

MODEL TEST PAPER 1
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 Questions in Division A, working notes are not required.

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

Total Marks: 100 Marks

Time Allowed: 3 Hours

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

M/s. Swift LLP filed its return of income for A.Y.2024-25, declaring total income of ₹ 18 lakhs, on 2nd December 2024. On processing of return, the total income determined under section 143(1)(a) was ₹ 22 lakhs, after disallowing claim for deduction under section 10AA on account of late furnishing of return of income. Thereafter, on scrutiny, the Assessing Officer made some additions under section 40(a)(ia) and section 43B and passed an assessment order under section 143(3) assessing total income of ₹ 35 lakhs. Later on, the Assessing Officer noticed that some information is flagged for A.Y. 2024-25 suggesting that certain income chargeable to tax had escaped assessment. Based on the said information, notice under section 148 was issued for making reassessment under section 147 after compliance with the requirements stipulated under section 148A. The total income reassessed under section 147 was ₹ 42 lakhs.

Consider that none of the additions or disallowances made in the assessment or re-assessment as above qualifies under section 270A(6). Based on the facts of the above case scenario, choose the most appropriate answer to Q. 1 to 5 below:

1. For the purpose of answering this question alone, assume that intimation under section 143(1)(a) was sent to M/s Swift LLP on 1.2.2026, would such intimation be valid?
 - (a) Yes, since it was sent within one year from the end of the financial year in which return was made.

- (b) No, since it was sent after the expiry of nine months from the end of the financial year in which return was made.
 - (c) No, since it was sent after the expiry of one year from the end of the month in which return was made.
 - (d) No, since it was sent after the expiry of nine months from the end of the month in which return was made.
2. For the purpose of answering this question alone, assume that in case of M/s Swift LLP, certain other incomes (which had escaped assessment and came to Assessing Officer's notice subsequently in the course of reassessment proceedings) were also assessed or reassessed in the reassessment order made under section 147, in respect of which provisions of section 148A were not complied with. Examine whether the action of the Assessing Officer is valid while making reassessment order in respect of such incomes?
- (a) The action of the Assessing Officer is not valid, since reassessment cannot be made in respect of other incomes which comes to his notice subsequently.
 - (b) The action of the Assessing Officer is not valid, since provisions of section 148A are not complied with.
 - (c) The action of the Assessing Officer is not valid, due to the reasons mentioned in (a) and (b) above.
 - (d) The action of the Assessing Officer is valid.
3. Compute the amount of penalty to be levied under section 270A of the Income-tax Act, 1961 at the time of assessment made under section 143(3)? Assume under-reporting of income is not on account of misreporting.
- (a) ₹ 2,02,800
 - (b) ₹ 2,65,200
 - (c) ₹ 5,30,400
 - (d) ₹ 4,05,600

4. Compute the amount of penalty to be levied under section 270A of the Income-tax Act, 1961 at the time of reassessment under section 147. Assume under-reporting of income is on account of misreporting.
- (a) ₹ 1,09,200
 - (b) ₹ 4,36,800
 - (c) ₹ 2,18,400
 - (d) ₹ 3,12,000
5. In continuation to Q 4, assume reassessment order made under section 147 was received on 12.12.2026 and M/s Swift LLP does not prefer appeal against such order, can M/s Swift LLP make application for grant of immunity from penalty? If yes, what is time limit for making the said application?
- (a) No, M/s Swift LLP cannot make application for grant of immunity
 - (b) Yes, M/s Swift LLP can make application for grant of immunity on or before 11.01.2027
 - (c) Yes, M/s Swift LLP can make application for grant of immunity on or before 31.01.2027
 - (d) Yes, M/s Swift LLP can make application for grant of immunity on or before 31.03.2027
- (2 x 5 = 10 Marks)**

Case Scenario II

A business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the P.Y.2024-25:

- (i) Interest income from Tang Ltd. – ₹ 10 lakh;
- (ii) Dividend income from Tang Ltd. – ₹ 5 lakh;
- (iii) Short-term capital gains on listed shares transferred on 15.9.2024 (STT paid both at the time of purchase and sale) of Indian companies – ₹ 4 lakh;
- (iv) Short-term capital gains on sale of developmental properties – ₹ 8 lakh
- (v) Interest received from investments in unlisted debentures of real estate companies – ₹ 1 lakh;

(vi) Rental income from directly owned real estate assets – ₹ 20 lakh

Tang Ltd. is an Indian company in which the business trust holds 100% of the shareholding. Tang Ltd. does not opt to pay tax under section 115BAA.

