

Mock Test Paper - Series I: July, 2025

Date of Paper: 24th July, 2025

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP - II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in Answers to Question in Division A, working notes are not required.

All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.

Time Allowed – 3 Hours

Maximum Marks – 100

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario I

Integra Consulting Pvt. Ltd. is a professional firm engaged in providing consultancy and business advisory services. The company offers a wide array of solutions, including financial management, project advisory, business mergers, business valuations, and related services.

During the financial year 2024-25, Integra Consulting rendered various professional services, earning gross receipts totaling ₹ 90 crore. This was the company's first year of operations, and it believes that certain statutory compliances may not have been fully adhered to.

Additionally, during the year, due to pressing business exigencies, the company received various loans in cash from different vendors which are as under:

- ₹ 28,00,000 availed from Mr. Santosh on 19th June 2024.
- ₹ 27,000 availed from Mr. Kamal on 18th July 2024.
- ₹ 16,000 availed from Mr. Ajay on 21st October 2024.

Further, Integra Consulting Pvt. Ltd. made the following loan repayments during the year:

- ₹ 15,000 to Mr. Santosh on 15th July 2024 in cash
- ₹ 2,50,000 to Mr. Santosh on 15th August 2024 through account payee cheque
- ₹ 21,000 to Mr. Santosh on 19th September 2024 through RTGS
- ₹ 12,000 to Mr. Santosh on 17th October 2024 through crossed cheque

Integra Consulting Pvt. Ltd. has also received an amount of ₹ 2,00,000 for services rendered to Mr. Soham through bearer cheque. Also, he received cash of ₹ 90,000 for services rendered to Mr. Manoj. Furthermore, Integra Consulting Pvt. Ltd. does not know about the applicability of tax audit under section 44AB of the Income-tax Act, 1961.

From the information given above, choose the **most appropriate answer** to the following questions–

1. What is the amount of penalty, if any, which would be leviable on Integra Consulting Pvt. Ltd. for availing loan in cash from various vendors?
 - (a) Penalty of ₹ 28,43,000 under section 271E
 - (b) Penalty of ₹ 28,27,000 under section 271D
 - (c) Penalty of ₹ 28,16,000 under section 271E
 - (d) Penalty of ₹ 28,00,000 under section 271D
2. What is the amount of penalty leviable on repayment of loan to Mr. Santosh?
 - (a) Penalty of ₹ 27,000 under section 271E
 - (b) Penalty of ₹ 16,000 under section 271D
 - (c) No penalty is leviable since the cash repayment is less than ₹ 20,000
 - (d) Penalty of ₹ 48,000 under section 271E
3. Has Integra Consulting Pvt. Ltd. violated any provision of the Income-tax Act, 1961, while receiving payment from Mr. Soham and Mr. Manoj? If yes, what is the amount of penalty which Integra Consulting Pvt. Ltd. is liable to pay?
 - (a) Yes, contravention of section 269ST on receiving payment from Mr. Soham; Penalty of ₹ 2,00,000 u/s 271DA; No contravention on receiving payment from Mr. Manoj.
 - (b) Yes, contravention of section 269ST on receiving payment from Mr. Soham and Mr. Manoj & Penalty of ₹ 2,90,000 u/s 271DA
 - (c) Yes, contravention of section 269SU on receiving payment from Mr. Soham & Penalty of ₹ 2,00,000 is attracted u/s 271DB; No contravention on receiving payment from Mr. Manoj.
 - (d) No violation on receiving payment from either Mr. Soham or Mr. Manoj

4. What is the time limit for filing tax audit report for A.Y. 2025-26 and the amount of penalty leviable if the company does not file its tax audit report within the due date?

(a) 30.09.2025; penalty leviable is ₹ 45,00,000 u/s 271A

(b) 31.10.2025; penalty leviable is ₹ 45,00,000 u/s 271B

(c) 30.09.2025; penalty leviable is ₹ 1,50,000 u/s 271B

(d) 31.10.2025; penalty leviable is ₹ 1,50,000 u/s 271B (2 x 4 = 8 Marks)

Case Scenario II

Mrs. Vandana, an Indian citizen and non-resident in India, furnished the following information for the previous year 2024-25:

- (i) Dividend (gross) from YRF Ltd., an Indian Company, of ₹ 1,85,000.
- (ii) Interest on debentures of Videocon Pvt. Ltd. (subscribed in convertible foreign exchange) of ₹ 2,15,000 (gross).
- (iii) She incurred interest on loan taken for purchase of shares of YRF Ltd. and for purchase of debentures of Videocon Pvt. Ltd. of ₹ 45,000 and ₹ 55,000, respectively.
- (iv) On 15th March 2025, she sold debentures of Jargon Ltd. for ₹ 22,75,000 which were subscribed in convertible foreign exchange on 10th June 2006 in dollars equivalent to ₹ 7,85,000. She paid commission to broker of ₹ 8,000 at the time of sale.
- (v) On 30th April, 2025, she reinvested the sale proceeds of debentures of ₹ 8,40,000 for purchase of listed shares of an Indian company, Fortune Prime Ltd.

Cost Inflation Index: F.Y. 2006-07 - 122; F.Y.2024-25 – 363.

From the information given above, choose the most appropriate answer to the following questions:

5. What is the amount of dividend taxable in the hands of Mrs. Vandana and at what rate YRF Ltd. is required to deduct tax at source on dividend income distributed to Mrs. Vandana?

(a) ₹ 1,85,000 and 10%

(b) ₹ 1,47,000 and 10%

(c) ₹ 1,55,000 and 20.8%

(d) ₹ 1,85,000 and 20.8%

6. Assuming for the purpose of this MCQ that Mrs. Vandana is a resident in India for the P.Y. 2024-25, determine the amount of dividend taxable in her hands and at what rate YRF Ltd. is required to deduct tax at source on dividend income distributed to her?
- (a) ₹ 1,85,000 and 10%
 - (b) ₹ 1,48,000 and 10%
 - (c) ₹ 1,40,000 and 20%
 - (d) ₹ 1,85,000 and 20%
7. What is the amount of interest on debentures of Videocon Pvt. Ltd. taxable in the hands of Mrs. Vandana and at what rate? Ignore surcharge and cess.
- (a) ₹ 2,15,000 taxable @20%
 - (b) ₹ 1,60,000 taxable @20%
 - (c) ₹ 2,15,000 taxable at slab rates
 - (d) ₹ 1,60,000 taxable at slab rates
8. What would be the amount of long-term capital gains taxable in the hands of Mrs. Vandana on sale of debentures of Jargon Ltd., as per the provisions of Chapter XII-A of the Income-tax Act, 1961? Ignore the effect of first proviso to section 48 (benefit of foreign currency conversion).
- (a) ₹ 14,82,000
 - (b) ₹ 9,32,869
 - (c) ₹ 9,34,800
 - (d) ₹ 9,31,846
- (2 x 4 = 8 Marks)**

Case Scenario III

Safe World is a Charitable trust registered under section 12AB, with its main object of providing education to poor. During the P.Y.2024-25, it received ₹ 80 lakh as voluntary contributions. The trust also borrowed ₹ 40 lakh on 1.7.2024 from Indian bank to purchase land for construction of an school building from where it can carry out its functions.

