PAPER 7: DIRECT TAX LAWS

The provisions of direct tax laws, as amended by the Finance Act, 2020, the Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 and significant notifications issued upto 31.10.2020, are relevant for May, 2021 examinations. The relevant assessment year for May, 2021 examination is A.Y.2021-22.

QUESTIONS AND ANSWERS

Case Scenario 1

Mr. Rajesh, aged 53 years, and his wife Mrs. Sowmya, aged 50 years, were born in India. They were living in India till the year 2000, when they moved to Country X and settled there permanently. Since the year 2010, they have become citizens of Country X. They have two sons who are twins, Mr. Dinesh and Mr. Karthik, who are also citizens of Country X. They completed their schooling in an Indian school in Country X. Thereafter, in the year 2015, Mr. Dinesh joined mechanical engineering in IIT Delhi. After completing his engineering, he took up employment in ABC Ltd., a multinational company, in Gurgaon at a monthly salary of ₹ 1,50,000 from September, 2019. Dinesh visits his parents in Country X for one month every year. For the rest of the year, he is in India. Mr. Karthik completed architecture in College of Architecture in Country X and took up a job in LMN Inc., San Fransisco, in the year 2019 for a monthly salary of US $ 5,000. Mr. Rajesh has a textile business in Country X. Mrs. Sowmya, a Carnatic musician, gives concerts in Country X in music programs organized by the Indian community in Country X.

Mr. Rajesh visits India for one month every year to be with his parents, who were born in Coimbatore and have always lived in Coimbatore. The details of his income for P.Y.2020-21 are as follows –

Income from textile business in Country X - US $ 80,000 (You may assume that the currency of Country X is US dollars)

Rental income from house property in Coimbatore – ₹ 60,000 p.m.

Interest on fixed deposits with SBI, Coimbatore – ₹ 10 lakh

Country X does not levy tax on income from business of textiles in order to give a fillip to textile industry in that country. Country X also does not levy tax on income earned by a resident of Country X outside India.

In the P.Y.2020-21, Mrs. Sowmya visited India from 3rd October, 2020 to 31st January, 2021. She was in Trichy during the months of October and November to take care of her ailing mother in Trichy. During the months of December and January, she rendered Carnatic music concerts in the Margazhi Maha Utsav organized in the various music academies in Chennai. Every year, she is in Chennai entirely during these two months for this purpose. She also visits Trichy every year for the full month of May to spend time with her mother. She owns a house property in Trichy which she has let out for ₹ 40,000 per month. The municipal taxes of ₹ 6,000 p.a. are paid by her tenant. For the P.Y.2020-21, income from music concerts in Chennai is ₹ 3 lakhs. She also earns interest of ₹ 9 lakhs on fixed deposits with Indian Bank, Trichy Branch.

Mr. Dinesh resigned from his job in ABC Ltd. on 20th September, 2020 and took up an offer for employment in MNC Inc., New York at a salary of US $ 7,000 p.m. He had submitted his resignation to ABC Ltd. on 20th August, 2020, and thereafter, served a notice period of one month as per the condition stipulated in his terms of employment. He left India on 28th September, 2020 and joined MNC Inc. on 1st October, 2020. He earned interest of ₹ 40,000 from fixed deposits with Axis Bank, New Delhi.

Mr. Karthik resigned from LMN Inc. on 30th November, 2020 to join PQR Ltd. in Mumbai. He came to India on 2nd December, 2020 and joined PQR Ltd. on 5th December, 2020. His salary in PQR Ltd. is ₹ 99,200 p.m. He used to visit his maternal and paternal grandparents in India for two months (July and August) during his summer holidays upto the year 2018. In the year 2019, he visited India for one month in July 2019. He earned interest of ₹ 9,500 from savings bank account in SBI, Mumbai.

TT buying rate of US $ on various dates is given below –

Date	TT buying rate of US $	Date	TT buying rate of US $
31.3.2020	₹ 68.00	30.9.2020	₹ 70.00
30.4.2020	₹ 68.60	31.10.2020	₹ 70.40
31.5.2020	₹ 69.10	30.11.2020	₹ 71.00
30.6.2020	₹ 69.50	31.12.2020	₹ 71.30
31.7.2020	₹ 69.70	31.1.2021	₹ 71.90
31.8.2020	₹ 69.90	28.2.2021	₹ 72.00
		31.3.2021	₹ 72.40

On the basis of the facts given above, choose the most appropriate answer to Q.1 to Q.5 below: Your answer should be based on the provisions of the Income-tax Act, 1961. Ignore the provisions of DTAA, if any, between India and Country X.

