Final New Syllabus
Paper - 7
Direct Tax Laws &
International Taxation

JFR2

NOV 2023

Roll No. .... 14/11/2023 05:05 PM

Total No. of Questions – **6**

Total No. of Printed Pages – **15**

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 MCQs 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 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 questions relate to Assessment Year 2023-24 unless stated otherwise in the questions. Significant notifications and circulars issued upto 30th April, 2023 would be relevant.

PART – II

1. M/s. Breeze Dental Care Pvt. Ltd., a Tooth brush manufacturing company, having its factory in Rajkot, Gujarat shows a net profit of ₹ 79,50,000 after debiting and crediting of the amounts in its Profit and Loss Account as mentioned below for the year ended March 31, 2023 : 14

(a) Depreciation as per Companies Act ₹ 85,00,000.

(b) A gross Loss of amount of ₹ 25,00,000, due to destruction of old machinery by fire in the factory. Though ₹ 7,80,000 was received as scrap value on this old machinery on 31-8-2022, the Insurance company did not admit the claim of the company on the charge of negligence.

(c) Income Tax Assessment of A.Y. 2021-22 was completed in September 2022 with a tax demand of ₹ 5,70,000 which included surcharge of ₹ 60,500 and a cess of ₹ 24,200. The entire sum has been duly paid during the F.Y. 2022-23.

(d) Power Subsidy received from Central Government amounting to ₹ 13 lakhs. It was received with a stipulation that the same is to be adjusted in the electricity bills for the financial year 2021-2022. The subsidy received in the financial year 2022-23. It was not included in the income of year 2021-22.

(e) Interest Received ₹ 7,50,000 on margin money deposited with bank for obtaining bank guarantee to carry on business is included as income in the Profit and Loss Account.

(f) Purchase price of raw material used for the purpose of in-house research and development is ₹ 14,00,000. (Including GST of ₹ 2,75,000 on which ITC is not admissible) is debited in Profit and Loss account.

(g) Breeze Dental Care Pvt. Ltd. paid ₹ 12 lakhs to JAPA Inc. of China for online digital advertisement. JAPA Inc. has no PE in India. No tax was deducted at source nor was equilisation levy paid on the said amount.

(h) Dividend of ₹ 2,50,750 was received from a foreign company, in which Breeze Dental Care Pvt. Ltd. holds 28% in nominal value of equity share capital of the company. An expense (other than Interest payment) of ₹ 15,000 spent on earning this income.

(i) Interest of ₹ 20,00,000 lakhs relating to F.Y. 2022-23, which is settled by issuing 8% debentures of ₹ 100 each in March, 2023.

Additional Information :

(1) Depreciation as per Income Tax Act, 1961 is ₹ 32,50,000.

(2) A new Air Compressor machine, necessary for installing with main Plant to keep the Air compression as per guidelines, was purchased and was installed and put to use on 1.5.2022 – ₹ 74,00,000.

(3) Another new specified Air Pollution Control Equipment was purchased for ₹ 23,45,000 on 18.6.2022.

(4) Items purchased after 30th October, 2022 :

(a) Lorries for transporting goods to sales depots – ₹ 95,00,000.

(b) Machine imported from Germany – ₹ 1,60,00,000. It arrived at Kandla port on 30.3.2023 and was installed on 10.4.2023.

All the other items were installed during the period ended March 31, 2023.

The total turnover of the company for the Financial year 2020-21 was ₹ 415 crores.

You are required to compute Total Income and Tax payable of Breeze Dental Care Pvt. Ltd. for the Assessment Year 2023-2024 with brief reasons for the treatment of each item given above. The company has not opted for section 115BAA/115BAB. Ignore provisions of MAT.

2. (a) Agro Food Corporation Ltd., a domestic company engaged in manufacturing of FMCG products. It has business of manufacturing, marketing and selling of a wide range of food products and edible oils in India. 8

The company has prepared statement of Profit & Loss in accordance with the schedule III to the Companies Act, 2013 and such Statement of Profit & Loss for the previous year ended 31-03-2023 shows a net profit of 89 lakhs.

