

MODEL TEST PAPER 2
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.

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

Falcon Ltd of Country X is an associated enterprise of Max Inc. of USA. Falcon Ltd. has a branch in India since 2010. It was selling goods to Indian customers by importing from various countries besides sale in India of goods manufactured by it in Country X.

The adjusted total income of the Indian branch of Falcon Ltd for the year ended 31st March, 2025 is ₹ 80 lakhs. The branch incurred ₹ 12 lakhs by way of executive and general administrative expenditure during the financial year 2024-25. The head office has allocated ₹ 18 lakhs as the branch's share of head office expenditure including the expenditure of ₹ 12 lakhs incurred by the branch.

A survey under section 133A of the Act was conducted in its branch premises in January, 2025 and undisclosed assets of ₹ 90 lakhs were found. Assessment for the assessment year 2024-25 was completed by making addition of the entire undisclosed asset of ₹ 90 lakhs. The assessee preferred appeal before CIT (Appeals) who gave complete relief to the assessee. The Income-tax Department wants to file an appeal before ITAT.

T (P) Ltd. an Indian company, a wholly owned subsidiary of Falcon Ltd., paid ₹ 50 lakhs to XYZ Inc. of Country M as fee for technical services. Services were rendered by the employees of the branch of XYZ Inc. in India. There is no DTAA

between India and Country M. T(P) Ltd. has entered into certain international transactions during the P.Y. 2023-24 and P.Y. 2024-25.

T (P) Ltd. invested in SS (P) Ltd of Country Y and received dividend of ₹ 550 lakhs during the financial year 2024-25. It declared and distributed interim dividend of ₹ 250 lakhs on 10.11.2024 and a final dividend of ₹ 230 lakhs on 12.11.2025. T (P) Ltd. has filed its return of income on 15.11.2024 for A.Y. 2024-25 and on 30.11.2025 for A.Y. 2025-26.

Based on the facts of the above case scenario, choose the most appropriate answer to Q.1 to Q. 4 below:

1. How much tax to be deductible at source by T (P) Ltd on the fee for technical services paid to XYZ Inc.? (As PE in India)
 - (a) ₹ 20,80,000
 - (b) ₹ 20,00,000
 - (c) ₹ 18,20,000
 - (d) ₹ 10,40,000
2. How much of the dividend received by T (P) Ltd would be liable to tax for the assessment year 2025-26?
 - (a) ₹ 70 lakhs
 - (b) ₹ 320 lakhs
 - (c) ₹ 300 lakhs
 - (d) ₹ 550 lakhs
3. How much of head office expenditure can be claimed by the Indian branch of Falcon Ltd for the assessment year 2025-26?
 - (a) ₹ 4,00,000
 - (b) ₹ 6,00,000
 - (c) ₹ 12,00,000
 - (d) ₹ 18,00,000
4. Can the Income-tax Department prefer appeal before ITAT in respect of the complete relief obtained by Falcon Ltd from CIT (Appeals)?
 - (a) No, as the tax liability is less than ₹ 60 lakhs.

- (b) Yes, as the tax liability is more than ₹ 25 lakhs.
- (c) Yes, as the tax liability is more than ₹ 60 lakhs.
- (d) No, as the undisclosed asset is less than ₹ 100 lakhs.

(4 x 2 = 8 Marks)

Case Scenario II

Mr. Abhay, a resident Indian, is in retail business in Delhi and his turnover for F.Y.2023-24 was ₹ 9.8 crores. He regularly purchases goods from another resident, Mr. Kunal, a wholesaler in Delhi, and the aggregate payments made by Mr. Abhay to Mr. Kunal during the F.Y.2024-25 was ₹ 90 lakh (₹ 25 lakh on 8.5.2024, ₹ 20 lakh on 27.8.2024, ₹ 25 lakh on 18.10.2024 and ₹ 20 lakh on 11.2.2025). Mr. Kunal's turnover for F.Y.2023-24 was ₹ 13.5 crores.

Mr. Kunal remitted ₹ 6.5 lakh on 28.3.2025, out of his personal savings, through Canara Bank, Delhi branch, which is an authorised dealer, under the Liberalised Remittance Scheme of RBI, as gift to his elder brother residing in Dubai (since 1995), on the occasion of his 60th birthday.