1. What is the residential status of Mrs. Sowmya for A.Y.2021-22?

   (a) Resident and Ordinarily resident

   (b) Resident but not ordinarily resident

   (c) Non-resident

   (d) Deemed resident

2. What is the residential status of Mr. Dinesh and Mr. Karthik for A.Y.2021-22?
   (a) Both are non-residents
   (b) Resident and ordinarily resident & Resident but not ordinarily resident, respectively.
   (c) Non-resident & Resident but not ordinarily resident, respectively
   (d) Resident and ordinarily resident & non-resident, respectively.
3. What is the total income of Mr. Dinesh chargeable to tax under the regular provisions of the Income-tax Act, 1961 for A.Y.2021-22?
   (a) ₹ 38,93,000
   (b) ₹ 38,26,200
   (c) ₹ 8,90,000
   (d) ₹ 8,40,000.
4. What is the total income of Mr. Karthik chargeable to tax under the regular provisions of the Income-tax Act, 1961 for A.Y.2021-22?
   (a) ₹ 31,10,000
   (b) ₹ 31,34,500
   (c) ₹ 3,34,000
   (d) ₹ 3,93,500
5. What is the residential status of Mr. Rajesh for A.Y.2021-22?
   (a) Resident and ordinarily resident
   (b) Resident but not ordinarily resident
   (c) Deemed resident
   (d) Non-resident

Case Scenario 2

The following details pertain to Mr. Arvind and his three brothers, Mr. Arjun, Mr. Anand and Mr. Aakash. Mr. Arvind, Mr. Arjun and Mr. Anand are engaged in retail trade business. Mr. Aakash is engaged in the profession of interior decoration. All of them maintain books of account under section 44AA. While the brothers engaged in retail trade business follows mercantile system of accounting, Mr. Aakash engaged in interior decoration profession follows cash system of accounting. The details pertaining to their business for the year ending 31.3.2021 are as under –

	Particulars	Mr. Arvind	Mr. Arjun	Mr. Anand
(i)	Turnover of P.Y.2020-21	₹ 95 lakhs	₹ 1.80 crore	₹ 5.00 crore
(ii)	Amount received in cash [out of (i) above]	₹ 5 lakh	₹ 8 lakh	₹ 4 lakh
(iii)	Amount received through NEFT/RTGS on or before 31.7.2021 [out of (i) above]	₹ 85 lakh	₹ 1.65 crore	₹ 4.80 crore
(iv)	Total receipts in the P.Y.2020-21	₹ 1.07 crore	₹ 2.00 crore	₹ 5.50 crore
(v)	Cash receipts [out of (iv) above]	₹ 7 lakh	₹ 10 lakhs	₹ 27 lakhs
(vi)	Total payments in the P.Y. 2020-21	₹ 80 lakhs	₹ 1.60 crore	₹ 4.50 crore
(vii)	Cash payments [out of (vi) above]	₹ 5 lakhs	₹ 8.10 lakhs	₹ 22 lakhs
(viii)	Profits and gains as per books of account u/s 44AA	₹ 5.90 lakhs	₹ 10.50 lakhs	₹ 30 lakhs

Mr. Aakash's gross receipts for P.Y.2020-21 are ₹ 48 lakhs, out of which ₹ 3 lakhs has been received in cash and the remaining ₹ 45 lakhs through NEFT/RTGS. His profits as per books of account u/s 44AA for P.Y.2020-21 are ₹ 24.75 lakhs.

From the details given above, choose the most appropriate answer to Q. 6 to Q.10 given below–

6. Which of the following individuals are eligible to declare income on presumptive basis under the provisions of the Income-tax Act, 1961 for A.Y.2021-22?

   (a) Mr. Arvind and Mr. Aakash

   (b) Mr. Arvind, Mr. Arjun, Mr. Anand and Mr. Aakash

   (c) Mr. Arvind, Mr. Arjun and Mr. Aakash

   (d) Mr. Arvind and Mr. Arjun

7. Which of the following individuals have to mandatorily get their books of account audited under section 44AB for A.Y.2021-22?

   (a) Mr. Arjun and Mr. Anand

   (b) Mr. Arjun and Mr. Arvind

   (c) Only Mr. Anand

   (d) None of them.

8. What is the amount of profits and gains of business chargeable to tax in the hands of Mr. Arvind, Mr. Arjun and Mr. Anand, assuming that they wish to make maximum tax savings without getting their books of account audited?

   (a) ₹ 5.50 lakhs, ₹ 10.54 lakhs and ₹ 29.12 lakhs, respectively

   (b) ₹ 5.90 lakhs, ₹ 11.10 lakhs and ₹ 30.40 lakhs, respectively

   (c) ₹ 5.90 lakhs, ₹ 11.10 lakhs and ₹ 30 lakhs, respectively

   (d) ₹ 5.50 lakhs, ₹ 10.50 lakhs and ₹ 30 lakhs, respectively.