The trust repaid principal of ₹ 10 lakh to Indian bank on 31.3.2025. The trust incurred revenue expenditure of ₹ 17 lakh and capital expenditure of ₹ 60 lakh towards purchase of land for construction of school building during the P.Y.2024-25. Out of the revenue expenditure of ₹ 17 lakh, ₹ 15 lakh was paid during the P.Y.2024-25 itself. Out of the remaining ₹ 2 lakh, ₹ 1 lakh was paid in April, 2025 and ₹ 1 lakh was paid in January, 2026. During the P.Y.2024-25, the

trust also paid ₹ 3 lakh towards revenue expenditure incurred during the P.Y.2023-24 and ₹ 1 lakh towards revenue expenditure incurred during the P.Y.2022-23.

The trust also received ₹ 30 lakhs by way of corpus donations during the P.Y.2024-25, out of which it deposited ₹ 25 lakhs in post office savings bank account. The trust also withdrew ₹ 5 lakhs from post office savings bank account maintained for depositing corpus fund and applied towards purchase of land for construction of school building.

The trust has donated to EdCare, another trust registered under section 12AB with main object of providing education to poor, ₹ 12 lakhs out of its current year income. The trust has applied for the first time ₹ 2 lakh out of its current year income for medical treatment of brother of the trustee, who met with an accident while working in his factory.

From the information given above, choose the most appropriate answer to the following questions:

9. What would be the application of the trust for the P.Y.2024-25 (excluding unconditional accumulation of 15%), assuming that it has fulfilled the relevant conditions stipulated under section 12A?
 - (a) ₹ 59.2 lakhs
 - (b) ₹ 54.2 lakhs
 - (c) ₹ 64.2 lakhs
 - (d) ₹ 55.2 lakhs
10. If the trust does not get its accounts audited before the specified date referred to in section 44AB, what would be the consequence?
 - (a) No deduction would be allowed if the trust fails to get its accounts audited before the specified date referred to in section 44AB.
 - (b) Capital expenditure incurred on account of purchase of land for construction of school building would not be allowed.
 - (c) Amount donated to Edcare would not be allowed
 - (d) Both capital expenditure incurred on account of purchase of land and the amount donated to Edcare would not be allowed.
11. What is the amount of income which would be chargeable to tax under section 115BBI for A.Y.2025-26?
 - (a) ₹ 2,00,000
 - (b) ₹ 5,00,000

- (c) ₹ 7,00,000
- (d) ₹ 12,00,000

12. What is the quantum of penalty which can be levied under section 271AAE? Assume that the specified violation has occurred only once during the P.Y.2024-25.

- (a) ₹ 2,00,000
- (b) ₹ 4,00,000
- (c) ₹ 5,00,000
- (d) ₹ 7,00,000

(2 x 4 = 8 Marks)

13. Aarav Textiles Pvt. Ltd. is a manufacturing company engaged in the production and export of high-quality textiles and leather goods. The company commenced operations in April 2023 and during its first year of operations (F.Y. 2023-24), it experienced rapid growth, achieving significant turnover.

While preparing for the statutory compliance review in January 2025, the management of Aarav Textiles discovered that it had-

- Failed to pay tax deducted at source amounting to ₹ 52 lakhs for the 1st Quarter of the F.Y. 2023-24.
- Failed to pay tax collected at source of ₹ 85 lakhs on sale of goods to a trader which takes place in the month of August, 2023.

To avoid prosecution, the company's legal team advised filing a Consolidated Compounding Application with the competent authority of the Income Tax Department.

The consolidated application, covering both defaults in a single application, was duly prepared and filed on 22nd January 2025.

In this case, how much should Aarav Textiles Pvt. Ltd. pay as the Compounding Application Fee for filing the Consolidated Compounding Application?

- (a) ₹ 25,000.
- (b) ₹ 50,000
- (c) No, Fee is required for consolidated compounding application
- (d) ₹ 10,000

(2 Marks)

14. GlobalLink Trading Pvt. Ltd. withdrew a total of ₹ 1.80 crores in cash from its current account with National Bank Ltd. during the financial year 2024-25. The last cash withdrawal of ₹ 30 lakhs was made on 5th December 2024.

In the same financial year, an official diplomatic mission of Canada duly approved by the Ministry of External Affairs, Government of India, withdrew ₹ 2 crore in cash from its bank account with National Bank Ltd. on 10th December 2024 for its official activities.

Is National Bank Ltd. required to deduct tax at source on these cash withdrawals? Assume GlobalLink Trading Pvt. Ltd. regularly files its return of income.

- (a) National Bank Ltd. has to deduct tax at source @2% on ₹ 80 lakhs, being the amount exceeding ₹ 1 crore withdrawn by GlobalLink Trading Pvt. Ltd., but no tax is required to be deducted for cash withdrawal by the diplomatic mission of Canada.
- (b) National Bank Ltd. has to deduct tax at source @2% on ₹ 80 lakhs and ₹ 1 crores, being the amount exceeding ₹ 1 crore on cash withdrawal by GlobalLink Trading Pvt. Ltd. and diplomatic mission of Canada.
- (c) No tax is required to be deducted on either of the cash withdrawals by GlobalLink Trading Pvt. Ltd. or diplomatic mission of Canada.
- (d) National Bank Ltd. has to deduct tax at source @2% on ₹ 1 crore, being the amount exceeding ₹ 1 crore withdrawn by the diplomatic mission of Canada, but no tax is required to be deducted for cash withdrawal by GlobalLink Trading Pvt. Ltd.

(2 Marks)

15. Zenith Global Ltd., a company incorporated in the United Kingdom, has established a liaison office in India after obtaining the necessary approval from the Reserve Bank of India (RBI). The liaison office is primarily engaged in promoting the parent company's business and facilitating communication between Indian customers and the UK headquarters.

The liaison office operates strictly within the guidelines laid down by the RBI and does not undertake any commercial, trading, or industrial activities in India.

For the financial year 2024-25, by what date Zenith Global Ltd. should furnish the prescribed statement (Form 49C) to the Assessing Officer under Section 285 of the Income Tax Act, 1961?

- (a) Within 4 Months from the end of Financial Year, i.e. 31st July 2025.
- (b) Within 7 Months from the end of Financial Year, i.e. 31st October 2025.

- (c) Within 8 Months from the end of Financial Year, i.e. 30th November 2025.
- (d) Not required to file the statement as company is incorporated in United Kingdom and having only liaison office in India. **(2 Marks)**

Division B – Descriptive Questions

Question No. 1 is compulsory

Attempt any four questions from the remaining five questions

1. Blue Cloths Ltd. is engaged in the manufacture of fabrics since 01-06-2014. Its Statement of Profit and Loss for the previous year ended 31st March, 2025 shows a profit of ₹ 840 lakhs after debiting or crediting the following items:
 - (a) The company had provided ₹ 18 lakhs, being sum fairly estimated as payable with reasonable certainty, to workers on agreement to be entered with the workers union towards periodical wage revision once in every three years.
 - (b) Expense of ₹ 4.5 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a new hotel project to be set up. The negotiation did not succeed, and the project was abandoned.
 - (c) Depreciation charged on the basis of useful life of assets as per the Companies Act, 2013 is ₹ 43 lakhs.
 - (d) A debtor who owed the company an amount of ₹ 29 lakhs was declared insolvent and hence, was written off by debiting the Statement of Profit and Loss.
 - (e) Long term capital gain of ₹ 6.2 lakhs on sale of equity shares on 10th September 2024. The Securities Transaction Tax (STT) was paid at the time of acquisition and sale.
 - (f) Provision for gratuity based on actuarial valuation was ₹ 440 lakhs. Actual gratuity paid debited to gratuity provision account was ₹ 280 lakhs.
 - (g) Industrial power tariff concession of ₹ 9.15 lakhs, received from Maharashtra State Government was credited to Statement of profit and loss.
 - (h) Loss of ₹ 21 lakhs, due to destruction of a machine worth ₹ 32 lakhs by fire due to short circuit and ₹ 5.5 lakh received as scrap value. The insurance company did not admit the claim of the company on charge of gross negligence.

