

**2020**

**DIRECT TAX : LAWS AND PRACTICE – HONOURS**

**Paper : DSE-5.2T**

**Full Marks : 80**

*The figures in the margin indicate full marks.*

*Candidates are required to give their answers in their own words  
as far as practicable.*

**Group - A**

Answer *any four* questions.

1. (a) Can an Indian company be resident in India in a previous year, if its place of effective management, in that year, is in outside India? 2
- (b) A Japanese non-resident company sells goods to its Indian subsidiary company during the previous year 2019-20. State whether the income from the transaction will be deemed to accrue on arise in India u/s 9 of the Income Tax Act in the hands of the Japanese company. 4
- (c) From the following information, compute Tax liability of Mr. Ananda Mukherjee for the assessment year 2020-21 :

	₹
Salaries (computed)	6,00,000
Dividend from Indian Companies	
A. Ltd.	10,00,000
B. Ltd.	4,00,000
C. Ltd.	5,00,000
Expenditure for earning dividend	2,00,000
Deduction u/s 80C to 80U	4,00,000

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2. (a) State when a transfer of asset is said to be a revocable transfer under section 63 of the Income Tax Act. 4
- (b) Mr. Mukherjee reports a turnover of ₹ 1.2 crore, of which 90% was received by account payee cheques during the previous year 2019-20.

State whether Mr. Mukherjee is eligible to opt for presumptive taxation for his income for the assessment year 2020-21 or not. If he is eligible, determine his income from business on presumptive taxation basis. 4

**Please Turn Over**

- (c) Compute the amount of deduction u/s 80JAA of Bluebell Fashions Ltd., an Indian company engaged in manufacturing of electric kettles, for the assessment year 2020-21. The company started its operation in a factory from 1st July, 2019.

No. of employees	Period of employment	Monthly emoluments per employee (₹)
60	9 months	20,000
20	8 months	20,000
10	8 months	30,000
30	4 months	22,000

The company is subject to tax audit u/s 44AB of the Income Tax Act, 1961 and all the employees are participating in R.P.F. 7

3. (a) XYZ Ltd. has two main business activities : cement manufacturing and construction. The company started the cement business since 2010, but on 1st April, 2019, it has transferred the business at a lumpsum price of ₹ 26 crore.

The cement business had the following assets and liabilities as on 31.03.2019 :

	₹ in crore
Fixed Assets	125
Debtors	20
Stock-in-trade	29.5
Creditors	165
Contingent Liabilities	4

Expenses on such transfer is ₹ 1.7 crore. Compute the amount of capital gains arising out of such transfer for the assessment year 2020-21.

[CII : 2010-11 : 167; 2019-20 : 289]

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- (b) Mr. Pinaky Sen (age 50 years), a resident individual disclosed the following information for the previous year 2019-20 :

	₹
(i) Income from business in India	8,00,000
(ii) Income from business in Zambia	6,00,000
(iii) Long-term capital gains on sale of land	2,00,000
(iv) Dividend from domestic companies	1,50,000
(v) Tax paid in Zambia	1,20,000
(vi) Deduction under chapter VI-A	1,40,000

Govt. of India does not have any Double Taxation Avoidance Agreement with Zambia.

Compute the amount of tax payable by Mr. Pinaky Sen in India for the assessment year 2020-21.

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4. (a) State briefly the provisions of section 80IAC of the Income Tax Act regarding deduction of profit from eligible business of eligible start-up. 5
- (b) Transfer of capital asset from amalgamating company to amalgamated company does not attract capital gains liability —Discuss. 2+3
- (c) P. Jewellers Pvt. Ltd. has begun a new jewellery exporting undertaking in a special economic zone during the financial year 2013-14. The information relating to the undertaking for the P.Y. 2019-20 are given below :

		₹ in lakhs
(i)	Business Profit of the undertaking	72
(ii)	Export Sales	520
(iii)	Domestic Sales	80
(iv)	Consideration received in India in respect of export by the undertaking	498

Compute the deduction allowable u/s 10AA to P. Jewellers Pvt. Ltd. for the assessment year 2020-21. 5

5. (a) Moon Ltd., a manufacturing company, has received an insurance compensation of ₹ 13,50,000 on 10.06.2019 against loss of stock-in-trade in an accidental fire explosion in the factory. State with reason whether the amount received from the insurance company gives rise to capital gains or not. 3
- (b) Mr. Basu converts its capital assets (acquired on 06.06.2017 at ₹ 20,00,000) into stock-in-trade on 06.05.2018 (FMV : ₹ 20,70,000). The company, however, sold the stocks on 06.01.2020 for ₹ 23,40,000. Determine the amount of taxable income of Mr. Basu for the assessment year 2020.-21. [given : CII : 2017-18 = 272; 2018-19 = 280; 2019-20 = 289] 5
- (c) Transfer of capital asset between holding company and its wholly owned subsidiary is granted exemption from capital gains in the year of transfer but the exemption may be withdrawn in a subsequent previous year. Discuss the conditions for granting exemption and events that may cause withdrawal of such exemption. 2+5
6. (a) TW Ltd. has accumulated profits of ₹ 6,00,000. This excludes capitalised profits i.e. bonus shares of ₹ 2,50,000 issued by TW Ltd. in the last year. The company distributed assets of ₹ 7,00,000 to its shareholders during the previous year 2019-20. Show the taxability of the above transaction in the following cases in the hands of TW Ltd. for the assessment year 2020-21, if the market value of the assets on the date of distribution was :
- (i) ₹ 6,50,000,
- (ii) ₹ 8,00,000,
- (iii) ₹ 10,00,000. 3+3+3
- (b) During the previous year 2019-20, Mrs. Modak has received the following gifts :
- (i) Gift of ₹ 80,000 from her employer.
- (ii) Gift of ₹ 52,000 from her father's brother.
- (iii) Gift of a car from her friend (Fair market value is ₹ 10,00,000).
- (iv) Gift of immovable property whose stamp duty value is ₹ 4,00,000 from another friend.

