ANSWERS OF MODEL TEST PAPER 6

FINAL COURSE: GROUP - II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Division A – Multiple Choice Questions

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

Division B – Descriptive Questions

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

	Particulars		Amount (in ₹)
I	**Profits and gains of business or profession**		
	Net profit as per statement of profit and loss from Cement business		75,00,000
	Add: **Items debited but to be considered separately or to be disallowed**		
	(i) Depreciation as per the Companies Act, 2013	6,00,000	
	(ii) Interest expenditure towards borrowed funds for investing in shares	1,50,000	
	[Allowability or otherwise of interest expenditure on earning dividend		

	has to be considered separately under the head "Income from Other Sources". Since the amount has been debited to the statement of profit and loss, it has to be added back.]		
	(iii) Expenditure towards construction of tenements for company's workers [As Kansal Cements Ltd. acquired no ownership rights in the tenements and remained the property of the Housing Board, the expenditure of ₹ 5,00,000 was incurred wholly and exclusively for the welfare of the employees and, therefore, constituted legitimate business expenditure[19]. Since the same has been debited to the statement of profit and loss, no further adjustment is required]	Nil	7,50,000
			82,50,000
	***Less:* Items credited but not taxable or chargeable to tax under another head/ Allowable expenditure**		
	(ii) Dividend received from foreign company [Dividend received from foreign company is taxable under the head "Income from Other Sources". Since the same has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	5,00,000	
	(iv) Waiver of amount by trade creditor [Amount waived by the trade creditor is deemed income under section 41(1) as there is a benefit	Nil	

[19] *CIT v. Bombay Dyeing and Manufacturing Co. Ltd. [1996] 219 ITR 521 (SC)*

	by way of remission or cessation of trading liability. Since the same has been credited to the statement of profit and loss, no further adjustment is required.]			
	(v) Upfront discounted interest to debenture holders		4,00,000	
	[Since the liability of Kansal Cements Ltd. with respect to upfront interest payment had arisen this year, it would be eligible to claim the entire amount of ₹ 5 lakhs of interest paid as deduction[20] under section 36(1)(iii). As only 1/5th of the interest is debited to the statement of profit and loss, remaining 4/5th also has to be reduced]			9,00,000
				73,50,000
	Less: Depreciation as per the Income-tax Act, 1961			4,50,000
				69,00,000
	Profit from business of developing and building rental housing projects			
	Net profit from business of developing and building rental housing projects		20,00,000	
	Income from housing project executed as a work contract		10,00,000	
				30,00,000
				99,00,000
II	**Capital Gains**			
	Long term capital gain on compulsory acquisition of land			
	Full value of consideration [Additional compensation pursuant to order of the High Court]	8,00,000		
	Less: Cost of acquisition	Nil	8,00,000	

[20] *Taparia Tools Ltd. v. JCIT (2015) 372 ITR 605 (SC)*

	Short term capital gain on damage of machinery due to fire			
	Full value of consideration [Insurance compensation]	22,00,000		
	Less: WDV as on 1.4.2024	9,39,250	12,60,750	20,60,750
	Computation of WDV as on 1.4.2024			
	Actual Cost as on 1.5.2021	20,00,000		
	Less: Depreciation for P.Y. 2021-22 [15%]	3,00,000		
	Less: Additional Dep.@ 20%	4,00,000		
	WDV	13,00,000		
	Less: Depreciation for P.Y. 2022-23 [15%]	1,95,000		
	WDV	11,05,000		
	Less: Depreciation for P.Y. 2023-24 [15%]	1,65,750		
	WDV as on 01.04.2024	**9,39,250**		
III	**Income from Other Sources**			
	Dividend received from foreign company		5,00,000	
	Less: Interest expenditure of ₹ 1,50,000 allowed upto 20% of dividend		1,00,000	4,00,000
	Gross Total Income			1,23,60,750
	***Less:* Deduction under Chapter VI-A**			
	Under section 80-IAB		20,00,000	
	[100% of profits from business of developing and building rental housing projects. No deduction is allowed in respect of income from housing project executed as a work contractor]			
	Under section 80M		4,00,000	
	[Deduction in respect of inter-corporate dividend to the extent of dividend			

	distributed by it on or before the due date specified u/s 139(1) or dividend received, whichever is lower]		
			24,00,000
	Total Income		**99,60,750**
	Computation of tax liability		
	Tax on long term capital gains of ₹ 8,00,000 @ 20%	1,60,000	
	Tax on other income of ₹ 91,60,750 @ 30%, since the turnover of the company for the previous year 2022-23 exceeds ₹ 400 crores	27,48,225	
			29,08,225
	Add: Health and education cess @4%		1,16,329
	Tax liability		**30,24,554**
	Tax liability (Rounded off)		**30,24,550**

