PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Part I - Multiple Choice Questions

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

Integrated Case Study - I

On 1.4.2024, UI Ltd., an Indian company, borrowed ₹ 50 crores @ 10% p.a. from M Inc., a US entity, thereby increasing its total borrowings to ₹ 70 crores. The said loan is guaranteed by H Inc., another US entity. The place of effective management of both M Inc. and H Inc. is in the USA. The total assets of UI Ltd. are ₹ 180 crores. UI Ltd, imported telecommunication equipment worth ₹ 22 crores from H Inc. to resale in India to independent customers. Import duty of ₹ 4.50 crores on the same was paid by UI Ltd. The equipment was sold to customers in India for ₹ 30 crores. Normal GP margin of UI Ltd. in similar uncontrolled transaction is 20% on sale.

Net profit of UI Ltd. of A.Y.2025-26 was ₹ 10.25 crores after debiting interest of ₹ 6.25 crores (out of which ₹ 1.25 crores was interest pertaining to borrowings made in India from unrelated entities), depreciation of ₹ 2.5 crores and income tax of ₹ 1.5 crores. Interest expenditure to the extent of ₹ 2 crore was disallowed for the AY 2024-25 on account of the interest paid to a foreign associated enterprise under the provision relating to limitation on interest deduction in respect of debt issued by a non-resident associated enterprise.

Mrs. Jenifer, a Director of UI Ltd., during the financial year 2023-24 visited USA and stayed there for a period of 90 days. During that period, she opened a bank account with a Branch of USA Bank and deposited an amount equivalent to ₹ 50 Lakhs. The said amount was deposited by remitting the money from her bank account in India out of the salary income earned by her in India and duly disclosed in her returns of income. She invested the said money in purchase of shares in a US based company during the said financial year. The balance in the foreign bank account as on 31st December, 2023 and on 31st March, 2024 was ₹ 4 lakhs and ₹ 1 lakhs respectively. Neither any interest was credited or allowed by the Branch of USA bank during the said financial year, nor was any *income arisen from investment in shares of USA company directly or indirectly. Mrs. Jenifer has not disclosed the foreign bank account and the investment made in the shares of the foreign company in the return of income filed for A.Y. 2024-25. Based on the information received under the automatic exchange of information, the Assessing officer has served a notice under the Black Money & Imposition of Tax Act, 2015 (Black Money Act) on 06/12/2024 asking Mrs. Jenifer to explain as to why the penalty under relevant provisions of Black Money Act should not be imposed for non-disclosure of foreign bank account and investment made in shares of USA based company.*

During the FY 2023-24, Mr. Shyam father-in-law of Mrs. Jenifer, on the occasion of her marriage gifted ₹ 20 Lakhs by way of issue of cheque on the date of her marriage in her name. Mrs. Jenifer invested the gifted amount in fixed deposit with a private bank in Mumbai. On the said fixed deposit interest of ₹ 80,000/- was accrued during the FY 2023-24 and ₹ 1,20,000/- during the FY 2024-25. She disclosed the said accrued interest income in her returns of income filed for relevant AY i.e. AY 2024-25 and AY 2025-26 under the head "Income from other sources."

From the facts given in the case study, choose the correct answer to the following Multiple Choice Questions (MCQs No. 1 to 5):

1. *The allowable deduction of interest in the computation of total income of UI Ltd. for A.Y. 2025-26 works out to -*

   (A) ₹ 7,40,00,000

   (B) ₹ 5,00,00,000

   (C) ₹ 6,25,00,000

   (D) ₹ 8,25,00,000 ***(2 Marks)***

2. *In respect transaction of telecommunication equipment entered between UI Ltd. and H Inc. for A.Y. 2025-26, assuming that the Resale Price Method is the most appropriate method, transfer pricing adjustment works out to-*

   (A) ₹ 3,00,00,000

   (B) ₹ 2,50,00,000

   (C) ₹ 2,00,00,000

   (D) NIL ***(2 Marks)***

3. *In the given facts, Mrs. Jenifer for AY 2024-25 was-*

   (A) required to disclose the foreign bank account in her return of income.

   (B) not required to disclose the foreign bank account in her return of income as the balance as on 31/12/2023 was less than ₹ 5 Lakhs.

   (C) not required to disclose the foreign bank account in her return of income as the balance as on 31/03/2024 was less than ₹ 5 Lakhs.

   (D) required to disclose the foreign bank account in her return of income only, if her total income during the financial year 2023-24 was above basic exemption limit. ***(2 Marks)***

4. *The amount of penalty which the Assessing Officer may impose under the Income-tax Act, 1961 for non-disclosure of investment in shares of US company in the FA Schedule in the return of income for AY 2024-25 by Mrs. Jenifer shall be*

   (A) ₹ 50 Lakhs

   (B) ₹ 1 Crore

   (C) ₹ 10 Lakhs

   (D) NIL ***(2 Marks)***

5. *Which of the following statement is correct in respect of money worth ₹ 20 lakhs gifted by father-in-law to Mrs. Jenifer-*

   (A) Mrs. Jenifer was required to disclose ₹ 20 lakhs as income under the head "Income from other sources" in her return of income for AY 2024-25

   (B) Mrs. Jenifer correctly included interest of ₹ 80,000/- and ₹ 1,20,000/- in her total income, respectively in her return of income for AY 2024-25 and AY 2025-26.

   (C) Mr. Shyam was required to include interest of ₹ 80,000/- and ₹ 1,20,000/- in his total income in the return of income for AY 2024-25 and AY 2025-26 respectively.

   (D) Mrs. Jenifer was required to include ₹ 20.80 lakhs in her total income under the head "Income from other sources" in the return of income for AY 2024-25 and ₹ 1,20,000/- under the head "Income for other sources" for AY 2025-26. ***(2 Marks)***

Integrated Case Study - II

Mr. A is an interior designer by profession. He also delivers online lectures on interior decoration via an e-commerce platform-Indeco-Academy. The relevant information from Mr. A's Indeco- Academy account is given hereunder:

Date of Credit for services to account of Mr. A	***Date of Payment to Mr. A***	***Value of Services Provided (₹)***
31.05.2024	*10.06.2024*	*2,00,000*
31.10.2024	*10.10.2024*	*1,40,000*
31.03.2025	*10.04.2025*	*1,30,000*

Mr. A has furnished his PAN to Indeco-Academy.

On 05.05.2024, Mr. A provided interior decorating services to Mr. N in Mumbai (whose business turnover during the FY 2023-24 was ₹ 1.99 crores) for his office premises as well as residential premises. He charged professional fee of ₹ 45,000/- for the services provided in respect of his office premises and ₹ 65,000/- for the services provided in respect of his residential premises. No business is carried out by Mr. A[1] *from the residential premises. Mr. A has provided PAN to Mr. N for the purpose of making TDS.*

Gross receipts of Mr. A from interior decoration profession (excluding fees for online lecture) from clients in India (including from Mr. N) in the FY 2024-25 was ₹ 38 Lakhs.

For the FY 2024-25, ₹ 1,10,000 is payable by Mr. A to Tumble LLC a social networking website having no office in India and ₹ 1,05,000 to Doodle Inc., USA for giving online advertisements for the purpose of attracting foreign clients. Though Doodle Inc., USA has office in India, the said office is involved in providing designing services and nothing in relation to online advertisements. Mr. A, during the FY 2024-25, from a client based in Country-X received ₹ 3,50,000/-. The client in Country-X paid the above amount after deducting tax of ₹ 50,000/- as per the Income-tax Law of Country-X. India does not have a DTAA with Country-X.

Mr. A has not maintained the books of accounts as required under section 44AA of the Income-tax Act and opted to be assessed under the default tax regime

[1] Read as 'N'

after computing the profit from his profession under the special provision for computing profits and gains of profession on presumptive basis.

