

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

Course: **Law of Taxation I (Direct Taxes)**  
Semester- VII (Batch: 2019-24)

**End Semester Examination: November 2022**

**Date: 02<sup>nd</sup> Nov, 2022**

**Duration: 3 hours**

**Max. Marks: 50**

**Instructions:**

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Indicate correct question numbers in front of the answer.
- No questions or clarification can be sought during the exam period, answer as it is, giving reason, if any.
- Calculator is allowed.
- Copy of the Bare Act (**Only Index**) is allowed.

	<b>(Answer Any Five)</b>	<b>Marks</b>
Q.1	What are the incentives that would encourage a State to sign a tax treaty with another state? When a State decides whether to engage in treaty negotiations, what policies should it adopt? Can there be situations in which the State does not need a treaty, and if so, in what circumstances?	(10)
Q.2	Incorporated under the laws of India, Solutions India Private Limited ("SIPL") and Opportunities India Private Limited ("OIPL") operate as private limited companies.	(10)

**Transaction 1**

In order to have a better market share, the Board of Directors of OIPL decided to approach SIPL for a merger. Based on the discussions between the parties, it was decided that SIPL will merge into OIPL. Pursuant to the merger, OIPL will be the resulting company. Thus, SIPL merged into OIPL with effect from April 1, 2018. All assets and liabilities of SIPL were transferred to OIPL. All the shareholders of SIPL, being residents in India, were issued shares of OIPL.

**Transaction 2**

During the year 2019, the shareholders of OIPL (including shareholders of SIPL who were issued shares in OIPL), being residents in India, decided to transfer the shares of OIPL to Challenges India Private Ltd ("CIPL"), an Indian company for a consideration which is less than fair market value.

**In light of the above factual background, determine the tax implications of the following transactions under the Income-tax Act, 1961 citing relevant provisions.**

**Transaction 1**

- a) Analyse the Income-tax implications in the hands of SIPL and shareholders of SIPL on merger of SIPL into OIPL.
- b) Analyse the Income-tax implications in the hands of OIPL on receipt of assets of SIPL on account of merger of SIPL into OIPL.

**Transaction 2**

- c) Analyse the Income-tax implications in the hands of the shareholders of OIPL on the transfer of shares to CIPL.
- d) Analyse the Income-tax implications in the hands of CIPL on receipt of shares of OIPL.

Q.3 For 'Agricultural Income' to be exempted under the Income-tax Act, 1961, certain conditions must be fulfilled. Cite relevant provisions and case laws to explain the meaning and conditions of 'Agricultural Income'. Discuss in brief whether the below-mentioned listed incomes can be treated as 'Agricultural Income' for the purpose of Income Tax? (10)

- i. Dividend paid by the company out of agricultural income
- ii. Interest on arrears of rent in respect of agricultural land
- iii. Income from nursery operations
- iv. Share of profit of a partner from a firm engaged in agricultural operation

Q.4 Review and explain, using relevant legal provisions and decided cases, the tax implications of the below-listed transactions for the assessment year 2022-23: (10)

- i. Rajkishor who is an Indian citizen but is a non-resident in India for the previous year 2021-22. He is appointed by the Government of India as an ambassador to Russia. He received a salary of INR 8,00,000 and allowances of INR 2,50,000 during the previous year 2021-22 for rendering his services in Russia.
- ii. Jethalal, who is NRI, borrowed INR 10,00,000 on 01.04.2021 from Pethabhai who is also a non-resident. Jethalal invested that money in the shares of an Indian Company. Pethabhai has received interest @ 12% per annum.
- iii. Harry, who is a non-resident in India, is engaged in business operations which are confined to the purchase of goods in India for the purpose of export. Harry earned INR 3,38,000 during the previous year 2021-22.
- iv. Gama, who is a non-resident in India, has earned INR 3,90,000 as royalty for a patent right made available to Alpha who is also a non-resident. Alpha has utilized patent rights for the development of a product in India and 50% royalty is received in India and 50% outside India.

Q.5 Cite relevant provisions of the Income-tax Act, 1961 and case law in order to discuss the tax implications of the following transaction: (10)

- i. Harry gifted a sum of INR 8 lakhs to his brother's minor son Cherry on 13 May 2021. On the same date, his brother gifted debentures worth INR 10,00,000 to Potter (wife of Harry). Cherry invested the amount in a fixed deposit with a bank at the rate of 9% per annum. interest and Potter received interest of INR 81,000 on these debentures during the previous year 2021-22.
- ii. Rajkumar makes a gift of INR 2,00,000 to his wife Rajkumari on 31.01.2021. Rajkumari starts the business on 15.02.2021 by investing INR 3,00,000 which also includes INR 2,00,000 gifted by her husband Rajkumar. During the year



ending 31.03.2021 and 31.03.2022 she earns an income of INR 60,000 and INR 2,40,000 respectively from the said business.

Q.6 Zubin submits the following information relevant for the assessment year 2022-2023: (10)

Particulars	Profit (INR)	Loss (INR)
Salary income (after standard deduction)	2,42,000	
Income from house properly: House 1	1,15,000	
Income from house properly: House 2		(2,17,000)
Income from house properly: House 3		(1,21,000)
Income from Business A	1,08,000	
Income from Business B		(1,18,000)
Income from Business C (speculative)	1,11,000	
Income from Business D (speculative)		(1,23,000)
Short-term capital gains	1,06,000	
Short-term capital gains		(1,28,000)
Long-term capital gains on sale of building	12,500	
Income from card games	1,08,000	
Income from card games		(1,07,010)
Income on maintenance of race horses		(1,06,000)
Interest on securities	1,04,000	

Determine the net income of Zubin for the assessment year 2022-23, citing relevant provisions of the Income-tax Act, 1961 and case laws.

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