Additional Information:

- (i) Normal depreciation computed as per Income-tax Rules, 1962 is ₹ 78 lakhs. Ignore adjustment, if any, due to scrap value of ₹ 5.5 lakhs.
- (ii) During the previous year 2020-21, the assessee company started a business of developing and building rental housing projects eligible under section 80-IBA. Net profit from such business is amounted to ₹ 38 lakhs during the P.Y. 2024-25. Assessee company also earned an income of ₹ 12 lakhs for constructing a housing project eligible under the above said section which it executed as a work contract, received from Daksh Constructions Ltd. These projects were approved/ notified during the F.Y. 2021-22
- (iii) GST of ₹ 7.6 lakhs collected from its customers was paid by the company on the due dates. However, on an appeal made, the High Court directed the GST department to refund ₹ 2.5 lakhs to the company. The company, in turn, refunded ₹ 2 lakhs to the customers from whom it was collected and the balance ₹ 0.5 lakhs is still lying under the head "Current Liabilities".

Compute the total income and tax liability of Blue Cloths Ltd. for the A.Y. 2025-26 by analyzing and applying the relevant provisions of income tax law. Briefly explain the reasons for treatment of each item. Ignore the provisions relating to Minimum Alternate Tax. Assume that the company has not opted for section 115BAA.

Note - The turnover of Blue Cloths Ltd. for the P.Y. 2022-23 was ₹ 920 crores.

(14 Marks)

- 2 (a) The profit and loss account of the Disha Darpan & Associates, a partnership firm, showed a net profit of ₹ 95 lakhs after debiting/crediting of the following items:
- (i) Interest on capital @13% - ₹ 9,75,000.
 - (ii) Interest on loan taken from one of the partners @17% - ₹ 2,55,000.
 - (iii) Royalty of ₹ 5 lakhs paid to partner X, who is a professional script writer, for use of his scripts as per agreement between the firm and X. The same is authorized by partnership deed.
 - (iv) Depreciation as per books of accounts - ₹ 2,18,990
 - (v) A building purchased in the year 2021 having a WDV as on 1.4.2024 of ₹ 37.83 lakhs was sold on 05.11.2024 for ₹ 87 lakhs. The differential amount was credited to profit and loss account. The building was the only asset in the block.

Additional Information:

- (a) The firm has four partners. Only 2 are working partners. Partnership deed authorises payment of interest to partners in the range of 12% - 16% and also payment of remuneration to all the four partners @ ₹ 35,000 per month. Remuneration paid to partners not debited to P & L A/c.
- (b) It applied for establishing a unit in SEZ and the letter of approval was granted on 30.3.2022. However, it started the operation of SEZ only on 15.10.2022. The total turnover, export turnover and net profit for the year ended 31.3.2025 were ₹ 220 lakhs, ₹ 70 lakhs and ₹ 12.5 lakhs, respectively. The net profit is included in the profit of ₹ 95 lakhs mentioned above.
- (c) Out of the amount received from sale of building, the firm invested ₹ 26 lakhs on 3.5.2025 in 5-years specified bonds of the National Highways Authority of India. The bonds were issued on 31.5.2025.
- (d) Depreciation as per Income-tax Rules, 1962 is ₹ 27,000 excluding depreciation on assets mentioned in (e) and (f) below.
- (e) WDV of Car as on 1.4.2024 (purchased and put to use on 1.1.2022) of ₹ 9,70,000.
- (f) Cost of second hand machinery (purchased and put to use on 09.11.2024) - ₹ 55,000

Compute the total income of the firm for the A.Y. 2025-26 giving reasons/explanations for the treatment of each item under the normal provisions of the Act.

(8 Marks)

- (b) Gill, a foreign national and a cricketer came to India as a member of Australian cricket team in the year ended 31st March, 2025. He stayed for 40 days in India. He received ₹ 12 lakhs for participation in matches in India. He also received ₹ 3.2 lakh for an advertisement of a product on TV. He contributed articles in a newspaper for which he received ₹ 17,000. When he stayed in India, he also won a prize of ₹ 54,000 from horse racing in Mumbai. He has no other income in India during the year.
 - (i) Compute tax liability of Gill for Assessment Year 2025-26.
 - (ii) Are the income specified above subject to deduction of tax at source?
 - (iii) Is he liable to file his return of income for Assessment Year 2025-26?

(6 Marks)

3. (a) Wonder, a Real Estate Investment Trust (REIT), registered under relevant SEBI Regulations, holds 65% shares in Water Ltd. Wonder REIT provides the following information about its income for the F.Y. 2024-25.

- (i) Interest income from Water Ltd. - ₹ 12 crores
- (ii) Dividend income from Water Ltd. - ₹ 2 crores
- (iii) Short-term capital gains on sale of developmental properties - ₹ 1.2 crore
- (iv) Interest received from investments in unlisted debentures of companies - ₹ 12 lakhs
- (v) Rental income from directly owned real estate assets - ₹ 2 crores

Mr. Kartik, a resident Indian, holds 70% of the units of the REIT. He acquired units in the REIT at an issue price of ₹ 1.5 crores. He does not have any other income during the year. During the P.Y. 2024-25, REIT distributed ₹ 20 crores to its unit holders.

Compute the total income in the hands of Wonder Ltd. and Mr. Kartik.

Note: Water Ltd. has opted to pay tax under section 115BAA. Ignore TDS implications. **(8 Marks)**

- (b) Mr. Varun, an Indian citizen aged 44 years, left India for the first time on 1st April 2022 to settle in Country 'B'. But owing to some personal unavoidable circumstances, he returned back to India permanently on 1st June 2024.

He has a residential property in Country 'B' from which he earned a rental income of \$ 48,000 for the year ended 31st March 2025. He is eligible for basic exemption limit of \$ 15,000 and on balance income, he paid income tax @20% in Country 'B'. The tax was paid on 7th June 2025 from his bank account in India.

His income from business in India is ₹ 9,40,000 for the year ended on 31st March 2025. He also received dividend amounting to ₹ 3,37,500 (Net of TDS) from an Indian company and interest of ₹ 19,800 on saving bank account with PNB, during the year.

The exchange rates of 1 \$ on various dates is given below:

01.04.2024 – ₹ 84; 31.03.2025- ₹ 86; 31.05.2025 – ₹ 88.

Compute the net tax liability of Mr. Varun in India for the assessment year 2025-26 after providing relief u/s 91 (ignore foreign tax rules) on the assumption that there is no DTAA between India and Country 'B'.