9. Would your answer to MCQ 8 (i.e., the profits and gains of business chargeable to tax in the hands of Mr. Arvind, Mr. Arjun and Mr. Anand) undergo a change, if they decide to get their books of account audited?

   (a) The profits and gains of business chargeable to tax in the hands of Mr. Arjun and Mr. Anand would undergo a change; however, there would be no change in the case of Mr. Arvind.

   (b) The profits and gains of business chargeable to tax in the hands of Mr. Anand would undergo a change; however, there would be no change in the hands of Mr. Arvind and Mr. Arjun.

   (c) The profits and gains of business chargeable to tax in the hands of Mr. Arjun would undergo a change; however, there would be no change in the hands of Mr. Arvind and Mr. Anand.

   (d) The profits and gains of business chargeable to tax in the hands of Mr. Arvind and Mr. Arjun would undergo a change; however, there would be no change in the hands of Mr. Anand.

10. What is the due date of filing of return of income of Mr. Arvind, Mr. Arjun, Mr. Anand and Mr. Aakash for A.Y.2021-22, if they wish to make maximum tax savings?

   (a) 31st July, 2021 for all of them.

   (b) 31st July, 2021 for Mr. Arvind and Mr. Aakash; and 31st October, 2021 for Mr. Arjun and Mr. Anand

   (c) 31st July, 2021 for Mr. Arvind, Mr. Aakash and Mr. Arjun; and 31st October, 2021 for Mr. Anand

   (d) 31st July, 2021 for Mr. Arvind, Mr. Aakash and Mr. Anand; and 31st October, 2021 for Mr. Arjun

11. ABC & Co. and PQR & Co. are two non-resident entities based in Country A and Country P, respectively. Both the entities own and operate an electronic facility through which they effect online sale of organic products manufactured by them. The details of their receipts from such sale during the P.Y.2020-21 are –

	Particulars	ABC & Co., Country A	PQR & Co., Country P
(a)	Receipts from sale of organic products to persons resident in India	₹ 138 lakhs	₹ 126 lakhs
(b)	Receipts from sale of organic products to persons resident in other parts of the world	₹ 285 lakhs	₹ 377 lakhs
	Out of the sum mentioned in (b), the receipts from persons using internet protocol address located in India	₹ 63 lakhs	₹ 73 lakhs

Is equalisation levy attracted in the hands of ABC & Co. and PQR & Co., assuming that both the entities do not have a permanent establishment in India?

(a) Equalisation levy is attracted in the hands of both ABC & Co. and PQR & Co.

(b) No equalisation levy is attracted in the hands of either ABC & Co. and PQR & Co.

(c) Equalisation levy is attracted in the hands of ABC & Co. but not PQR & Co.

(d) Equalisation levy is attracted in the hands of PQR & Co. but not ABC & Co.

12. ABC Inc., a Country A company whose place of effective management is outside India, receives royalty from A Ltd., an Indian company, in pursuance of an agreement made which is approved by the Central Government. XYZ Inc., a Country B company whose place of effective management is outside India, receives fees for technical services (FTS) from A Ltd. in pursuance of an agreement made which is approved by the Central Government. The DTAA between India and Country A provides that royalty will be subject to tax in the Source State at 9% and the DTAA between India and Country B provides that FTS will be subject to tax in the Source State at 12%. Both ABC Inc. and XYZ Inc. do not have a permanent establishment in India. ABC Inc. and XYZ Inc. have also invested in shares of Indian companies in respect of which they receive dividend. The treaty states that the dividend will be taxed at the rates provided under the domestic laws of the source country. Are ABC Inc. and XYZ Inc. required to file their return of income for A.Y.2021-22, assuming that the tax deductible at source has been fully deducted?

(a) Both ABC Inc. and XYZ Inc. have to file their return of income u/s 139 for A.Y.2021-22

(b) Both ABC Inc. and XYZ Inc. need not file their return of income u/s 139 for

A.Y.2021-22

(c) ABC Inc. has to file its return of income u/s 139 for A.Y.2021-22, but XYZ Inc. need not file its return of income

(d) XYZ Inc. has to file its return of income u/s 139 for A.Y.2021-22, but ABC Inc. need not file its return of income.

13. Mr. Harsh has to pay ₹ 3 lakhs on 3.3.2021 to "Plan your trip", a travel agency, for a holiday package in Singapore and Malaysia for himself and his wife. He obtained a loan of ₹ 10 lakhs for higher education of his son studying in Columbia University, New York, on 20.3.2021 from SBI, and remitted the said sum through the same bank, which is also an authorised dealer. Is tax required to be collected at source from Mr. Harsh by travel agency and the bank? If so, how much?

