

Roll No.

Total No. of Printed Pages – 11

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 given on the Cover Page of descriptive answer book only. Answers to questions in Part II are to be written on the same descriptive type 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 type 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

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 2021-22 unless stated otherwise in the question.

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PART – II

1. Ms Sunflower Associates, a partnership firm had 5 partners. On 31.3.2020, one of the partners resigned from the firm. Out of the four partners, only 2 are working partners. Partnership deed authorises payment of interest to partners in the range of 13% – 15% and also payment of remuneration to all the four partners @ 20,000 per month. The profit and loss account of the firm showed a net profit of ₹ 80 lakhs after debiting/crediting of the following sums :
- (i) Interest on capital @ 13% – ₹ 7,15,000
- (ii) Interest on loan taken from one of the partners @ 15% – ₹ 90,000
- (iii) Interest on fixed deposits made out of surplus funds ₹ 35,000 (Gross)
- (iv) Depreciation as per books of accounts ₹ 1,15,650
- (v) It applied for establishing of a unit in SEZ and the letter of approval was granted on 30.3.2020. However, it started the operation of SEZ only on 15.10.2020. The total turnover, export turnover and net profit for the year ended 31.3.2021 were ₹ 120 lakhs, ₹ 40 lakhs and ₹ 7.5 lakhs respectively. The net profit is included in the profit of ₹ 80 lakhs mentioned above.
- (vi) Interest on unsecured loans (₹ 10 lakhs) taken from third parties – ₹ 1,20,000
- (vii) A building having a WDV as on 1.4.2020, of ₹ 36.45 was sold during the year for ₹ 90 lakhs. The differential amount was credited to profit and loss account. The building was the only asset in the block.

Additional Information :

- (a) Brought forward business loss pertaining to A.Y. 2019-20 ₹ 2 lakhs
- (b) On 1.9.2020, the firm commenced a warehousing facility for storage of sugar and incurred ₹ 60 lakhs (including ₹ 35 Lakhs towards cost of land). This expenditure is capitalised in the books but no depreciation is charged on the same.

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- (c) The entire amount of unsecured loan (mentioned in point (vi.) above) was given as interest-free loans to unrelated parties connected with business.
- (d) Out of the amount received from sale of building, the firm invested ₹ 60 lakhs on 15.4.2021 in 7-years specified bonds of the National Highways Authority of India. The bonds were issued on 31.5.2021.
- (e) During the year, Mr. Ratan, one of the partners, contributed ₹ 21 lakhs as capital. However, he is unable to explain the source of the funds.

WDV of the assets as on 1.4.2020 (as per Income-tax Rules)

Name of the asset	WDV (₹)
Electrical fittings	48,000
Laptops	6,000
Printer-cum-Scanner	17,000
Motor car (purchased and put to use on 1.3.2020)	6,80,000
Cost of mobile phones (purchased and put to use on 11.10.2020)	20,000

Compute the total income of the firm for the A.Y. 2021-22 giving reasons/explanations for the treatment of each item under the normal provisions of the Act. No need to calculate tax payable.

2. (a) Surbhi Fragrance Ltd. is engaged in manufacturing and selling of pharmaceutical products. The net profit of the company as per profit and loss account for the year ended 31st March, 2021 is ₹ 800 lakhs, after debiting or crediting the following items : 8
- (i) Payment of ₹ 40 lakhs in the month of October 2020 to a foreign company for obtaining know how for a product launched in the month of November 2020.
- (ii) Electricity charges of ₹ 5 lakhs for the month of March 2021 was unpaid up to the due date of filing of return.

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- (iii) Loss of ₹ 3 Lakhs due to hedging contract against future price fluctuations in respect of import of raw material, used in the course of manufacturing.
- (iv) Depreciation charged to the Statement of Profit and Loss Account was ₹ 40 Lakhs.
- (v) Loss of ₹ 1 Lakh from hedging contracts entered into for mitigating the loss arising due to fluctuation in foreign currency payment towards an imported machinery purchased from Germany for ₹ 60 Lakhs, which was installed in the month of December 2020.
- (vi) Unabsorbed depreciation of ₹ 10 Lakhs pertaining to A.Y. 2020-21 from a business which is no longer in existence.
- (vii) ₹ 20 Lakhs received from Z Ltd. under an agreement in the form of non-compete fees for not carrying out any business in a particular product.
- (viii) Advance received amounting to ₹ 20 lakhs on proposed sale of land, forfeited due to non-receipt of balance amount of ₹ 70 Lakhs on time, as per terms of agreement. The land was purchased during FY 2016-17.
- (ix) Excess on sale of unlisted shares – ₹ 15 lakhs (Sold on 15th February, 2021).

Additional Information :

- (1) Normal depreciation allowable as per the Income-tax Act, 1961 - ₹ 35 Lakhs.
- (2) Depreciation on plant and machinery imported and installed during December 2020 has not been considered while calculating depreciation as per Income-tax Act, 1961.
- (3) The unlisted shares were acquired on 29.3.2018 for ₹ 80 Lakhs.
- (4) Cost Inflation Index F.Y. 2016-17 - 264, F.Y. 2017-18 - 272, F.Y. 2020-21 301.

