

**MOCK TEST PAPER 2**

**FINAL COURSE: GROUP - II**

**PAPER – 7: DIRECT TAX LAWS AND INTERNATIONAL TAXATION**

*Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.*

*All questions relate to Assessment Year 2022-23, unless stated otherwise in the question.*

**Total Marks: 100 Marks**

**Time Allowed: 3 Hours**

**Division A – Multiple Choice Questions**

***Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.***

**Case Scenario I**

Neha purchased a land in Surat at a cost of ₹ 60 lakhs in August 2008 and held the same as her capital asset till 31<sup>st</sup> August, 2020. She started her real estate business on 1<sup>st</sup> September, 2020 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 350 lakhs.

She constructed 25 apartments of equal size, quality and dimension and the construction was completed in January, 2022. Cost of construction of each apartment is ₹ 20 lakhs. She sold 20 apartments at ₹ 40 lakhs per apartment in January 2022 and February, 2022. The remaining 5 apartments were held in stock as on 31<sup>st</sup> March, 2022. All the five apartments were sold in April, 2022 at ₹ 42 lakhs per apartment. She also holds a penthouse in Nagpur, construction of which was completed in March, 2021, as stock-in-trade. She let out the penthouse to Mr. Harsh, a salaried individual, for ₹ 62,000 per month from April, 2021 to March, 2023, to whom she has furnished her PAN. He paid municipal taxes of ₹ 6,400 each for the years 2021-22 and 2022-23 in March, 2022 and March, 2023, respectively. The said penthouse was, thereafter, sold in April, 2023 for ₹ 70 lakhs.

She invested ₹ 20 lakhs in bonds issued by National Highway Authority of India on 31<sup>st</sup> March, 2022; ₹ 20 lakhs in bonds of Rural Electrification Corporation Ltd. on 15<sup>th</sup> September 2022, ₹ 10 lakhs in bonds of Rural Electrification Corporation Ltd. on 30<sup>th</sup> September, 2022 and ₹ 10 lakhs in bonds of National Highway Authority of India on 31<sup>st</sup> December, 2022. Neha is subject to tax audit for the P.Y.2021-22.

Cost Inflation Indices:

F.Y.2008-09: 137;

F.Y.2018-19: 280;

F.Y.2019-20: 289;

F.Y.2020-21: 301;

F.Y.2021-22: 317.

**On the basis of the facts given above, choose the most appropriate answer to Q.1 to Q.5 below -**

1 What is the amount of capital gains chargeable to tax in the hands of Neha for A.Y.2022-23?

(a) ₹ 1,18,93,431

- (b) ₹ 1,54,54,015
- (c) ₹ 1,48,93,431
- (d) ₹ 1,24,54,015
2. What is the amount of income chargeable to tax in the hands of Neha for A.Y.2022-23 under the head "Profits and gains of business or profession"?
- (a) ₹ 400 lakhs
- (b) ₹ 120 lakhs
- (c) ₹ 50 lakhs
- (d) ₹ 660 lakhs
3. What is the amount of income chargeable to tax under the head "Capital gains" and "Profits and gains of business or profession" in the hands of Neha for the A.Y.2023-24?
- (a) Nil and Nil, respectively
- (b) ₹ 39,99,972 and ₹ 40,00,000, respectively
- (c) ₹ 13,63,504 and ₹ 40,00,000, respectively
- (d) ₹ 3,63,504 and ₹ 40,00,000, respectively
4. Is the annual value of penthouse held as stock-in-trade taxable? If so, under which head and what is the amount taxable for A.Y.2022-23?
- (a) No, since annual value of property held as stock-in-trade is exempt for a period of two years from the end of the financial year of completion of construction
- (b) Yes, ₹ 5,16,320 under the head "Income from house property"
- (c) Yes, ₹ 5,20,800 under the head "Income from house property"
- (d) The rental income of ₹ 7,44,000 is chargeable under the head "Profits and gains of business or profession", since property is held as stock in trade
5. Is Mr. Harsh liable to deduct tax at source on rent paid to Neha in the F.Y.2021-22? If so, what is the amount of tax to be deducted and when?
- (a) No, since Mr. Harsh, being a salaried employee, is not subject to tax audit; hence, there is no obligation to deduct tax at source
- (b) Yes, he has to deduct tax at source of ₹ 6,200 from rent payable every month
- (c) Yes, he has to deduct tax at source of ₹ 3,100 from rent payable every month
- (d) Yes, he has to deduct tax of ₹ 37,200 from the rent payable for March, 2022 (2 x 5 = 10 Marks)