The above net profit was arrived at in respect of its business activities after debiting/crediting the following amounts under different heads :

Debits to the Statement of Profit and loss :

		₹ (lakh)
(i)	Expenditure relating to industrial undertaking qualifying for deduction u/s. 10AA.	15.00
(ii)	Depreciation for current year under Companies Act, 2013.	34.00
(iii)	Interest to Financial Institution (an NBFC) not paid up to the date of filing the return.	8.50
(iv)	Penalty for infraction of law	1.50
(v)	Proposed dividend	3.50
(vi)	Provision for Income-tax	2.75
(vii)	Transfer to General Reserve	5.00
(viii)	Expenditure relating to 80-IA undertaking	6.00

	Credits to the Statement of Profit and Loss :	
(i)	Amount withdrawn from Reserve created during 2019-2020 (Book Profit was not increased by the amount transferred to such reserve in the year 2019-2020)	4.00
(ii)	Profits from an Industrial Undertaking covered and qualified for deduction under section 10AA of Income-tax Act	31.70
(iii)	Profits from an Industrial Undertaking covered and qualified under Section 80-IA of Income-tax Act, 1961	7.00
(iv)	Deferred tax Credit	3.57
	Additional Information :	
(i)	Brought forward Business Loss as per books	8.75
(ii)	Depreciation allowable under Income tax rules	42.00
(iii)	Brought forward Business Loss as per Income-tax Law	9.50
(iv)	Unabsorbed depreciation as per Income-tax Law	10.53
(v)	Unabsorbed depreciation as per Books	Nil

You are requested to compute the Book profit of the company as per Section 115JB of the Income Tax Act, 1961 for A.Y. 2023-24.

Also compute the Minimum Alternate tax applicable on Books profits calculated as per section 115JB as applicable to Book Profits. Ignore Tax liability as per normal provisions of law.

(b) (i) M/s. XY Airlines Inc., incorporated as a company in USA operated its flights to India and vice versa during the financial year 2022-2023. 3

M/s. XY Airlines Inc. collected charges of ₹ 90 lakhs for carriage of passengers and cargo from Delhi to New York and vice versa out of which, ₹ 40 lakhs were received in New York in USD for the passenger and cargo fare booked from New York to Delhi.

The company also collected ₹ 70 lakhs for carriage of passengers and cargo from Mumbai to New York and vice versa out of which, ₹ 30 lakhs were received in New York in USD for the passenger and cargo fare booked from New York to Mumbai.

The total expenses for the year on operation of such flights were ₹ 170 lakhs. Compute the income chargeable to tax of the XY Airlines Inc. in India.

(ii) Mr. Aadi, a non-resident Indian (Age 45 years), subscribed unlisted equity shares of an Indian company in 2008-09 for ₹ 6,00,000. These shares were sold by him on 05.03.2023 for a consideration of ₹ 9,00,000. 3

Brokerage paid for sale of these shares is ₹ 15,000. Compute taxable capital gain of Mr. Aadi for the Assessment Year 2023-24, assuming that he has invested in specified assets ₹ 3,50,000, before 31st March 2023.

Cost inflation Index for Financial Year 2008-09 is 137 and for 2022-23 is 331. Ignore the effect of first proviso to Section 48.

3. (a) Mookti Foundation, a Charitable institution registered under section 12AB set up on 1st August, 2021 is engaged in preservation of forests. The accountant of the institution provides the following details of the institution to you as a Chartered Accountant. Please discuss the treatment of Application of Income/Expense in the hands of the Charitable institution for the previous year 2022-23 in the following independent situations as per provisions of Income Tax Act, 1961. Your answer should be followed with reasons : 8

(i) The institution follows mercantile system of accounting and during the previous year 2022-23, has incurred Electricity expenses amounting to ₹ 1,00,000 for the period pertaining to the year 2022-23. The Electricity expenses was actually paid on 10th day of April 2023 through Account payee cheque. In which year the application of income will be treated by the Foundation ?

