

MEPL CLASSES

COURSE NAME: CMA Final

SUBJECT NAME: Direct Tax Laws and International Taxation

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(Time allowed: 3 hours)

(Total marks: 100)

**DIRECT TAX LAWS AND INTERNATIONAL TAXATION
(100 MARKS)**

All Questions are compulsory

Section: A

Question 1

Choose the correct alternative from the four alternatives given:

[2 × 15 = 30 Marks]

1. What is the rate of tax (excluding surcharge and HEC) in case a company has to pay income-tax as per MAT provisions contained in section 115JB of the Income-tax Act, 1961?

- (A) 18.5%
- (B) 15%
- (C) 20%
- (D) 22%

2. Which of the following can be carried forward to subsequent assessment year even where the return is filed beyond the 'due date' specified in section 139(1) of the Act?

- (A) Unabsorbed depreciation
- (B) Long-term capital loss
- (C) Business loss
- (D) Short-term capital loss

3. For the assessment year 2024-2025, Monalisa Ltd. filed its return of income on 30th October, 2024. This return was selected for scrutiny for making regular assessment under section 143(3). What is the time limit for service of notice under section 143(2)?

- (A) 31.03.2025
- (B) 30.06.2025
- (C) 31.10.2025
- (D) 31.12.2025

4. Eddard, a non-resident but citizen of India earned a gross dividend of ₹ 50 lakhs from an Indian company. The shares were purchased in convertible foreign exchange. What shall be the rate of tax applicable on such dividend income?

- (A) At a flat rate of 20% plus applicable surcharge and HEC
- (B) At a flat rate of 10% plus applicable surcharge and HEC
- (C) The dividend is exempt in the hands of Eddard since the shares are purchased in foreign exchange
- (D) At the slab rates applicable to him including applicable surcharge and HEC

5. What is the monetary limit of tax benefit by means of arrangement between the parties so as to attract invoking of GAAR provisions?

- (A) ₹ 3 crores
- (B) ₹ 5 crores
- (C) ₹ 10 crores
- (D) ₹ 20 crores

6. Judy Ltd. informs you that in the assessment there is increase in income by way of ALP adjustment of ₹ 200 lakhs. Instead of making secondary adjustment, the company wants to pay additional income-tax. What is the rate at which additional income-tax is payable by the assessee?

- (A) 10.92%
- (B) 15.60%
- (C) 20.9664%
- (D) 34.944%

7. Under which section interest shall be charged for deferment of advance tax?

- (A) Section 234A
- (B) Section 234B
- (C) Section 234C
- (D) Section 234D

8. The Assessing Officer (AO) referred an international transaction for ₹ 3 crores entered into by Earnings Ltd. with Apple Inc., an associated enterprise (AE). In the same financial year, Earnings Ltd. has entered into similar transactions with ANC LLP of Singapore, [an AE] for ₹ 4 crores, and with RST LLP of Hong Kong [also an AE], for ₹ 12 crores. What is the scope of power of the Transfer Pricing Officer (TPO) as regards determination of ALP respect of international transactions entered into by Earnings Ltd.?

- (A) The TPO can determine ALP only in respect of the transaction which was referred to him by the AO.

(B) The TPO can determine ALP in respect of any other international transaction whose value exceeded ₹ 5 crores, even though it was not referred to him.

(C) The TPO can determine the ALP of any other international transaction whose value exceeded ₹ 10 crores, even though it was not referred to him.

(D) The TPO can determine the ALP in respect of any other international transaction also, which comes to his knowledge, regardless of the value.

9. Mr. Pramod is using a Computer for his personal purposes, but charges as business expenditure. This is the case of .

- (a) Tax Planning
- (b) Tax Avoidance
- (c) Tax Management
- (d) Tax Evasion

10. Which section deals with methods of computation of arm's length price?

- (a) 92A
- (b) 92C
- (c) 92D
- (d) 92B

11. Which of the following method of computing arm's length price is not a 'Transaction Based Method'?

- (a) Comparable Uncontrolled Price Method
- (b) Resale Price method
- (c) Cost Plus Method
- (d) Profit Split Method

12. Under the provisions of the Income-tax Act, 1961, a return of income can be revised under Section 139(5) if it was originally filed under which of the following sections?