Mr. Kunal paid ₹ 8.8 lakhs on 1.11.2024 to World Travels for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 19 years, in the last week of November.

He also took an education loan of ₹ 13 lakhs on 1.2.2025 from Canara Bank, Delhi Branch, for his son's two-year Master of Public Administration program in UWA University, Australia and remitted the said amount through the same bank under LRS. For his daughter's Research program in PSL Research University, USA, he remitted ₹ 12 lakhs on 15.2.2025, out of his personal savings, through Bank of India, Delhi branch, which is also an authorised dealer, under LRS.

Mr. Kunal has furnished undertaking containing the details of earlier remittance to Canara Bank and Bank of India.

Based on the facts of the above case scenario, choose the most appropriate answer to Q.5 to Q. 9 below:

5. Are provisions of TDS/TCS under the Income-tax Act, 1961 attracted in respect of purchase/sale transaction between Mr. Abhay and Mr. Kunal? If so, what is the quantum of tax to be deducted/collected for the P.Y.2024-25?

- (a) No; TDS/TCS provisions are not attracted for P.Y.2024-25, since the turnover of Mr. Abhay in the immediately preceding financial year i.e., F.Y.2023-24 does not exceed ₹ 10 crores.
 - (b) Yes, Mr. Abhay has to deduct tax@0.1% of ₹ 40 lakhs (₹ 20 lakhs on 18.10.2024 and ₹ 20 lakhs on 11.2.2025)
 - (c) Yes, Mr. Kunal has to collect tax@0.1% of ₹ 40 lakhs (₹ 20 lakhs on 18.10.2024 and ₹ 20 lakhs on 11.2.2025)
 - (d) Yes, Mr. Kunal has to collect tax@0.1% of ₹ 90 lakhs
6. In case of failure to furnish PAN by the deductee/collectee as required based on the answer to Q.5 above, what would be the applicable rate of TDS/TCS?
- (a) Not applicable, since there is no requirement to deduct or collect tax at source
 - (b) 20%
 - (c) 5%
 - (d) 1%
7. Is World Travels required to collect tax at source on receipt of ₹ 8.8 lakhs from Mr. Kunal for holiday package to Singapore? If so, what is the amount of tax to be collected?
- (a) Yes; ₹ 36,000
 - (b) Yes; ₹ 71,000
 - (c) Yes; ₹ 44,000
 - (d) No tax is required to be collected at source in respect of this transaction
8. What is the amount of tax to be collected from Mr. Kunal in respect of the remittance of amounts overseas for his son's and daughter's education?
- (a) TCS @0.5% of ₹ 6 lakhs and ₹ 5 lakhs is attracted in respect of remittance for son's and daughter's education, respectively.
 - (b) TCS @5% of ₹ 6 lakhs and ₹ 12 lakhs is attracted in respect of remittance for son's and daughter's education, respectively

- (c) TCS @0.5% of ₹ 6 lakhs and TCS@5% of ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
 - (d) TCS @0.5% of ₹ 6 lakhs and TCS@5% of ₹ 12 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
9. Are TCS provisions attracted in respect of remittance of gift to brother? If so, what is the amount of tax to be collected from Mr. Kunal?
- (a) No, since the remittance is out of personal savings for a personal purpose
 - (b) No, since the amount remitted to his sister is less than ₹ 7 lakhs
 - (c) Yes, ₹ 1,30,000
 - (d) Yes, ₹ 32,500

(5 x 2 = 10 Marks)

Case Scenario III

Flax (P) Ltd. availed online digital advertisement service provided by Marshall Inc. of USA in March 2025. It paid ₹ 10 lakhs and the amount outstanding as on 31st March, 2025 was ₹ 2 lakhs for the said online digital advertisement service.

Marshall Inc had taken technical services from a consultant of USA, for the purpose of expansion of one of its business units (engaged in toys manufacturing) in India. The consultant gave his report in USA and no part of services were provided in India. The Country does not have a double taxation avoidance agreement with India.