Assume that the business trust has distributed the entire ₹ 48 lakh to the unit holders in the P.Y. 2024-25 in the month of March, 2025.

Mr. Shivam is a resident holder holding 100 units and Mr. Sahaj is a non-resident holder holding 500 units. The total number of units subscribed to by all unit holders is 5,000.

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

- 6 In respect of the component of interest income from Tang Ltd. distributed by the business trust to unit-holders Shivam and Sahaj -
- (a) No tax is deductible by the business trust, since such income is not taxable in the hands of unit holders
 - (b) Tax is deductible@5% on ₹ 20,000 distributed to Mr. Shivam and @5.2% on ₹ 1 lakh distributed to Mr. Sahaj
 - (c) Tax is deductible@10% on ₹ 20,000 distributed to Mr. Shivam and @5.2% on ₹ 1 lakh distributed to Mr. Sahaj
 - (d) Tax is deductible@10% on ₹ 20,000 distributed to Mr. Shivam and 10.4% on ₹ 1 lakh distributed to Mr. Sahaj
7. In respect of short-term capital gains of ₹ 4 lakh on sale of listed shares of Indian companies and ₹ 8 lakh on sale of developmental properties -
- (a) The business trust is liable to pay tax@15.6% and at MMR, respectively
 - (b) The business trust is liable to pay tax at MMR
 - (c) The business trust enjoys pass through status and hence, it need not pay any tax on such short-term capital gains; such income is subject to tax in the hands of unit-holders
 - (d) The business trust is liable to pay tax@20.8% and at MMR, respectively

8. The dividend component of income from Tang Ltd., distributed to unit-holders Shivam and Sahaj -
 - (a) would be subject to distribution tax in the hands of Tang Ltd., hence exempt in the hands of the business trust and the unit holders
 - (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of the unitholders Shivam and Sahaj
 - (c) is taxable in the hands of the business trust; hence, exempt in the hands of the unitholders
 - (d) is exempt in the hands of the business trust and in the hands of the unit holders
9. If Tang Ltd. exercises option under section 115BAA, then, the dividend component of income from Tang Ltd., distributed to unit-holders Shivam and Sahaj-
 - (a) would be subject to distribution tax in the hands of Tang Ltd., hence exempt in the hands of the business trust and the unit holders
 - (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of Shivam and Sahaj
 - (c) is taxable in the hands of the business trust; hence, exempt in the hands of the Shivam and Sahaj
 - (d) is exempt in the hands of the business trust and in the hands of the unit holders Shivam and Sahaj
10. Interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be-
 - (a) subject to tax in the hands of the unit holders
 - (b) subject to tax in the hands of the business trust @30%
 - (c) subject to tax in the hands of the business trust at MMR
 - (d) subject to tax in the hands of the business trust at the average rate of tax

11. The rental component of income from real estate assets received by the business trust and distributed to its unit holders Shivam and Sahaj would be -
- (a) subject to tax in the hands of the business trust at MMR
 - (b) subject to tax in the hands of the business trust@31.2%
 - (c) subject to tax in the hands of the unit-holder Shivam @10% (on ₹ 40,000) and Sahaj @ the rates in force (on ₹ 2,00,000); such tax has to be deducted at source by the business trust
 - (d) subject to tax in the hands of the unit-holders Shivam and Sahaj; business trust has to deduct tax@10% on ₹ 40,000 distributed to Shivam and at the rates in force on ₹ 2,00,000 distributed to Sahaj

(2 x 6 = 12 Marks)

12. Mr. Piyush, a resident Indian aged 77 years, gets pension of ₹ 58,000 per month from the Rajasthan State Government. The same is credited to his savings account in SBI, Kota Branch. In addition, he gets interest@8% p.a. on fixed deposit of ₹ 28 lakh with the said bank. On 1.1.2025, he deposited ₹ 3 lakhs as five year term deposit in same account at interest rate of 8.5% p.a. Interest on savings bank credited to his SBI savings account for the P.Y. 2024-25 is ₹ 8,600.