- (a) 139(1)
- (b) 139(4)
- (c) 139(5)
- (d) All of the above

13. Provisions relating to advance ruling are provided in sections _____.

- (a) 80C to 80U
- (b) 245A to 245L
- (c) 237 to 245
- (d) 245N to 245V

14. For Pizza Inc. of Italy which of the following would mean that it has a Permanent Establishment (PE) in India?

- (a) Use of facilities solely for the purpose of storage or display goods belonging to the enterprise.
- (b) Operating a factory in India

(c) Maintenance of goods belonging to the enterprise solely for the purpose of processing by another enterprise.

(d) Maintenance of fixed place of business solely for the purpose of purchasing goods or merchandise or of collecting information, for the enterprise

15. As per section 178(3), the _____ of a company has to intimate the tax authority before he parts with any of the assets of the company or the properties in his hands and has to set aside the amount if any intimated to him by the tax authorities.

(a) Managing Director

(b) Manager

(c) Chartered Accountant

(d) Liquidator

Section B

Question 2

A. Small Ltd. is a wholly-owned subsidiary company of Medium Ltd., an Indian company. Small Ltd. owns Plant-A and Plant-B (depreciation rate 40%, depreciated value of the block ₹3,00,000 on 1st April, 2024). Plant-B was purchased and put to use on 10th November, 2022 (cost being ₹70,000). Plant-B is transferred by Small Ltd. to Medium Ltd. on 14th December, 2024 for ₹20,000. It is put to use by Medium Ltd. on the same day. Medium Ltd. owns Plant-C on 1st April, 2024 (depreciation rate 40%, depreciated value ₹60,000). Calculate the amount of depreciation in the hands of Small Ltd. and Medium Ltd. for the assessment year 2025-26.

(7 Marks)

B. Discuss the procedure followed on receipt of an application for advance ruling under Section 245R of the Income Tax Act 1961.

(7 Marks)

Question 3

A. Discuss the disclosure requirements of ICDS VII.

(7 Marks)

B. Explain briefly the different Model Tax Conventions that are currently in vogue and their significance in international taxation.

(7 Marks)

Question 4

A. M/s Shiny Cars, Noida is a partnership firm having three partners, namely X, Y and Z, sharing the profits and losses in the ratio of 3:2:1. On 1st April, 2024 it was taken over by Jeep Ltd., Delhi. All the assets and liabilities of the firm were taken over at book value. The capital accounts of the partners immediately before the succession showed a credit balance of ₹ 10,00,000, ₹ 8,00,000 and ₹ 6,00,000 respectively. Jeep Ltd. has only two shareholders, namely A and B, having equity share capital of ₹ 10,00,000 each. The company further allotted equity shares worth ₹ 10,00,000, ₹ 8,00,000 and ₹ 6,00,000 respectively to X, Y and Z in the company as the consideration for the transfer.

Required:

(i) Analyse the above situation in the light of the conditions specified under section 47(xiii) (transactions not regarded as transfer in the case of succession of firm by a company).

(ii) Suppose, shareholder X sells his entire shareholdings to Y for ₹ 12,00,000 on 1st January, 2025, what will be the tax implications in the hands of X and Jeep Ltd.?

(iii) Will there be any change in your answer if the company allotted 3000 9% debentures of ₹ 100 each, to the three partners in their profit-sharing ratio besides the equity shares stated earlier?

(7 Marks)

B. Mukund, an Indian citizen resident of Germany, gives the following information to you relating to the financial year 2024-25:

(i) Long-term capital gains ₹ 5,67,000 (gross) on transfer of foreign exchange asset on 12th August, 2024 (Computed as per relevant provisions of the Income-tax Act).

(ii) Interest from notified Government Bonds (gross) ₹ 46,000.

(iii) Amount spent for earning this interest ₹ 4,000.