Based on the facts of the above case scenario, choose the most appropriate answer to Q.10 to Q. 12 below:

10. In respect of amount paid/payable by Flax (P) Ltd. for advertising services provided by Marshall Inc., which of the following statements are correct?
- (a) Equalization levy of ₹ 60,000 is to be deducted and paid by Flax (P) Ltd.
 - (b) Equalization levy of ₹ 72,000 is to be deducted and paid by Flax (P) Ltd.
 - (c) Equalization levy of ₹ 24,000 is to be paid by Marshall Inc.
 - (d) Equalization levy of ₹ 72,000 is to be paid by Marshall Inc.

11. Would Flax (P) Ltd. be liable to pay any interest and/or penalty if the amount of the equalisation levy remitted on 20.6.2025?
- No, it would not be liable to pay any interest or penalty since the amount is remitted within the prescribed time limit.
 - It would be liable to pay interest but no penalty is attracted.
 - Yes, it would be liable to pay both interest and penalty.
 - It would be liable to pay penalty but no interest is payable.
12. Would Marshall Inc. required to deduct tax at source on the amount paid to the consultant of USA?
- Yes, TDS is to be deducted @10% plus surcharge, if any plus HEC @4% u/s 194J.
 - Yes, TDS is to be deducted at source @30% plus surcharge, if any plus HEC @4% u/s 195
 - Yes, TDS is to be deducted at source @20% plus surcharge, if any plus HEC @4%u/s 195.
 - No, tax is not required to be deducted at source, since the same is not chargeable to tax in India. **(3 x 2 = 6 Marks)**
13. Swastik is a charitable trust registered under section 12AB, with its main object falling under the residuary clause “any other object of general public utility”. During the P.Y.2024-25, it received ₹ 90 lakh as voluntary contributions. The trust also borrowed ₹ 45 lakh on 14.8.2024 from Axis bank to purchase land for construction of an office building from where it can carry out its functions. The trust repaid principal of ₹ 10 lakh to Axis bank on 31.3.2025. The trust has donated (not as corpus donation) to another trust registered under section 12AB with main object of providing education to poor, ₹ 14 lakhs out of its current year income. What would be the application of the trust for the P.Y.2024-25 (excluding unconditional accumulation of 15%), assuming that it has fulfilled the relevant conditions stipulated under section 12A?
- ₹ 21.9 lakhs
 - ₹ 24 lakhs
 - ₹ 59 lakhs
 - ₹ 56.9 lakhs **(2 Marks)**

14. Which of the following deduction/exemption/set-off of losses are allowable while computing income under respective head of income and total income of an individual as per section 115BAC?

- (i) Deduction for interest on housing loan in respect of self-occupied property
- (ii) Deduction for Interest on housing loan in respect of let-out property
- (iii) Exemption in respect of agricultural income
- (iv) Exemption in respect of minor child income included in the income of parent
- (v) Set-off of loss under the head house property against income under any other head
- (vi) Standard Deduction u/s 16(ia)

The correct answer is –

- (a) (ii), (iii) & (vi)
- (b) (i), (ii), (iii) & (vi)
- (c) (i), (ii), (v) & (vi)
- (d) (ii), (iv), (v) & (vi)

(2 Marks)

15. Mr. Rahul, a resident Indian, purchased units in ABC REIT on 1.4.2024. ABC REIT received dividend income from TL Ltd., being a SPV. TL Ltd. opted for section 115BAA. The record date of ABC REIT is 1st June 2024 and it distributed dividend to unitholders in June, 2024. Would dividend stripping provisions of section 94(7) be attracted, if Mr. Rahul sells the units held by him at a loss in January, 2025? Is ABC REIT required to deduct tax at source on the dividend component of income received from SPV and distributed to Mr. Rahul?

- (a) Dividend stripping provisions would not be attracted and ABC REIT is not required to deduct tax at source.
- (b) Dividend stripping provisions would not be attracted and ABC REIT is required to deduct tax at source@10%
- (c) Dividend stripping provisions would be attracted and ABC REIT is required to deduct tax at source@10%
- (d) Dividend stripping provisions would be attracted and ABC REIT is not required to deduct tax at source.