Assume Mr. Varun files his income-tax return as per default tax regime. **(6 Marks)**

4. (a) Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31st March, 2025
- (i) Mr. Shivanand has been running a sole proprietary business with turnover of ₹ 202 lakhs for the F.Y.2023-24. He pays a monthly rent of ₹ 15,000 for the office premises to Mr. Sam, the owner of building. Besides, he also pays service charges of ₹ 6,000 per month to Mr. Sam towards the use of furniture, fixtures and vacant land appurtenant thereto.
 - (ii) Mr. Jay, an individual whose total sales in business during the year ended 31.3.2024 was ₹ 2.20 crores, paid ₹ 9 lakhs by cheque on 1.1.2025 to a contractor (an individual), for construction of his factory building. No amount was credited earlier to the account of the contractor in the books of Mr. Jay.
 - (iii) Whiteblue Pvt. Ltd. credited ₹ 28,000 towards fees for professional services and ₹ 27,000 towards fees for technical services to the account of Mr. Grey in his books of account on 6.10.2024. The total sum of ₹ 55,000 was paid by cheque to Mr. Grey on 18.12.2024.
 - (iv) XYZ Ltd., an insurance intermediary registered and operating from the International Financial Services Centre (IFSC), started its business operations in September 2023. During the financial year 2024-25, it earned an insurance commission of ₹ 1,50,000 from UVW Ltd., an Indian resident company. Assume XYZ Ltd. is claiming deduction u/s 80LA and furnished the details to XYZ Ltd. regarding it. **(2 x 4 = 8Marks)**
- (b) NeoVentures Ltd., Australia, holds 30% equity shares in Akshaya InfraTech Pvt Ltd., India. Akshaya InfraTech Pvt Ltd. develops software and also provides related support services. Akshaya InfraTech Pvt Ltd. during the year billed NeoVentures Ltd., Australia for 150 man-hours at the rate of ₹ 2,700 per man hour. The total cost (direct and indirect) for executing this work amounted to ₹ 4,52,000.

However, Akshaya InfraTech Pvt Ltd. billed Vedanta Ltd., India at the rate of ₹ 3,800 per man hour for the similar level of manpower and earned Gross Profit of 40% on its cost.

The transactions of Akshaya InfraTech Pvt Ltd. with NeoVentures Ltd. and Vedanta Ltd. are comparable, subject to the following differences:

- (i) While Akshaya InfraTech Pvt Ltd. also derives technological support from NeoVentures Ltd., there is no such support from Vedanta Ltd. The value of technological support received from NeoVentures Ltd. may be put at 15% of normal gross profits.
- (ii) As NeoVentures Ltd. gives business in large volumes, Akshaya InfraTech Pvt Ltd. offered to NeoVentures Ltd., a quantity discount which may be valued at 10% of the normal gross profits.
- (iii) In the case of rendering services to NeoVentures Ltd., Akshaya InfraTech Pvt Ltd. neither runs any risk nor incurs any marketing costs. On the other hand, in the case of services to Vedanta Ltd., Akshaya InfraTech Pvt Ltd. has to assume all the risks and costs associated with the marketing function which may be estimated at 20% of the normal gross profits.
- (iv) Akshaya InfraTech Pvt Ltd. offered one month credit to NeoVentures Ltd. The cost of providing such credit may be valued at 5% of the normal gross profits. No such credit was given to Vedanta Ltd.

Compute the Arm's Length Price alongwith income to be adjusted under the cost plus method. **(6 Marks)**

5. (a) Answer any two of the following questions three sub-parts, viz. (i), (ii) and (iii)
- (i) An order for A.Y. 2023-24 was passed by the Assessing Officer as per section 143(3), but the typist wrongly typed in the order, the assessment year as A.Y.2022-23 and the relevant previous year as ending on 31.3.2022. The assessee claimed in appeal that the same is an invalid order which was not accepted by the CIT (Appeals) on the ground of the error being of clerical nature. Discuss the correctness of the order of the CIT(Appeals). **(4 Marks)**
 - (ii) The Commissioner of Income-tax issued notice to revise the order passed by an Assessing Officer under section 143. During the pendency of proceedings before the Commissioner, on the basis of material gathered during survey under section 133A after issue of the first notice, the Commissioner of Income-tax issued a second notice, the contents of which were different from the contents of the first notice. Examine whether the action of the Commissioner is justified as to the second notice. **(4 Marks)**

- (iii) Forecast Limited entered into a contract for purchase of patented process with M/s. YPL Inc, a non-resident company based in Country Z. It filed an application u/s 195(2) before the Assessing Officer to make payment to the non-resident company for purchase of patented process without deducting tax at source.

The assessee, Forecast Limited, contended that said non-resident company had no Permanent Establishment in India and in terms of the DTAA between India and Country Z, no tax was to be deducted in India on same. The Assessing Officer rejected the assessee's application on grounds that consideration for patented process constituted royalty u/s 9(1)(vi) and was liable to be taxed in India and, accordingly, assessee was directed to deduct tax at source at rate of 10% on said royalty payment.

On Appeal, the Commissioner (Appeals) passed an order in favour of the assessee. On further appeal, the Tribunal upheld the order passed by the Assessing Officer on grounds that payments made for purchase of patented processes were in the nature of royalty and tax at source to be deducted on such payment.

The assessee company filed a miscellaneous application for rectification under section 254(2) before the Tribunal. The assessee had also filed an appeal before the High Court.

The Tribunal allowed said application in exercise of his powers under section 254(2) and reheard entire appeal on merits and recalled its original order and passed an order in favour of the assessee. Thereafter, the writ petition filed by the assessee with High Court was also withdrawn. Is Tribunal justified in recalling its original order?

Your answer should cover: (1) Issue involved, (2) Provision Applicable and (3) Analysis and conclusion **(4 Marks)**

- (b) (i) Explain the concept of the Mutual Agreement Procedure (MAP) as provided under international tax treaties. What differentiates the OECD Model Convention from the UN Model Convention in the context of arbitration for MAP?
- (ii) Briefly explain the purpose of the Multilateral Instrument (MLI) under the BEPS Project. How does it help in modifying existing bilateral tax treaties? **(3 x 2= 6 Marks)**

6. (a) (i) M/s GreenTech Innovations Pvt. Ltd., a resident Indian company, is planning to enter into a collaboration with a German firm for technology licensing. To understand the taxability of royalty payments under the India-Germany DTAA, it files an application for Advance Ruling before the Board for Advance Rulings in April 2025.

However, it is later revealed that M/s GreenTech Innocations Pvt. Ltd. had already submitted a detailed note on the same transaction to its Assessing Officer in March 2025 as part of a suo moto disclosure during scrutiny proceedings for A.Y. 2024–25. The AO had not yet issued any order but had acknowledged the issue for further verification.

1. In light of Section 245R(2) of the Income-tax Act, 1961, will the application for advance ruling filed by M/s GreenTech Innovations Pvt. Ltd. be allowed?
2. What is the remedy available to an applicant who is aggrieved by the ruling of Board for Advance Rulings? **(4 Marks)**

- (ii) M/s Skyline Design Solutions Ltd., a company incorporated in Country X, is engaged in providing architectural design services globally. It receives a contract from Sunrise Hospitality Pvt. Ltd., an Indian company, to design and develop a chain of resorts across India.

As per the India–Country X tax treaty, payments for architectural services are treated as fees for technical services (FTS) and are taxable in India when paid to a company. However, when the same services are rendered by a partnership firm or individual, the income is taxable in India only if:

- The firm has a fixed base in India, or
- The stay of partners or employees in India exceeds 180 days.

The tax treaty does not contain a Limitation of Benefits clause.

To leverage the treaty benefit, M/s Skyline Design Solutions Ltd. forms a partnership firm in

Country X with one of its directors holding a nominal stake. The contract is routed through this firm, and the company sends its employees to the firm to perform the services. The firm claims treaty protection, stating that it neither has a fixed base nor exceeds the 180-days stay condition, and hence no tax is paid in India.