(iv) Dividend from shares in Indian companies (gross) ₹ 80,000.

(v) Tax deducted at source (on LTCG, interest and dividend) ₹ 1,20,000.

(vi) Investment in shares of Indian companies (date of investment 31st March, 2025) ₹ 6,50,000.

Compute the income tax payable/ refundable in accordance with Chapter XII-A of the Income-tax Act, 1961.

(7 Marks)

Question 5

Present your answer for the following situations under the headings

(i) Issue involved;

(ii) Provisions applicable;

(iii) Analysis of the issue and

(iv) Conclusion.

A. Mega Mart Ltd., Mysore has 2 centres viz. Unit A at Hubli and Unit B at Guntur. Unit A is eligible for deduction under section 80-IA of the Income-tax Act. During the financial year 2023-24, the company earned a net profit of ₹ 67,00,000 from Unit A and suffered a loss of ₹ 24,00,000 from Unit B. The assessee claimed 100% of the profits from Unit A (amounting to ₹ 67,00,000) as a deduction under section 80-IA. However, the Assessing Officer applied section 80AB and allowed deduction only to the extent of income under the head "Profits and gains of business and profession", i.e., ₹ 43 lakhs.

Discuss whether the action of the Assessing Officer is tenable in law.

(7 Marks)

B. Frictions Ltd., Cochin is a part of a large multi-national group. It is engaged in the manufacturing of kids' wear. During the financial year 2024-25, it sold goods to its foreign associated enterprise, Coat Inc. of USA as well as to some unrelated parties in India and the USA. During the course of the assessment, the Transfer Pricing Officer computed arm's length price and the Assessing Officer (AO) applied it on all the transactions, with associated enterprises as well as with unrelated parties.

Aggrieved with the adjustment, the assessee seeks your opinion whether the action of the Assessing Officer is valid or not.

(7 Marks)

Question 6

A. Shipworks Ltd. is an Indian Company in which Rower Ltd., a US company, has 32% shareholding and voting power. Following transactions were effected between these two companies during the financial year 2024-25.

(i) Shipworks Ltd. sold 1,00,000 pieces of T-shirts at \$3 per T-shirt to Rower Ltd., The identical T- Shirts were sold to unrelated party at \$4 per T-Shirt.

(ii) Shipworks Ltd. borrowed \$ 2,00,000 from a foreign lender based on the guarantee of Rower Ltd. for this Shipworks Ltd. paid \$ 10,000 as guarantee fee to Rower Ltd. To an unrelated party for the same amount of loan, Rower Ltd. collected \$ 8,000 as guarantee fee.

(iii) Shipworks Ltd. paid \$ 15,000 to Rower Ltd. for getting various potential customers details to improve its business. Rower Ltd. provided the same service to unrelated parties for \$ 12,000.

(iv) Assume the rate of exchange as 1\$ = ₹84

Shipworks Ltd. is located in a Special Economic (SEZ) and its income before transfer pricing adjustments for the year ended 31st March, 2025 was ₹ 1,200 lakhs.

Compute the adjustments to be made to the total income of Shipworks Ltd. State whether it can claim deduction u/s 10AA for the income enhanced by applying transfer pricing provisions.

(7 Marks)

B. Wright Ltd. is a Subsidiary of Steve LLC of USA. On 1st June, 2024 Wright Ltd. borrowed ₹2500 lakhs from Steve LLC for which interest is payable at 6% per annum. There is no other borrowing made by Wright Ltd.

The Net profit of Wright Ltd. for the year ended 31st March, 2025 was ₹95 lakhs after deduction of the following: (i) Depreciation ₹ 50 lakhs; (ii) Provision for Income-tax ₹20 lakhs; (iii) Amortisation of preliminary expenditure ₹10 lakhs; and (iv) Interest on loan borrowed from Steve LLC.

Explain thin capitalization's applicability and compute the amount of interest eligible for deduction and /or liable for disallowance in the case of Wright Ltd. Also state the consequence of interest disallowance.

(7 Marks)