(2 Marks)

Division B – Descriptive Questions

Question No. 1 is compulsory

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

1. Sheetal Ltd. is a listed company located in Mumbai. It is engaged in multiple activities at different locations. Books of account are maintained by each unit separately. The head office maintains books relating to common transactions. All the accounts are consolidated and the return of income is filed at Mumbai.

The following information is furnished unit wise for the year ended 31st March, 2025:

- (a) **Chemical manufacturing unit, Jaipur:** The Company has reported Net Profit of ₹ 300 lakhs in the books of account of the said business unit. It entered into an agreement for use of know-how owned by a renowned scientist. The amount of royalty paid during the previous year 2024-25 was ₹ 40 lakhs. The company deducted tax at source on the amounts paid upto November, 2024 and omitted to deduct tax at source on the royalty of ₹ 10 lakhs due for the period from November, 2024 to March, 2025. The payee admitted the royalty income fully, paid tax and filed his return of income before the “due date” specified in section 139(1).

The company paid ₹ 1,68,00,000 being 15% of basic salary *plus* DA of the employees in notified pension scheme and the amount so paid is debited as expenditure in the books of account.

- (b) **Furniture manufacturing unit, Pune:** The Company has a manufacturing unit at Pune. It reports a Net Profit of ₹ 90 lakhs as per books of account of the unit. It bought a trademark from Mr. Yellow for ₹ 25 lakhs on 01-06-2024 which is charged as expenditure in the books of account.

The unit paid ₹ 3 lakhs as interest on loan taken from a non-resident Indian. The tax was deducted at source in March, 2025 but it was remitted only on 06-05-2025.

The company paid ₹ 7 lakhs, being the amount of income-tax payable by the employees on non-monetary perquisites provided by the company. This amount is debited in the books of account as expenditure.

- (c) **Fertilizer producing unit, Narmada:** The Company established a fertilizer producing unit in Narmada, Gujarat which become operational in July, 2024. It has acquired a Land for ₹ 1 crore and put up a Building for ₹ 2.50 crores and installed new Plant and Machinery for ₹ 3 crores. The Net Profit as per books of account of the unit is ₹ 220 lakhs (after deducting depreciation on Building of ₹ 25 lakhs and Plant and Machinery of ₹ 45 lakhs).
- (d) **Warehousing facility for storage of edible oils at Delhi:** It established a warehousing facility for storage of edible oils from 01-08-2024. It made investments such as cost of Land ₹ 2 crores, Building ₹ 3 cores and Plant and Machinery (new) ₹ 5 crores. The Net Profit as per books (without deducting depreciation) was ₹ 70 lakhs.

Additional information:

The company mobilized capital during the previous year 2024-25 by public issue of shares. The application money was kept in bank pending allotment of shares. The interest income from the said deposit of ₹ 3,20,000 is credited to general reserve.

The company declared interim dividend @10% of share capital being ₹ 40 lakhs in December, 2024. It has 27% shareholding in ABC Inc., New York from whom it received ₹ 56 lakhs as dividend in February, 2025. Both dividend received and paid were credited and debited, respectively, in the Consolidated Statement of Profit and Loss.

The total turnover of the company for previous year 2022-23 was ₹ 390 crores and for financial year 2023-24 ₹ 405 crores. The company has MAT credit of ₹ 20 lakhs of the assessment year 2016-17. The book profit (computed) for the assessment year 2025-26 is ₹ 520 lakhs.

Compute the total income of the company and optimum income-tax liability for the assessment year 2025-26. Assume company have not yet opted for concessional tax regime. Your answer must give reasons for treatment of each item given above and also for the tax liability.

