

2021

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) 'A company incorporated outside India will always be non-resident in India during a previous year.'— Justify the correctness of the statement.

- (b) Solar Software Ltd., an Indian company, started a new software exporting undertaking in a special economic zone during 2009-2010. From the following information for the year ended on 31.03.2021, compute exemption allowable to the company u/s 10AA for the assessment year 2021-2022.

(₹ in lakhs)

Domestic Sales	90
Export Sales	210
Business profit (after debiting depreciation of ₹ 10 lakhs)	60
Depreciation as per the IT Rules	12
Consideration received in India in respect of the export	180
Amount transferred to SEZ Re-investment Allowance Reserve Account	15

- (c) During the year 2020-2021, Mr. Ratnam received dividends from the following companies :

- | | |
|---|-------------|
| (i) Dividend from Sun Pharma Ltd. (Indian Company) | ₹ 11,00,000 |
| (Interest expenditure ₹ 3,00,000 and collection charges ₹ 50,000) | |
| (ii) Dividend from Alloy Ltd. (USA based Company) | ₹ 2,00,000 |
| (Interest expenditure ₹ 45,000 and collection charges ₹ 15,000) | |

Compute the total income of Mr. Ratnam (assuming he has no other source of income)
2+8+5

2. (a) Amit supplied the following information for the previous year 2020-2021 :

	₹
(i) Income from the profession in India	8,00,000
(ii) Income from the profession in Uganda	5,00,000
(iii) Income from other source in India	2,00,000

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(iv) Deduction u/s 80C	1,30,000
(v) Deduction u/s 80G	70,000
(vi) Tax paid in Uganda	1,25,000

There is no DTAA between India and Uganda

Compute Relief u/s 91 and tax payable by Amit for the assessment year 2021-2022.

- (b) State any three cases when relief u/s 89 can be allowed to an individual assessee.
- (c) Mention any three tax benefits that can be enjoyed by an amalgamating company under the Income Tax Act. 9+3+3

3. (a) Discuss the taxability of the following income for the previous year 2020-2021 :

- (i) Mr. Ranjit transferred debentures of ₹ 2,50,000 to his daughter-in-law. Interest earned on this debenture is ₹ 25,000 during the previous year 2020-2021.
- (ii) Mr. Ravi transferred Fixed Deposit to his wife during the year 2020-2021 without consideration. Interest from that deposit earned ₹ 15,000 during the previous year 2020-21.
- (iii) Mr. Rajat transferred his house property to his spouse out of love and affection without consideration during the previous year 2019-20. The property is let out by the spouse for annual rent ₹ 5,00,000 from 01.04.2020.
- (b) M/s XYZ commenced the business of manufacturing iron rods on 01.04.2020. It had employed 200 workmen during the year which included the following :

	No. of persons	Salary per month (in ₹)
Casual labours employed from 01.04.2020	50	5,000
Workmen employed through contractor from 01.01.2020	25	7,500
Skilled labours employed from 01.08.2020	50	12,500
Semi-skilled labours employed from 01.09.2020	50	6,000
Skilled labours employed from 01.10.2020	25	12,500

Compute deduction available u/s 80 JJAA to M/s XYZ if the profit derived during the financial year 2020-2021 is ₹ 100 lakhs. Casual labours and workmen employed through contractor are not participating in R.P.F. 6+9

4. (a) Write a short note on deduction u/s 80JJA.

- (b) Loans and advances given by a closely held company to its specified shareholders do not have any tax implication. Do you agree?
- (c) Transfer of assets by a holding company to its wholly owned subsidiary do not have any tax implication. Do you agree? 5+5+5

5. (a) Write with reason, whether the following expenses are deductible in computing income from business for the A.Y. 2021-2022 :

- (i) Compensation paid to an employee who has been retrenched for continuously committing fraudulent acts : ₹ 35,000.
- (ii) Payment of salary of ₹ 50,000 p.m. to the son of a director. However, considered his qualification and experience the salary should not exceed ₹ 30,000 p.m.
- (iii) Paid ₹ 30,000 by cash for hiring goods carrier for transport of goods.
- (iv) On 31.08.2020, paid ₹ 8,000 at 11.30 a.m. to Mr. Thapa, a creditor, by cash and paid ₹ 7,000 at 2.30 p.m. by bearer cheque again to Mr. Thapa.
- (v) Donation of ₹ 20,000 to a local authority for promoting family planning.

(b) From the following information, compute tax liability of Mrs. Desai (age 45 years) for the assessment year 2021-2022 (Ignore section 115BAC) :

	₹	
– Business loss (computed)	6,00,000	
– Salary income (computed)	18,50,000	
– Deduction u/s 80G	20,000	
– Deduction u/s 80 JJAA	3,30,000	10+5

6. (a) Mr. Khan sells a land for ₹ 35,00,000 on 15th September, 2020 (purchased on 10th June 2014 for ₹ 10,00,000) and incurs expenses of ₹ 30,000 for such sale. He invests ₹ 15,00,000 in bonds of NHAI (redeemable after 3 years) on 25th November 2020 and ₹ 5,00,000 in bonds of REC Limited (redeemable after 3 years) on 28th March 2021.

Compute the amount of capital gain chargeable to tax for the assessment year 2021-2022.

[Given, CII for 2014-2015 : 240, 2020-2021 : 301]

(b) From the following information, compute Mr. Patel's income from other sources for the assessment year 2021-2022.