### Case Scenario II

Mr. Anmay, a resident Indian, is in retail business in Delhi and his turnover for F.Y.2020-21 was ₹ 9.2 crores. He regularly purchases goods from another resident, Mr. Parth, a wholesaler in Delhi, and the aggregate payments made by Mr. Anmay to Mr. Parth during the F.Y.2021-22 was ₹ 85 lakh (₹ 25 lakh on 8.5.2021, ₹ 20 lakh on 27.8.2021, ₹ 25 lakh on 18.10.2021 and ₹ 15 lakh on 11.2.2022). Mr. Parth's turnover for F.Y.2020-21 was ₹ 13.5 crores.

Mr. Parth paid ₹ 5.2 lakhs on 1.9.2021 to M/s. Sharp Travels for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 21 years, in the last week of September. He also took an education loan of ₹ 13 lakhs on 1.2.2022 from Bank of India, Madam Cama Road, Mumbai, for his son's two-year Master of Public Administration program in Columbia University, USA and remitted the said amount through the same bank, which is an authorised dealer, under the Liberalised Remittance Scheme of RBI (LRS). For his daughter's MBA in Iowa State University, USA, he remitted ₹ 12 lakhs on 15.2.2022, out of his personal savings, through Bank of India, Bandra branch, Mumbai which is also an authorised dealer, under LRS. Mr. Parth also remitted ₹ 6.5 lakh on 28.3.2022, out of his personal savings, under LRS through Bank of India, Bandra branch, as gift to his sister residing in London, on the occasion of her 50<sup>th</sup> birthday.

**On the basis of the facts given above, choose the most appropriate answer to Q.6 to Q.10 below -**

6. Are provisions of TDS/TCS under the Income-tax Act, 1961 attracted in respect of purchase/sale transaction between Mr. Anmay and Mr. Parth? If so, what is the quantum of tax to be deducted/collected for the P.Y.2021-22?
  - (a) No; TDS/TCS provisions are not attracted for F.Y.2021-22, since the turnover of Mr. Anmay in the immediately preceding financial year i.e., F.Y.2020-21 does not exceed ₹ 10 crores.
  - (b) Yes, Mr. Anmay has to deduct tax@0.1% of ₹ 40 lakhs (₹ 25 lakhs on 18.10.2021 and ₹ 15 lakhs on 11.2.2022)
  - (c) Yes, Mr. Parth has to collect tax@0.1% of ₹ 35 lakhs (₹ 20 lakhs on 18.10.2021 and ₹ 15 lakhs on 11.2.2022)
  - (d) Yes, Mr. Parth has to collect tax@0.5% of ₹ 35 lakhs (₹ 20 lakhs on 18.10.2021 and ₹ 15 lakhs on 11.2.2022)
7. In case of failure to furnish PAN by the deductee/collectee as required based on the answer to Q.6 above, what would be the applicable rate of TDS/TCS?
  - (a) Not applicable, since there is no requirement to deduct or collect tax
  - (b) 20%
  - (c) 5%
  - (d) 1%
8. Is Sharp Travels required to collect tax at source on receipt of ₹ 5.2 lakh from Mr. Parth for holiday package to Singapore? If so, what is the amount of tax to be collected?
  - (a) TCS provisions are not attracted in respect of this transaction
  - (b) Yes; ₹ 26,000
  - (c) Yes; ₹ 2,600
  - (d) No tax is required to be collected at source, since the receipt does not exceed ₹ 7 lakh
9. What is the amount of tax to be collected from Mr. Parth in respect of the remittance of amounts overseas for his son's and daughter's education?
  - (a) TCS@0.5% of ₹ 6 lakhs and ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
  - (b) TCS@5% of ₹ 6 lakhs and ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively

- (c) TCS@0.5% of ₹ 6 lakhs and TCS@5% of ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
- (d) TCS@5% of ₹ 6 lakhs is attracted in respect of remittance for son's education; No TCS is attracted in respect of remittance for daughter's education.
10. Are TCS provisions attracted in respect of remittance of gift to sister? If so, what is the amount of tax to be collected from Mr. Parth?
- (a) No, since the remittance is out of personal savings for a personal purpose
- (b) No, since the amount remitted to his sister is less than ₹ 7 lakhs
- (c) No, due to reasons stated in (a) and (b) above
- (d) Yes, ₹ 32,500. **(2 x 5 = 10 Marks)**
11. Under which of the following methods, arm's length price shall be the arithmetical mean of all values included in the dataset, irrespective of the number of entries in the dataset. It may be assumed that the variation between the arm's length price computed and the transaction price is 15%.
- (a) Resale price method
- (b) Cost plus method
- (c) Transactional net margin method
- (d) Profit split method **(2 Marks)**
12. In the course of search operations under section 132 in the month of April, 2022, Mr. Atharv makes a declaration under section 132(4) on the earning of income not disclosed in respect of P.Y. 2021-22. He also explains the manner in which he has derived such income and he pays the tax together with interest on such income and declares such income in the return of income filed by him in the month of June, 2022. Is penalty leviable in this case? If so, how much?
- (a) No penalty is attracted since Mr. Atharv has voluntarily made a declaration under section 132(4)
- (b) Yes; Penalty@30% of undisclosed income would be attracted even if Mr. Atharv has voluntarily made a declaration under section 132(4)
- (c) Yes; Penalty@10% of undisclosed income would be attracted even if Mr. Atharv has voluntarily made a declaration under section 132(4)
- (d) Yes; Penalty@60% of undisclosed income would be attracted even if Mr. Atharv has voluntarily made a declaration under section 132(4) **(2 Mark)**
13. MNO Ltd. is an eligible start-up engaged in eligible business. Its gross total income included profits of ₹ 30 lakhs from such business. The Assessing Officer made disallowance of ₹ 3.2 lakhs under section 40(a)(ia) and of ₹ 2.5 lakhs under section 43B. The deduction allowable under section 80-IAC would be—
- (a) ₹ 35.7 lakhs
- (b) ₹ 33.2 lakhs
- (c) ₹ 30 lakhs
- (d) ₹ 24.3 lakhs **(2 Marks)**

14. Mr. Ranger, a foreign national and citizen of UK, working with TPO Inc., a UK based company, came to India during the P.Y. 2021-22 for rendering services on behalf of the employer. He wishes to claim his salary income earned during his stay in India as exempt. Which of the following is **not** a condition to be fulfilled to claim such remuneration as exempt income under the Income-tax Act, 1961?
- Mr. Ranger should not be engaged in any trade or business in India
  - TPO Inc. should not be engaged in any trade or business in India
  - Mr. Ranger's stay in India should not exceed 90 days in aggregate during the P.Y. 2021-22
  - Remuneration received by Mr. Ranger should not be liable to be deducted from TPO Inc.'s income chargeable to tax under the Income-tax Act, 1961
- (2 Marks)
15. K Ltd. is an Indian Company in which A Inc., a Country P company, holds 32% shareholding and voting power. During the previous year 2018-19, the Indian company supplied computers to the Country P based company @CPD 2300 per piece. The price of computer supplied to other unrelated parties in Country P is @CPD 2700 per piece. During the course of assessment proceedings relating to A.Y.2019-20, the Assessing Officer carried out primary adjustments and added a sum of ₹ 154 lakhs, being the difference between actual price of computer and arm's length price for 450 pieces and it was duly accepted by the assessee. The Assessing Officer passed the order, in which the primary adjustments were made, on 1.7.2021. On account of this adjustment, the excess money of ₹ 154 lakhs is available with A Inc, Country P. What would be the effect of this transaction while computing the total income of K Ltd. for the assessment year 2022-23, assuming that –
- K Ltd. declared an income of ₹ 340 lakhs;
  - the excess money is still lying with A Inc. till today;
  - K Ltd. has not opted to pay additional income-tax on such excess money not repatriated; and
  - Six-month LIBOR as on 30.9.2021 is 9%.