What would be the tax liability of Mr. Piyush for the A.Y. 2025-26? Is Mr. Piyush required to file his return of income for A.Y.2025-26, if tax deductible at source has been fully deducted? Assume that Mr. Piyush has opted out for section 115BAC and taxing income on accrual basis.

- (a) ₹ 48,880; No, Mr. Piyush is not required to file his return of income
 - (b) ₹ 59,280; Mr. Piyush is required to file his return of income, since his total income exceeds ₹ 5,00,000
 - (c) ₹ 61,880; No, Mr. Piyush is not required to file his return of income
 - (d) ₹ 61,880; Mr. Piyush is required to file his return of income, since his total income exceeds ₹ 5,00,000
- (2 Mark)**
13. SNO Ltd., an Indian company, paid Interest on loan taken from a wholly owned subsidiary P Inc., UK for ₹ 35 million. The SNO identified the following uncontrolled observations to arrive at this ALP:

Observation	Interest rate
1	5%
2	8%
3	14%
4	6%
5	12%
6	17%

What are the values (percentages) in the dataset to be selected by the SNO while computing the arm's length interest rate applying the range concept as per Rule 10CA?

- (a) 35th percentile – 8%, Median – 10%, 65th percentile – 12%
- (b) 35th percentile – 14%, Median – 10%, 65th percentile – 6%
- (c) 35th percentile – 4.9%, Median – 10%, 65th percentile – 11.05%
- (d) Arithmetic mean - 10.33% **(2 Marks)**

14. Smart Inc., Country X, advanced USD 10 million on 1.06.2023 to Kite (P) Ltd., India, in foreign currency. Kite (P) Ltd accepted the loan amount under an agreement approved by the Central Government of India. The loan carries interest@9% per annum payable in foreign currency. For the financial year 2024-25, Kite (P) Ltd paid interest after deducting income-tax on 31.03.2025. The TT buying rates on 01.06.2023 is 1 USD = ₹ 69; on 31.03.2025 is 1 USD = ₹ 70. What is the income-tax liability of Smart Inc. in India for the assessment year 2025-26 in respect of interest income earned in foreign currency from Kite (P) Ltd?

- (a) Nil, exempt income
- (b) ₹ 32,93,784
- (c) ₹ 1,33,66,080
- (d) ₹ 33,41,520 **(2 Marks)**

15. STP Process Ltd, an Indian company entered into a business agreement with Gayle LLP of UK in September 2024 for export of goods to various countries as directed by Gayle LLP. The amount of transaction between STP Process Ltd and Gayle LLP by way of sale of goods would be ₹ 180

crores spread over 3 financial years commencing from 01.10.2024. The parties (i.e., both STP Process Ltd and Gayle LLP) apprehend some ambiguity as regards the income chargeable to tax in the hands of Gayle LLP in India and STP Process Ltd. Can STP Process Ltd seek advance ruling in relation to its tax liability arising in respect of its transactions with Gayle LLP? If so, how much is the amount of fee to be paid for seeking advance ruling?