Does this restructuring of income from a company to a partnership firm, aimed at availing treaty benefits and avoiding Indian tax liability, fall within the scope of GAAR provisions? **(4 Marks)**

- (b) Mr. Pradeep started his interior decoration profession in 2023. His total income receipts for the F.Y. 2024-25 are ₹ 65 lakhs. The details of receipts during the year 2024-25 are as follows:

Particulars	Amount (₹)	Mode of receipt/payment
Date of Receipt		
08.4.2024	15,15,000	NEFT
	32,500	A/c payee cheque
	1,12,000	Bearer cheque
27.06.2024	74,000	A/c payee cheque
	8,75,000	NEFT
12.09.2024	12,28,000	NEFT
	2,18,000	UPI
	2,14,000	A/c Payee Cheque
Other aggregate receipts not exceeding ₹ 2,000 per person on certain occasions from various customers till 31 st March 2025. Out of this, receipts of ₹ 1,22,800 are received in Bearer cheque.	22,31,500	A/c payee cheques, NEFT and UPI
Payments		
Aggregate of all payments made during the P.Y. 2024-25	35,00,000	
Amount incurred for expenditure in cash (not exceeding ₹ 10,000 per person in each case)	23,19,000	

Mr. Pradeep contended that he is not required to get his accounts audited since his turnover does not exceed ₹ 75 lakhs and he is eligible to declare his income as per presumptive provisions of section 44ADA. Examine the contention of Mr. Pradeep. **(6 Marks)**

Mock Test Paper - Series I: July, 2025

Date of Paper: 24th July, 2025

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(b)	9.	(b)
2.	(a)	10.	(d)
3.	(a)	11.	(c)
4.	(c)	12.	(a)
5.	(d)	13.	(b)
6.	(b)	14.	(a)
7.	(a)	15.	(c)
8.	(b)		

1. Computation of Total Income of Blue Cloths Ltd. for the A.Y. 2025-26

	Particulars	Amount (₹)
I	Profits and gains of business and profession Net profit as per the statement of profit and loss for manufacturing of fabric business Add: Items debited but to be considered separately or items of expenditure to be disallowed (a) Provision for wages payable to workers [Since the provision is based on a fair estimate of wages payable with reasonable certainty, the provision is allowable as deduction. ICDS X requires a reliable estimate of the amount of obligation and 'reasonable certainty' for recognition of a provision, which is present in this case.]	8,40,00,000 -

(b) Expenses on foreign travel of two directors for a collaboration agreement which failed to materialize [Where expenditure is incurred for a project not related to the existing business and the project was abandoned without creating a new asset, the expenses are capital in nature. Since the amount has been debited to the statement of profit and loss, the same has to be added back]	4,50,000	
(c) Depreciation as per the Companies Act, 2013	43,00,000	
(d) Bad Debts Written off [No adjustment is required in respect of debt of ₹ 29 lakhs written off owing to insolvency of the debtor, since bad debts written off in the books of account is fully allowable as deduction u/s 36(1)(vii). Since the said amount has already been debited to the statement of profit and loss, no further adjustment is required]	-	
(f) Provision for gratuity [Provision of ₹ 440 lakhs for gratuity based on actuarial valuation is not allowable as deduction. However, actual gratuity of ₹ 280 lakhs paid is allowable as deduction. Hence, the difference has to be added back to income [₹ 440 lakhs (-) ₹ 280 lakhs]	1,60,00,000	
(h) Loss due to destruction of machinery by fire [Loss of ₹ 21 lakhs due to destruction of machinery caused by fire is not deductible since it is capital in nature. Since the loss has been debited to statement of profit and loss, the same is required to added back while computing business income]	21,00,000	2,28,50,000
AI(iii) GST not refunded to customers out of GST refund received from State Govt.	10,68,50,000 50,000	

	[The amount of GST refunded to the company by the Government is a revenue receipt chargeable to tax. Out of the refunded amount of ₹ 2.5 lakhs, the amount of ₹ 2 lakhs stands refunded to customers would not be chargeable to tax.¹ The balance amount of ₹ 50,000 lying with the company would be chargeable to tax] Less: Items credited to statement of profit and loss, but not includible in business income/ permissible expenditure and allowances (g) Industrial power tariff concession received from State Government [Any assistance in the form of, <i>inter alia</i>, concession received from the Central or State Government would be treated as income. Since the same has been credited to statement of profit and loss, no adjustment is required] (h) Scrap value of machinery [Scrap value of machinery, being capital in nature, has to be reduced from WDV of machinery. Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income] (e) Long term capital gains on sale of equity shares [The taxability or otherwise of long-term capital gain on sale of equity shares has to be considered while computing income under the head "Capital Gains". Since such capital gains has been credited to statement of profit and loss, the same has to be reduced to arrive at the business income.]		10,69,00,000 - 5,50,000 6,20,000
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¹CIT v. Thirumalaiswamy Naidu & Sons (1998) 230 ITR 534 (SC)

III	Al(i) Depreciation as per Income-tax Rules, 1962	78,00,000	89,70,000
	Profits and gains from manufacturing of fabric business		9,79,30,000
	Profit from business of developing and building rental housing projects		
	Net profit from business of developing and building rental housing projects.	38,00,000	
	Income from housing projects executed as a work contract	12,00,000	50,00,000
	Capital Gains		
	Long term capital gain on sale of equity shares [Long term capital gains in excess of ₹ 1.25 lakhs taxable u/s 112A]		6,20,000
	Gross Total Income		10,35,50,000
	Less: Deduction under Chapter VI-A		
	Under section 80-IAB [100% of profits from business of developing and building rental housing projects. No deduction is allowed in respect of income from housing project executed as a work contractor]		38,00,000
Total Income			9,97,50,000

Computation of tax liability of Blue Cloths Ltd. for A.Y.2025-26

Particulars	₹
Tax @12.5% on long term capital gains in excess of ₹ 1.25 lakh (i.e., ₹ 4.95 lakh, being ₹ 6.2 lakh – ₹ 1.25 lakh)	61,875
Tax @30% on balance income of ₹ 9,91,30,000 (i.e., ₹ 9,97,50,000 - ₹ 6,20,000) (since the turnover exceeded ₹ 400 crores in the P.Y. 2022-23)	2,97,39,000
	2,98,00,875
Add: Surcharge @ 7% (since total income exceeds ₹ 1 crore but does not exceed 10 crores).	20,86,061
	3,18,86,936
Add: Health and Education cess @ 4%	12,75,477
Total tax liability	3,31,62,413
Total tax liability (Rounded off)	3,31,62,410

2. (a) **Computation of Total Income of M/s Disha Darpan & Associates,
a partnership firm, for the A.Y. 2025-26**

	Particulars	Amount (in ₹)	
I	Profits and gains of business and profession		
	Net profit as per profit and loss account		95,00,000
	Add: Items debited but to be considered separately or to be disallowed		
	(1) Interest to partners on capital	75,000	
	[As per section 40(b), interest to partners authorized by the partnership deed is allowable as deduction subject to a maximum of 12% p.a.] [₹ 9,75,000 x 1%/13%]		
	(2) Interest on loan taken from partner	75,000	
	[As per section 40(b), interest to partners authorized by the partnership deed is allowable as deduction subject to a maximum of 12% p.a., whether it is interest on partner's capital or loan] [₹ 2,55,000 x 5%/17%]		
	(3) Royalty paid to partner X	5,00,000	
	[Any remuneration, by whatever name called, paid to a working partner is subject to the limits specified under section 40(b)(v). Therefore, the royalty of ₹ 5 lakhs paid to partner X must also adhere to these limits and should be added back while computing book profits.]		
	(4) Depreciation as per books of account	2,18,990	8,68,990
			1,03,68,990
	Less: Items credited but chargeable to tax under another head/expenses allowed but not debited		
	1. Profit on sale of building	49,17,000	49,17,000
	[Capital gain on sale of building is taxable under the head "Capital Gains".]		