[CPD stands for Country P Dollars, which is the currency of Country P].

The correct answer is -

- Interest of ₹ 13.873 lakhs would be added to the total income of K Ltd.
  - Interest of ₹ 14.1099 lakhs would be added to the total income of K Ltd.
  - Interest of ₹ 13.822 lakhs would be added to the total income of K Ltd.
  - Interest of ₹ 10.367 lakhs would be added to the total income of K Ltd.
- (2 Marks)

### Division B – Descriptive Questions

*Question No. 1 is compulsory*

*Attempt any **four** questions from the remaining **five** questions*

1. S Ltd., engaged in the manufacture of textile since 01.05.2010. Statement of Profit and Loss for the financial year ended 31st March, 2022 shows a profit of ₹ 560 lakhs after debiting or crediting the followings items:
- Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 52 lakhs.
  - Industrial power tariff concession of ₹ 5.40 lakhs, received from Uttar Pradesh Government was credited to Statement of Profit and Loss.

- (c) Contribution of ₹ 2.50 lakhs to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
- (d) Profit of ₹ 8 lakhs on sale of a plot of land to PQR Limited, a domestic company, the entire shares of which are held by the S Ltd. The plot was acquired by S Ltd. on 30<sup>th</sup> June, 2021.
- (e) Payment of ₹ 3.50 lakhs towards transportation of various materials procured by one of its units to M/s BP Transport, a partnership firm, without deduction of tax at source. The firm opts for presumptive taxation under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.
- (f) Interest of 15 lakhs paid on loans taken specifically for purchase of second hand plant and machinery. Out of this ₹ 5 lakhs is for the period till such machinery was commissioned on 12.08.2021.
- (g) A debtor who owed the company an amount of ₹ 20 lakhs was declared insolvent and hence, was written off by debiting the Statement of Profit and Loss.
- (h) ₹ 5 lakhs, being the additional compensation received from the State Government pursuant to an interim order of Court in respect of land acquired by the State Government in the previous year 2015-16.
- (i) In order to expand its overseas business, the company planned online advertisement campaign for which it engaged Fastex Inc., a Malaysian company not having any PE in India, and paid ₹ 5 lakhs for services availed. No tax/TDS was deducted by the company.
- (j) Expense of ₹ 2 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a new construction project to be set up. The negotiation did not succeed, and the project was abandoned.

**Additional Information:**

- (i) Normal depreciation computed as per Income-tax Rules on the book assets is ₹ 71 lakhs.
- (ii) Debenture of face value of ₹ 1500 lakhs having 5 years tenure were issued at a discount of 3% and were subscribed in full.
- (iii) The company received a bill for ₹ 3 lakhs on 31st March, 2022 from a supplier of cotton for supply made in March, 2022. The bill was omitted to be recorded in the books in March, 2022. Payment against the bill was made in April, 2022 and necessary entry was made in the books then. The same has been considered in closing inventory valuation during physical verification conducted on 31.03.2022.
- (iv) The company has purchased 1000 bales of cotton at ₹ 5,000 per bale from PB LLP, a firm in which majority of the directors of S Ltd. are partners. The normal selling price in the market for the same material is ₹ 4,600 per bale.