2. (a) Computation of Taxable Capital gain in the hands of Salsy Limited for A.Y.2025-26

Particulars	₹
Full value of consideration **[See Note 1 below]**	2,64,00,000
Less: Net worth **[See Note 2 below]**	2,37,25,000
Long-term capital gain [Since the Unit is held for more than 36 months]	**26,75,000**
No indexation benefit is allowed in slump sale.	

Note 1: Computation of Full value of consideration

Particulars	₹
Fair market value of the capital assets transferred by way of slump sale [FMV1]	
Land, being an immovable property [Stamp duty value on 1.10.2024, being the date of slump sale]	62,00,000
Building, being an immovable property [Stamp duty value on 1.10.2024, being the date of slump sale]	72,00,000
Machinery [Book value as appearing in the books of accounts]	52,00,000

Investment in listed equity shares of ABC Limited [Fair market value as on 1.10.24] [1,00,000 x 42]	42,00,000
Inventories [Book value as appearing in the books of accounts]	60,00,000
Licenses and Franchises [Book value as appearing in the books of accounts]	23,00,000
	3,11,00,000
Less: Liabilities of Chemical Unit – Trade Creditors	47,00,000
Fair market value of the capital assets transferred by way of slump sale **[FMV1]**	**2,64,00,000**
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [Value of the monetary consideration received] **[FMV2]**	2,42,00,000
Full value of consideration [Higher of FMV1 or FMV2]	2,64,00,000

Note 2 – Computation of Net worth

Particulars	₹	₹
Land (Excluding ₹ 20 lakhs on account of revaluation)		50,00,000
Building		70,00,000
Machinery		52,00,000
Investment in Equity Shares of ABC Ltd.		35,00,000
Inventories		60,00,000
Licenses and Franchises		17,25,000
Cost as on 1.6.2023	23,00,000	
Less: Depreciation @ 25% for Financial Year 2023-24	5,75,000	
WDV as on 1.4.2024	17,25,000	
Total assets		2,84,25,000
Less: Trade Creditors		47,00,000
Net worth		**2,37,25,000**

(b) Computation of income to be declared by the branch in its return of income for A.Y.2025-26

Particulars		₹	₹
Loss of the branch			(28,00,000)
Add:	Short-term capital loss [Allowed to be set-off only against capital gains]	1,50,000	
	Expenditure on Voluntary Retirement Scheme [Only 1/5 is allowable as deduction. Thus, 4/5th will be added back]	9,60,000	
	Brought forward speculative business loss [Allowed to be set-off only against speculative business]	17,00,000	
	Head office expenditure debited to profit and loss	1,65,00,000	1,93,10,000
			1,65,10,000
Less:	Head office expenses allowable u/s 44C **[Refer note below]**		10,60,500
Income to be declared by the branch			**1,54,49,500**
Note - Computation of Head Office expenses allowable u/s 44C			
Head office expenses allowable u/s 44C = ₹ 10,60,500			
Being the lower of -			
(i)	5% of ₹ 2,12,10,000 (adjusted total income) = ₹10,60,500		
(ii)	Actual Head Office expenses allocated to the branch= ₹ 1,65,00,000		

Computation of Adjusted Total Income

Particulars		₹	₹
Loss of the branch			(28,00,000)
Add:	Current year depreciation	NIL	
	Unabsorbed depreciation	18,00,000	
	Short-term capital loss	1,50,000	
	Expenditure on Voluntary Retirement Scheme [Only 1/5 is allowable as deduction. Thus, 4/5th will be added back]	9,60,000	
	Brought forward speculative business loss	17,00,000	
	Deductions under Chapter VI-A	29,00,000	
	Head office expenditure debited to profit and loss	1,65,00,000	
			2,40,10,000
Adjusted total income			**2,12,10,000**
Note – Depreciation for the current financial year is not required to be added back for computing adjusted total income.			

3. (a) (i) As per section 13B, any voluntary contribution received by an electoral trust would be exempt during the previous year, if such electoral trust –

- distributes to the eligible political parties during the said previous year, 95% of the total contributions received during the financial year along with the surplus, if any, brought forward from earlier previous year; and
- functions in accordance with the rules (Rule 17CA) made by the Central Government.