	Since such gains has been credited to profit and loss account, the same has to be deducted while computing business income]		
			54,51,990
	Less: Depreciation as per the Income-tax Rules, 1962	27,000	
	- Depreciation on Motor car [₹ 9,70,000 x 15%]	1,45,500	
	- Machinery [₹ 55,000 x 15% x 50%, since purchased and put to use for less than 180 days]	<u>4,125</u>	<u>1,76,625</u>
	Book Profit		52,75,365
	Less: Salary to working partners		
	(i) As per limits given under section 40(b)		
	On first ₹ 6,00,000 @90%	5,40,000	
	On the balance of ₹ 46,75,365 @ 60%	<u>28,05,219</u>	
		33,45,219	
	(ii) Salary actually paid to working partners [₹ 35,000 x 12 x 2]	8,40,000	
	Deduction allowed being (i) or (ii) whichever is less		<u>8,40,000</u>
			44,35,365
II	Capital Gains		
	Short term capital gain on sale of building forming part of block of asset [Since building was the only asset in the block]		
	Full value of consideration	87,00,000	
	Less: Cost of acquisition [WDV as on 1.4.2024]	<u>37,83,000</u>	
		49,17,000	
	Less: Exemption under section 54EC [Investment in bonds of NHAI]	<u>26,00,000</u>	23,17,000
	[Available against depreciable asset, being a building held for more than 24 months and the payment for bonds has been made within six months from the date of transfer,		

exemption u/s 54EC would be available even if the allotment of bonds was made after the expiry of the six months ^{2]}		
Gross Total Income		67,52,365
Less: Deduction under section 10AA [Deduction u/s 10AA is not available since approval was granted after 31.3.2020 and it started its operation after 31 st March, 2021]		-
Total Income		67,52,365
Total Income (Rounded off)		67,52,370

(b) (i) **Computation of tax liability of Gill for the A.Y.2025-26**

Particulars	₹	₹
Income taxable under section 115BBA		
Income from participation in matches in India	12,00,000	
Advertisement of product on TV	3,20,000	
Contribution of articles in newspaper	17,000	
Income taxable under section 115BB		
Income from horse races	54,000	
Total income	15,91,000	
Tax@ 20% under section 115BBA on ₹ 15,37,000		3,07,400
Tax@ 30% under section 115BB on income of ₹ 54,000 from horse races		16,200
		3,23,600
Add: Health and Education cess@4%		12,944
Tax liability		3,36,544
Tax liability (Rounded off)		3,36,540

(ii) Yes, the above income is subject to tax deduction at source.

Income referred to in section 115BBA (i.e., ₹ 15,37,000, in this case) is subject to tax deduction at source@ 20% under section 194E.

Income referred to in section 115BB (i.e. ₹ 54,000, in this case) is subject to tax deduction at source@30% under section 194BB.

² Hindustan Unilever Ltd. v. DCIT (2010) 325 ITR 102 (Bom.)

Since Gill is a non-resident, the amount of tax to be deducted calculated at the prescribed rates mentioned above, would be increased by health and education cess@4%.

- (iii) Section 115BBA provides that if the total income of the non-resident sportsman comprises of only income referred to in that section and tax deductible at source has been fully deducted, he shall not be necessary for him to file his return of income. However, in this case, Mr. Gill has income from horse races as well. Therefore, he cannot avail the benefit of exemption from filing of return of income as contained in section 115BBA. Hence, he would be liable to file his return of income for A.Y.2025-26.

3. (a) **Computation of total income in the hands of Wonder, REIT and Mr. Kartik (unitholder)**

Particulars	Wonder (REIT)	Mr. Kartik (Unitholder)
(i) Interest income of ₹ 12 crores from Water Ltd. (SPV) Interest income from SPV would be exempt in the hands of REIT by virtue of section 10(23FC)(a). The component of such interest income distributed to unit holders would be deemed as income of the unit holders as per section 115UA(3). Accordingly, ₹ 8.4 crores being 70% of ₹ 12 crores is taxable in the hands of the unitholder Mr. Kartik.	Nil	8,40,00,000
(ii) Dividend income of ₹ 2 crores from Water Ltd. (SPV) The dividend distributed by the SPV to the REIT is exempt in the hands of REIT by virtue of section 10(23FC)(b). The component of such dividend income distributed to unitholders is taxable in the hands of unitholders by virtue of the exception contained in section 10(23FD), since Water Ltd. (SPV) has exercised the option u/s 115BAA. Accordingly, ₹ 1.40 crore, being 70% of ₹ 2 crores, would be	Nil	1,40,00,000

	taxable in the hands of the unitholder Mr. Kartik.		
(iii)	Short-term capital gains of ₹ 1.2 crore on sale of developmental properties STCG on sale of development properties is taxable at maximum marginal rate in the hands of the REIT as per section 115UA(2). There would be no tax liability in the hands of the unit holders on the capital gain component of income distributed to them by virtue of exemption contained in section 10(23FD).	1,20,00,000	Nil
(iv)	Interest of ₹ 12 lakh received in respect of investment in unlisted debentures of companies Such interest is taxable at maximum marginal rate in the hands of the REIT as per section 115UA(2). There would be no tax liability in the hands of the unit holders on the interest component of income distributed to them by virtue of section 10(23FD).	12,00,000	Nil
(v)	Rental income of ₹ 2 crores from directly owned real estate assets Income by way of renting or leasing or letting out any real estate asset owned directly by REIT is exempt in the hands of the REIT as per section 10(23FCA). However, the component of such rental income distributed to unitholders is deemed as income of the unit holders as per section 115UA(3). Accordingly, ₹ 1.4 crores, being 70% of ₹ 2 crores would be taxable in the hands of Mr. Kartik.	Nil	1,40,00,000
(vi)	Other income distributed to unitholders	-	37,60,000

As per section 115UA(3A), any sum other than interest and dividend received from SPV, rental income and income which are chargeable to tax in the hands of REIT, in the present case it is STCG on sale of developmental properties and interest on unlisted debentures, would be chargeable to tax under section 56(2)(xii) in the hands of unitholders as income from other sources. In the present case, ₹ 37,60,000 [₹ 1.876 crores, being 70% of ₹ 2.68 [₹ 20 crores – ₹ 17.32 (₹ 12 crores + ₹ 2 crores + ₹ 1.2 crores + ₹ 12 lakhs + ₹ 2 crores)] Less ₹ 1.5 crores, being the issue price of units held by Mr. Kartik] would be taxable as Income from other sources.		
Total income	1,32,00,000	11,57,60,000

- (b) Mr. Varun is a resident in India for A.Y.2025-26, since his stay in India in the P.Y.2024-25 is for 304 days which exceeds the minimum required stay of 182 days in that previous year. Also, his stay in India must be more than 730 days in the immediately preceding seven years, and he must be resident in 8 years (P.Y. 2014-15-to P.Y.2021-22) out of 10 years immediately preceding P.Y. 2024-25, since he left India for the first time on 1st April, 2022.

Hence, he is resident and ordinarily resident in India for A.Y.2025-26. Accordingly, his global income would be subject to tax. He would, however, be entitled for deduction under section 91 in respect of doubly taxed income earned in Country 'B'.

