domestic company having a total turnover of ₹ 12 crores for the financial year 2020-21, purchased goods worth ₹ 85 lakhs (excluding purchase return) from M/s Varun & Co. during the previous year 2021-22. M/s Varun & Co., a resident firm, has furnished its PAN to the Aryan Ltd. Detail of payments for purchases from M/s Varun (P) Ltd. are given below :

On 25.05.2021 – ₹ 30 Lakhs; On 28.06.2021 – ₹ 25 Lakhs; On 10.12.2021 – ₹ 20 Lakhs (out of these purchases goods worth ₹ 5 lakhs were returned on 20.12.2021 due to quality issue for which money was refunded by M/s Varun & Co.); On 20.02.2022 – ₹ 10 Lakhs. Assume that the turnover of M/s Varun & Co. during the Financial year 2020-21 was ₹ 8 crores and the above amounts were credited to M/s Varun & Co.'s account in the books of M/s Aryan Ltd. on the same date.

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(iv) State Government of Telangana grants a lease of coal mine to M/s XYZ Co. Ltd. on 1.09.2021 and charged ₹ 10 crores for the lease. M/s XYZ Co. Ltd. sold coal for ₹ 1 crore to M/s AB (P) Ltd. during the previous year 2021-22. The turnover of M/s XYZ Co. and M/s AB (P) Ltd. for the financial year 2020-21 amounted to ₹ 5 crores and ₹ 6 crores respectively.

(b) Alfa Ltd., Australia holds 30% equity shares in Beta Ltd., India. Beta Ltd. develops software and also provides the related support services. Beta Ltd. during the year billed Alfa Ltd., Australia for 150 man-hours at the rate of ₹ 2,500 per man hour. The total cost (direct and in-direct) for executing this work amounted to ₹ 3,50,000. 6

However, Beta Ltd. billed Gama Ltd., India at the rate of ₹ 3,500 per man hour for the similar level of manpower and earned Gross Profit of 40% on its cost.

The transactions of Beta Ltd. with Alfa Ltd. and Gama Ltd. are comparable, subject to the following differences:

(i) While Beta Ltd. also derives technological support from Alfa Ltd., there is no such support from Gama Ltd. The value of technological support received from Alfa Ltd. may be put at 15% of normal gross profits,

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- (ii) As Alfa Ltd. gives business in large volumes, Beta Ltd. offered to Alfa Ltd., a quantity discount which may be valued at 10% of the normal gross profits,
- (iii) In the case of rendering services to Alfa Ltd., Beta Ltd. neither runs any risk nor incurs any marketing costs. On the other hand, in the case of services to Gama Ltd., Beta Ltd. has to assume all the risks and costs associated with the marketing function which may be estimated at 20% of the normal gross profits,
- (iv) Beta Ltd. offered one month credit to Alfa Ltd. The cost of providing such credit may be valued at 5% of the normal gross profits. No such credit was given to Gama Ltd.

Compute the Arm's Length Price alongwith income to be adjusted under the cost plus method.

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

- Issue involved
- Provision applicable
- Analysis and
- Conclusion

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- (i) Mr. X filed his return of income for A.Y. 2022-23 by declaring a total income of ₹ 10 lakhs. His case was selected for scrutiny assessment and an addition of ₹ 4 lakhs was made by the Assessing Officer on account of disallowances of certain expenses. During the course of the assessment proceedings, Mr. X found that he erroneously failed to claim the set-off of brought forward losses under section 72 amounting to ₹ 3 lakhs, which he was otherwise entitled to. By the time the error was discovered by Mr. X, the time-limit for filing revised return had also expired. Hence, during the course of the proceedings, Mr. X approached the Assessing Officer to allow the set-off of the brought forward losses which was erroneously not claimed in the return of income filed under Section 139(1). Whether the Assessing Officer is bound to accept the request of Mr. X ?

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On 14.10.2021, a search under Section 132 of Income-tax Act was conducted in the premises of Mr. Sahir, a resident individual. On verification of bank account of the assessee, a sum of ₹ 20 crores was found to have been credited in the bank account of the assessee. The AO added such sum as unexplained cash credit under Section 68. On appeal, the assessee declared that the sum was received from Mr. Shekhar, one of his close friends. Mr. Shekhar agreed to have transferred such sum to the account of the assessee. However, the AO is of the view that since, Mr. Shekhar is unable to explain the source of this sum, it should be treated as unexplained cash credit in the hands of the assessee. Whether the claim of the AO is justified ?

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- (ii) On 1st May, 2020, D. Venkatswami, a resident individual, received 1,000 bonus shares from ABC Pvt. Ltd. in which he held 1,000 equity shares. The AO held that since the assessee has not paid any consideration for bonus shares, he was under an obligation in law to offer the market value as income from other sources under Section 56(2)(vii)(c) of the Act. The AO computed the fair value of these bonus shares and added the amount to the income of D. Venkatswami as Income from other sources.

Whether the decision of the AO is correct in law ?

- (b) Sun Ltd., an Indian company is engaged in the business of manufacture and sale of carpets. To expand its international sales it hired the services of a London based company, Shine Inc., for online advertisements. Shine Inc. has no permanent establishment in India. During the previous year 2021-22, Sun Ltd. paid ₹ 5 Lakh to Shine Inc. for such services and deducted the equalization levy on 15.03.2022 and credited it to the account of Central Government on 15.04.2022. You are required to
- (i) Compute interest leviable to Sun Ltd. on the delayed payment of equalization levy.
- (ii) What are the circumstances under which penalty cannot be imposed ?

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- (iii) Sun Ltd. is aggrieved by the order of imposing penalty. What is the time limit for filing of appeal against the order of the Assessing Officer imposing the penalty ?

6. (a) State with reason, whether the following acts can be considered as Tax Planning or Tax Management or Tax Evasion. 4

- (i) An individual assessee deposits a sum of ₹ 10,000 in Sukanya Samriddhi Account of his daughter, so that, his total income is reduced from ₹ 5,05,000 to ₹ 4,95,000 which entitles him to the rebate under Section 87A and consequently his tax liability becomes Nil.
- (ii) A company obtaining declaration in Form No.60 from customers who are required to provide their PAN but the same is not allotted to them.
- (iii) A partnership firm made a payment of ₹ 35,000 for purchase of a refrigerator which is installed at the residence of one of the partners. However, the same is shown as being installed in the office of the firm for claiming depreciation.
- (iv) A company pays ₹ 4 lakhs to Mrs. D (wife of Director Mr. D), who although being a qualified professional but is a house-wife. The purpose is to increase the total income of Mrs. D (upto ₹ 5 lakhs) and claim expenditure in the books of the company without provision of any professional service by Mrs. D to the company.

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- (b) In respect of an insolvency proceedings initiated against D Ltd., 4
Mr. Prateek was appointed as "Official Assignee". You are required to
advise him as to whether he will be treated as Representative Assessee
in this regard and what will be his status and his liability with respect
to other procedures under the Income-tax Act.
- (c) What is meant by Digital economy ? What are the taxation issues in 6
E-Commerce ? List out the OECD recommendations under Action
Plan 1 which deals with the digital economy ?
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