- A wrist watch valued ₹ 54,000 was gifted by her sister living in Canada.
- Received a car from his cousin on payment of ₹ 2,20,000, fair market value of which was ₹ 7,50,000
- Received ₹ 1,00,000 in cash as marriage gift from a friend.
- Received rent of ₹ 50,000 p.m. by sub-letting a godown. Rent paid for the godown was ₹ 4,00,000

Please Turn Over

- (c) RL Ltd. is a company incorporated in India. The balance sheet of the company on March 31, 2020 discloses the following position :

Liabilities	₹	Assets	₹
Equity Share Capital	4,00,000	Fixed Assets	5,00,000
General Reserve	4,00,000	Investment in shares	5,00,000
Profit and Loss A/c	2,00,000	(Market value ₹ 7,00,000)	
	10,00,000		10,00,000

The company distributes the entire investment in shares to its shareholders on pro-rata basis in May, 2020. Smt. Archana Pandey holding 10% of equity shares of the company.

- (i) What is the amount of deemed dividend and tax liability in the hands of the company?
(ii) State the tax liability in the hands of Smt. Archana Pandey. 6+4+(4+1)

7. (a) Dinesh purchased land in Kolkata on 01.10.2014 for ₹ 70,00,000. On 05.10.2017 the land was compulsorily acquired by Kolkata Municipal Corporation at a compensation of ₹ 1,00,00,000. The compensation received on 01.10.2018 ₹ 80,00,000 and balance on 01.10.2020 along with interest ₹ 3,50,000. Discuss the taxability of the above receipts for the relevant assessment years.
[CII 2014-15 : 240, CII : 2017-18 : 272, CII 2018-19 : 280, CII 2019-20 : 289, 2020-21 : 301]

- (b) Ranjit acquired a building on 01.04.2014 for ₹ 4,00,000. He converts the building into stock-in-trade of his real estate business on 01.04.2018. The stock-in-trade is sold on 01.04.2020 for ₹ 7,00,000. Determine the amount of chargeable profit indicating separately business income and capital gains.

The market value of building on 01.04.2018 ₹ 6,00,000.

[CII 2014-15 : 240, CII : 2017-18 : 272, CII 2018-19 : 280, CII 2019-20 : 289, 2020-21 : 301]

- (c) Mention any three exempted transfers of capital assets. 6+6+3

8. (a) Mrs. Dolly engaged in retail trade and reports a turnover of ₹ 360 lakhs for the financial year 2020-2021.

- (i) Is Mrs. Dolly eligible to opt for presumptive taxation for her income for the assessment year 2021-2022?
(ii) If so, determine her income from retail trade as per the applicable presumptive provision assuming 60% of the turnover represent cash receipts.

- (b) Bengal Jute Ltd. commenced its production of Jute on 01.04.2020. The Company has made the following expenditure on scientific research up to the year ending on 31.03.2021.

- (i) Payment to National Laboratory ₹ 20,000 for scientific research.
(ii) Payment to Indian Statistical Institute for approved social science research ₹ 30,000.
(iii) Purchase of land for in-house research ₹ 3,00,000 (on 01.04.2019)

(iv) Purchase of machinery for in-house scientific research

– ₹ 1,00,000 on 01.04.2018

– ₹ 3,00,000 on 01.04.2016

(v) Purchase of research raw materials and salary

– ₹ 2,00,000 during 2020-2021

– ₹ 1,00,000 during 2019-2020

Compute allowable deduction u/s 35 for the previous year 2020-2021.

(2+3)+10

Group - B

Answer *any one* question.

9. (a) From the following information, compute tax payable for the previous year 2020-2021 of Mr. Babloo Sharma (age 58 years).

	₹
LTCG on sale of land	1,00,000
STCG on sale of gold	40,000
STCG u/s 111A	30,000
LTCG u/s 112A	1,20,000
Dividend from Indian Companies	11,00,000
Profits and Gain from Business	6,00,000
Winning from Lottery	21,000 (after TDS @ 30%)
Loss from house property	3,00,000
Medical insurance premium paid	10,000
Amount deposited in PPF A/c	90,000

- (b) AXT LLP furnishes the following information for the previous year 2020-2021 :

	₹
Business income	75,00,000
Deduction u/s 35AD	12,00,000
LTCG on sale of land	5,00,000
Income from other sources	2,20,000
Donation to National Defence Fund	75,000
Deduction u/s 80JJAA	2,75,000

Other information :

- (i) Business income is computed without considering deduction u/s 35 AD but after considering the depreciation of ₹ 3,00,000 in respect of assets on which sec 35AD to be claimed.

Compute the tax payable by AXT LLP.

12+8

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10. Following is the Profit and Loss Account of the firm of A, B and C for the year ended 31.03.2021. A, B and C are equal partners of the firm.

	₹		₹
To salaries to staff	45,000	By Gross profit b/d	6,34,500
To office expenses	22,000	By <i>Interest on drawings</i>	
To depreciation	13,500	A : 2,000	
To commission to A	5,000	B : 1,000	
To <i>Salaries to Partners</i> :		C : 2,000	5,000
A : 70,000			
B : 64,500		By Dividend from foreign	
C : 65,000	1,99,500	company	12,000
To <i>Interest on capital</i>		By Long-term capital gains	
(15% p.a.)		on sale of building	1,00,000
A : 5,100		(Computed)	
B : 3,400			
C : 6,800	15,300		
To Income Tax	11,000		
To Donation to Ramkrishna Mission	6,000		
To Net Profit	4,34,200		
	7,51,500		7,51,500

Other information :

- (a) The firm satisfied all the conditions u/s 184 and 40(b).
(b) Depreciation as per IT Rules ₹ 18,000.
(c) C is not a working partner.
(d) Unabsorbed depreciation for the P.Y. 2019-2020 is ₹ 20,000.

Compute taxable income and tax liability of the firm for the assessment year 2021-2022.

17+3