Computation of total income of Mr. Varun for A.Y.2025-26

Particulars	₹	₹
Income from House Property [Residential property in Country 'B']		
Annual Value (\$48,000 x ₹ 86, exchange rate on 31.3.2025, being the rate on the last day of the P.Y. as per Rule 115)	41,28,000	
Less: Deduction under section 24 – 30% of NAV	12,38,400	28,89,600

Profits and Gains of Business or Profession		
Income from business in India		9,40,000
Income from Other Sources		
Dividend from Indian company [₹ 3,37,500 x 100/90]	3,75,000	
Interest on savings bank account with PNB	19,800	
		3,94,800
Gross Total Income		42,24,400
Less: Deduction under Chapter VIA		
Under section 80TTA – (Not available under default tax regime as per 115BAC)		NIL
Total Income		42,24,400

Computation of net tax liability of Mr. Varun for A.Y.2025-26

Particulars	₹
Tax on total income [30% of ₹ 27,24,400 + ₹ 1,40,000]	9,57,320
Add: Health and Education cess@4%	38,293
	9,95,613
Less: Deduction under section 91 (See Working Note below)	3,97,320
Net Tax Liability	5,98,293
Net Tax liability (Rounded off)	5,98,290

Working Note: Calculation of deduction under section 91

Particulars	₹	₹
Average rate of tax in India [i.e., ₹ 9,95,613/₹ 42,24,400x100]	23.57%	
Average rate of tax in country 'B' [20% of \$ 33,000 (\$ 48,000 - \$ 15,000) = \$ 6,600; \$ 6600/\$ 48,000 x 100 = 13.75%	13.75%	
Doubly taxed income		
Income from house property	28,89,600	
Deduction u/s 91 on ₹28,89,600 @13.75% (being the lower of average Indian tax rate (23.57%) and foreign tax rate (13.75%))		3,97,320

4. (a) (i) Where the payer is an individual or HUF whose total sales, gross receipts or turnover from the business carried on by him exceed ₹ 1 crore during the financial year immediately preceding financial year in which such rent was credited or paid, is liable to deduct tax at source under section 194-I. Since the turnover from business of Mr. Shivanand was ₹ 202 lakhs for the F.Y. 2023-24, he is liable to deduct tax at source under section 194-I in respect of rental payments during the financial year 2024-25. Section 194-I provides that rent includes any payment, by whatever name called, for the use of land or building together with furniture, fittings etc.

Therefore, in the given case, apart from monthly rent of ₹ 15,000 p.m., service charge of ₹ 6,000 p.m. for use of furniture and fixtures would also attract TDS under section 194-I. Since the aggregate rental payments of ₹ 2,52,000 to Mr. Sam during the financial year 2024-25 exceeds ₹ 2,40,000, Mr. Shivanand is liable to deduct tax at source @10% under section 194-I from rent paid to Mr. Sam. The amount of TDS u/s 194-I would be ₹ 25,200.

- (ii) An individual who has total sales, gross receipts or turnover from the business carried on by him exceeding ₹ 1 crore in the immediately preceding financial year i.e., F.Y. 2023-24, is liable to deduct tax at source under section 194C for the financial year 2024-25 in respect of the payment made to contractor exceeding ₹ 30,000 in a single contract and ₹ 1,00,000 in aggregate of contracts during the financial year. Since, turnover of Mr. Jay was ₹ 2.20 crores in the financial year 2023-24 and as the payment during financial year 2024-25 to the contractor has exceeded the limits prescribed in section 194C, tax has to be deducted under section 194C.

The rate of tax deduction is 1% as the contractor is an individual. Accordingly, ₹ 9,000/- is required to be deducted at source u/s 194C by Mr. Jay.

- (iii) The limit of ₹ 30,000 for non-deduction of tax under section 194J would apply separately for fees for professional services and fees for technical services. This means that if a person has rendered services falling under both the categories, tax need not be deducted if the fee for each category does not exceed ₹ 30,000, even though the aggregate of the amounts credited to the account of such person or paid to him for both the categories of services exceed ₹ 30,000. Therefore, Whiteblue Pvt. Ltd. is

not required to deduct tax at source in respect of the fees either at the time of credit or at the time of payment.

- (iv) No, UVW Ltd. is not liable to deduct tax under section 194D on the insurance commission of ₹ 1,50,000 paid to XYZ Ltd. during the financial year 2024–25. As per Notification No. 28/2024 dated 7th March 2024, any specified payment, including insurance commission covered under section 194D, made to a qualifying IFSC unit is exempt from TDS, provided certain conditions are fulfilled. These conditions include the furnishing of a declaration by the IFSC unit indicating the ten consecutive assessment years for which the deduction under section 80LA is claimed. Since, as it was mentioned XYZ Ltd. has complied with all the requirements, UVW Ltd. is not required to deduct tax at source on the insurance commission paid to XYZ Ltd.

- (b) Two enterprises are deemed to be associated enterprises where one enterprise, directly or indirectly, holds shares carrying not less than 26% of the voting power in the other enterprise.

In this case, since NeoVentures Ltd., a foreign company, holds 30% equity shares in Akshaya InfraTech Pvt Ltd., an Indian company, NeoVentures Ltd. and Akshaya InfraTech Pvt Ltd. are deemed to be associated enterprises. Since the transaction of developing software and providing related support service by Akshaya InfraTech Pvt Ltd. to NeoVentures Ltd. is an international transaction between associated enterprises, the provisions of transfer pricing would be attracted in this case.

Computation of Arm's Length Price as per Cost Plus Method

Particulars	%	%
Gross Profit mark-up on cost in case of Vedanta Ltd. [an unrelated party]		40%
Less: Adjustments for functional and other differences		
- Value of technology support [NeoVentures Ltd. provides technology support, but Vedanta Ltd. does not provide such support. Therefore, value of technology support shall be adjusted] [15% of 40%, being gross profit]	6%	
- Quantity discount to NeoVentures Ltd. [Quantity discount is allowed to NeoVentures Ltd. as it gives business in large volumes, but	4%	

the same is not provided to Vedanta Ltd. Therefore, it shall be adjusted] [10% of 40%, being gross profit]		
- Risk and cost associated with marketing [Akshaya InfraTech Pvt Ltd. has to bear all the risk and costs associated with the marketing function in case of Vedanta Ltd., while there is no such risk in case of services to NeoVentures Ltd. Therefore, market risk and cost shall be adjusted] [20% of 40%, being gross profit]	8%	18%
<i>Add:</i> Cost of credit to NeoVentures Ltd. [Akshaya InfraTech Pvt Ltd has provided credit of 1 month to NeoVentures Ltd. but not to the unrelated party. Therefore, adjustment for the cost of such credit has to be carried out to arrive at the ALP] [(5% of 40%, being gross profit]		22%
		2%
Arm's length gross profit mark up to cost		24%
Cost incurred by Akshaya InfraTech Pvt Ltd. for executing NeoVentures Ltd.'s work		4,52,000
<i>Add:</i> Adjusted gross profit (₹ 4,52,000 x 24%)		1,08,480
Arm's length billed value		5,60,480
<i>Less:</i> Actual Billed Income from NeoVentures Ltd. (₹ 2,700 x 150 man hours)		4,05,000
Total Income of Akshaya InfraTech Pvt Ltd to be increased by		1,55,480

5. (a) (i) Section 292B provides that no return of income, assessment, notice or summons furnished or made or issued or taken in pursuance of any of the provisions of the Income-tax Act, 1961 shall be invalid or deemed to be invalid merely by reason of any mistake, defect or omission in such return of income, assessment or notice etc., if such return of income, assessment, notice, summons etc. is in substance and effect in conformity with or according to the intent and purpose of the Act.