- (a) It cannot seek advance ruling in relation to its tax liability, since STP Process Ltd. is an Indian company. Hence, the question of paying fees does not arise.
- (b) It can seek advance ruling since value of transaction undertaken or proposed to be undertaken exceeds ₹ 100 crores. The amount of fee would be ₹ 5,00,000.
- (c) It can seek advance ruling since value of transaction undertaken or proposed to be undertaken exceeds ₹ 100 crores. The amount of fee would be ₹ 10,00,000.
- (d) It cannot seek advance ruling since value of transaction undertaken or proposed to be undertaken is only ₹ 60 crores in a year. Hence, the question of paying fees does not arise. **(2 Marks)**

Division B – Descriptive Questions

Question No. 1 is compulsory

*Attempt any **four** questions from the remaining **five** questions*

1. Statement of Profit and Loss of SJ Industries Ltd., engaged in production and marketing of diversified products, shows a net profit of ₹ 72,00,000 for the financial year ended 31st March, 2025 after charge of the following items:

A: Items debited to the Statement of Profit and Loss:

- (i) Depreciation as per the Companies Act, 2013: ₹ 24,00,000
- (ii) Interest amounting to ₹ 60,000 for short payment of advance tax paid as per section 234B relating to the assessment year 2024-25.

- (iii) Interest and borrowing costs amounting to ₹ 9,50,000 and ₹ 7,00,000 though not meeting the criteria for recognition as a component of cost, included in cost of opening and closing inventory, respectively.
- (iv) Expenditure of ₹ 41,000 paid in cash comprising of ₹ 22,000 directly paid to producer of dairy farming products and ₹ 19,000 paid towards printing and stationery items to a trader.
- (v) ₹ 3,50,000 paid to a contractor for carrying out repair work at factory premises. Tax was not deducted at source on this payment.
- (vi) ₹ 35,000 towards expenditure for earning income from transfer of carbon credits.
- (vii) Contribution to electoral trust: ₹ 3,00,000 paid by way of cheque.
- (viii) Expenditure towards advertising charges in a brochure of a political party registered under section 29A of Representation of People Act, 1951: ₹ 40,000 paid by way of cheque.
- (ix) Interest on term loan obtained from Cooperative Bank not paid before the due date of filing of return of income ₹ 2,60,000
- (x) Actual contribution to the pension scheme of employees: ₹ 1,90,000

B: Items credited to the Statement of Profit and Loss:

- (i) Unrealised rent of ₹ 3,80,000 pertaining to financial year 2020-21 & 2021-22 recovered during the year in respect of a commercial property owned by the company, which was sold by the company on 23.03.2025.
- (ii) Dividends from a specified foreign company ₹ 1,60,000
- (iii) Profit of ₹ 3,00,000 received from hedging contract entered into for meeting out loss in foreign currency payments towards an imported printing machinery valued at ₹ 95 lakhs, installed on 15th December, 2024 and put to use from that date.
- (iv) Interest from banks on fixed deposits (net of TDS) at 10% ₹ 1,35,000.

Additional Information:

- (1) Depreciation as per Income-tax Rules: ₹ 28,00,000 exclusive of depreciation on the imported printing machine referred to in item B (iii)
- (2) Expenditure pertaining to previous financial year allowed on due basis, but paid in current financial year in cash on 18.01.2025: ₹ 35,000
- (3) Audit fee for the previous year 2023-24: ₹ 75,000. TDS deducted but not paid in the relevant previous year. However, TDS was paid on 31.12.2024.
- (4) Income from transfer of Carbon Credits amounting to ₹ 4,00,000 included in Net Profit (before tax).
- (5) The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.

Compute the total income of SJ Industries Ltd. for assessment year 2025-26 as per the normal provisions of the Income-tax Act, 1961. Give brief reasons for the treatment given to each of the items considered in computation of income of the company. Company does not want to opt for section 115BAA. **(14 Marks)**

2. (a) G Ltd., a domestic company, provides the following information of its Statement of Profit and Loss for the year ended on 31/03/2025. It earned profit of ₹ 20 lakhs after debiting/crediting of the below items:

Items debited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Provision for the loss of subsidiary	1,70,000
2.	Provision for doubtful debts	1,75,000
3.	Provision for income-tax	2,05,000
4.	Provision for gratuity based on actuarial valuation	3,00,000
5.	Depreciation	4,60,000
6.	Interest to financial institution (unpaid before filing of return)	2,00,000
7.	Penalty for infraction of law	1,50,000