Compute total business income of for A.Y. 2022-23 giving a brief explanation to each item of addition or deletion. Ignore MAT provisions and the provisions of section 115BAA. **(14 Marks)**

2. (a) The accounts of Sun Pvt. Ltd. are prepared in accordance with the provisions of the Companies Act, 2013. Its Statement of Profit and Loss for the previous year ended 31st March, 2022 shows a net profit of ₹ 95 Lacs after debiting or crediting the following items:

<b>Credits in Statement of Profit and Loss</b>		<b>₹</b>
(1)	Profit from a new industrial undertaking qualifying for deduction under section 80-IA (Net)	17,00,000
(2)	Dividend received from Investment in Indian companies	2,50,000
(3)	Net agricultural income	5,00,000
<b>Debits in Statement of Profit and Loss</b>		
(1)	Depreciation	10,00,000
(2)	Penalty for infraction of law	1,00,000
(3)	Provision for GST	3,00,000
(4)	Provision for doubtful debts	2,00,000
(5)	Interest on financial institutions unpaid before due date of filing return of income	1,50,000
(6)	Reserves of currency foreign fluctuation	1,25,000

**Other Information:**

- Depreciation admissible under the Income-tax Rules, 1962 for the previous year 2021-22 is ₹ 19,50,000.
- Depreciation (as per books) includes ₹ 1,90,000 on account of revaluation of assets.
- Interest on borrowed capital ₹ 1,00,000 payable to Y, not debited to Statement of profit and loss.
- GST provided in the accounts has been remitted before the due date for filing return of income.

Compute book profits and minimum alternate tax thereon, assuming that Sun Pvt. Ltd. is not required to comply with the Indian Accounting Standards (Ind AS). **(8 Marks)**

- State with brief reasons, whether transfer pricing provisions are attracted in the following cases:
  - ABC Inc, a London based foreign company transferred engravings valued at ₹ 55 crores to Beta Ltd, an Indian Company during the previous year 2021-22. ABC Inc, holds 32% of voting power in Alpha Ltd, an Indian Company which in turn holds 75% of shares in Beta Ltd.
  - Tikku Projects Ltd., an Indian Company, has two units, Tikku Infra and Tikku Trading. While the Tikku Infra is engaged in the development of highway project pursuant to the agreement entered into with Central Government since past 3 years. Tikku Trading is engaged in the business of trading of construction materials. During the previous year 2021-22, Tikku Trading transferred 12,000 MT of cement at ₹ 14,000 per MT against the prevailing market value at ₹ 16,000 per MT.
  - A Ltd, engaged in manufacturing activity of power generation, opted for concessional rate of tax under Section 115BAB. B Ltd, supplied 10,000 MT of power cables valued at ₹ 23,000 per MT to A Ltd. at ₹ 21,000 per MT during the previous year 2021-22. Mr. X, an individual, holding controlling interest in both A Ltd. and B Ltd. **(6 Marks)**

- Examine the correctness of contention/action/treatment of the institution/charitable trust in each of the following separate cases –
    - An institution runs a university solely for educational purposes and a hospital solely for philanthropic purposes. Both the university and the hospital are not for profit. The gross receipts from the university and hospital during the F.Y.2021-22 are ₹ 2.5 crores and 3.6 crores, respectively. The institution contended that the income from university is eligible for exemption u/s 10(23C)(iiiad) and income from hospital is eligible for exemption u/s

10(23C)(iiia), since the aggregate annual receipts in each case does not exceed the prescribed threshold; and there would be no requirement to get the approval of Principal Commissioner or Commissioner for availing the benefit of exemption under section 10(23C).

(ii) A registered charitable trust, with the main object of relief of poor, wants to set off its excess application of ₹ 15 lakhs in the P.Y.2020-21 while computing its income required to be applied during the P.Y.2021-22.

(iii) A charitable trust registered u/s 12AB borrowed ₹ 38 lakhs from Canara Bank in August 2021 for purchase of building for opening a school in a rural area for primary education of children in backward areas. It spent the entire amount for the said purpose and claimed the same as application of income. In March, 2022, it repaid the first instalment of ₹ 2.8 lakhs. **(8 Marks)**

(b) During the Previous Year 2021-22, Ms. Radha (39 years), a citizen of India and resident of India earned business income of ₹ 21,00,000 from a foreign country with which India has a Double Taxation Avoidance Agreement (DTAA), which provides that "the income would be taxable in country where it is earned and not in other country but would be included for computation of tax rate in such other country."