From the facts given in the case study, choose the correct answer to the following Multiple Choice Questions (MCQs No. 6 to 8):

6. *In the given facts, Indeco-Academy in respect to amount paid/ payable to Mr. A for the lectures undertaken during the FY 2024-25, was required to deduct tax at source (Ignore Cess and Surcharge, if any) as e-commerce operator.*

   (A) ₹ 94,000/-

   (B) ₹ 4,700/-

   (C) ₹ 23,500/-

   (D) NIL ***(2 Marks)***

7. *In the given facts, which of the following statement is correct in respect of TDS (excluding Cess and Surcharge) for the FY 2024-25 was to be made by Mr. N for the professional services rendered by Mr. A:*

   (A) No tax was required to be deducted by Mr. N

   (B) ₹ 2,200/- was required to be deducted by Mr. N

   (C) ₹ 4,500/- was required to be deducted by Mr. N

   (D) ₹ 11,000/- was required to be deducted by Mr. N ***(2 Marks)***

8. *In the given fact, gross tax liability of Mr. A for AY 2025-26, including Cess and Surcharge, if any (before giving any credit for TDS, prepaid taxes or foreign tax relief etc.) works out to:*

   (A) ₹ 3,95,720

   (B) ₹ 4,06,120

   (C) ₹ 3,84,280

   (D) ₹ 3,49,960 ***(2 Marks)***

Integrated Case Study - III

Seva Niketan, a charitable trust registered under section 12AB runs an education institution and a hospital for treatment of persons suffering from mental disorder solely for philanthropic purposes. The trust has furnished the following information:

(i) The total receipts of the trust for the F.Y. 2024-25 for educational institution is ₹ 3.50 crores and for the hospital is ₹ 3.90 crores.

(ii) Voluntary contributions [included in (i) above) received during the F.Y. 2024-25 from the public amounted to ₹ 115 lakhs. Voluntary contributions of ₹ 115 lakhs includes corpus donations of ₹ 65 lakhs (for purchase of building for the trust) and anonymous donations of ₹ 20 lakhs with specific direction that such donations is for the purpose of educational institution run by the trust.

(iii) During the F.Y. 2024-25, computers for use in the educational institution of trust were purchased for ₹ 85 lakhs out of –

- *Corpus fund mentioned in (ii) above - ₹ 35 lakhs.*
- *Loan - ₹ 25 lakhs*
- *Voluntary contributions - ₹ 25 lakhs*

(iv) Corpus donation received during the FY 2024-25 are invested in the same FY in-

- *Post Office Saving Accounts- ₹ 15 lakhs*
- *Canara Bank as Fixed deposits - ₹ 5 lakhs*
- *Deposit with a Private Limited Company-₹ 10 lakhs*

(v) Amount paid to another trust registered u/s 12AB by way of donation of ₹ 12 lakhs. Out of said amount ₹ 3 lakhs are given as corpus donations.

(vi) ₹ 6 lakhs, being the amount set apart in the F.Y. 2023-24 by the trust for charitable purpose u/s 11(2) utilized in the F.Y. 2024-25 for making donation to another charitable trust, whose object is also education.

From the facts given in the case study, choose the correct answer to the following Multiple Choice Questions (MCQs No. 9 to 12):

9. Out of the amount corpus donation invested in FY 2024-25 [as mentioned in (iv)] by Seva Niketan, which of the following amount would not form part of it's total income of the A.Y. 2025-26?

(A) ₹ 30 Lakhs

(B) ₹ 5 Lakhs only

(C) ₹ 20 Lakhs

(D) *₹ 15 Lakhs only* **(2 Marks)**

10. *In case, Seva Niketan, accumulate or set apart in excess of 15% of income (where such accumulation is not allowed under any specific provision of the Income-tax Act), the tax on such excess income shall be calculated -*

    (A) *At the rate of 30%*

    (B) *At the rate of 10%*

    (C) *At the applicable slab rate under the selected tax regime.*

    (D) *At the average rate of Income-tax* **(2 Marks)**

11. *Which of the following amount in respect of purchase of computer, will be treated as application of income of Seva Niketan for AY 2025-26:*

    (A) *₹ 35 Lakhs from Corpus Fund*

    (B) *₹ 25 Lakhs from the Loan*

    (C) *₹ 25 Lakhs from Voluntary Contributions*

    (D) *₹ 60 Lakhs from the Corpus Fund & Loan* **(2 Marks)**

12. *Tax Payable (excluding cess and surcharge) by Seva Niketan in respect of anonymous donations received during F.Y. 2024-25 works out to -*

    (A) *₹ 6,00,000*

    (B) *₹ 5,70,000*

    (C) *NIL*

    (D) *₹ 4,27,500* **(2 Marks)**

13. *Shark Shipping International, a non-resident foreign company, is engaged in the business of operating a cruise ship in India and is eligible for taxation on presumptive basis under section 44BBC. The ship operates between Chennai, Andaman and Lakshadweep and provides a complete package that includes dining and cabin facilities for the passengers. During the financial year ended on 31.03.2025, from the said operations it earned ₹ 50 crores. This ₹ 50 crores includes an amount of ₹ 10 crores received by various travel agents for booking the cruise on behalf of Shark Shipping International. The expenses for operating the cruise ships amounted to ₹ 15 crores.*

    Based on the above information, the profit chargeable to tax in India under the head 'Profits and gains of business or profession' on presumptive basis *for the assessment year 2025-26 in the case of Shark Shipping International works out to:*

(A) ₹ 3,75,00,000

(B) ₹ 1,87,50,000

(C) ₹ 10,00,00,000

(D) ₹ 2,50,00,000 ***(2 Marks)***

14. *Mr, Raj Kumar, a resident and corporate employee for the AY 2024-25 filed his return of income on 31/07/2024 disclosing total income of ₹ 45,50,000/-. During the relevant financial year 2023-24, he purchased a plot of land in the Rural Area for actual consideration of ₹ 10 Lakhs. The value of the plot as per the stamp duty valuation authority (Guidance Value) was ₹ 19.50 Lakhs. The return has been selected for scrutiny and the FAO has issued a notice to Mr. Raj Kumar to show cause as to why the difference of ₹ 9.50 Lakhs between the stamp duty value and actual consideration should not be added to his total income under the head "Income from other Sources". Mr. Raj Kumar has actually purchased the plot for ₹ 10 Lakhs, however, he is worried that the FAO is not going to accept his version and after the assessment order, he may face penalty for under reporting of income and prosecution for wilful attempt to evade Income Tax.*

    After the assessment order is passed, which amongst the following is an option available to Mr. Raj Kumar, to get the dispute resolved:

    (A) Filing an objection before DRP.

    (B) Filing an application before DRC.

    (C) Filing a grievance petition.

    (D) Filing an appeal before the Principal Chief Commissioner. ***(2 Marks)***

15. *Mr. Raman, a resident during the financial year 2024-25 in addition to Income under the Head "Salaries" of ₹ 20 Lakhs and Income from other sources of ₹ 70,000/- has earned the following income-*

    - *Profit of ₹ 3,50,000 (Sale price - Cost Price) on sale of crypto currency-held for 36 months*
    - *Loss of ₹ 20,000 on sale (Cost Price - Sale Price) of crypto currency held for 13 months*

- *Gift of virtual digital asset by a friend - FMV ₹ 1,00,000/-*
- *Short-term capital gain of ₹ 40,000/- on sale of listed equity shares (STT paid) on 1.07.2024*

Tax payable by Mr. Raman for the AY 2025-26 (Excluding Cess and Surcharge) in respect of profit from sale of crypto currency, VDU[2] received in gift and Short-term capital gain works out to -

(A) ₹ 1,41,000

(B) ₹ 1,11,000

(C) ₹ 1,26,000

(D) ₹ 1,05,000 ***(2 Marks)***

Answer Key

MCQ No.	Correct Option
1.	**(A)**
2.	**(B)**
3.	**(A)**
4.	**(C) or (D)**
5.	**(C)**
6.	**(D)**
7.	**(C)**
8.	**(B)**
9.	**(C)**
10.	**(A)**
11.	**(C)**
12.	**(D)**
13.	**(C)**
14.	**(B)**
15.	**(A)**

[2] Read as 'VDA"

Part II - Descriptive Questions

*Question No.**1** is compulsory.*

*Answer any **four** questions out of the remaining **five** questions.*

Working notes should form part of the answer.

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

Question 1

M Automobile Ltd. (M Auto) is engaged in the manufacture of automobile spare parts at Lucknow. In June 2024, M Auto established a new unit at Patna for the manufacture of automobile accessories. Separate books of accounts are being maintained for both the businesses.