In the present case, M/s MPL, an electoral trust incorporated in the previous year 2024-25, received voluntary contributions of ₹ 600 lakhs. It spent ₹ 5 lakhs for the purpose of managing its affairs.

As per rule 17CA, since M/s MPL, an electoral trust incorporated in the P.Y. 2024-25, it is eligible to spend ₹ 5 lakhs, being ₹ 30 lakhs i.e., 5% of total contributions of ₹ 600 lakhs subject to the limit of ₹ 5 lakhs.

Accordingly, distributable contribution for the P.Y. 2024-25 would be ₹ 595 lakhs [i.e., ₹ 600 lakhs less ₹ 5 lakhs]. In such a case, M/s MPL can distribute ₹ 595 lakhs to a registered political party as the same exceeds ₹ 570 lakhs, being 95% of total contributions received of ₹ 600 lakhs.

Rule 17CA provides that the electoral trust shall not accept contributions, *inter alia*, from an individual who is not a citizen of India.

If M/s MPL received ₹ 100 Lakhs as contribution from individuals who are not citizen of India, it has violated the conditions mentioned in Rule 17CA. In such case, M/s MPL, an electoral trust, would not be eligible for exemption under section 13B in respect of entire contribution.

Moreover, the CBDT may withdraw the approval after giving an opportunity of being heard and record the reasons in writing for the withdrawal of approval.

(ii) No, Astha Foundation trust cannot claim exemption under section 10(23C)(iiiad) and section 10(23C)(iiiae), since the aggregate annual receipt of ₹ 5.4 crores (₹ 1.2 crores from school and ₹ 4.2 crores from hospital) exceeds the aggregate threshold of ₹ 5 crores tough the individual receipts from school and hospital have not exceeded ₹ 5 crores.

(iii) Where a trust or institution or fund is notified under section 10(46), the approval or provisional approval granted under first regime under section 10(23C)(vi) would become inoperative from the date of such notification issued under section 10(46).

Accordingly, in the present case, since approval granted under section 10(23C)(vi) would become inoperative from 15.11.2024, being the date of notification issued under section 10(46), Care for All Foundation cannot simultaneously enjoy

the benefits of both sections i.e., 10(23C)(vi) and section 10(46).

(b) Computation of taxable total income and net tax liability of Mr. Ashok for A.Y.2025-26 under the default tax regime under section 115BAC

Particulars	₹	₹
Profits and Gains of Business or Profession		
Income from sole-proprietary concern in India	8,00,000	
Business Income in Country 'N'	9,50,000	
	17,50,000	
Less: Business loss of A.Y. 2021-22 in Country 'N'	50,000	17,00,000
Income from Other Sources		
Gift received from a friend in Country 'N'	65,000	
Dividend in Country 'N'	1,40,000	2,05,000
Gross Total Income		19,05,000
Less: Deductions under Chapter VI-A [Not available under default tax regime]		Nil
Total Income		**19,05,000**
Tax liability on ₹ 19,05,000		
Tax on total income [30% of ₹4,05,000 + ₹ 1,40,000]	2,61,500	
Add: Health and Education cess@4%	10,460	
		2,71,960
Less: Deduction u/s 91 (See Working Note below)		1,57,794
Net Tax Liability		**1,14,166**
Net Tax Liability (Rounded off)		**1,14,170**

Working Note: Calculation of deduction under section 91		
Average Rate of tax in Country N		
- Tax @10% on dividend income of ₹ 1,40,000	14,000	
- Tax @20% on other income of ₹ 10,15,000 (Business income of ₹ 9,50,000 and gift of ₹ 65,000)	2,03,000	
Total Tax Liability in Country N		2,17,000
Average Rate of tax in Country N = 2,17,000/11,55,000 x 100		18.79%
Indian Rate of tax = 2,71,960/19,05,000 x 100		14.28%
Doubly taxed income from Country N		
Business income [9,50,000 – ₹ 50,000]	9,00,000	
Gift from a friend of ₹ 65,000	65,000	
Dividend Income	1,40,000	
Doubly taxed income		11,05,000
Deduction u/s 91= Lower of average rate of tax in Country N and Indian rate of tax rate of tax x Doubly taxed income = [14.28% x ₹ 11,05,000]		1,57,794

4. (a) (i) As per section 194LA, Maharashtra State Government is required to deduct tax at source @ 10% on the entire sum of ₹ 2,90,000 on 10.12.2024, being the date on which enhanced compensation of ₹ 50,000 is paid to Mr. Bhuvan on account of compulsory acquisition of urban land since aggregate amount of compensation including enhanced compensation exceeds ₹ 2,50,000 during the F.Y. 2024-25.