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You are required to compute the total income for Assessment Year 2021-22 clearly stating the reasons for treatment of each of the items given above.

The return of income of the company is to be filed applying the provision of the Section 115BAA.

- (b) Mr. David, a foreign national and a professional hockey player came to India in February 2021 to participate in hockey matches. Following are the amounts he earned as income during his stay in India. 6

Advertisement of a product on T.V. ₹ 1,50,000

Participation in matches in India ₹ 6,00,000

Contribution of articles in newspaper ₹ 20,000

Winning from Horse races ₹ 35,000

Assuming he has no other income from India during the P.Y. 2020-21, you are required to compute his tax liability for the A.Y. 2021-22.

Also discuss the applicability of relevant TDS provisions in respect of such incomes and the amount of TDS, if any.

3. (a) Happiness and wellness, a charitable trust registered under section 12A, provides the following information to you with respect to A.Y. 2021-22. 8

Receipts :

(i) Voluntary Contribution received ₹ 12,00,000

(ii) Contribution received in a donation box kept outside the office where it is written on the box that the donations received would be utilized for the purpose of construction of building to be used for charitable activities ₹ 9,00,000

(iii) Voluntary contribution received from a Non-resident (not included in ₹ 12,00,000 mentioned above) (Date of receipt 29.3.2021) ₹ 2,50,000

(iv) Rent received from property held under trust ₹ 55,000 per month

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- (v) Grant received from state government (for meeting operational expenses) ₹ 3,45,000

Application :

- (i) Operational expenses towards the objectives of the trust (including 55,000 out of amount accumulated last year) ₹ 4,95,000
- (ii) Voluntary contribution to another charitable trust having different objects (out of current year receipts) ₹ 1,50,000
- (iii) Corpus donation to another charitable trust having similar objects (out of current year receipts) ₹ 7,50,000
- (iv) Voluntary contribution to another charitable trust having similar objects (out of last year receipts) ₹ 10,50,000
- (v) Income-tax paid (For A.Y. 2020-21) ₹ 3,13,000

You are required to compute the total income of the trust for the A.Y. 2021-22.

- (b) Mr. Pravek (aged 41 years), a sportsman and an individual resident in India, furnishes the following particulars of income earned in India and from Country Y for the Assessment Year 2021-22. India does not have a Double Taxation Avoidance Agreement with Country Y.

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Particulars	Amount (₹)
<u>Income from India</u>	
Gross Salary	8,40,000
Dividend from Indian companies	10,50,000
<u>Income/loss in Country Y</u>	
Gift in foreign currency from a friend (not taxed in Country Y)	90,000
Dividend (taxed in Country Y)	2,30,000
Total rent from house property in Country Y (taxed in Country Y)	3,00,000
Municipal taxes in respect of the above house (Not allowed as deduction in country Y)	30,000

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Business loss (not allowed to be set off in Country Y) 1,60,000

Agriculture Income (taxed in Country Y) 2,20,000

Note : Country Y taxes Dividend at the rate of 10% and all other incomes at the rate of 20%.

Compute total income and tax payable by Mr. Pravek in India for Assessment Year 2021-22 assuming he wants to be taxed under the provisions of Section 115BAC.

4. (a) Discuss the relevant provisions of the Income-tax Act, with respect to deduction /collection of tax in the following independent situations : 8
- (i) KPN Ltd., a dealer in cars, sold 2 cars to Himanshu for ₹ 7 lakhs each on 2.11.2020 for his personal purposes.
- (ii) Vinod, a government employee, paid ₹ 52 lakhs for construction of his house to the contractor on 31.3.2021
- (iii) Vignesh, a resident individual paid ₹ 9 lakhs by cheque on 1.1.2021 to Meenakshi, another resident individual for construction of his factory building. The total sales reported by Vignesh for the year ended 31.3.2020 was ₹ 1.20 crores.
- (iv) J Ltd., an e-commerce operator, facilitated sale of goods of Mr. Raghuvver, from 1st March, 2021. The turnover of Mr. Raghuvver from the e-commerce operations was ₹ 9,00,000 and the entire sale proceeds was received by Mr. Raghuvver on 31st March, 2021.

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(b) Ramakrishnan Ltd., an Indian company, having a total book value of assets as on 31.3.2021 of ₹ 950 crores, declared income of ₹ 180 crores computed in accordance with Chapter IV D but before making any adjustments in respect of the following transactions for the year ended 31.3.2021 :

(i) 6,000 cars sold to ABC Inc., an American company, which holds 29% shares in Ramakrishnan Ltd., at \$500 per car. Ramakrishnan Ltd. sold 6,000 cars to HIG Ltd. (an unrelated party) at \$ 600 per car during the year.

(ii) Royalty of \$ 80,00,000 was paid to LMN Pte. a company incorporated in Singapore for use of technology for the manufacturing of cars. Ramakrishnan Ltd.'s production of cars is wholly dependent on the technology provided by LMN Pte. TYP Pte., another company incorporated in Singapore provides the same technology to another Indian company for \$ 70,00,000.

