Paper 7 Direct Tax Laws (Old Course)

1. Air India Ltd. has paid amount of Rs.20 lakhs during the year ended 31.3.2019 to Airports Authority of India towards landing and parking charges.
   (a) No tax is deductible at source from such payment
   (b) Tax is deductible at source@2% u/s 194C on such payment
   (c) Tax is deductible at source@2% u/s 194-I on such payment
   (d) Tax is deductible at source@10% u/s 194-I on such payment

2. A Ltd. credited Rs.28,000 towards fees for professional services and Rs.27,000 towards fees for technical services to the account of Ram in its books of account on 12.11.2018. The total sum of Rs.55,000 was paid by cheque to Ram on the same date.
   (a) No tax is deductible at source from such payment
   (b) Tax is deductible at source@10% u/s 194J on the entire payment of Rs.55,000
   (c) Tax is deductible at source@10% u/s 194J on Rs.25,000 (Rs.55,000 - Rs.30,000)
   (d) Tax is deductible at source@2% u/s 194-J on Rs.25,000 (Rs.55,000 - Rs.30,000)

3. Mr. Hari, a salaried individual, pays rent of Rs.55,000 per month to Mr. Raghav from June, 2018. Which of the following statement is correct?
   (a) No tax is required to be deducted for F.Y.2018-19 since Mr. Hari is not subject to tax audit u/s 44AB
   (b) Mr. Hari has to deduct tax@5% from rent paid every month
   (c) Mr. Hari has to deduct tax@5% on the entire rent paid for F.Y.2018-19 from the rent payable for March, 2019
   (d) Mr. Hari has to deduct tax of Rs.55,000 from rent payable for March, 2019

4. A Ltd., an Indian company, has a wholly owned subsidiary in Sri Lanka, and it extends corporate guarantee to the said non-resident subsidiary. If the amount guaranteed is Rs.90 crore, the Assessing Officer has to accept the guarantee fee declared by A Ltd. for F.Y.2018-19, if the guarantee fee declared is –
   (a) Rs.45 lakhs
   (b) Rs.80 lakhs
   (c) Rs.90 lakhs
   (d) Either (a) or (b)

5. ABC Ltd. an Indian company paid dividend distribution tax under section 115-O in respect of dividend distributed by it to its resident and non-resident shareholders. Mr. John, a shareholder of ABC Ltd. and a resident of Country X, has to pay tax in Country X on dividend received by him from ABC Ltd., as per the domestic tax laws of Country X. This is an example of:
   (a) Juridical double taxation
   (b) economic double taxation
   (c) territorial double taxation
   (d) municipal double taxation

6. Music Academy, as per its rules, pays a fixed honorarium per concert to each musician performing in the concerts organised by it. Hari, a violinist, however, refuses to accept this sum. If he requests Music Academy to pay such sum directly to Aid Us, an unregistered institution providing relief to the poor and needy in rural India, what would be the tax consequence?
   (a) No amount would be chargeable to tax in the hands of Mr. Hari, since this is a case of diversion of income at source by overriding title.
   (b) The amount payable to Aid Us would be chargeable to tax only in the hands of Mr. Hari, since it is a case of application of income
   (c) The amount payable to Aid Us would be chargeable to tax only in the hands of the institution which has received the amount
   (d) The amount payable to Aid Us would be chargeable to tax both in the hands of Mr. Hari and in the hands of the institution.

7. An application for advance ruling was made on 31.05.2018 in relation to a transaction proposed to be undertaken by Mr. Andrew, a resident of Germany. On 07.07.2018, he decides to withdraw the said application.
   (a) Application cannot be withdrawn once filed
   (b) Application can be withdrawn on 07.07.2018 only with special permission of Principal Chief Commissioner
   (c) Application cannot be withdrawn since 30 days from date of application have passed
   (d) Application can be withdrawn on 07.07.2018 with permission of the AAR, if the circumstances of the case so justify

8. X Ltd., a company engaged in the business of manufacturing, paid Rs.2 lakh to IISc, Bangalore (an approved and notified institution) for scientific research. It also incurred capital expenditure of Rs.12 lakh (including cost of acquisition of land Rs.5 lakh) on in-house research and development facility as approved by the prescribed authority. The deduction under section 35 for A.Y.2019-20 would be
   (a) Rs.9,00,000
   (b) Rs.13,50,000
   (c) Rs.14,00,000
   (d) Rs.10,00,000

9. Mr. X, set up a manufacturing unit in Warangal in the state of Telangana on 01.06.2018. It invested Rs.30 crore in new plant and machinery on 1.6.2018. Further, it invested Rs.25 crore in the plant and machinery on 01.11.2018, out of which Rs. 5 crore was second hand plant and machinery. The depreciation allowable under section 32 for A.Y.2019-20 is
   (a) Rs.15.375 crore
   (b) Rs.20.375 crore
   (c) Rs.14.875 crore
   (d) Rs.11.375 crore

10. Y Ltd. purchased computers of the value of Rs.10 lakhs in November, 2018 and installed the same in its office. The depreciation allowable under section 32 for A.Y.2019-20 is respect of the same is –
    (a) Rs.6 lakhs
    (b) Rs.3 lakhs
    (c) Rs.4 lakhs
    (d) Rs.2 lakhs

11. Mr. Arvind, engaged in the business of wholesale trade, has a turnover of Rs.90 lakhs for P.Y.2017-18 and Rs.210 lakhs for P.Y.2018-19. In the P.Y.2018-19, he paid salary of Rs.3 lakhs to Mr. Hari, a resident, without deduction of tax at source and commission of Rs.25,000 to Mr. Rajesh, a resident, without deduction of tax at source. The disallowance under section 40(a)(ia) while computing business income of A.Y.2019-20 would be –
    (a) Rs.3,25,000
    (b) Rs.97,500
    (c) Rs.90,000
    (d) Nil