(ii) Mr. Robert, being a seller of an overseas tour programme package has to collect tax at source under section 206C(1G) from Mr. Aman on receiving the amount for purchase of package.

Tax has to be collected at source @ 5% on ₹ 7 lakhs received, and @ 20% on ₹ 2 lakhs, being above ₹ 7 lakhs.

Since Mr. Aman has not filed his return of income for A.Y. 2024-25 and A.Y. 2023-24 and the TCS credit exceeds ₹ 50,000 for both A.Y 2024-25 and A.Y. 2023-24, section 206CCA is invoked which provides, tax is required to be collected at source, in his case, at the higher of twice the rate specified under section 206C(1G) and 5%.

However, the higher rate of TCS leviable cannot exceed 20%.

Accordingly, Mr. Robert is required to collect tax @ 10% (twice of 5%) on ₹ 7 lakhs and @ 20% (40% twice of 20% but restricted to 20%) on ₹ 2 lakhs (₹ 9 lakhs – ₹ 7 lakhs).

(iii) As per section 194BA, on any income by way of winnings from any online game during the financial year, tax @ 30% is required to be deducted on the net winnings in the user account.

Since there is a withdrawal on 1.2.2025, Dream 44 is required to deduct tax at source at the time of such withdrawal on the net winnings comprised in such withdrawal, as well as on the remaining amount of net winnings in the user account at the end of the financial year.

Net winnings at the time of first withdrawal during the F.Y. i.e., on 1.2.2025 = ₹ 25,00,000, being amount withdrawn – (₹ 1,00,000, being non-taxable deposit made in the user account + ₹ 10,000, being opening balance) = ₹ 23,90,000.

Net winnings at the end of the financial year i.e., on 31.3.2025 = (₹ 25,00,000, being amount withdrawn + ₹ 6,60,000, being closing balance) – (₹ 1,00,000, being non-taxable deposit made in the user account + ₹ 10,000, being opening balance + ₹ 23,90,000, being net winnings comprised in the earlier withdrawal) = ₹ 6,60,000.

(b) (i) Surya Ltd., an Indian company and Sun Inc. of UK, are deemed to be associated enterprises as per section 92A(2), since Surya Ltd. guarantees 10% or more of total borrowings of Sun Inc.

Further, the transaction of purchasing raw material falls within the meaning of “international transaction” under section 92B. Hence, transfer pricing provisions would be attracted in this case.

Computation of Arm's length price and adjustment to be made as per Comparable Uncontrolled Price Method

Particulars	₹ in crores
Price of imported goods charged by Sun Inc. from Surya Ltd.	60.00
Less: Mark up earned @ 25% [₹ 60 crores x 25/125] from Surya Ltd.	12.00
	48.00
Add: Mark up earned in uncontrolled comparable transaction @ 20%	9.60
Add: Adjustment on account of brand value [Annual cost of brand value]	1.00
Add: Adjustment on account of cost of credit for 1 month [12% x 1/12 x 57.60]	0.576
Arm's length price of raw material purchase	**59.176**
Less: Price at which raw material was imported by Surya Ltd. from Sun Inc.	60.000
Adjustment to be made to the income of Surya Ltd.	**0.824**

(ii) Surya Ltd. is required to furnish the audit report under section 92E on or before 31.10.2025, being the specified date i.e., date one month prior to the due date for furnishing the return of income under section 139(1) for the relevant assessment year.

(iii) If Surya Ltd. fails to furnish the audit report under section 92E, penalty of ₹ 1 lakh would be leviable.

5. (a) (i) As per section 253(2), the Principal Commissioner or Commissioner may, if he objects to any order passed by the Joint Commissioner (Appeals) or the Commissioner (Appeals) under section 250, direct the Assessing Officer to appeal to the Appellate Tribunal against such order.

However, the Departmental appeals are subjected to the monetary limits and other conditions specified by the CBDT

for filing appeals before Income Tax Appellate Tribunal, High Courts and SLPs/ appeals before Supreme Court.

The key points as per CBDT circulars in this regard are as under:

- Departmental Appeals shall not be filed before Appellate Tribunal in cases where the tax effect does not exceed the monetary limit of ₹ 60 lakhs.
- Tax would include surcharge and cess. However, the tax will not include any interest thereon, except where chargeability of interest itself is in dispute.