(a) No tax is required to be collected by the travel agency since the payment for overseas tour programme package is less than ₹ 7 lakhs; tax has to be collected by SBI@5% of ₹ 3 lakhs, being the amount in excess of ₹ 7 lakhs.

(b) No tax is required to be collected by the travel agency since the payment for overseas tour programme package is less than ₹ 7 lakhs; tax has to be collected by SBI@0.5% of ₹ 3 lakhs, being the amount in excess of ₹ 7 lakhs.

(c) Tax has to be collected by the travel agency@5% on ₹ 3 lakhs; and by SBI@5% of ₹ 3 lakhs, being the amount in excess of ₹ 7 lakhs.

(d) Tax has to be collected by the travel agency@5% on ₹ 3 lakhs; and by SBI@0.5% of ₹ 3 lakhs, being the amount in excess of ₹ 7 lakhs.

14. Mr. Pranav, a resident aged 48 years, and his brother Mr. Vaibhav, a non-resident aged 45 years, received dividend of ₹ 7 lakhs and ₹ 5 lakhs, respectively, from A Ltd., an Indian company in January, 2021. The interest expenditure incurred by them in the P.Y. 2020-21 on loan taken for investing in shares of A Ltd. is ₹ 1.50 lakh and ₹ 80,000, respectively. What is the tax payable by them on such income, assuming it is the only source of income of Mr. Pranav and Mr. Vaibhav and they wish to make maximum tax savings?

(a) ₹ 25,480 and ₹ 8,840, respectively

(b) ₹ 23,400 and ₹ 7,800, respectively

(c) ₹ 19,240 and ₹ 8,840, respectively

(d) ₹ 19,240 and ₹ 1,04,000, respectively

15. ABC Ltd., an Indian company, receives dividend of ₹ 10 lakhs from its subsidiary company XYZ Ltd., also an Indian company in January, 2021. It also receives dividend of ₹ 8 lakhs in February, 2021 from MNC Inc., a foreign company, in which it holds 25% shareholding. ABC Ltd. declares dividend of ₹ 20 lakhs in April, 2021 for the F.Y.2020-21. What is the deduction available to ABC Ltd. under section 80M for

A.Y. 2021-22?

(a) ₹ 8 lakhs

(b) ₹ 10 lakhs

(c) ₹ 18 lakhs

(d) ₹ 20 lakhs

16. Lords Inc., a British company, received, in the P.Y.2020-21, income by way of fees for technical services of ₹ 3.20 crore from Yamuna Ltd., an Indian company, in pursuance of an agreement between Yamuna Ltd. and Lords Inc. entered into in the year 2012, which is approved by the Central Government. Expenses incurred for earning such income is ₹ 28 lakhs.

    (i) Examine the taxability of the above sum in the hands of Lords Inc as per the provisions of the Income-tax Act, 1961 and the requirement, if any, to file return of income, assuming that Lords Inc does not have a permanent establishment in India.

    (ii) If Lords Inc. has a permanent establishment in India and the contract/agreement with Yamuna Ltd. for rendering technical services is effectively connected with such PE in India, examine the taxability based on the following details provided relating to P.Y.2020-21 –

	Particulars	Amount
(1)	Fees for technical services received from Yamuna Ltd.	₹ 3.20 crore
(2)	Expenses incurred for earning such income	₹ 28 lakhs
(3)	Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2006 to 2010	₹ 2 crore
(4)	Expenses incurred for earning such income	₹ 21 lakhs
(5)	Expenditure not wholly and exclusively incurred for the business of such PE [not included in (2) & (4) above]	₹ 8 lakhs
(6)	Amounts paid by the PE to HO (not being in the nature of reimbursement of actual expenses)	₹ 14 lakhs

    What are the other requirements, if any, under the Income-tax Act, 1961 in this case?

17. M/s. ABC LLP filed its return of income for A.Y.2021-22, declaring total income of ₹ 18 lakhs, on 2nd October, 2021. On processing of return, the total income determined under section 143(1)(a) was ₹ 22 lakhs, after disallowing claim for deduction under section 10AA on account of late furnishing of return of income. Thereafter, on scrutiny, the Assessing Officer made some additions under section 40(a)(ia) and section 43B and

passed an assessment order under section 143(3) assessing total income of ₹ 35 lakhs. Later on, the Assessing Officer noticed that certain income had escaped assessment and issued notice for reassessment under section 148. The total income reassessed under section 147 was ₹ 42 lakhs.