Her income is ₹ 8,75,000 from business in India. In foreign country, the rate of tax is 18%. During the year, she paid a premium of ₹ 35,000 to insure the health of her mother, a non-resident, aged 63 years, through her credit card. You are required to compute the tax liability by Ms. Radha in India for the A.Y.2022-23.

Also, show the tax payable of Ms. Radha in India, had there been no DTAA with such foreign country. Ms. Radha does not want to opt for 115BAC. **(6 Marks)**

4. (a) Examine the applicability of provisions relating to deduction/collection of tax at source and compute the liability, if any, for deduction/collection of tax at source in the following cases for financial year ended 31<sup>st</sup> March, 2022 as per provisions contained under the Income-tax Act, 1961:

(i) Mr. Aryan, an Indian Citizen, residing in Australia, came to India on a visit on 25.2.2022. He paid ₹ 5.2 lakhs to a tour operator, M/s Satya Travels, based in Delhi for a tour package to Malaysia for 2 week. He left for Malaysia on 5.3.2022 and returned to India on 20.3.2022. Thereafter, he was in India upto 15.4.2022 on which date he took his return flight to Australia. He does not have any source of income in India. **(2 Marks)**

(ii) Shristi Ltd. was incorporated on 1.4.2021 for trading of goods. Its turnover for the P.Y. 2021-22 is ₹ 14.5 crores. During the P.Y.2021-22, it purchased goods from M/s. Filip Co., the details of which are as follows:

On 1.9.2021 for ₹ 32,00,000;

On 18.9.2021 for ₹ 31,00,000 and

On 18.11.2021 for ₹ 18,00,000.

The above dates represent the date of credit to the account of M/s. Filip & Co. Payment is made after one month (i.e., on the same date in the immediately following month). M/s Filip & Co.'s turnover for the F.Y. 2020-21 and F.Y. 2021-22 was ₹ 11 crores and ₹ 9.7 crores, respectively. **(4 Marks)**

(iii) Mr. Adheer [E-commerce participant] sells goods worth ₹ 52 lakhs on e-commerce website of WINKLE [E-commerce operator]. Mr. Adheer has not furnished PAN or AADHAR no. to the e-commerce operator. He has furnished his return of Income for all the assessment years before the due date of filing return of Income. **(2 Marks)**

(b) Turnip Inc., a Country D based company, is carrying on the business of manufacture and sale of Mixture Grinder under the brand name "FINEST". In order to increase its share in Indian market, it launched a massive advertisement campaign of its products. For the purpose of online



advertisement, it utilized the services of Sam Inc., a Country Y based company which also owns and operates a digital platform. The gross receipt of Sam Inc. from provision of such services during the P.Y.2021-22 is ₹ 4.2 crores. During the previous year 2021-22, Turnip Inc. paid ₹ 5 lakhs to Sam Inc. for such services. Discuss the tax implications of such payment and receipt in the hands of Turnip Inc. and Sam Inc., respectively, if –

- (i) Both Turnip Inc. and Sam Inc. have no permanent establishment in India
- (ii) Turnip Inc. has a permanent establishment in India, but Sam Inc. has no permanent establishment in India
- (iii) Sam Inc. has a permanent establishment in India and the advertisement services are effectively connected with such PE. **(6 Marks)**

5. (a) Mr. Sanjay furnished his return of income for A.Y.2021-22 declaring total income of ₹ 52,00,000. He received an assessment order under section 143(3) on 12.12.2022 enhancing the total income for the A.Y.2021-22 by ₹ 3,20,000. He is aggrieved by the said order and is desirous of knowing whether he can file an application before the Dispute Resolution Committee (DRC). He informs you that no order of detention has been made and no prosecution proceedings have been initiated or launched against him under any law for the time being in force. However, penalty under section 271E has been levied on him for failure to comply with the provisions of section 269T.