Statement of Profit & Loss (of Lucknow unit) for the financial year ended on 31.03.2025 shows a profit (before depreciation) of ₹ 50 lakhs after the debit/ credit of following items:

(a) Commission of ₹ 2,50,000/- was paid to Robert, a non-resident, who does not have any office or permanent establishment in India. The payment was made without deducting tax at source.

(b) A standard warranty is provided at the time of sale, under which the product would be replaced free of charge, in case of any manufacturing defect detected within the stipulated time. Provision for warranty@ 0.5% of sales, amounting to ₹ 5,00,000 was made during the year.

(c) The assessee contributed ₹ 6,00,000/- (20% of the basic salary) to the account of employees under National Pension Scheme.

(d) The company issued 10,000 debentures during the year out of which 2000 were convertible in to shares after a period of 5 years. Expenditure incurred on issue of the said debentures during the financial year was ₹ 3,50,000.

(e) The company's branch office was located in an old building taken on rent under an agreement with the lessor. During the FY, with the consent of the lessor, the old building was demolished and a new office building was constructed on the same site at a cost of ₹ 20,00,000/-. Under an agreement, the company was permitted to re-occupy the newly constructed office building for a further period of 20 years at the same rent.

Additional information:

(i) During the financial year 2024-25, M Auto entered into an agreement with Garg Auto Ltd. As per the agreement, Garg Auto Ltd. has agreed not to engage in the manufacturing of automobile spare parts at Lucknow. On 1.05.2024, the assesse paid ₹ 12 lakhs without deduction of tax at source as non-compete fee to Garg Auto Ltd.

(ii) Net profit (before depreciation) from the business of automobile accessories of Patna unit was ₹ 25 lakhs for the financial year.

(iii) Details of plant and machinery (rate of depreciation 15%) owned by the assessee -

Lucknow unit:

Opening WDV as on 1.04.2024 was ₹ 14,75,000.

All the machines were sold in March 2025 for ₹ 15,00,000.

Patna unit:

Old machinery purchased in June 2024 for ₹ 10,00,000.

New machinery purchased in August 2024 for ₹ 6,00,000.

Assume, the company does not own any other fixed asset.

(iv) Plot of land purchased by the company in FY 2010-11 was compulsorily acquired by the State Government on 10.12.2022. Original compensation awarded was ₹ 10 lakh, out of which ₹ 8 lakhs were received on 10.04.2023 and the balance t 2 lakhs on 1.10.2023.

On an appeal made by the assessee, the Court awarded an additional compensation of ₹ 7 lakhs. Out of this, ₹ 4 lakhs were received on 14.10.2023 and ₹ 3 lakhs were received on 1.02.2025. The Court further awarded an interest on additional compensation amounting to ₹ 12 lakhs, the same was received on 20.03.2025.

Compute the total income and tax liability of M Auto for the assessment year 2025-26 under the regular provision of the Income-tax Act applying and explaining the relevant provisions in brief, assuming that the assessee has not opted for any concessional tax rates under special provisions of the Income-tax Act, 1961.

Total turnover of the company for the financial year 2021-22 and 2022-23 was ₹ 300 crores and ₹ 350 crores respectively. Ignore the provisions of MAT.

Would it be beneficial for M Auto to opt for beneficial tax rates for financial year 2024-25. Support your view with necessary explanations. ***(14 Marks)***

Answer

Computation of Total Income and tax liability of M Automobile Ltd. for the A.Y. 2025-26 under regular provisions of the Act

	Particulars	₹	
I	**Profits and gains of business or profession**		
	Profit (before depreciation) as per the Statement of profit and loss of Lucknow unit		50,00,000
	Add: **Items debited but to be considered separately or to be disallowed**		
	(i) Commission to Robert, a non-resident without deducting TDS	Nil	
	[Commission to a non-resident who does not have any office or PE in India is not chargeable to tax in India if the services are performed outside India. In such case, the obligation to deduct tax does not arise. Since the same has been debited to the statement of profit and loss, no adjustment is required to be made]		
	(ii) Provision for warranty	Nil	
	The provision is allowed as deduction[3], if there is present obligation as a result of past event, it is reasonably certain that an outflow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate can be made of the obligation. In the present case, assuming		

[3] By virtue of ICDS X

	that these conditions are satisfied, provision for warranty is allowable as deduction[4]. Since the same has been debited to the Statement of Profit and loss, no adjustment is required to be made.		
	(iii) Contribution towards employees' pension scheme	1,80,000	
	Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction. Accordingly, ₹ 1,80,000, being 6% of ₹ 6,00,000/20% is disallowed.]		
	(iv) Expenditure on issue of debentures including convertible debentures	Nil	
	The expenditure incurred on the issue and collection of debentures would be treated as revenue expenditure even in case of convertible debentures, i.e., the debentures which had to be converted into shares at a later date[5]**.** Since the same has been debited to the Statement of Profit and loss, no adjustment is required to be made.		
	(v) Expenditure on construction of new building	20,00,000	
	Cost of repairs to the premises occupied by the assessee as a lessee is allowed as deduction other than of capital in nature. Since it has been debited to the statement of profit and loss, the same has to be added back while computing business income		
			21,80,000
			71,80,000

[4] *As per Supreme Court in M/S. Rotork Controls India (P) Ltd vs CIT, Chennai on 12 May, 2009*

[5] *CIT v. ITC Hotels Ltd. (2011) 334 ITR 109 (Kar.)*

	AI(i) Payment of non-compete fee without deduction of tax at source [Non-compete fees is in the nature of revenue expenditure. Since TDS u/s 194J has not been deducted on non-compete fee paid to Garg Auto Ltd., 30% of ₹ 12 lakhs would be disallowed under section 40(a)(ia). However, as the amount is not debited in the Statement of Profit and loss, only ₹ 8,40,000 is allowed as deduction] ***Note –*** *Alternatively, if the non-compete fees is in the nature of capital, then depreciation needs to be computed on the said expenditure.*[6]		8,40,000
	Profit (before depreciation) as per the Statement of Profit and Loss of Lucknow Unit		63,40,000
	Profit (before depreciation) as per the Statement of Profit and loss of Patna unit		25,00,000
			88,40,000
	***Less:* Depreciation as per the Income-tax Rules, 1962**		
	Depreciation on construction of new building [M Auto is eligible for depreciation on construction of new building not owned by it but in respect of which it holds a leasehold right.[7] ₹ 2,00,000, being 10% of ₹ 20 lakh is allowed as deduction assuming it was put to use for more than 180 days]	2,00,000	
	Depreciation on Plant & Machinery		
	Opening WDV as on 1.4.2024 | 14,75,000		

[6] *Sharp Business System v. CIT (High Court of Delhi) ITA 492/2012 & C.M. APPL. 14836/2012 dated 05-11-2012*

[7] *Explanation 1* to section 32

	Add: Old machinery (Patna Unit) in June 2024	10,00,000		
	Add: New machinery (Patna Unit) in August 2024	6,00,000		
	Less: Sales Consideration of machinery of Lucknow unit	15,00,000		
		15,75,000		
	Depreciation @15% on ₹ 15,75,000		2,36,250	
	Additional depreciation on new machinery @20% (Patna unit)		1,20,000	
				5,56,250
	***Note –** If non-compete fees is in the capital nature, then depreciation of ₹ 3,00,000 being @ 25% on ₹ 12,00,000 is allowable.*			
				82,83,750
	Long-term capital gain on enhanced compensation			
	Compensation received [Taxable in the year of receipt]		3,00,000	
	Less: Cost of acquisition		-	
	Long-term capital gain [Since plot of land was held for more than 24 months]			3,00,000
III	**Income from Other Sources**			
	Interest on enhanced compensation		12,00,000	
	Less: 50% of interest		6,00,000	
				6,00,000
	Gross Total Income/ Total Income			**91,83,750**
	Tax on ₹ 91,83,750			
	Tax on LTCG of ₹ 3 lakhs @20% [Since transfer takes place before 23.7.2024]		60,000	
	***[Note –** Alternatively, rate of 12.5% can also be applied considering that enhanced*			

	compensation is received on or after 23.7.2024. In such case, tax on LTCG would be ₹ 37,500 and tax liability would be ₹ 23,48,780]		
	Tax on balance income of ₹ 88,83,750 @25%, since total turnover for P.Y. 2022-23 does not exceed ₹ 400 crores	22,20,938	
			22,80,938
	Add: HEC @4%		91,238
	Tax liability		**23,72,176**
	Tax liability (rounded off)		**23,72,180**