(14 Marks)

2. (a) ABC Pvt. Ltd was converted into limited liability partnership (LLP) as ABC LLP on 1-10-2024. You are provided with the following particulars of ABC Pvt. Ltd. as on 31-03-2024:

- (i) Business loss ₹ 54 Lakhs (relating to P.Y.2020-21)
- (ii) Written down value of the assets as per the Income-tax Act, 1961:
- Plant and Machinery (15%) ₹ 14 Lakhs (Market Value ₹ 20 lakhs)
 - Plant and Machinery ₹ 75 Lakhs (cost) – deduction claimed u/s 35AD
 - Building (10%) ₹ 40 lakhs (Market Value ₹ 80 Lakhs)
- (iii) Cost of land (acquired in year 2012) ₹ 80 lakhs (Market value ₹ 120 lakhs)
- (vi) Expenditure on voluntary retirement incurred by the company during the P.Y. 2022-23 is ₹ 28 Lakhs. The company has been allowed a deduction of ₹ 5.6 lakhs for each year for the P.Y. 2022-23 and P.Y. 2023-24 u/s 35DDA.
- (v) Unadjusted MAT credit u/s 115JAA ₹ 8.6 lakhs
- (vi) Unabsorbed depreciation ₹ 48 lakhs

Explain the tax treatment of each item stated above in the hands of LLP, assuming that the conversion satisfies all the conditions laid down in section 47(xiiib). **(8 Marks)**

- (b) Mr. Mani Prasad, aged 71 years furnished the following information in respect of income earned by him for the previous year ended 31-03-2025:

Particulars	Amount (₹)
<u>India</u>	
Pension from State Government	4,80,000
Short term capital gains on sale of plot	3,20,000
Deposit in PPF Account	1,50,000
Speculative Income	1,56,000
<u>Country M</u>	
Agricultural Income (gross)	86,000
Dividends from a company incorporated in Country M (gross) [Exempt in Country M]	68,000

<u>Country N</u>	
Business loss (proprietary business) [Not eligible for set off against other incomes in Country N]	1,16,000
Gross rental income from a house property (No statutory deduction was available in Country N)	3,20,000
Municipal taxes paid in respect of the above property (not allowed as deduction in Country N)	21,000

Additional Information:

- (1) There is no agreement under section 90 for relief for avoidance of double taxation between India and Country M and Country N where the incomes have accrued or arisen.
- (2) Mr. Mani Prasad is resident in India, and he has paid applicable taxes on incomes earned in Country M and Country N, where the applicable tax rates are 10% and 5%, respectively.

Compute the total income and net tax liability of Mr. Mani Prasad after providing relief under section 91 for A.Y. 2025-26. Mr. Mani Prasad is paying tax under default tax regime under section 115BAC. **(6 Marks)**

3. (a) Examine the following based on the relevant provisions of the Income-tax Act, 1961 and judicial pronouncements:
 - (i) Satvik public charitable trust sold one of its building which was held by it for charitable purposes, for ₹ 4.2 lakhs on 28th September, 2024. The asset were acquired on 25-6-2022 for ₹ 2.20 lakhs. It invested ₹ 3 lakhs in fixed deposits for the tenure of 2 years.
 - (ii) HelpAge, a trust established for the purpose of religious and charitable purposes. It runs a temple and a school. During the year 2024-25, it received anonymous donation amounting to ₹ 3 crores for temple and ₹ 8 crores for school.
 - (iii) M/s XYZ, an electoral trust incorporated in the year 2022, provides the following information to you in respect of its transactions for the year 2024-25

Total voluntary contributions received ₹ 420 lakhs

Surplus brought forward from earlier P.Ys. ₹ 18 lakhs

Expenses incurred for the purpose of managing its affairs ₹ 8 lakhs. What is the amount of surplus that can be distributed by the electoral trust assuming all other conditions as provided under the Income-tax Act, 1961 are satisfied?

(8 Marks)

- (b) (i) Trax & Co. is engaged in providing scientific research services to several non-resident clients. Such services are also provided to Olive Inc., which guarantees 12% of the total loans of Trax & Co. Examine whether transfer pricing provisions are attracted in respect of this transaction.
- (ii) Without prejudice to the answer to (i) above, assuming that transfer pricing provisions are attracted in this case and that the Assessing Officer had made a primary adjustment of ₹ 310 lakhs to the transfer price in the P.Y.2023-24 *vide* order dated 31.3.2025 and the same was accepted by Trax & Co., what are the consequent requirements as per the Income-tax Act, 1961 and the implications of non-compliance with the said requirements?