Items credited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Profit from unit established in 2019 in special economic zone	6,00,000
2.	Share in income of an AOP as a member	2,00,000
3.	Income from units of UTI	1,75,000

Other Information:

- (i) Provision for income-tax includes ₹ 55,000 of interest payable on income-tax.
- (ii) Depreciation includes ₹ 2,50,000 on account of revaluation of fixed assets.
- (iii) Depreciation as per Income-tax Rules is ₹ 3,80,000.
- (iv) Brought forward loss of ₹ 11 lakhs include unabsorbed depreciation of ₹ 5 lakhs.
- (v) The AOP, of which the company is a member, has paid tax at maximum marginal rate.

Compute minimum alternate tax under section 115JB of the Income-tax Act, 1961, for A.Y. 2025-26, assuming that G Ltd. is not required to comply with the Indian Accounting Standards. **(8 Marks)**

- (b) Compute the total income and net tax liability of Mr. Nitin, an individual resident in India, aged 25 years for the Assessment Year 2025-26 from the following information furnished by him for the year ended 31.3.2025:

Mr. Nitin earned royalty income of ₹ 18 lakhs from PT Inc. of Country X, for writing articles in journals and newspapers for the year ended 31.03.2025. However, he received only ₹ 13.60 lakhs during the previous year 2024-25 and the balance is outstanding as on 31.03.2025. He maintains cash system of accounting for royalty income.

He also earned a rental income of ₹ 3.60 lakhs (gross) from a house situated in Country X. Municipal taxes paid in respect of the house amounted to ₹ 12,000 which is not allowed as deduction in Country X. No DTAA exist between India and Country X. In Country X, all incomes are charged to tax @15%.

He further earned ₹ 5.50 lakhs during the year, as dividend from M Ltd., an Indian company. On 1.04.2024, he took an educational loan from bank for his son who is pursuing MBA.

Annual repayment of loan and interest amounted to ₹ 1.40 lakhs and ₹ 0.36 lakhs, respectively.

Assume that Mr. Nitin opt out of default tax regime under section 115BAC. **(6 Marks)**

3. (a) The Balance Sheet of M/s SN Charitable Trust as on 31.1.2025, and its other information is given hereunder:

Particulars	₹ in lakhs
<u>Liabilities</u>	
Capital fund	800.00
Sundry creditors	<u>335.00</u>
Total	<u>1135.00</u>
<u>Assets</u>	
Land (purchased in the year 2009)	100.00
Land and buildings purchased in the year 2015	800.00
2000 equity shares of ₹ 1000 each in M/s XP Ltd. shares are listed in Bombay Stock Exchange (at face value)	20.00
Balance in current account of a nationalized bank	10.00
Balanced in fixed deposits with scheduled banks	200.00
Cash in hand	3.50
Tax Deducted at Source	<u>1.50</u>
Total	<u>1135.00</u>

The application for registration was made on 15-4-2012 and registration under section 12AB of the Income-tax Act, 1961 was granted on 1-7-2012 to M/s SN Charitable Trust. However, the registration was cancelled on 31-1-2025. An appeal was preferred against the order of cancellation, which was dismissed by the Appellate authorities. The order confirming the cancellation was received on 31-3-2025.

Additional Information:

- (1) Stamp duty value of the land (purchased in 2009) as on 31-1-2025 was ₹ 120.00 lakhs but if sold in the open market, the property would fetch ₹ 250 lakhs as per a registered valuer's certificate.
- (2) Land and building (purchased in 2015), if sold in the open market will fetch ₹ 1000 lakhs as per a registered valuer's certificate. Stamp duty value as on 31-1-2025 was ₹ 1050 lakhs.
- (3) The highest and lowest value per share of M/s XP Ltd. traded on 31-1-2025 was ₹ 1099 and ₹ 1051 respectively.
- (4) Sundry Creditors include ₹ 30 lakhs provided on estimated basis to contractors for which no bills are received.