Considering that none of the additions or disallowances made in the assessment or re-assessment as above qualifies under section 270A(6), compute the amount of penalty to be levied under section 270A of the Income-tax Act, 1961 at the time of assessment under section 143(3) and at the time of reassessment under section 147 (Assume under-reporting of income is not on account of misreporting).

18. Ganga Ltd., an Indian company, earned a profit of ₹ 52 lakhs after debit/credit of the following items to its Statement of Profit and Loss for the year ended on 31.3.2021 -

(i) Items debited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Provision for the loss of subsidiary	84,000
2.	Provision for doubtful debts	93,000
3.	Provision for income-tax	1,46,000
4.	Provision for gratuity based on actuarial valuation	4,17,000
5.	Depreciation	3,08,000
6.	Interest to financial institution (unpaid before filing of return)	72,000
7.	Penalty for infraction of law	14,000

(ii) Items credited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Profit from unit established in special economic zone.	15,20,000
2.	Share in income of an AOP as a member	1,95,000
3.	Long term capital gains	3,20,000

Other Information:

(i) Depreciation includes ₹ 80,000 on account of revaluation of fixed assets.

(ii) Depreciation as per Income-tax Rules, 1962 is ₹ 4,12,000.

(iii) Balance of Statement of Profit and Loss shown in Balance Sheet at the asset side as at 31.3.2020 was ₹ 32 lakhs which includes unabsorbed depreciation of ₹ 18 lakhs.

(iv) The AOP, of which the company is a member, has paid tax at maximum marginal rate.

(v) Provision for income-tax includes ₹ 65,000 of interest payable on income-tax.

Based on the above information, you are required to –

(i) Compute minimum alternate tax under section 115JB of the Income-tax Act, 1961, for A.Y. 2021-22;

(ii) What would be your answer to Q.(i), if Ganga Ltd. is a unit located in an IFSC and derives its income solely in convertible foreign exchange?

(iii) If Ganga Ltd. is a unit of an IFSC and derives its income solely in convertible foreign exchange, what would be the tax consequence of dividend distributed by it in the hands of Ganga Ltd. and its shareholders?

19. EduAid is a charitable trust set up on 1.4.2011 with the object of providing relief of the poor. Later on, in April, 2013, it changed its object to "providing education to the under privileged". It applied for registration for the first time on the basis of its new object, i.e., "education to the under privileged", on 12.8.2013 and was granted registration on 15.3.2014.

On 1.4.2020, EduAid got merged with M/s. Educare (P) Ltd, a company not entitled for registration under section 12AA. All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. Educare (P) Ltd. The trust appointed a registered valuer for the valuation of its assets and liabilities. From the following particulars (including the valuation report), calculate the tax liability in the hands of the trust arising as a result of such merger:

(i) Land

Location	**Date of purchase**	**Stamp duty value on 1.4.2020**	**Value which the land would fetch, if sold in the open market on 1.4.2020**	**Book Value on 1.4.2020**
		₹	**₹**	**₹**
Surat	1.10.2011	42 lakhs	46 lakhs	40 lakhs
Baroda	21.11.2014	90 lakhs	105 lakhs	100 lakhs

(ii) Shares

Type of shares	**Date of purchase**	**Face value of each share**	**Purchase price of each share**	**Price at which each share is quoted on NSE as on 1.4.2020**		**Open market value as on 1.4.2020#**
				Highest price	**Lowest price**	
		₹	**₹**	**₹**	**₹**	**₹**
3000 Quoted equity shares of PQR Ltd.	4.4.2015	100	130	280	250	

1800 Preference shares of LMN Ltd.	21.8.2016	100	100	-	-	210

on the basis of report of Merchant Banker

(iii) Liabilities

Book value of liabilities on 1.4.2020 = ₹ 112 lakhs. This includes –

(a) Corpus fund ₹ 14 lakhs.

(b) Provision for taxation ₹ 10 lakhs; and

(c) Reserves and Surplus ₹ 21 lakhs

20. Mr. Shyam, aged 47 years, is a resident individual having income from the following sources:

(i) Income from a sole-proprietary business in Noida = ₹ 50 lakhs.

(ii) Share of profit from a partnership firm in Gurgaon = ₹ 30 lakhs.

(iii) Agricultural Income (gross) from coffee estates in Country A, a foreign country with which India has no DTAA, CAD 32000. Tax deducted on the above income CAD 8,000

(iv) Brought forward business loss of F.Y.2019-20 in Country A was CAD 4,000 which is not permitted to be set off against other income as per the laws of that country.

(v) Mr. Shyam has deposited ₹ 1,50,000 in public provident fund and paid medical insurance premium of ₹ 30,000 by account payee cheque to insure his health. He has also paid ₹ 55,000 as insurance premium to insure the health of his mother and father, who are resident Indians aged 70 years and 75 years, respectively. He also incurred ₹ 50,000 on the medical treatment of his dependent sister, who is a person with disability. His sister does not claim deduction under section 80U.