Computation of total income and tax liability of M Auto for the A.Y. 2025-26 under section 115BAA

Particulars	₹	₹
Total Income as per regular provisions of the Act		91,83,750
Add: Additional depreciation		1,20,000
Total Income as per section 115BAA		**93,03,750**
Tax on ₹ 93,03,750		
Tax on LTCG of ₹ 3 lakhs @20% [Since transfer takes place before 23.7.2024]	60,000	
[Note– *Alternatively, rate of 12.5% can also be applied considering that enhanced compensation received on or after 23.7.2024. In such case, tax on LTCG would be ₹ 37,500 and tax liability would be ₹ 23,08,960]*		
Tax on balance income of ₹ 90,03,750 @22%	19,80,825	
		20,40,825
Add: Surcharge **@10%**		2,04,083
		22,44,908
Add: HEC @4%		89,796
Tax liability		**23,34,704**

Tax liability (Rounded off)		**23,34,700**
Since the tax liability of M Auto under section 115BAA is lower than the tax liability computed under regular provisions of the Act, it would be beneficial for it to opt for section 115BAA for A.Y. 2025-26.		

Question 2

(a) A Ltd., an Indian company is a wholly owned subsidiary of another Indian company - E Ltd. On 1.10.2020, A Ltd. sold a plot of land to E Ltd. for ₹ 35 lakhs (Plot was purchased in January 2010 for ₹ 15 lakhs). On 1.02.2023, E Ltd. converted the said plot into stock-in-trade when the fair market value (Stamp Duty Value) of the said plot was ₹ 60 lakhs. The plot is sold by E Ltd. on 30.06.2024 for ₹ 65 lakhs. Discuss the tax implications in the hands of A Ltd. and E Ltd.

CII: FY 2009-2010-148; 2020-21- 301; 2022-23 -331; 2024-25-363.

(4 Marks)

(b) S Ltd., a domestic company, purchased its own shares on 10th November, 2024 in accordance with the provision of Section 68 of the Companies Act, 2013. The consideration for buyback amounted to ₹ 25 lakhs, which was paid on the same day. The amount received by the company on 1.04.2021 for issue of 10,000 shares having face value of ₹ 100 per share was ₹ 15 lakhs (including premium).

Rohan, who acquired 100 shares of S Ltd. @ ₹ 150 per share (including the premium of ₹ 50/- sold these shares to Divyam at ₹ 200 per share on 1.03.2023. Divyam received ₹ 250 per share in the buyback scheme of S Ltd. in respect of all the 100 shares he purchased from Rohan.

You are required to -

(i) Compute the additional income-tax payable by S Ltd.

(ii) Discuss the taxability of amount received on account of such buyback of shares in the hands of Divyam.

(iii) Will your answer change, if S Ltd. is a foreign company and the date of buyback is 10th September, 2024? ***(4 Marks)***

(c) Mr. Manoj, aged 47 years born in India, left for employment in United States in October, 2010. Since, then he is staying in USA and his wife is residing at Delhi. After FY 2010-11, Mr. Manoj never stayed for more than

30 days in India in any financial year. He remitted $40,000 in joint bank account (maintained with his wife) at Punjab National Bank, Delhi branch on 10th April, 2011. His wife invested in his (Manoj's) name ₹ 13 lakhs in the listed shares of a domestic company on 20th April, 2012. The consideration for the purchase of shares was paid in USD and the value as translated in INR terms. On 2nd March, 2025, these shares were sold for ₹ 15 lakhs. STT was paid both at the time of purchase and sale.

On 10th March, 2025, Manoj acquired a vacant land from Tulsi Foundations, a welfare trust registered u/s 12AB of the Act, for ₹ 30 lakhs when the Stamp Duty Value (guideline value) of the said land was ₹ 40 lakhs. He has following incomes during the financial year 2024-25 -

- *dividend of ₹ 55,000/- from X Ltd., an Indian company.*
- *interest of ₹ 20,000 credited to his NRE account with State Bank of India, Delhi branch.*
- *royalty of ₹ 2,00,000 (gross) received for authoring a book on literature, from a publication house at Delhi.*

During the financial year, he paid a premium of ₹ 2,00,000/- on his life insurance policy in India.

Compute the total income and net tax liability of Mr. Manoj for the assessment year 2025-26 assuming that he has opted out from the default tax regime.

(Ignore the provisions of Chapter XII-A).

Average of telegraphic buying and selling rates of 1USD in Indian Rupees:

- *20th April 2012 - ₹ 60; 2nd March 2025 - ₹ 75*

Cost inflation indices: F.Y. 2012-13 - ₹ 200; F.Y: 2024-25 - ₹ 363 ***(6 Marks)***

Answer

(a) (i) Tax implications in the hands of A Ltd.

Transfer of plot of land by A Ltd., an Indian subsidiary company to E Ltd., its Indian holding company on 1.10.2020 is not regarded as transfer as per section 47. Hence, there is no tax implications in the hands of A Ltd., being the transferor.

However, on conversion of the plot of land into stock in trade by E Ltd. on 1.2.2023 before the expiry of 8 years from the date of transfer, the capital gains exempt from tax by virtue of section 47 will be deemed to be the income of A Ltd. chargeable under the head 'capital gains' of the P.Y. 2020-21, being the year in which such transfer took place.

Accordingly, the following amount of long-term capital gains would be chargeable to tax for the A.Y. 2021-22:

Capital gains	**(₹)**
Full value of consideration	35,00,000
Less: Indexed cost of acquisition [₹ 15,00,000 x 301/148]	30,50,676
Long-term capital gain chargeable to tax for A.Y. 2021-22	**4,49,324**

(ii) Tax implications in the hands of E Ltd.

Conversion of capital asset into stock in trade is a transfer. The profits or gains arising from the conversion will be chargeable to income-tax as income of the previous year in which such stock-in-trade is sold. Hence, nothing is taxable in the hands of E Ltd. in P.Y. 2022-23.

Accordingly, on transfer of stock-in trade by E Ltd. the capital gains and business income for the previous year 2024-25 would be as follows:

Capital Gains	**(₹)**
Fair market value of land on the date of conversion	60,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 x 331/301]	38,48,837
Long-term capital gains chargeable to tax for A.Y.2025-26	**21,51,163**
Business Income	
Sale price	65,00,000
Less: Fair market value of land on the date of conversion	60,00,000
Business income chargeable to tax for A.Y. 2025-26	**5,00,000**

(b) (i) No additional income-tax is to be paid by S Ltd. since the buy-back of shares took place on or after 1.10.2024

(ii) The sum of ₹ 250 per share paid by S Ltd. for purchase of its own shares would be deemed as dividend and taxable under the head "Income from Other Sources" in the hands of Divyam. Accordingly, ₹ 25,000 [₹ 250 x 100] would be taxable in the hands of Divyam.

No deduction for expenses would be available against such dividend income.

(iii) Yes, in such case, ₹ 5,000 being the difference between the cost of acquisition of ₹ 20,000 (₹ 200 x 100) and the value of consideration received of ₹ 25,000 (₹ 250 x 100) is chargeable to tax as Short-term capital gains in the hands of Divyam.

(c) Computation of total income and net tax liability of Mr. Manoj for the A.Y. 2025-26

Mr. Manoj is a non-resident for the A.Y. 2025-26 since he never stayed for more than 30 days in India in any financial year after F.Y.2010-11.