(iii) Loan of Euro 500 crores carrying interest @ 8% p.a. advanced by N.D. Inc., a German company. The entire amount of loan was outstanding as on 31.3.2021. N.D. Inc. also advanced loan of Euro 510 crores to another Indian company @ 7.5% p.a.

Compute the total income of Ramakrishnan Ltd. for the A.Y. 2021-22 making adjustment for the above transaction by briefly explaining the relevant provisions of the Act.

Assume that Ramakrishnan Ltd. has not entered into any Advance Pricing Agreement as well as has not opted for Safe Harbour Rules.

The rate of exchange of 1 Euro was ₹ 85 and for 1 Dollar (\$) was ₹ 70, throughout the previous year.

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5. (a) Answer any two out of the three sub-parts :

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(i) M/s Deer Ltd., an Indian company, engaged in the business of development and export of computer software and human resource services, filed its return declaring a loss of ₹ 5 lakhs for the A.Y. 2019-20. It claimed deduction under section 10A for income from software development. The return was selected for regular assessment under Section 143(3) and there was an enhancement of total income to tune of ₹ 25 lakhs which was accepted by the assessee.

A notice under Section 148 was served on 31.3.2021, for re-opening the assessment on the opinion that excess deduction under Section 10A of the Income-tax Act has been allowed and the income has escaped assessment to the tune of ₹ 50 lakhs.

Is the notice issued by the Assessing Officer justified ?

(ii) In the case of Ms HKHR Ltd., the Income Tax Appellate Tribunal decided against the assessee and issued order under section 254. The assessee filed an appeal to the jurisdictional High Court by framing the substantial question of law under Section 260A(2)(c). The High Court, without framing the question of law at the time of admission of appeal, issued notices, heard both the parties and decided the appeal affirming the order of the Tribunal on the questions raised by the assessee appellant. You are required to discuss whether the High Court was justified in not formulating the substantial question of law as required under Section 260A(3) and adjudicating merely on the questions put forth by the appellant under Section 260A(2)(c).

(iii) M/s. STP Ltd. has received a notice under Section 148 for the Assessment Year 2019-20 on 01-02-2021. They also anticipate similar notices for the Assessment Years 2017-18 and 2018-19 for which they have already furnished return of income. On examination of the books of account produced, you have noticed huge amounts of concealed income. As a consultant, what is your advice to STP Ltd.

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- (b) Vista Ltd., a British company, had entered into agreements with Yamuna Ltd., and Godavari Ltd., Indian companies in the year 2012 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 Vista Ltd. in respect of previous year 2020-21 :

	Particulars	Amount
(1)	Fees for technical services received from Yamuna Ltd.	250 lakhs
(2)	Expenses incurred for earning such income	30 lakhs
(3)	Fees for technical services received from Godavari Ltd.	200 lakhs
(4)	Expenses incurred for earning such income	21 lakhs
	<i>Other expenses (not included in (2) and (4) above</i>	
(5)	General Expenditure not wholly and exclusively incurred for the business of the PE	8 lakhs
(6)	Amounts paid by the PE to HO (not being in the nature of reimbursement of actual expenses)	14 lakhs
(7)	Amounts paid by the PE to HO (being in the nature of reimbursement of actual expenses)	15 lakhs

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

- (i) Vista Ltd., does not have a permanent establishment in India.
- (ii) Vista 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 Vista Ltd. under both the assumptions made above, under the Income-tax Act., 1961.

6. (a) Rose Ltd., an Indian Company engaged in trading of electronic appliances through retail stores all across India, reported a total turnover of ₹ 75 crores during the previous year 2019-20 and ₹ 49 crores during the previous year 2020-21. 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 Rose Ltd. and in the absence of such compliances, what will be the amount of penalty, if any, that can be levied on Rose Ltd.

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(b) Critically examine the following cases and discuss whether the provisions of General Anti-avoidance Rules (GAAR) can be invoked in these cases ? 4

(i) Diva Ltd., an Indian company has 2 manufacturing units, unit A in the Special Economic Zone (SEZ) and unit B in non-SEZ. Manufacturing activities are carried out in Unit B while unit A only does the packaging of the goods manufactured by unit B. In its books of accounts, it shows the manufacturing to be carried out in unit A and claims allowable deductions.

(ii) Jeeva Ltd., an Indian company has 2 manufacturing units, unit C in the Special Economic Zone (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 the goods and thus becomes eligible for higher deductions.

(c) Edu-study Pvt. Ltd., a trust registered under Section 12AA, runs an educational institution. It paid rent to the landlord of the building being used as school. The trust either did not deduct TDS on rent or deposited the TDS on such rent belatedly. The assessing officer imposed a penalty under Section 271C. The explanations offered by the assessee were : 6

- (i) The clerk of the trust failed to discharge his duty properly; and
- (ii) Since, it is not liable for tax audit under Section 44AB, being a trust, it is out of the purview of Section 194-1

You are required to discuss the validity of the contentions made by the trust briefly explaining the applicable provisions of the Income-tax Act.

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