Compute total income and tax liability of Mr. Shyam for the A.Y. 2021-22, assuming that 1 CAD = ₹ 60.

SUGGESTED ANSWERS

MCQ No.	Most Appropriate Answer
1.	b
2.	d
3.	b
4.	c
5.	d
6.	c
7.	d
8.	c
9.	c
10.	d

MCQ No.	Most Appropriate Answer
11.	c
12.	c
13.	d
14.	d
15.	c

16. (i) **Where Lords Inc., a British company, does not have a PE in India**

In this case, Lords Inc. would be eligible for a concessional rate of tax@10% (plus surcharge@2% and HEC@4%) of ₹ 3.20 crore under section 115A on the fees for technical services received from Yamuna Ltd., an Indian company, since the same is in pursuance of an agreement entered into after 31.3.1976, which has been approved by the Central Government. No deduction, however, would be allowed in respect of expenditure of ₹ 28 lakhs incurred to earn such income.

If tax deductible at source@10.608% has been fully deducted, Lords Inc. need not file its return of income in India under section 139 for A.Y.2021-22.

(ii) **Where Lords Inc., a British company, has a PE in India and rendering technical services is effectively connected with the PE in India**.

Since Lords Inc. carries on business through a PE in India, in pursuance of an agreement with Yamuna Ltd. or other Indian companies entered into after 31.3.2003, and the income by way of fees for technical services is effectively connected with the PE in India as per section 44DA, such income shall be computed under the head "Profits and gains of business or profession" in accordance with the provisions of the Income-tax Act, 1961.

Accordingly, expenses of ₹ 49 lakhs (₹ 28 lakhs + ₹ 21 lakhs) incurred for earning fees for technical services of ₹ 5.20 crore (₹ 3.20 crore + ₹ 2 crore) is allowable as deduction therefrom. However, expenditure of ₹ 8 lakhs which is not incurred wholly and exclusively for the business of the PE and the amount of ₹ 14 lakhs paid by the PE to the HO is **not** allowable as deduction.

Lords Inc. is required to maintain books of account under section 44AA and get the same audited under section 44AB and furnish report before the specified date i.e., the date one month prior to the due date of filing return u/s 139(1) for A.Y.2021-22.

17. M/s. ABC LLP is deemed to have under-reported its income since:

(1) its income assessed under 143(3) exceeds its income determined in a return processed under section 143(1)(a); and

(2) the income reassessed under section 147 exceeds the income assessed under section 143(3).

Therefore, penalty is leviable under section 270A for under-reporting of income.

Computation of penalty leviable under section 270A

Particulars	₹	₹
Assessment under section 143(3)		
Under-reported income:		
Total income assessed under section 143(3)	35,00,000	
(-) Total income determined u/s 143(1)(a)	22,00,000	
	13,00,000	
Tax payable on under-reported income:		
Tax on under-reported income of ₹ 13 lakhs *plus* total income of ₹ 22 lakhs determined u/s 143(1)(a) *[30% of ₹ 35 lakh + HEC@4%]*	10,92,000	
Less: Tax on total income determined u/s 143(1)(a) *[30% of ₹ 22 lakh +HEC@4%]*	6,86,400	
	4,05,600	
Penalty leviable@50% of tax payable		2,02,800
Reassessment under section 147		
Under-reported income:		
Total income reassessed under section 147	42,00,000	
(-) Total income assessed under section 143(3)	35,00,000	
	7,00,000	
Tax payable on under-reported income:		
Tax on under-reported income of ₹ 7 lakhs *plus* total income of ₹ 35 lakhs assessed u/s 143(3) *[30% of ₹ 42*	13,10,400	

lakh + HEC@4%]		
Less: Tax on total income assessed u/s 143(3) *[30% of ₹ 35 lakh + HEC@4%]*	10,92,000	
	2,18,400	
Penalty leviable@50% of tax payable		1,09,200

18. (i) Computation of "Book Profit" for levy of MAT under section 115JB for A.Y. 2021-22