Particulars		(₹)	(₹)
Capital Gains			
Long term capital gain on sale of listed shares of a Domestic Company			
Full value of consideration		15,00,000	
Less: Cost of Acquisition [Assuming that the fair market value as on 31.1.2018 is the same. Further, no indexation and foreign currency fluctuations will be allowed while computing LTCG u/s 112A]		13,00,000	
Higher of			
- Actual cost	13,00,000		
- Lower of			
- Fair market value on 31.1.2018	13,00,000		
- Full value of consideration	15,00,000		
Long-term capital gain			2,00,000

Income from Other Sources		
Difference between actual consideration and stamp duty value on purchase of vacant land will not be taxable u/s 56(2)(x), since the same is received from a trust registered u/s 12AB	Nil	
Dividend from X Ltd.	55,000	
Interest credited to NRE Account with SBI, Delhi Branch - exempt	Nil	
Royalty for authoring a book on literature	2,00,000	
		2,55,000
Gross Total Income		4,55,000
Less: Deduction under section 80C in respect of life insurance premium restricted to		1,50,000
Total Income		**3,05,000**
Computation of tax payable		
Tax on Dividend @ 20%		11,000
Tax on Long-term capital gains@12.5% on ₹ 75,000 exceeding ₹ 1,25,000		9,375
Tax on other income of ₹ 50,000 at slab rate, since it is less than the basic exemption limit of ₹ 2,50,000		Nil
		20,375
Add: Health and education cess@4%		815
Tax Liability		**21,190**

Note – *Question states that Mr. Manoj's wife invested in her husband's name in listed shares of a domestic company. Long term capital gain on sale of listed shares on which STT has been paid at the time of purchase and sale, is calculated under section 112A.*

On transfer of listed shares acquired before 1.2.2018, the Fair Market Value as on 31.1.2018 is required. However, this information is not given in the question. On account of absence of this information, the above solution is given on the assumption that the fair market value as on 31.1.2018 is same *as the actual cost of ₹ 13 lakhs. However, alternate answer is also possible on the assumption that the fair market value as on 31.1.2018 is same as sale consideration of ₹ 15 lakhs. In such case, LTCG would be Nil, Total Income and Tax Liability would ₹ 1,05,000 and ₹ 11,440, respectively.*

Question 3

(a) (i) J Education Centre, a Charitable trust registered u/s 12AB of Income-tax Act runs schools for primary and secondary education. The following particulars pertaining to FY 2024-25 are furnished by the institution:

S. No.	**Particulars**	**₹ (in Lakhs)**
(i)	*Gross receipts from students towards admission fees, tuition fees, development fees etc.*	*175.00*
(ii)	*Interest from tax free bonds specified in section 10(15)*	*20.00*
(iii)	*Voluntary Contribution received (including anonymous donation ₹ 1.50 lakh)*	*10.50*
(iv)	*Grant from State Government (corpus fund)*	*8.50*
(v)	*Salary to teachers and administrative staff (This includes salary expenses of ₹ 5 lakhs which were not paid till 31.03.2025)*	*40.00*
(vi)	*Other General Expenses (This includes payment to a grocery store of ₹ 60,000 by un-crossed cheque)*	*20.00*
(vii)	*A land belonging to trust in a nearby village was sold (Purchased in 2007-08 for ₹ 5 Lakhs) and another land adjacent to the trust premises was purchased for ₹ 12 Lakhs to be used as playground of the children (ignore indexation)*	*10.50*

Compute the total income of the trust for the AY 2025-26. **(6 Marks)** *(ii) An educational institution having annual receipts of ₹ 4.95 crore during the financial year 2023-24. The institution has claimed exemption under section 10(23C)(iiiad). The assessing office has denied the exemption on the grounds that the educational institution has not made any application to the prescribed authority for approval under the said section 10(23C)(iiiad). Examine the action of the assessing officer in denying the exemption.* ***(2 Marks)***

(b) Mr. Dhruv, an individual resident in India aged 62 years, furnished you the following particulars of income earned in India, Country "A" and Country "B" for the financial year 2024-25 -

Particulars	***₹***
Income from profession carried on in India	*8,50,000*
Agriculture Income in Country "A" (gross)	*60,000*
Dividend from a company incorporated in Country "B"	*1,60,000*
Royalty Income from a literary book from Country "A"	*5,00,000*
Expenses incurred for earning royalty	*55,000*
Business Loss in Country "B" (Proprietary business)	*75,000*
Rent from a house situated in Country "B" (gross)	*2,10,000*
Municipal tax paid in respect of the above house in Country "B" (not allowed as deduction in Country "B")	*10,000*
Interest on Fixed Deposits and savings accounts with banks in India	*55,000*

India has not entered into double taxation avoidance agreement (DTAA) with Country "A" and Country "B".

Business loss in Country "B" not eligible for set off against other incomes as per law of that country. The rates of tax in Country "A" and Country "B" are 10% and 20% respectively.

Compute total income and net tax liability of Mr. Dhruv in India for the Assessment Year 2025-26, assuming that he has opted out from taxation under the tax regime under section 115BAC. ***(6 Marks)***

Answer

(a) (i) Computation of total income of J Education Centre, a Charitable Trust for the A.Y.2025-26

	₹
Gross Receipts from students	1,75,00,000
Interest from tax-free bonds specified in section 10(15) [not eligible for exemption, since trust is registered u/s 12AB]	20,00,000
Voluntary Contribution [other than anonymous donations]	9,00,000
Grant from the State Government ₹ 8.50 lakhs [Corpus Fund] [Assuming invested in the modes specified u/s 11(5)]	Nil
Note – *If it is assumed that grant from State Government, being corpus fund is not invested in the mode specified u/s 11(5), then the same would not be exempted.*	
Anonymous donations [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] being ₹ 1 lakh, is to be considered here. The balance of ₹ 50,000 of anonymous donation is taxable @30% under section 115BBC.	1,00,000
Note*: Total donations ₹ 10.50 lakh includes anonymous donation of ₹ 1,50,000. (i) 5% total donation being ₹ 52,500; (or ₹ 95,000 if Government grants are considered) (ii) Monetary limit ₹ 1,00,000, whichever is higher is not taxable under section 115BBC. So, the balance of ₹ 50,000 taxable @30% under section 115BBC. The sum of ₹ 1,00,000 is considered for computing aggregate receipts to reckon 15% and consequently the total income of the trust.*	
Alternatively, ₹ 1,00,000 can be considered only for inclusion in total income and not for computing 15%. The consequence of this is given as note at the end of the answer to this question.	

Capital gains on transfer of land [₹ 10.50 lakhs – ₹ 5,00,000]		5,50,000
		2,10,50,000
Less: 15% of income eligible for being set apart without any condition		31,57,500
		1,78,92,500
Less: Amounts applied for charitable purposes		
Salary to teachers and administrative staff [Salary expenses of ₹ 5 lakhs not paid during the P.Y. 2024-25 not treated as application]	35,00,000	
Other General Expenses [Payment of ₹ 60,000 made through uncrossed cheque not treated as application]	19,40,000	
Capital gains of ₹ 5.50 lakhs [₹ 10.50 lakhs – ₹ 5 lakhs] arising on transfer of land treated as application of income since entire consideration is utilised for acquiring another land for the purpose of trust	5,50,000	
Amount utilised in excess of net sales consideration for acquisition of land would also be treated as application [₹ 12,00,000 – ₹ 10,50,000]	1,50,000	
		61,40,000
Income of the trust (before including anonymous donation)		1,17,52,500
Add: Anonymous donation taxable under section 115BBC		50,000
Total income of the trust		**1,18,02,500**

Note - *As per the plain reading of section 13(7), it is possible to take a view that the anonymous donations of ₹ 1 lakh exempt from section 115BBC is not eligible for 15% accumulations. In such case, the amount* *eligible for 15% accumulations would be Rs 209.50 lakhs. 15% thereon would be ₹ 31.425 lakhs. The total income computation sequence would be ₹ 209.50 lakhs less 15% thereon being ₹ 31.425 lakhs = ₹ 178.075 lakhs. Deducting ₹ 61.40 lakhs = ₹ 116.675 lakhs. Adding anonymous donation (not taxable u/s 115BBC) ₹ 1 lakhs = ₹ 117.675 lakhs. Adding ₹ 50,000 taxable u/s 115BBC the total income would be ₹ 118.175 lakhs.*

(ii) An educational institution would be eligible for exemption under section 10(23C)(iiiad), without the condition of approval, if the annual receipts of the educational institution does not exceed ₹ 5 crore.

In this case, action of the Assessing Officer in denying the exemption on the grounds that the institution has not made any application to the prescribed authority for approval under section 10(23C)(iiiad) is not correct.