(ii) The Foundation was cultivating 20 acres of agriculture land. It is doing agriculture operations and earned an agriculture income of ₹ 12,00,000 during Previous year 2022-23 from this activity. Whether exemption under section 10(1) will be available to Mookti Foundation on such income ?

(iii) Mookti Foundation has earned Rental income for previous year 2022-23 amounting to ₹ 3,00,000. It received ₹ 2,00,000 upto 31st December, 2022 of such income. However the balance of ₹ 1,00,000 was received on 31st July, 2023. Upto what period the institution can apply the same amount towards the objects of the institution ? The institution has exercised the relevant option in this regard.

(iv) Mookti Foundation borrowed ₹ 45 lakhs from a nationalised bank in April, 2022 for purchase of building in a forest area for the objects of the institution. It spent the whole amount of loan for the same purpose and claimed the same as application of income in March 2023. It repaid the first instalment of ₹ 6 lakhs to the Bank on 31st March 2023.

(b) Smt. Manisha (aged 70 years), a resident individual, furnishes you the following particulars of Income relating to the previous year 2022-23 : 6

Particulars	Amount ₹
Loss from let out property at Delhi (Computed)	4,50,000
Income from business in India (Computed)	8,99,500
Business income in Country "A"	8,00,000
Fixed Deposit Interest In Country A	USD 8,000
Saving Bank Interest in India from PNB Bank	50,500
Contribution to PPF Account of her married son	1,50,000
Interest on PPF Account (in her own name)	58,682
Agriculture income in Country "M"	1,20,000

Agriculture income is exempt in Country "M" and rate of Tax in country A is 25%. Assume that there is no double taxation avoidance agreement between India and country "A" and Country "M".

Rate of 1 USD = ₹ 82 for calculation purposes.

Compute the total income and tax payable by Smt. Manisha for the A.Y.2023-24. Assume that she did not opt to be governed by provision of Section 115BAC.

4. (a) Examine the applicability of Tax to be deducted at Source (TDS) or Tax to be collected at Source (TCS) as per the Income-tax Act, 1961 in the following independent situations. Calculate the amount of tax to be deducted at Source or tax to be collected at Source in given cases as per the provisions applicable for the Assessment Year 2023-24 :

(i) Mr. Ron took a loan of ₹ 10 lakhs from his employer, Thomas Private Limited, an Indian domestic manufacturing company for sponsoring studies of his son in Germany. Out of the said loan, He remitted ₹ 8,75,000 towards fees to the University in Germany for his son's education on 01.10.2022. 3

He also remitted to his son an amount of ₹ 4,75,000 for pursuing higher studies in Germany towards his out of pocket expenses on 20.02.2023. Both the remittances were made through the same authorized dealer under the Liberalized Remittance Scheme of RBI.

(ii) Mr. Mandeep Singh, a manufacturer of textile goods, had a turnover of ₹ 12 crores during Financial year 2021-22 and is covered under provisions of Section 44AB of Income Tax Act for compulsory audit of Books of Accounts. He purchased a residential house in January 2023 for his personal use for ₹ 5 crores from Mr. Amit and paid a commission @12% of the value of the house to Mr. Pankaj for effecting the deal. The house is not used for business purposes by Mr. Mandeep Singh. 3

Examine the correctness of the following situation :

(iii) Registrar General of Hon'ble High Court of Delhi has made a fixed deposit of ₹ 100 lakhs with a nationalised bank out of money deposited by litigants on directions of the Court. Is section 194A applicable in respect of interest on fixed deposits in the name of Registrar General of High Court ? 2

(b) Paras Ltd. is an Indian company engaged in the manufacturing of supreme quality mink blankets. It has total borrowings of ₹ 60 crores by way of loan as on 31.03.2023. 6