Can Mr. Sanjay file an application before the DRC? If no, what are the other remedies available under the Income-tax Act, 1961? **(4 Marks)**

- (b) Rajesh regularly files his return of income electronically. While he was trying to upload his return of income for assessment year 2021-22 on 31<sup>st</sup> December, 2021, extended due date for filing the same, he found it extremely difficult to do the same due to network problems and ultimately, he became successful in making e-filing of his return only at 1 a.m. on 1<sup>st</sup> January, 2022. The return contained a claim for carry forward of business loss of ₹ 51 lakh. This circumstance was recorded in an e-mail addressed to the competent income-tax authority on 1<sup>st</sup> January, 2022. Rajesh made a request to the CBDT for condonation of delay in filing the return of income.

Discuss whether the CBDT has the power to condone the delay in filing the return of income and permit carry forward of loss in the given circumstance.

Would your answer change, if the return contained a claim for carry forward of business loss of ₹ 48 lakh. **(4 Marks)**

- (c) "The application of tax treaty may result into double taxation for the taxpayers. In the light of the statement, answer the following questions-
- (i) What are the approaches for the elimination of double taxation under Model Conventions? Explain.
  - (ii) Explain the meaning of Juridical Double Taxation and Economic Double Taxation.
  - (iii) Can the problems of Economic Double Taxation be solved by the above approaches? Explain.

**(6 Marks)**

6. (a) Rupal Ltd., an Indian Company engaged in trading of electronic appliances through retail stores all across India, reported a total turnover of ₹ 51 crores during the previous year 2020-21 and ₹ 47 crores during the previous year 2021-22. The customers who purchase appliance from its stores can pay only through cash, cheque, credit card or debit card.

Discuss the relevant provisions of the Act with respect to relevant compliances that should have been ensured by Rupal Ltd. and in the absence of such compliances, what will be the amount of penalty, if any, that can be levied on Rupal Ltd **(4 Marks)**

- (b) (i) Dweep Ltd., an Indian company has 2 manufacturing units, unit M in the Special Economic Zone (SEZ) and unit N in non-SEZ. Manufacturing activities are carried out in Unit N while unit M only does the packaging of the goods manufactured by unit N. In its books of accounts, it shows the manufacturing to be carried out in unit M and claims allowable deductions.
- (ii) Isha Ltd., an Indian company has 2 manufacturing units, unit P in the Special Economic Zone (SEZ) and unit Q in non-SEZ. It transfers the goods manufactured by unit Q to unit P at a price significantly lower than the market value of the goods and thus becomes eligible for higher deductions.

Examine the above cases and discuss whether the provisions of General Anti-avoidance Rules (GAAR) can be invoked in these cases? **(4 Marks)**

- (c) XYZ Ltd., a Country P company, had entered into agreements with Y Ltd., and G Ltd., Indian companies in the year 2015 to provide technical services to them to be utilised for the business carried on by them in India. The agreements were approved by the Central Government. Following particulars are provided by XYZ Ltd. in respect of previous year 2021-22.

	Particulars	Amount
(1)	Fees for technical services received from Y Ltd.	265 lakhs
(2)	Expenses incurred for earning such income	35 lakhs
(3)	Fees for technical services received from G Ltd.	302 lakhs
(4)	Expenses incurred for earning such income	24 lakhs
Other expenses [not included in (2) and (4) above]		
(5)	General Expenditure not wholly and exclusively incurred for the business of the PE	8.2 lakhs
(6)	Amounts paid by the PE to HO (not being in the nature of reimbursement of actual expenses)	14.6 lakhs
(7)	Amounts paid by the PE to HO (being in the nature of reimbursement of actual expenses)	15.2 lakhs

Examine the taxability of the income received by XYZ Ltd. on the following assumptions:

- (i) XYZ Ltd., does not have a permanent establishment in India.
- (ii) XYZ Ltd., has a permanent establishment in India and the contracts/ agreements are effectively connected with such PE.

Also, discuss the requirements relating to maintaining books of accounts and audit and filing of return of income in India by XYZ Ltd. under both the assumptions made above, under the Income-tax Act, 1961. Also assume no DTAA exists between India and Country P. **(6 Marks)**