(b) Computation of total income and net tax liability of Mr. Dhruv for A.Y. 2025-26 as per the optional tax regime

	₹	₹
Income from House Property		
Let out property in Country B		
Rent from house property in Country B[8]	2,10,000	
Less: Municipal taxes paid in Country B	10,000	
	2,00,000	
Less: Deduction under section 24(a) @30%	60,000	
		1,40,000
Profits and Gains of Business or Profession		
Income from profession carried on in India	8,50,000	
Royalty income from a literary book in country A after reducing expenses [₹ 5,00,000 – ₹ 55,000]	4,45,000	
	12,95,000	
Less: Set off of business loss in Country B	75,000	
		12,20,000

[8] Rental Income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.

Income from Other Sources		
Agricultural income in Country A	60,000	
Dividend from a company incorporated in Country B	1,60,000	
Interest on fixed deposits and saving accounts with banks in India	55,000	
		2,75,000
Gross Total Income		**16,35,000**
Less: Deduction under Chapter VI-A		
Under section 80QQB – Royalty income of a resident from a literary book	3,00,000	
Under section 80TTB – Interest on fixed deposits and saving account, subject to a maximum of ₹ 50,000	50,000	
		3,50,000
Total Income		**12,85,000**
Tax liability on ₹ 12,85,000		
Tax on total income [30% of ₹ 2,85,000 + ₹ 1,10,000]		1,95,500
Add: Health and Education cess@4%		7,820
		2,03,320
Less: Deduction u/s 91 **(See Working Note below)**		56,095
Net tax liability		**1,47,225**
Net tax liability (Rounded off)		**1,47,230**
Working Note: Calculation of deduction under section 91		
Indian Average Rate of tax = ₹ 2,03,320/ ₹ 12,85,000 x 100 = 15.82 %		
Average Rate of tax in Country A is 10%		
Doubly taxed income pertaining to Country A = Agricultural income of ₹ 60,000 + Royalty income of ₹ 4,45,000 after deducting expenses – Deduction under section 80QQB of ₹ 3,00,000 = ₹ 2,05,000		

Deduction u/s 91 = (Lower of average rate of tax in Country A and Indian rate of tax) x Doubly taxed income = [10% x ₹ 2,05,000]	20,500	
Average Rate of tax in Country B is 20%		
Doubly taxed income pertaining to Country B		
Income from house property of ₹ 1,40,000 – Business loss in Country B of ₹ 75,000 + Dividend of ₹ 1,60,000 = ₹ 2,25,000.		
Deduction u/s 91 = (Lower of average rate of tax in Country B and Indian rate of tax) x Doubly taxed income = [15.82% x ₹ 2,25,000]	35,595	
Total rebate under section 91	56,095	

Question 4

(a) Examine the applicability of provisions of tax deducted at source/ tax collected at source and calculate the amount of TDS/TCS in the following independent cases applicable for the relevant period of financial year 2024-25 (A.Y. 2025-26):

(i) Mr. Rohan sold his Urban Agriculture Land to Mr. Sohan for a consideration of ₹ 49 Lakh. The Stamp Duty Value on the date of sale (transfer) i.e. 01.08.2024 is ₹ 51 Lakh. Both Mr. Rohan and Mr. Sohan are Resident Indians. The land sold by Mr. Rohan is a Capital Asset in term of section 2(14) of Income-tax Act. ***(2 Marks)***

(ii) A co-operative bank has provided, the followings information relating to cash withdrawals by its two customers during the F.Y.·2024-25:

Date of Cash Withdrawal	***Mr. A (Savings Account) (₹)***	***Mr. B (Current Account) (₹)***
05.04.2024	*45,00,000*	*23,00,000*
10.11.2024	*60,00,000*	*75,00,000*

Mr. B has not filed his return of income for the last three assessment years (the date of filing return u/s 139(1) has expired) whereas Mr. A has been regularly filing his return of income. ***(4 Marks)*** *(iii) Mr. Rohit, a resident, has received ₹ 9 lakhs on 30.6.2024, towards maturity proceeds of LIC policy taken on 1.7.2021, for which the sum assured is ₹ 8 lakhs and the annual premium was ₹ 2,50,000.* ***(2 Marks)***

(b) Canada Ltd., (a company incorporated in Canada) holds 35% voting powers in LMN Ltd. (a company registered in Indian Companies Act,1956) through holding 35% shares of LMN Ltd. LMN Ltd. is engaged in providing software development and consultancy services (both onsite and offsite). LMN Ltd. during the financial year 2024-25, billed Canada Ltd. for 120 man-hours at the rate of ₹ 3,600 per man hour. The total cost (direct and indirect) for executing this work amounted to ₹ 4,50,000/-.

LMN Ltd. during the same financial year, for the similar services rendered billed XYZ Ltd., India at the rate of ₹ 5,400 per man hour (for similar level of manpower and resources) and earned a Gross Profit of 50% on its cost.

The transactions of LMN Ltd. with Canada Ltd. and XYZ Ltd. are comparable, subject to the following differences:

- *While LMN Ltd. derives technology support from XYZ Ltd., there is no such support received from Canada Ltd. The value of technology support received from XYZ Ltd. may be assumed at 4% of normal gross profits.*
- *Assuming that Canada Ltd. gives business in large volumes, LMN Ltd. offered to Canada Ltd. a quantity discount which may be valued at 20% normal gross profits.*
- *In the case of rendering services to Canada Ltd., LMN Ltd. neither runs any risk nor incurs any marketing costs. On the other hand, in case of services to XYZ Ltd. LMN Ltd. has to assume all the risk and costs associated with the marketing function which may be estimated at 10% of normal gross profits.*
- *LMN Ltd. offered one month's credit to XYZ Ltd. The cost of providing such credit may be valued at 2 % of the gross profits. No such credit was given to Canada Ltd.*

Compute the Arm's length Price along with income to be increased under the Cost-Plus Method. ***(6 Marks)***

Answer

(a) **(i)** Since the stamp duty value of urban agricultural land exceeds ₹ 50 lakhs, Mr. Sohan is required to deduct tax at source under section 194-IA @1% on ₹ 51 lakhs, being the higher of consideration of ₹ 49 lakhs and stamp duty value of ₹ 51 lakhs on 01.08.2024 on purchase of urban agricultural land from Rohan. Accordingly, tax deduction at source is ₹ 51,000.

(ii) Since Mr. A has regularly filed his return of income, the co-operative bank is required to deduct tax at source @2% on the cash withdrawals of ₹ 5 lakhs, being the sum exceeding ₹ 1 crore under section 194N on 10.11.2024. Accordingly, tax to be deduction at source is ₹ 10,000.

Since Mr. B has not filed his return of income for all the three assessment years relevant to the previous years for which due date of filing return of income has expired at the time of cash withdrawals, the co-operative bank is required to deduct tax at source@ 2% on ₹ 3 lakhs (exceeding ₹ 20 lakhs) on 05.4.2024 and on ₹ 75 lakhs on 10.11.2024, being the sum exceeding ₹ 20 lakhs but does not exceed ₹ 1 crore. Accordingly, tax deduction at source is ₹1,56,000 [₹ 6,000 + ₹ 1,50,000].

(iii) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 9 lakhs received on 30.6.2024 are not exempt under section 10(10D) in the hands of Mr. Rohit. Therefore, tax is required to be deducted @5% under section 194DA on the amount of income comprised therein i.e., on ₹ 1,50,000 (₹ 9 lakhs being maturity proceeds – ₹ 7,50,000, being the aggregate amount of insurance premium paid). Accordingly, tax deduction at source is ₹ 7,500.