12. A public charitable trust registered under section 12AA for the previous year ended 31.3.2019, derived income of Rs.10 lakhs from properties held by trust and voluntary contributions from public 15 lakhs, out of which Rs.8 lakhs was applied for charitable purposes and Rs.4 lakhs towards repayment of loan taken for construction of orphanage. The total income of the trust for A.Y.2019-20 is –
    (a) Rs.13 lakhs
    (b) Rs.9.25 lakhs
    (c) Rs.13.25 lakhs
    (d) Rs.17 lakhs

13. If Country A is a notified jurisdictional area (NJA), then, the rate at which interest receivable from a infrastructure debt fund notified u/s 10(47) is taxable in the hands of Mr. Ram, a resident of Country A, and the rate at which tax has to be deducted at source on such income are, respectively, -

    (a) 30% and 5%
    (b) 5% and 5%
    (c) 30% and 30%
    (d) 5% and 30%

14. In October, 2014, Mr. Raghav, an Indian citizen who is a non-resident, bought 500 Global Depository Receipts (GDRs) of Alpha Limited, India, issued in accordance with the notified scheme of the Central Government against the company's initial issue of shares in foreign currency. In January, 2019, he sold 300 GDRs outside India to Mr. Joe, a citizen and resident of a country outside India and 200 GDRs to Mr. Kamal, a Resident but not ordinarily resident in India. What are the tax consequences of such sale transaction under the Income-tax Act, 1961?

(a) Capital gains arising on sale of 500 GDRs shall be subject to tax @20% with indexation benefit in India
(b) No capital gains would arise on sale of 500 GDRs in India, since the GDRs are purchased in foreign currency
(c) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed in India @10% without indexation benefit
(d) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed @20% with indexation benefit in India

15. If ABC Ltd. has two Units, Unit 1 is engaged in power generation business and Unit 2 is engaged in manufacture of wires. Both the units were set up in Karnataka in the year 2014. In the year 2018-19, twenty lakh metres of wire are transferred from Unit 2 to Unit 1 at Rs.125 per metre when the market price per metre was Rs.180. Which of the following statements is correct?

(a) Transfer pricing provisions would be attracted in this case
(b) Transfer pricing provisions would not be attracted in this case since Unit 1 and Unit 2 belong to the same company and are not associated enterprises.
(c) Transfer pricing provisions would not be attracted in this case as it is not an international transaction since both Units are in India. However, for the purpose of Chapter VIA deduction, the profits of power generation business shall, however, be computed as if the transfer has been made at the market value of Rs.180 per MT.
(d) Transfer pricing provisions would not be attracted in this case due to reasons mentioned in both (b) and (c) above.

16. Which of the following is not an eligible international transaction for application of safe harbor rules?

(i) Preparation of user documentation
(ii) Receipt of intra-group loans where the amount of loan is denominated in Indian rupees
(iii) Providing implicit corporate guarantee
(iv) Purchase and export of core auto components
(v) Receipt of intra-group services from group member

Choose the correct option

(a) Only (ii)
(b) (ii) & (v)
(c) (ii), (iv) & (v)
(d) (ii), (iii), (iv) & (v)

17. XYZ Ltd. has failed to report an international transaction entered by it with PQR Inc., which is a specified foreign company in relation to XYZ Ltd. What would be the penalty leviable in this case?

(i) 2% of the value of transaction
(ii) 50% of tax payable on under-reported income

(iii) 200% of tax payable on under-reported income

Choose the correct option

(a) Only (i)
(b) Only (iii)
(c) (i) & (ii)
(d) (i) & (iii)

18. Alpha Ltd.'s total income of A.Y.2019-20 has increased by Rs.34 lakhs due to application of arm's length price by the Assessing Officer on transactions of purchase of goods from its foreign holding company in respect of a retail trade business carried on by it, and the same has been accepted by Alpha Ltd., then, -

(a) business loss of A.Y.2015-16 cannot be set-off against the enhanced income
(b) deductions under Chapter VI-A cannot be claimed in respect of the enhanced income
(c) unabsorbed depreciation of A.Y.2010-11 cannot be set-off against the enhanced income
(d) Business loss referred to in (a), deductions referred to in (b) and unabsorbed depreciation referred to in (c) cannot be set-off against the enhanced income.

19. Mr. Anjan, a property dealer, sold a flat in Mumbai, the stamp duty of which is Rs.2 crores for Rs.1.80 crores to his friend Mr. Ashwin, a college lecturer. Mr. Anjan had purchased the flat one year back for Rs.1.50 crores and the stamp duty value on that date was also Rs.1.50 crores. What are the tax implications of such sale?

(a) Rs.50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin
(b) Rs.50 lakhs would be taxable as business income in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin
(c) Rs.50 lakhs would be taxable as business income in the hands of Mr. Anjan and Rs.20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin.
(d) Rs.50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan and Rs.20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin.

20. Dividend received by a real estate investment trust (REIT) from special purpose vehicle (SPV) and distributed to its unit holders is –

(a) exempt in the hands of both the REIT and the unit holders unconditionally
(b) exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt in the hands of unit holders only if taxable in the hands of REIT
(c) exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt in the hands of unit holders only if exempt in the hands of REIT
(d) exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt unconditionally in the hands of unit holders