SHQ Inc of Germany during the Financial year 2022-23 imported 5 lakh piece of blankets from Paras Ltd. @ ₹ 2,000 per unit for the trading purposes in Germany. Paras Ltd. sold similar blankets to other dealers in Germany @ ₹ 2,100 per unit. Paras Ltd. received a guarantee on 1.04.2022 for availing a cash credit limit of ₹ 9 crores for which SHQ Inc was the guarantor. The terms of trade for other dealers was to make payment within 1 month from the date of sale of goods by Paras Ltd., whereas for SHQ Inc, the credit period allowed was 3 months from the date of sale of goods. The cost of capital was 12% per annum and the supply of goods is assumed to be uniform throughout the year.

You are required to determine whether Paras Ltd. and SHQ Inc. are associated enterprises. If yes, compute the Arm's Length Price (ALP) of the transaction between them and the amount to be added to the income of Paras Ltd., if any, by way of an ALP adjustment.

Assuming that the above adjustments to the transfer price have been made suo-moto by Paras Ltd. in its return of income, what is the time limit for the repatriation of such excess money ? What are the implications if the excess money is not repatriated within such prescribed time limit ? Your answer must be based on the latest provisions of Income Tax Act.

5. (a) Answer any **two** out of the following three sub-parts (i), (ii), (iii) 4×2 =8

Your answer should cover :

(1) Issues involved

(2) Provisions Applicable

(3) Analysis and Conclusion

(i) Mr. Surajit e-filed his Income-tax Return for A.Y. 2023-24 on July 21, 2023. He declared a total income of ₹ 11,75,000.

Total income includes interest from Public Provident Fund (PPF) – ₹ 95,530 and long-term capital gains on agricultural land exempt under section 10(37). Both these incomes were disclosed in the schedule of exempt income.

Mr. Surajit also found that by mistake he failed to claim the current year business loss in the Income Tax Return amounting to ₹ 4,50,000 which he is entitled to claim.

In due course of time, the above Income-tax Return got processed under section 143(1) and both the above exemptions for Interest on Public Provident Fund and long-term capital gains on agricultural land were denied. Intimation was served to Mr. Surajit and a demand of tax was raised.

For all the above mistakes in the return he filed a revised return under section 139(5) but time limit for e-verification of revised return had lapsed and the same became invalid.

Assessee filed for rectification under section 154 which was also rejected by the assessing officer. Is the assessing officer bound to accept the request of Mr. Surajit ?

(ii) IT Finance (I) Ltd. repays a loan merely by passing adjustment entries in its books of account. Loan repayment was not actually made.

The cause shown by the assessee for repayment of the loan otherwise than by account payee cheque/bank draft was on account of the fact that the assessee was liable to receive amount towards the sale price of the shares sold by the assessee to the person from whom loan was received by the assessee. In order to avoid the unnecessary circular transfer of shares, both the parties agreed to set- off the amount payable and receivable by way of passing journal entries and the balance loan amount was paid by the assessee by way of an account payee cheque. The amount of loan settled by way of passing journal entries exceeds ₹ 20,000.

Neither the genuineness of the receipt of loan nor the transaction of repayment of loan by way of adjustment through book entries has been doubted in the regular assessment. But the assessing officer imposed penalty under section 271E as a contravention of the provisions of Section 269T with regard to repayment of loan otherwise than by banking channel.

Is the assessing officer justified in imposing penalty ?

(iii) The assessee, M/s. ABC Finance Limited, a finance company, was engaged in business of leasing and hire purchase of capital equipment to existing Indian enterprises. It had obtained certain amount of loan from a UK based company in foreign currency to be used by the assessee for financing the procurement of capital equipment by its customers. While repaying said amount the assessee had to pay a higher amount in lieu of fluctuation in exchange rate, which resulted in loss of ₹ 3.57 crores. Subsequently, the assesse, while filing the return of income, claimed loss owing to exchange fluctuation, amongst others, of ₹ 1.10 crores as deduction u/s. 37(1), and capitalised exchange fluctuation of ₹ 2.47 crores. However the claim under section 37(1) was denied by the Revenue while processing return.