Therefore, a clerical mistake cannot invalidate an otherwise valid assessment. Thus, the typographical error in the assessment order as to assessment year and previous year does not make the same invalid

unless established otherwise. Accordingly, the action of the CIT(Appeals) in not accepting the claim of the assessee is valid.

- (ii) The action of the Commissioner in issuing the second notice is not justified. The term “record” has been defined in clause (b) of *Explanation 1* to section 263(1). According to this definition “record” shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner. In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the purpose of invoking his jurisdiction under section 263(1). However, at the same time, in view of the express provisions contained in clause (b) of the *Explanation 1* to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action under section 263 is taken by the Commissioner.

Issuance of a notice under section 263 succeeds the examination of record by Commissioner. In the present case, the Commissioner initially issued a notice under section 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected under section 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. Accordingly, the material on the basis of which the second notice was issued could not be said to be “record” available at the time of examination as emphasized in *Explanation 1(b)* to section 263(1).

- (iii) **Issue Involved:** The issue under consideration is whether the powers under section 254(2) can be exercised by the Tribunal to recall an order and rehear the entire appeal on merits.

Relevant provision of law: Section 254(1) empowers the Appellate Tribunal to pass such order thereon as it thinks fit, after giving both the parties to the appeal an opportunity of being heard. Under section 254(2), the Appellate Tribunal, may amend an order passed by it u/s 254(1) with a view to rectifying any mistake apparent from the record.

Analysis & Conclusion: The power u/s 254(2) is limited to rectification of a mistake apparent on record and therefore, the Tribunal must restrict itself within those parameters.

A detailed order was passed by the Tribunal upholding the order passed by the Assessing Officer. While allowing the application u/s 254(2) and recalling its earlier order, the Tribunal had reheard the entire appeal on the merits as if the Tribunal was deciding the appeal against the order passed by the Commissioner (Appeals).

The subsequent order passed by the Tribunal recalling its earlier order was beyond the scope and ambit of the powers u/s 254(2) and is not tenable in law.

Note – *The facts given in the question are similar to the facts in Reliance Telecom Ltd./Reliance Communications Ltd. (2022) 440 ITR 1 wherein the issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case.*

- (b) (i) Where in a situation a tax payer may believe that the treatment accorded by either or both Contracting States is not in accordance with the provisions of the tax treaty. In such a case, there is a need for dispute resolution which is addressed by the article named Mutual Agreement Procedure (MAP). This Article requires competent authorities of both countries to endeavor to resolve the conflict by engaging in bilateral negotiations.

The Mutual Agreement Procedures (MAP) provides for dispute resolution through bilateral negotiations between competent authorities of both the contracting states.

Key differences between the OECD Model Convention (Article 25) and UN Model Convention (Article 25B - Alternative B) are as follows:

- Article 25B(5) of the UN Model provides that an arbitration may be initiated if the competent authorities are unable to reach an agreement on a case within three years from the presentation of that case. However, Article 25(5) of the OECD Model provides a time limit of two years from the date when all the information required by the competent authorities in order to address the case need to be provided to both competent authorities.

- Article 25B(5) of the UN Model provides that arbitration must be requested by the competent authority of one of the Contracting States. Once such a request is made, the taxpayer will be notified. However, as per Article 25(5) of the OECD Model, arbitration must be requested in writing by the person who initiated the case.
 - Article 25B(5) of the UN Model allows the competent authorities to depart from the arbitration decision if they agree to do so within six months after the decision has been communicated to them.
- (ii) The Multilateral Instrument (MLI) was developed under Action 15 of the OECD-G20 BEPS Project to address Base Erosion and Profit Shifting (BEPS) by modifying existing bilateral tax treaties in a synchronized and efficient manner. Its primary purpose is to implement treaty-related anti-abuse measures—such as preventing treaty shopping, artificial avoidance of permanent establishment (PE), and hybrid mismatch arrangements—without the need for renegotiating each treaty separately.

The MLI applies to Covered Tax Agreements (CTAs), which are bilateral treaties notified by both parties. It does not replace existing treaties but modifies their application using the *lex posterior* (later in time) principle, meaning the newer rule prevails. This allows consistent implementation of BEPS measures across multiple treaties while respecting each country's policy choices through options, alternatives, and reservations.

6. (a) (i) 1. As per Section 245R, a resident assessee cannot pursue both the remedies, i.e., an appeal or revision before Income-tax Authority/Appellate Authority as well as an application for Advance Ruling to Board for Advance Rulings, in respect of an issue.
- The Board shall not allow an application where the question raised in the application is already pending before any income-tax authority, or Appellate Tribunal or any court.
2. The applicant who is aggrieved by any ruling pronounced or order passed by the Board for Advance Rulings may appeal to the High Court against such ruling or order of the Board of Advance Rulings within 60 days from the date of communication of that ruling or order.
- (ii) The original service provider Skyline Design Solution Ltd. is replaced by the partnership firm with nominal partnership of one of the director. It is

obvious that there was no commercial necessity to create a separate firm except to obtain the tax benefit. The firm was only on paper as the manpower was drawn from the company. The firm did not have any commercial substance. The contract, workforce and execution remain effectively under the control of the Skyline Design Solution Ltd.

The contract between the Sunrise Hospitality Pvt. Ltd and partnership firm lacks the commercial substance, as the actual service are rendered by the personnel of the Skyline Design Solution Ltd.

It is a case of treaty abuse (treaty shopping). Hence, GAAR may be invoked to disregard the firm and tax payment for architectural services as fee for technical services. However, the rate of tax on such payment shall be as applicable under the treaty, if more beneficial.

- (b) As per section 44AB, every person, *inter alia*, carrying on profession is required to get his accounts audited before the “specified date” by an accountant, if total sales, turnover or gross receipts in profession exceeds ₹ 50 lakh in any previous year.

However, a person who declares profits and gains for the previous year as per section 44ADA is not required to get his account audited.

As per section 44ADA, resident individual or resident partnership firm (but not LLP) engaged in any profession specified u/s 44A(1), such as legal, medical, engineering, architectural profession or profession of accountancy or technical consultancy or interior decoration or other notified whose gross receipt $\leq$ ₹ 50 lakhs in the P.Y. (where aggregate cash receipt does not exceed 5% of total gross receipts, higher threshold limit of ₹ 75 lakhs applicable) can declare 50% of total gross receipts or a sum higher than the aforesaid sum claimed to have been earned by the assessee.

For this purpose, the receipt of amount or aggregate of amounts by a cheque drawn on a bank or by a bank draft, which is not account payee, would be deemed to be the receipt in cash.

In the present case, since Mr. Pradeep is carrying on the profession of interior decoration, he is eligible for the presumptive taxation under section 44ADA.

In this case, the turnover of Mr. Pradeep exceeds ₹ 50 lakhs but does not exceed ₹ 75 lakhs. Accordingly, it has to be seen whether cash receipts exceed 5% of aggregate receipts to determine whether tax audit is compulsory.

During the P.Y. 2024-25, his cash receipts are ₹ 1,12,000 plus ₹ 1,22,800 totaling 2,34,800, which is 3.61% of total receipts of ₹ 65,00,000. Since his cash receipts during the P.Y. 2024-25, does not exceed 5% of aggregate receipts, he is not required to get the accounts audited under section 44AB.

Hence, the contention of Mr. Pradeep is correct he can opt for presumptive taxation under section 44ADA and he is not required to get his accounts audited.