Based on the above information, calculate the exit tax payable by the Charitable Trust and state the latest day on which the said tax has to be paid. Give working notes wherever necessary. **(8 Marks)**

- (b) STP Ltd. is an Indian company engaged in the manufacturing of supreme quality cotton bedsheets. It has total borrowings of ₹ 60 crores by way of loan as on 1.04.2024. Fix Ltd. of Canada imported 4 lakh bedsheets from STP Ltd. for the resale in Canada @ ₹ 2,200 per unit. STP Ltd. sold similar bedsheets to other dealers in Canada @ ₹ 2,300 per unit.

STP Ltd. received a bank guarantee on 1.04.2024 for availing a cash credit limit of ₹ 9 crores for which Fix Ltd. was the guarantor. The terms of trade for other dealers was to make payment within 1 month from the date of sale of goods by STP Ltd., whereas for Fix Ltd., the credit period allowed was 3 months from the date of sale of goods. The cost of capital was 12% per annum and the supply of goods is assumed to be uniform throughout the year.

You are required to determine whether STP Ltd. and Fix Ltd. are associated enterprises. If yes, compute the ALP of the transaction between them and the amount to be added to the income of STP Ltd., if any, by way of an ALP adjustment.

Assuming that the above adjustments to the transfer price have been made suo-moto by STP Ltd. in its return of income, what is the

time limit for the repatriation of such excess money? What are the implications if the excess money is not repatriated within such prescribed time limit? **(6 Marks)**

4. (a) Examine whether TDS provisions are attracted in the following cases:

(i) Kite & Co LLP withdrew from its bank account ₹ 68 lakhs cash for buying agricultural produce, from farmers/agriculturists, being raw material required for manufacture of finished products by it and ₹ 58 lakhs for purpose of other business activities. It files return of income on time regularly.

(ii) Interest of ₹ 98,000 on Capital Gains Bond issued by Power Finance Corporation Ltd. to Mr. Ajay (aged 52), a non-resident individual. **(2 x 2 = 4 Marks)**

(b) The tax assessment of Mr. Pramod was completed on 25-12-2024 and the tax due was determined as ₹ 115 lakhs. The assessee has the following (i) Bank fixed deposit with Canara Bank ₹ 22 lakhs; (ii) Receivable from T & Co Ltd ₹ 27 lakhs. He gifted a land to his son (aged 35 years) 5 years ago whose present market value is ₹ 28 lakhs. He gifted a diamond necklace to his son's wife evidenced by a gift deed dated 05.10.2021.

Discuss against which of the movable/immovable property the Tax Recovery Officer can proceed against for recovery of tax. **(4 Marks)**

(c) XYZ Ltd. provides you the Profit and loss A/c for the Financial Year 2023-24 and Financial Year 2024-25: **₹ in lakhs**

Particulars	For the F.Y. 2023-24	For the F.Y. 2024-25	Particulars	For the F.Y. 2023-24	For the F.Y. 2024-25
Employees Benefit Expenses	390	402	Gross Profit	2030	1780
Interest paid to L & T Inc.	562	389			
Depreciation	250	254			
Income Tax	271	332			
Profit transferred to Reserves	557	403			
	2030	1780		2030	1780

On 23rd June 2023, XYZ Ltd., an Indian Company borrowed ₹ 120 crores from L & T Inc., a company incorporated in Country R. The said loan is repayable over a period of 4 years. This loan is guaranteed by SAM Ltd., a company incorporated in Country Y. SAM Ltd. holds 36% shares in XYZ Ltd.