(b)

Computation of Arm's Length Price as per Cost Plus Method		
Gross Profit mark-up on cost in case of XYZ Ltd. [an unrelated party]		50%
Less: Adjustments for functional and other differences		
Quantity discount to Canada Ltd. [Quantity	10	

discount is allowed to Canada Ltd. as it gives business in large volumes, but the same is not provided to XYZ Ltd. Therefore, it shall be adjusted] [20% of 50%, being gross profit]	%	
Risk and cost associated with marketing [LMN Ltd. has to bear all the risk and costs associated with the marketing function in case of XYZ Ltd., while there is no such risk in case of services to Canada Ltd. Therefore, market risk and cost shall be adjusted] [10% of 50%, being gross profit]	5%	
Cost of credit to XYZ Ltd. [LMN Ltd has provided credit of 1 month to XYZ Ltd. but not to the Canada Ltd., a related party. Therefore, adjustment for the cost of such credit has to be carried out to arrive at the ALP] [(2% of 50%, being gross profit]	1%	
		16%
		34%
Add: Value of technology support [XYZ Ltd. provides technology support, but Canada Ltd. does not provide such support. Therefore, value of technology support shall be adjusted] [4% of 50%, being gross profit]		2%
Arm's length gross profit mark up to cost		36%
Cost incurred by LMN Ltd. for executing Canada Ltd.'s work		4,50,000
Add: Adjusted gross profit (₹ 4,50,000 x 36%)		1,62,000
Arm's length billed value		**6,12,000**
Less: Actual Billed Income from Canada Ltd. (₹ 3600 x 120 manhours)		4,32,000
Total Income of LMN Ltd to be increased by		**1,80,000**

Question 5

(a) *Answer any **two** out of the following 3 sub-parts, viz. (i), (ii) & (iii) Your answer should cover:*

- *Issue involved*

- *Provisions applicable*
- *Analysis and application*
- *Conclusion*

(i) On 15th October, 2024, M/s D Pvt. Ltd. filed its return of income for the AY 2024-25. The return was found to be defective and on 02/04/2025, the Assessing Officer issued an intimation to correct the defect within a period of 15 days from the date of the notice. The company rectified the defects on 10/04/2025.

Whether, the Assessing Officer is empowered to issue a notice under Section 143(2) upto 30/06/2026 in such situation.

D Pvt. Ltd. contended that the notice u/s 143(2) can only be issued within 3 months from the end of the financial year in which the return was furnished.

Discuss whether the contention of the D Pvt. Ltd. is correct?

(ii) Mr. Chauhan furnished his return of income for the FY 2023-24, on 23/07/2024 declaring a total income of ₹ 16 lakhs. The Assessing Officer passed an order under section 154 and determined total income at ₹ 19 lakhs.

Mr. Chauhan claimed that the action of the Assessing Officer of enhancement in the total income is not in accordance with the provisions of the Income-tax Act. He wishes to file an application before the Dispute Resolution Committee to get the issue resolved.

Discuss-

- *Whether order under section 154 is a "specified order" in terms of section 245MA?*
- *If yes, are there any monetary limits prescribed? Does Mr. Chauhan's case fall within the monetary limit criteria?*

(iii) Mr. Roy, an Indian resident liable to collect tax under section 206C, failed to pay to the Central Government the tax collected by him from customers during the FY 2023-24. The Assessing Officer initiated prosecution proceedings against Mr. Roy on 24/07/2024 under section 276BB. Mr. Roy applied for Compounding of Offences on 17/08/2024 which was rejected due to non-payment of outstanding tax. Mr. Roy

also filed an appeal with CIT(A) against the penalty imposed by the Assessing Officer. On 08/10/2024, Mr. Roy paid all outstanding tax demand including interest and penalty thereon.

He again wishes to apply for Compounding of Offences under the new guidelines issued on 17/10/2024. You are required to answer the following questions in this regard:

(A) Can Mr. Roy apply for Compounding of Offences under the new guidelines, when the compounding application was already rejected under the old guidelines? Also, is he eligible to apply for compounding of offences when the appeal against the penalty is pending before the CIT(A)?

(B) By which date Mr. Roy needs to file the application for compounding under the revised (New) guidelines?

(4 x 2 = 8 Marks)

(b) Answer following questions-

(A) Explain the terms "Most Favored Nation" and "Base Erosion and Profit Shifting (BEPS)" with reference to the international tax treaties.

(3 Marks)

(B) "Article 14 of the UN Model Convention gives exclusive rights to the source country to tax Independent Services." Examine the correctness of the above statement. ***(3 Marks)***

Answer

(a) (i) Issue Involved: The issue under consideration is whether, for the purpose of computing limitation period under section 143(2), the relevant date is the date of filing of the original return of income or the date of removal of defects in response to a notice issued under section 139(9).

Provision applicable: Section 139(1) mandates the filing of a return of income by an assessee, while section 139(9) provides an opportunity to rectify defects in the return within a prescribed time frame without filing a fresh return.

Section 143(2) requires the Assessing Officer to issue a notice for scrutiny assessment within three months from the end of the financial year in which the return was filed.

Analysis: Since the return was defective, M/s D Pvt. Ltd. was called upon to remove such defects, which were removed on 10th April, 2025, and it is within the time allowed by the Assessing Officer. Therefore, upon such defects being removed**,** the return would relate back to the date of filing of the original return i.e., 15th October, 2024.

Consequently, the limitation for issuance of notice under section 143(2) would be 30th June, 2025 i.e., three months from the end of the financial year in which the return under section 139(1) was filed.

Conclusion: In the present case, the Assessing Officer is empowered to issue a notice under section 143(2) up to 30th June, 2025 and not up to 30th June, 2026. Accordingly**,** the contention of D Pvt. Ltd. is correct.

Note *– The facts given in the question are similar to the facts in DCIT vs Travel Designer India Pvt. Ltd. ~~v~~. (2025) 482 ITR 283 (SC). The above answer is based on the rationale of the Apex Court ruling in the said case.*

(ii) Yes, a rectification order made under section 154 having the effect of enhancing the assessment or reducing the loss is a specified order in terms of section 245MA subject to the fulfillment of certain conditions.

Yes, the following monetary limits are prescribed for <u>specified order</u>.

(i) the aggregate sum of variations proposed or made in such order should not exceed ₹ 10 lakhs; and

(ii) the return has been furnished by the assessee for the assessment year relevant to such order and the total income as per such return should not exceed ₹ 50 lakhs.

Yes, Mr. Chauhan's case falls within the monetary limit criteria since the variation of ₹ 3 lakhs in the order under section 154 does not exceed ₹ 10 lakhs; and the total income as per return of income does not exceed ₹ 50 lakhs.

Thus, Mr. Chauhan is eligible to file an application before the Dispute Resolution Committee to get the issue resolved.

(iii) (A) Yes, Mr. Roy can apply for compounding of offences under the new guidelines even if the compounding application was already rejected under the old guidelines since it was rejected due to non-payment of outstanding tax which is a curable defect.

Yes, Mr. Roy is eligible to apply for compounding of offences when the appeal against the penalty is pending before CIT(A) however, he must undertake to withdraw appeal filed by him.

(B) Mr. Roy can file application for compounding under the revised (New) guidelines at any time after committing the offence, regardless of whether the same has come to the notice of the department or prosecution proceedings have been launched.

(b) (A) Most Favoured Nation clause is usually found in Protocols and Exchange of Notes to Double Taxation Conventions. Under this clause a country agrees to extend the benefits to the residents of the other country, which it had (first country) promised to the residents of third country. It tries to avoid discrimination between residents of different countries.

Base Erosion and Profit Shifting (BEPS) refers to tax planning strategies that exploit gaps and mismatches in tax rules to make profits 'disappear' for tax purposes or to shift profits to locations where there is little or no real activity, but the taxes are low, resulting in little or no overall corporate tax being paid.

(B) The statement is **not correct.**

Article 14 of the UN Model Convention does not give exclusive rights to the source country to tax Independent Services.

It gives an exclusive right to the residence country to tax Independent Services except in the following two circumstances when such Independent Services may also be taxed in the source country:

(i) If he has a fixed base regularly available to him in the source country for the purpose of performing his activities.

(ii) If his stay in the source country is for a period or periods amounting to or exceeding in the aggregate 183 days in any 12 months period commencing or ending in the fiscal year concerned.

Question 6

(a) M/s P Associates, a partnership firm (liable for tax audit under section 44AB) engaged in the business of food processing, provided following relevant information to you during your tax audit examination in respect of purchases made from various entities:

Name of the entity	***Turnover***	***Investment in plant and machinery***	***Date of purchase***	***Date of payment as per the agreement***	***Date of actual payment***
Teal Pvt. Ltd.	*₹ 34 crores*	*₹ 15 crores*	*11/01/2025*	*01/03/2025*	*28/02/2025*
Cyan Pvt. Ltd.	*₹ 3 crores*	*₹ 45 lakhs*	*21/11/2024*	*01/12/2024*	*28/02/2025*
Rust Pvt. Ltd.	*₹ 25 crores*	*₹ 5 crores*	*01/03/2025*	*20/04/2025*	*18/04/2025*

Discuss whether P Associates is in compliance with the relevant provisions of Income-tax Act, 1961 and other related Act relevant to your tax audit?