Assume that the transaction is denominated in Indian Rupees and no amount has been repatriated upto 31.3.2026. The one year marginal cost of fund lending rate of State Bank of India as on 1.4.2025 is 9%.

(6 Marks)

4. (a) Marigold Ltd., an Indian Company engaged in trading of electronic appliances through retail stores all across India, reported a total turnover of ₹ 70 crores during the previous year 2023-24 and ₹ 45 crores during the previous year 2024-25. The customers who purchase appliances from its stores can pay only through cash, cheque, credit card or debit card. Discuss the relevant provisions of the Act with respect to relevant compliances that should have been ensured by Marigold Ltd. and in the absence of such compliances, what will be the amount of penalty, if any, that can be levied on Marigold Ltd.

(4 Marks)

- (b) An Indian company pays gross salary, including allowances and monetary perquisites amounting to ₹ 7,30,000 to its General Manager (aged 45 years). Besides, the company provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. General manager has not given any declaration regarding opting out of section 115BAC. Examine the liability for tax deduction at source in the hands of the Indian Company for the assessment year 2025-26. **(4 Marks)**
- (c) XYZ Co., an Indian company, is engaged in the business of manufacture of packaging material having its manufacturing facility in India. XYZ Co. is a wholly owned subsidiary of Flix Inc., a company incorporated in Country M. Angelo and James, citizens and residents of the Country N, each of them hold 50% of the share capital of Flix Inc. Angelo and James, each had invested equivalent to INR 100 crores in Flix Inc. in April 2015.

On 1st June 2024, Angelo and James, having received an offer which they believe was fair, sold their entire stake in Flix Inc. to Ishaan, resident of Country N for amount equivalent to INR 350 crores each.

The accounting period of Flix Inc. is January to December, the relevant extract of the balance sheet of Flix Inc. as on 31st December 2023, 1st June 2024 and 31st December 2024 are as follows:

Particulars	As on 31 st December 2023 (in INR crores)	As on 1 st June 2024 (in INR crores)	As on 31 st December 2024 (in INR crores)
Details regarding Flix Inc.			
Book value of assets	1,000	1,300	1,500
Liabilities	300	250	350
Fair Market Value of assets (without	800	1100	950

reduction of liabilities)			
Details regarding investment in XYZ Co.			
Cost of acquisition	150	150	150
Book value of assets in balance sheet of XYZ Co.	350	550	480
Liabilities	150	200	250
Fair market value of assets in balance sheet of XYZ Co. (without reduction of liabilities)	350	600	600

Determine whether the income arising from transfer of shares of Flix Co. chargeable to tax in India in the hands of Angelo and James for the A.Y. 2025-26. Assume there is no DTAA between India-Country M and between India-Country N. **(6 Marks)**

5. (a) Answer **any two** of the following three sub-parts (i), (ii), (iii) on the basis of decided case laws, bringing out the following –
- (1) Issue involved
 - (2) Relevant provisions of law
 - (3) Analysis and Conclusion
- (i) During the scrutiny assessment of Orange Ltd., a company engaged in manufacture and distribution of packaged Coconut water and fresh drinks, the Assessing Officer increased the income passed an order of demand. Aggrieved by the order, the assessee filed an appeal to CIT(A), who confirmed the order of Assessing Officer. The assessee further appealed to Appellate Tribunal requesting for the stay of collection of tax, which the Tribunal provided initially for 180 days on deposit of 20% of the amount of tax by Orange Ltd. Thereafter, the Bench was functioning intermittently and therefore, the disputed matter could not be disposed off. The company applied for extension of stay and was granted

extension upto 365 days. The Appellate Tribunal did not dispose off the appeal before the time extended for collection of tax. The revenue served an order of demand citing the reason that the order of stay automatically gets vacated post the expiry of 365 days. The assessee seeks your opinion as to whether the contention of the revenue is justified.

- (ii) The assessment of Mr. Sharma was completed u/s 143(3) of the Income-tax Act 1961 with an addition of income of ₹ 8.5 lakhs to the returned income. Mr. Sharma contends that the order of assessment is bad in law as no notice was issued u/s 143(2) even though he had participated in the assessment proceedings. The Assessing Officer, relying on section 292BB, contends that since Mr. Sharma has participated in assessment proceedings, he cannot raise such objection.