Calculate the income under the head Profits and Gains from business and profession of XYZ Ltd. for the Assessment Year 2025-26, assuming the gross profit is calculated as per the provisions of the Income-tax Act, 1961 and Depreciation is also as per the Income-tax Rules, 1962. Give appropriate reasons of your workings. Assume none of the companies are engaged in the business of banking. **(6 Marks)**

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

- (1) Issue involved
 - (2) Provision Applicable
 - (3) Analysis and conclusion
- (i) “The arm’s length price (ALP) determined by the Tribunal, which is the final fact-finding authority, is final and cannot be the subject matter of scrutiny by the High Court as it does not give rise to a substantial question of law; accordingly, in an appeal u/s 260A, the High Court is precluded from examining the correctness of determination of the ALP” – Examine the correctness of this statement with reference to a recent Supreme Court ruling. **(4 Marks)**

- (ii) Tangram Limited entered into a contract for purchase of patented process with M/s. Dash Inc, a non-resident company based in Country X. 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, Tangram Limited, contended that said non-resident company had no Permanent Establishment in India and in terms of the DTAA between India and Country X, 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? **(4 Marks)**

- (iii) On 31.12.2024, a search under section 132 was conducted in the business and residential premises of Mr. Yatin and some gold bars were seized from the locker. Mr. Yatin voluntarily disclosed ₹ 12.50 crores of income during the course of search. Later on, he filed an application for sale of the gold bars weighing 5 kgs for adjustment towards the tax liability, even before the completion of the assessment by the Assessing Officer. However, the Assessing Officer rejected the application and observed that such action can be taken only after the assessment is completed and a demand has been quantified. Is the Assessing Officer justified in rejecting the application? Examine. **(4 Marks)**

- (b) Describe the three-tier structure for transfer pricing documentation mandated by BEPS Action Plan 13. Which provisions under the Income-tax Act, 1961 dealt with Master File and CbC reporting.

(6 Marks)

6. (a) TMP Ltd. is engaged in transportation of building material and transportation of goods to contractors. It made payment for hiring dumpers for this purpose. The company has not deducted tax at source on the ground that since the payment was for transportation of goods and not renting out machinery and equipment, such payments could not be termed as rent paid for use of machinery under section 194-I and hence, no tax was deductible at source.

The tax auditor is, however, of the view that the transactions being in the nature of contracts for shifting of goods from one place to another would be covered under works contracts, thereby attracting the provisions of section 194C. He relied upon the Gujarat High Court ruling in *CIT (TDS) v. Shree Mahalaxmi Transport Co. (2011) 339 ITR 484*.

What is the reporting responsibility of the tax auditor in such a case and the consequent ethical implications? Examine. **(4 Marks)**

- (b) SD Ltd., a pharmaceutical company incorporated in year 2000-01, purchased a new plant and machinery for ₹ 12 lakhs on 01-04-2024. The total income of the company for Assessment Year 2025-26 before allowing additional depreciation in respect of new plant and machinery is ₹ 22 lakhs. SD Ltd. has not opted for the concessional tax regime under section 115BAA or 115BA so far.

Compute the tax liability of SD Ltd. in most beneficial manner for A.Y. 2025-26 assuming its turnover for the previous year 2022-23 was ₹ 338 crores. Ignore the provisions of MAT. **(4 Marks)**

- (c) Strawberry Ltd., a non-resident German company, has the following incomes in India during the year ended on 31.03.2025:
- (i) Dividend income of ₹ 12,50,000 from XY Ltd., an Indian company listed on recognized stock exchange.
 - (ii) 8% debentures of ₹ 20,00,000 received from X Ltd., an Indian Company, on October 1, 2024, in consideration of providing technical knowhow (date of payment of interest being March 31 every year).
 - (iii) Dividend of ₹ 5,50,000 on Global Depository Receipts of Y Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of shares of the company

and purchased by Strawberry Ltd. in foreign currency through an approved intermediary.

- (iv) Business Income of ₹ 8,00,000 from a unit established at Mumbai.
- (v) Income by way of royalty (other than referred to in section 44DA) amounting to ₹ 10,00,000, from Z Ltd., an Indian company, in pursuance of an agreement approved by Central Government. As per DTTA between the two countries, such royalty is taxable @22%.

With brief reasons for the treatment of the above incomes, you are required to compute the tax liability of Strawberry Ltd. for the Assessment Year 2025-26. **(6 Marks)**