List out, the points to be kept in mind while conducting the audit of P Associates for the purpose of clause 22 of Form 3CD. ***(3 x 2 = 6 Marks)***

(b) Discuss whether the provisions of General Anti-Avoidance Rules can be invoked in the following scenarios:

(i) Red Ltd., an Indian company, incorporates Brown Ltd., as a wholly owned subsidiary in country Y, a no-tax jurisdiction. Brown Ltd. is engaged in manufacturing of cement, raw material for which is available at a lower price in Country Y. Brown Ltd. has not paid any dividend to Red Ltd.

(ii) Yellow Ltd. (an Indian company) is a wholly owned subsidiary of Pink Ltd., a company incorporated in Country H. Pink Ltd. gave a loan to Yellow Ltd. during the FY 2024-25. The DTAA between India and Country H gives the exclusive right to tax interest to the resident state. Country H provides tax exemption of interest receivable by a resident company from any entity in which the resident company holds not less than 10% of equity shares. Pink Ltd. does not have a PE in India. Yellow Ltd. is able to claim interest deduction from its total income and thus,

enjoyed a tax benefit of ₹ 1.50 crores in India. Pink Ltd. also earned a tax benefit equivalent of ₹ 2 crores in Country H. ***(2 x 2 = 4 Marks)***

(c) Analyse whether the following persons fall under the definition of "applicant" under section 245N(b)(A) to apply for advance ruling with the Board for Advance Ruling under the Income-tax Act 1961.

(i) TBF India Pvt. Ltd. a closely held Indian company needs to pay ₹ 75 crores to BIK Inc. of USA for some services provided by BIK Inc. on 12.04.2024. TBF India wants to know whether such services fall under the definition of technical service and thus determine the amount of tax to be deducted on the payment to be made to BIK Inc. The estimated tax liability arising out of this transaction is ₹ 15 crores in the hands of BIK Inc.

(ii) Figtree Ltd., an Indian private sector company is considering entering into an export contract with Lamou Inc. of China. Figtree Ltd. is expected to earn an income of ₹ 500 crores and expected tax liability would be ₹ 150 crores. However, Figtree Ltd. wants. to know if it is eligible for section 10AA deduction on such export?

(iii) Universe India Ltd., an Indian public-sector undertaking, undertook a transaction with Moon Pte. of Singapore. The expected tax liability in the hands of Universe India Ltd. involved in this transaction is expected to be ₹ 56 crores.

(iii) BNHJ Ltd. is an Indian public-sector undertaking. For the AY 2023-24, it has a matter pending with the Income Tax Appellate Tribunal which involves a question of fact in respect of a transaction it entered into with a non-resident company. The tax liability involved in this transaction is expected to be ₹ 105 crores. ***(4 Marks)***

Answer

(a) As per section 43B(h) any sum payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of the Micro, Small and Medium Enterprises Development (MSMED) Act shall be allowed as deduction only on actual payment.

Section 15 of the MSMED Act, 2006 mandates payment of goods or services to supplier, being a micro or small enterprise by the buyer on or before the date agreed upon between them in writing i.e., as per the written agreement, which cannot be more than 45 days from the day of acceptance.

M/s P Associates, a partnership firm made purchases from Teal Pvt. Ltd., Cyan Pvt. Ltd. and Rust Pvt. Ltd. Cyan Pvt. Ltd. is a micro enterprise and Rust Pvt. Ltd. is a small enterprise.

Cyan Pvt. Ltd. is a micro enterprise as its investment in plant & machinery does not exceed ₹ 1 crore and turnover does not exceed ₹ 5 crores. Rust Pvt. Ltd. is a small enterprise, since investment in plant & machinery does not exceed ₹ 10 crore and turnover does not exceed ₹ 50 crores.

Teal Pvt. Ltd. is not a micro or small enterprise. Hence, provisions of section 43B(h) are not applicable in respect of payment to it.

In the present case, payment to Cyan Pvt. Ltd. is to be made by 1.12.2024 but such payment was made on 28.2.2025. Since such amount is actually paid during the P.Y. 2024-25 such sum is eligible for deduction during the P.Y. 2024-25.

Payment to Rust Pvt. Ltd. is to be made on 14th April 2025, within 45 days from the date of purchase even if the agreed date was 20.4.2025. However, in the present case, payment was made on 18.4.2025, which is beyond the specified time limit of 45 days. Such payment is not allowed to be deducted during the P.Y. 2024-25 but is allowable on actual payment basis in the P.Y. 2025-26.

Since payment to Cyan Pvt. Ltd. and Rust Pvt. Ltd. are made after the specified time limits, M/s P Associates is liable to pay compound interest from the appointed date or from the date immediately following the date agreed upon, at three times of the bank rate notified by the Reserve Bank. Such interest being of penal nature is not allowed to be deducted while computing business income as per section 23 of MSMED Act, 2006.

While conducting the audit of P Associates, the following points are to be kept in mind:

- seek information regarding status of the enterprise i.e., whether the same is covered under the MSMED Act, 2006.

- Obtain a full list of suppliers of the assessee which fall within the purview of the definition of "Supplier[9]" It is the responsibility of the auditee to correctly classify and identify those suppliers who are covered by this Act.
- verify from the books of account whether any interest payable or paid to the buyer in terms of section 16 of the MSMED Act has been debited or provided for in the books of account.
- verify the interest payable or paid as mentioned above on test check basis.
- verify the additional information provided by the auditee relating to interest under section 16 in his financial statement.
- verify that only interest paid or payable in terms of section 16 of the MSMED Act which has been debited to the Profit & Loss account is reported under clause 22(i). Such interest is not allowable as deduction for the purposes of computation of income under the Income-tax Act, 1961 in terms of section 23 of the MSMED Act.
- verify the payments which are required to be made to a micro or small enterprise during the relevant previous year and then the amount actually paid or not paid within the time limit specified under section 15 of the MSMED Act and also the amount which are inadmissible as deduction during the relevant previous year.

(b) (i) In Country Y, the raw material is available at lower price and incorporation of Brown Ltd., a wholly owned subsidiary in Country Y, to reduce the cost of manufacturing of cement does not lack commercial substance even if Country Y is a no-tax jurisdiction. Further, the main purpose of the arrangement is not to obtain tax benefits, GAAR would not be attracted even if Brown Ltd. has not paid any dividend to Red Ltd.

(ii) For GAAR provisions to be invoked, the tax benefits arising from the transaction to all the parties together should be more than ₹ 3 crores.

The application of tax laws is jurisdiction specific and hence what can be seen and examined is the tax benefit enjoyed in Indian jurisdiction due to the arrangement or part of the arrangement.

[9] under section 2(n) of the MSMED Act, 2006.

Thus, in the present case, since tax benefit in Indian jurisdiction does not exceed ₹ 3 crores, GAAR cannot be invoked.

(c) (i) TBF India Pvt. Ltd. would fall under the definition of applicant for advance ruling in relation to tax liability of BIK Inc. USA, being a non-resident arising for providing services to TBF India Pvt. Ltd. for determining whether such services fall under the definition of technical services and subject to tax deduction at source.

(ii) Figtree Ltd., an Indian private sector company would fall under the definition of applicant for advance ruling since its tax liability arising out of the transaction value with Lamou Inc. of China, being a non-resident is ₹ 500 crores, which is more than ₹ 100 crores.

(iii) Universe India Ltd., an Indian public sector company would fall under the definition of applicant for advance ruling since the value of the transaction with Moon Pte. of Singapore, being a non-resident is ₹ 100 crores or more, as its tax liability itself is ₹ 56 crores.

Note – *The public sector company is notified for the purpose of section 245N(b)(A)(IV). Since in this sub-sub-clause (IV) there is no linking or reference with any of the sub-clause of clause (a), it is possible that a public sector company is an applicant for advance ruling without any monetary limit. In such case, Universe India Ltd., being a public sector undertaking, can apply for advance ruling for its own tax liability.*

(iv) BNHJ Ltd., an Indian public sector undertaking would fall within the definition of applicant for advance ruling, even if the matter is pending with the Income-tax Appellate Tribunal which involves a question of fact in respect of a transaction it entered with a non-resident company.