Compute taxable gifts in the hands of Mrs. Modak. 6

**Please Turn Over**

7. From the following information, compute tax on total Income and tax payable by Mr. Pal (58 years) for the assessment year 2020-21 :

	₹	
LTCCG on sale of land	1,00,000	
STCCG on sale of gold	40,000	
STCCG u/s 111A	30,000	
LTCCG u/s 112A	1,20,000	
Dividend from L & T (Indian company)	11,00,000	
Profits and Gains from Business	6,00,000	
Loss from House Property	2,00,000	
Winning from Lottery (after TDS@30%)	70,000	
Donation to National Defence Fund	80,000	
Donation to Rajiv Gandhi Foundation	40,000	10+5

8. (a) Manab is engaged in manufacture and sale of textiles. State admissibility/not admissibility of the following expenses/payments :

- ₹ 2,00,000 paid for advertisement in a souvenir published by a political party registered with Election Commission of India.
- Interest on bank loan of ₹ 3,00,000 paid on 09.12.19 (Date of submission of return 30.09.19).
- Expenditure for approved scientific research to IIT, Delhi ₹ 4,00,000.
- Payment to a supplier in cash ₹ 1,00,000 (as supplier is not ready to accept bank payment).  
4×1½

- (b) From the following information, compute tax liability of XYZ LLP for the assessment year 2020-21:

	₹
(i) Business income (after taking deduction of ₹ 15,00,000 u/s 35AD)	90,00,000
(ii) Dividend received from DC Ltd. (Domestic Co.)	5,50,000
(iii) Dividend received from a foreign Co.	50,000
(iv) Donation to National Defence Fund	1,00,000
(v) Deduction u/s 80JJAA	4,00,000

Rate of tax of LLP-30%, rate of AMT-18.5%, surcharge and cess as applicable.

**Group - B**Answer *any one* question.

9. The following is the Profit and Loss Account of a partnership firm, MNC Associate, for the year ending 31.03.2020 :

Particulars	Amount (₹)	Particulars	Amount (₹)
To Establishment and other expenses	9,70,000	By Gross profit b/d	28,17,000
To Depreciation	1,70,000	By Long-term capital gain on sale of land	3,20,000
To Interest to partners @ 14%p.a.		By Interest from govt. bonds	55,000
M	1,40,000		
N	1,40,000		
C	1,40,000		
To Salary to partners			
M	1,44,000		
N	1,44,000		
C	1,44,000		
To Net Profit	12,00,000		
	31,92,000		31,92,000

**Other information :**

- (i) Depreciation allowable as per IT rules is ₹ 2,00,000.  
(ii) Establishment expenses includes ₹ 60,000 on account of bonus to employees which as remain unpaid till the date of return.  
(iii) Deductions allowable U/S 80G and U/S 80JJAA are ₹ 80,000 and ₹ 60,000 respectively.

Compute total income and tax liability of the MNC Associate for the assessment year 2020-21.

**Please Turn Over**

10. Mr. Pakrashi is engaged in the business of readymade garments. Following is the Profit and Loss Account for the year ended 31st March, 2020 : 16+4

Particulars	Amount (₹)	Particulars	Amount (₹)
To Office expenses	2,30,000	By Gross profit b/d	15,08,600
” Salaries	1,80,000	” Interest on Bank Fixed Deposit	13,000
” Provision for tax	65,000	” Discount received	5,000
” Fire insurance premium for factory	11,000	” Bad debt recovered	18,000
” Interest on loan	83,500	(disallowed in earlier year’s assessment)	
” Audit fees	15,000	” Refund of Income Tax	3,400
” Contribution to IIT, Delhi for approved scientific research	50,000		
” Donation to National Children’s Fund	20,000		
” General expenses	76,500		
” Depreciation	1,40,000		
” Net Profit	6,77,000		
	15,48,000		15,48,000

**Other information :**

- (i) Interest on loan includes ₹ 20,000 represents interests on money borrowed for the construction of building for self occupation of Mr. Pakrashi.
- (ii) Audit fees includes ₹ 3,000 paid to a Chartered Accountant for conducting income-tax appeal.
- (iii) Salaries include ₹ 15,000 paid to an employee by bearer cheque.
- (iv) General expenses include ₹ 12,000 paid on health insurance on the health of Pakrashi and ₹ 18,000 as life insurance premium on the life of wife.
- (v) Written Down Value of the block of Plant and Machinery (rate of depreciation 15%) as on 01.04.2019 was ₹ 8,60,000. A new machine to this block was acquired and put into use from 01.10.2019 costing ₹ 90,000.

Compute total income and tax payable by Mr. Pakrashi for the assessment year 2020-21.

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