The Commissioner (Appeals) also rejected the assessee's claim and held that provision of section 43A for capitalisation of Exchange rate fluctuation was applicable.

In the appeal before ITAT, the appellant not only claimed deduction in respect of loss of ₹ 1.10 crores arising on account of exchange fluctuation, but also set up a fresh claim in respect of revenue expenses to the tune of ₹ 2.47 crores, erroneously capitalised in the return. The Tribunal reversed the findings of the Commissioner (Appeals) and further held that since entire amount of loan was utilised in trading operations, the expenditure so incurred was revenue in nature and allowable under section 37(1).

Whether the Tribunal is justified in deleting the disallowance of claim of ₹ 1.10 crores made by AO and allowing the additional claim of ₹ 2.47 crores as revenue expense ?

(b) ABC Inc., a company incorporated in USA, owns and manages a website which acts as a marketplace for buying and selling of goods and also hosts advertisement. ABC Inc. has no physical presence in India and no permanent establishment in India. 6

Raghu Ltd is a domestic Indian company. Raghu Ltd made a payment of ₹ 3,00,000 on 30-6-2022 towards procuring online advertisement space to ABC Inc. for his business. Raghu Ltd. remitted the equalization levy on 23-3-2023.

For the purpose of online advertisement, Raghu Ltd. also took the services of LMF Inc., a UK based company who has a permanent establishment in India and the service is effectively connected to the permanent establishment. During the previous year 2022-23 Raghu Limited paid ₹ 4,50,000 to LMF Inc.

Discuss the implications of Equalisation levy alongwith its due date of payment and its implications on Raghu Limited for the Assessment year 2023-24, in above circumstances. Does any of the above payment have any impact as per Income Tax TDS provisions ?

6. (a) Please discuss the relevant provisons of Income Tax Act in the following independent situations : 3

(i) Examine whether General Anti-Avoidance Rules (GAAR) can be invoked in this case-

XY Ltd an Indian company has 2 manufacturing units, unit C in the SEZ and unit D in non-SEZ. It transfers the goods manufactured by unit D to unit C at a price significantly lower than the market value of goods and thus becomes eligible for higher deduction.

(ii) Keeping in view the provisions of mandatory filing of return of Income, please comment on the following, whether the following persons are required to file their return of income as per provisions of Income Tax Act for A.Y. 2023-24: 2

(a) Mr. A incurred expenditure of ₹ 2.40 lakhs for his wife for travel to a foreign country. His taxable income is ₹ 2.25 lakhs only.

(b) Total turnover of the business of Mr. B for F.Y. 2022-23 is ₹ 73 lakhs, but profit from the same business is ₹ 2.10 lakhs. He has no other income.

(iii) Tax recovery officer attached the properties of A Chowdhury and Sri R Madekar, two directors of ACRM Pvt. Ltd. (the company in liquidation) in respect of the tax due from the company and also for penalty, interest due from the company. 3

The two directors contended that the directors are not liable for any tax, penalty and interest due from the company. Moreover, a notice under section 156 had not been served on them and therefore, they are not liable for any tax, penalty or interest due from the company . Hence, the proceedings for recovery were not valid.

Discuss what is the correct legal position.

(b) Examine and state the correctness or otherwise of each of the following statements in the context of BEPS Action Plan and Income Tax Act, 1961 and answer in brief with reasons/contents thereof : 6

(i) "Country by Country (CBC) report not requires Multi National Enterprises (MNEs) to provide an annual report of economic indicators"

Explain the following with reference to BEPS Action Plan.

(ii) What are the basic three fundamental pillars of BEPS Action Plans ?

(iii) Why there is a need for international collaboration to protect tax sovereignty of its countries ?