Particulars	₹	₹
Net Profit as per Statement of Profit and Loss		52,00,000
Add: Net profit to be increased by the following amounts as per *Explanation 1* to section 115JB:		
- Provision for the loss of subsidiary	84,000	
- Provision for doubtful debts, being the amount set aside as provision for diminution in the value of any asset	93,000	
- Provision for income-tax [As per *Explanation 2* to section 115JB, income-tax shall include, *inter alia*, any interest charged under the Act, therefore, whole of the amount of provision for income-tax including ₹ 65,000 towards interest payable has to be added]	1,46,000	
- Depreciation as per books of account	3,08,000	6,31,000
		58,31,000
Less: Net profit to be decreased by the following amounts as per *Explanation 1* to section 115JB:		
- Share in income of an AOP as a member *[In a case where AOP has paid tax on its total income at maximum marginal rate, no income-tax is payable by the company, being a member of AOP, in accordance with the provisions of section 86. Therefore, share in income of an AOP on which no income-tax is payable in accordance with the provisions of section 86, would be reduced while computing book profit, since the same has been credited to statement of profit and loss]*	1,95,000	

- Depreciation other than depreciation on revaluation of assets (₹ 3,08,000 – ₹ 80,000)	2,28,000	
- Unabsorbed depreciation or brought forward business loss, whichever is less, as per the books of account.	14,00,000	
[Lower of unabsorbed depreciation ₹ 18,00,000 and brought forward business loss ₹ 14,00,000 as per books of accounts has to be reduced while computing the book profit]		18,23,000
Book Profit		**40,08,000**

Computation of MAT liability under section 115JB

Particulars	₹
15% of book profit of ₹ 40,08,000	**6,01,200**
Add: Health & Education Cess@4%	24,048
Minimum Alternate Tax liability	**6,25,248**
MAT liability (rounded off)	6,25,250

Notes:

(1) It is only the specific items mentioned under *Explanation 1* to section 115JB, which can be adjusted from the net profit as per the Statement of Profit and Loss prepared as per the Companies Act for computing book profit for levy of MAT. Since the following items are not specified thereunder, the same cannot be adjusted for computing book profit:

Interest to financial institution (unpaid before filing of return) and

Penalty for infraction of law

(2) Provision for gratuity based on actuarial valuation is an ascertained liability *[CIT v. Echjay Forgings (P) Ltd. (2001) 251 ITR 15 (Bom.)]*. Hence, the same should not be added back to compute book profit.

(3) As per proviso to section 115JB(6), the profits from unit established in special economic zone cannot be excluded while computing the book profit, and hence, such income would be liable for MAT.

(ii) Computation of MAT liability u/s 115JB where Ganga Ltd. is a unit located in an IFSC and derives its income solely in convertible foreign exchange

Particulars	₹
9% of book profit of ₹ 40,08,000	3,60,720
Add: Health & Education Cess@4%	14,429

Minimum Alternate Tax liability	**3,75,149**
MAT liability (rounded off)	3,75,150

(iii) As per section 115-O(8), no tax on distributed profits is chargeable in respect of the total income of a company, being a unit of an IFSC deriving income solely in convertible foreign exchange, on any amount of declared, distributed or paid by the company by way of dividends, either in the hands of the company or the person receiving such dividend.

Thus, neither the company nor the shareholders have to pay any tax on dividend distributed by Ganga Ltd.

19. As per section 115TD, the accreted income of "EduAid", a charitable trust, registered under section 12AA which is merged with M/s Educare (P) Ltd., an entity not entitled for registration under section 12AA, would be chargeable to tax at the rate of 34.944% [30% plus surcharge @12% plus cess@4%].

Computation of accreted income and tax liability in the hands of the EduAid trust arising as a result of merger with M/s. Educare (P) Ltd.

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.2020, being the specified date (date of merger) **[See Working Note 1]**	1,16,73,000
Less: Total liability computed in accordance with the prescribed method of valuation **[See Working Note 2]**	67,00,000
Accreted Income	**49,73,000**
Tax Liability @ 34.944% of ₹ 49,73,000 (rounded off)	**17,37,765**
Working Notes:	
(1) Aggregate fair market value of total assets on the date of merger	
- **Land at Surat, being immovable property, purchased on 1.10.2011**	-
Since the trust was registered only on 15.3.2014 and benefit of section 11 and 12 was available to the trust only from A.Y.2014-15, relevant to P.Y.2013-14, being the previous year in which the application for registration is made, the value of land purchased in P.Y.2011-12, in respect of which benefit under sections 11 and 12 was not availed, has to be ignored for computing accreted income.	