Examine the validity of the contentions of both Mr. Sharma as well as the Assessing Officer.

- (iii) Fast Construction Pvt. Ltd. is engaged in the construction of bridges and flyovers. During the previous year 2024-25, it made payment to various parties and deducted tax amounting to ₹ 18 lakhs. However, the company failed to deposit the said amount with the income-tax department within the time prescribed under the Income-tax Act, 1961. The company submitted that it is facing financial hardship since a large sum of money has been stuck-up with its debtors and also with the income-tax department in the form of tax refunds. It is further submitted that inspite of financial crisis, the company has *suo-moto* deposited the TDS amount along-with interest u/s 201(1A), before receiving any notice from the income-tax department in this regard. However, prosecution proceedings were initiated under section 276B against the company and its directors. The company has approached you to advise in the matter. **(2 x 4 marks)**

- (b) “In addition to allocating the taxing rights and elimination of double taxation, there are various other important considerations while entering into tax treaty”. Elucidate. **(6 Marks)**

6. (a) Critically examine the following cases and discuss whether the provisions of General Anti-avoidance Rules (GAAR) can be invoked in these cases?
- (i) Shiva Ltd., an Indian company has 2 manufacturing units, unit X in the Special Economic Zone (SEZ) and unit Y in non-SEZ. Manufacturing activities are carried out in unit Y while unit X only does the packaging of the goods manufactured by unit Y. In its books of accounts, it shows the manufacturing to be carried out in unit X and claims allowable deductions.
 - (ii) Vishnu Ltd., an Indian company has 2 manufacturing units, unit M in the Special Economic Zone (SEZ) and unit N in non-SEZ. It transfers the goods manufactured by unit N to unit M at a price significantly lower than the market value of the goods and thus becomes eligible for higher deductions.

(4 Marks)

- (b) Right & Co, a firm engaged in retail business, employed 30 new employees on 1.4.2024 on a monthly salary of ₹ 24,500 to be paid by account payee cheque. In addition, each employee was entitled to 10% employer contribution to recognised provident fund. The employees were also entitled to transport allowance of ₹ 3,500 p.m. paid in cash. The gross total income of Right & Co. included profits and gains from business of ₹ 75 lakhs.

The firm claimed deduction under section 80JJAA of ₹ 26,46,000, being 30% of ₹ 88,20,000 lakh (30 new employees x ₹ 24,500 p.m. x 12) on the basis of the report of the chartered accountant issued in Form 10DA. The same chartered accountant was also the tax auditor of the firm. The chartered accountant contended that “emoluments” do not include employer contribution to PF. Also, cash payments were not to be considered as “additional employee cost” for the purpose of section 80JJAA. Hence, only ₹ 24,500 p.m. per employee paid by account payee cheque has to be treated as additional employee cost. Since the same does not exceed the limit of ₹ 25,000 p.m. and the employees have been employed for more than 240 days in the P.Y.2024-25, the employees would qualify as “additional employees” for the purpose of deduction under section 80JJAA for A.Y.2025-26.

Is his contention correct? Examine the ethical implications in this case. **(6 Marks)**

- (c) The Indian branch of D Co Ltd, Country K has carried out some transactions with LT Co Ltd, Bengaluru in the financial year 2024-25. The value of the transaction is ₹ 600 crores. LT Co Ltd. applied for advance ruling in January, 2025 to know exactly the tax consequences of its transactions with the non-resident D Co Ltd., Country K, both for itself and on non-resident. Application for ruling is accepted by Board for Advance Rulings (BAR). On 30.4.2025, BAR pronounced its ruling and said ruling was communicated to LT Co. Ltd. on the same date. LT Co. Ltd. was, however, not satisfied with said ruling.

State whether the advance ruling pronounced by BAR is binding on LT Co. Ltd. Is there any remedy available to LT Co. Ltd. if it is aggrieved with the said ruling? Examine. **(4 Marks)**