	- **Land at Baroda, being an immovable property, purchased on 21.11.2014** [The fair market value of land would be higher of ₹ 105 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 90 lakhs, being stamp duty value as on the specified date, i.e., 1.4.2020]	1,05,00,000
	- **Quoted equity shares of PQR Ltd. [3,000 x ₹ 265 per share]** [₹ 265 per share, being the average of the lowest (₹ 250) and highest price (₹ 280) of such shares on the specified date]	7,95,000
	- **Preference shares of LMN Ltd. [1,800 x ₹ 210 per share]** [The fair market value which it would fetch if sold in the open market on the specified date i.e. FMV on 1.4.2020]	3,78,000
		1,16,73,000
(2)	**Total liability**	
	- Reserves and Surplus ₹ 21 lakhs [not includible]	-
	- Corpus Fund of ₹ 14 lakhs [not includible]	-
	- Provision for taxation ₹ 10 lakhs [not includible]	-
	- Other Liabilities [₹ 112 lakhs - ₹ 21 lakhs - ₹ 14 lakhs - ₹ 10 lakhs]	67,00,000
		67,00,000

20. Computation of total income and tax liability of Mr. Shyam for A.Y. 2021-22

Particulars	₹	₹
Profits and gains from business and profession		
Income from sole proprietary concern in India	50,00,000	
Share of profit from a partnership firm in India of ₹ 30 lakhs, is exempt	Nil	
Business profit	50,00,000	
Less: Business Loss[1] in Country A (CAD 4000 x ₹ 60/CAD)	2,40,000	47,60,000

[1] Since the eight year has not expired from the assessment year in which such business loss was incurred, such business loss can be set-off against current year business income.

Income from Other Sources		
Agricultural income from coffee estates in Country A, is taxable in India (CAD 32000 x ₹ 60/CAD)		19,20,000
Gross Total Income		**66,80,000**
Less: **Deductions under Chapter VI-A**		
Under section 80C [deposit in PPF]	1,50,000	
Under section 80D	75,000	
[Medical insurance premium paid ₹ 30,000 for self, restricted to ₹ 25,000; ₹ 55,000 for senior citizen parents, restricted to ₹ 50,000]		
Under section 80DD		
[Flat deduction of ₹ 75,000 irrespective of the expenditure incurred on dependent sister, being a person with disability]	75,000	
		3,00,000
Total Income		**63,80,000**
Tax on total income		
Tax on ₹ 63,80,000 [(30% x ₹ 53,80,000) *plus* ₹ 1,12,500]		17,26,500
Add: Surcharge@10%, since total income exceeds ₹ 50 lakh		1,72,650
		18,99,150
Add: HEC@4%		75,966
		19,75,116
Average rate of tax in India [i.e., ₹ 19,75,116/₹ 63,80,000 x 100]	30.96%	
Average rate of tax in Country A [i.e., CAD 8000/CAD 32000]	25%	
Doubly taxed income [₹ 19,20,000 – ₹ 2,40,000]	16,80,000	
Rebate under section 91 on ₹ 16,80,000@25% (lower of average Indian tax rate and rate of tax in Country A)		4,20,000
Tax payable in India [₹ 19,75,116 – ₹ 4,20,000]		**15,55,116**
Tax payable in India (rounded off)		**15,55,120**

Note:

(1) *Since Mr. Shyam is resident in India for the P.Y.2020-21, his global income would be subject to tax in India. He is eligible for deduction under section 91 since the following conditions are fulfilled:-*

(a) He is a resident in India during the relevant previous year.

(b) Agricultural income accrues or arises to him outside India during that previous year.

(c) Such agricultural income is not deemed to accrue or arise in India during the previous year.

(d) The income in question i.e., agricultural income, has been subjected to income-tax in Country A in his hands and he has paid tax on such income in Country A.

(e) There is no agreement under section 90 for the relief or avoidance of double taxation between India and Country A, where the income has accrued or arisen.

(2) *If Mr. Shyam opts for section 115BAC, he would not be able to claim deduction of ₹ 3,00,000 under Chapter VI-A. His total income would be ₹ 66,80,000. His tax liability would be ₹ 19,92,276 (working shown below), which is higher than the tax liability of ₹ 19,75,116 computed as per the regular provisions of the Act. Hence, he would not opt for section 115BAC.*

Particulars	***₹***
Upto ₹ 2,50,000	*Nil*
₹ 2,50,001 – ₹ 5,00,000 [₹ 2,50,000 @ 5%]	*12,500*
₹ 5,00,001 – ₹ 7,50,000 [₹ 2,50,000 @ 10%]	*25,000*
₹ 7,50,001 – ₹ 10,00,000 [₹ 2,50,000 @ 15%]	*37,500*
₹ 10,00,001 – ₹ 12,50,000 [₹ 2,50,000 @ 20%]	*50,000*
₹ 12,50,001 – ₹ 15,00,000 [₹ 2,50,000 @ 25%]	*62,500*
₹ 15,00,001 – ₹ 66,80,000 [₹ 51,80,000 @ 30%]	*15,54,000*
	17,41,500
Add: Surcharge @ 10%	*1,74,150*
	19,15,650
Add: HEC @ 4%	*76,626*
Total tax liability	***19,92,276***
Total tax liability (rounded off)	***19,92,280***