In the present case, tax of ₹ 50.934 lakhs [78% of ₹ 65.30 lakhs] under section 115BBE and interest of ₹ 12.35 lakhs determined in respect of additions of unexplained jewellery under section 69A.

Since the tax effect excluding interest does not exceed ₹ 50 lakhs, the department cannot file appeal before the ITAT.

(ii) As per section 142(2A), if at any stage of the proceedings, the Assessing Officer, having regard to the nature and complexity of the accounts, volume of the accounts etc. is of the opinion that it is necessary so to do, he may, with the previous approval of the Principal Chief Commissioner (PCC) or Chief Commissioner (CC) or the Principal Commissioner (PC) or Commissioner (C) get the inventory valued by a Cost Accountant and furnish a report of such inventory valuation. Opportunity of being heard is to be given to the assessee before directing to get the inventory valued.

For inventory valuation, Cost Accountant should be nominated by PCC or CC or PC or C of Income-tax. Further, the expenses of inventory valuation including remuneration of Cost Accountant shall be determined by the PCC or CC or PC or C of Income-tax in accordance with the prescribed guidelines, and not by the AO. The expenses so determined shall be paid by the Central Government.

In the present case, though AO has taken the relevant approval and the company was given opportunity of being heard, the Assessing Officer is not justified in appointing a

Chartered Accountant in practice, fixing his fees himself and asking the CA to raise the bill to the company. For inventory valuation, a Cost Accountant nominated by PCC or CC or PC or C can be appointed and expenses of inventory valuation including remuneration are also determined by these authorities. Such expenses shall be paid by the Central Government and not by the company.

(iii) The obligation to deduct tax at source in terms of section 194H arises when the legal relationship of principal and agent is established. Agency is a triangular relationship between the principal, agent and the third party. The legal position of a distributor is generally regarded as different from that of an agent.

Section 194H fixes the liability to deduct tax at source on the 'person responsible to pay' and the liability to deduct tax at source arises when the income is credited or paid by the person responsible for paying. However, deduction of tax at source in terms of section 194H is not to be extended and widened in ambit to apply to true/genuine business transactions, where the assessee is not the person responsible for paying or crediting income.

In the present case, M/s SBL Cellular Limited, being an assessee,

- neither pays nor credits
- any income to the person with whom he has contracted.

M/s SBL Cellular Limited is not privy to the transactions between distributors/franchisees and third parties. It is, therefore, impossible for M/s SBL Cellular Limited to deduct tax at source and comply with section 194H, on the difference between the total/sum consideration received by the distributors/franchisees from third parties and the amount paid by the distributors/franchisees to them.

Thus, in the case on hand, section 194H is not applicable in the hands of M/s SBL Cellular Limited and it would not be under a legal obligation to deduct tax at source on the

income/profit component in the payments received by the distributors/ franchisees from the third parties/customers.

Accordingly, the contention of the Revenue that company should deduct tax under section 194H is not correct.

The above answer is based on the rationale of the Supreme Court ruling in *Bharti Cellular Ltd. vs. ACIT [2024] 462 ITR 247*.

(b) (i) As per UN Model Convention, "Automated digital services" means any service provided on the Internet, or another electronic network, in either case requiring minimal human involvement from the service provider.

The term "Automated digital services" includes specially:

(a) online advertising services;

(b) supply of user data;

(c) online search engines;

(d) online intermediation platform services;

(e) social media platforms;

(f) digital content services;

(g) online gaming;

(h) cloud computing services; and

(i) standardized online teaching services.

(ii) A hybrid mismatch is an arrangement that exploits a difference in the tax treatment of an entity or an instrument under the laws of two or more tax jurisdictions to achieve double non-taxation.

Hybrid mismatch arrangements are sometimes used to achieve unintended double non-taxation or long-term tax deferral in one or more of the following ways -

- Creation of two deductions for a single borrowal

- Generation of deductions without corresponding income inclusions
- Misuse of foreign tax credit
- Participation exemption regimes

6. (a) (i) Section 80-IA provides for deduction of 100% of the profits and gains derived from the business of, *inter alia*, developing, operating and maintaining a solid waste management system for 10 consecutive assessment years out of 20 years.

Section 80-IA(7) read with Rule 18BBB requires audit of accounts and furnishing of audit report in Form 10CCB on or before the prescribed time for claim of such deduction.

Form 10CCB is a declaration provided by the Chartered Accountant that in his opinion the enterprise satisfies the conditions stipulated in section 80-IA and the amount of deduction claimed thereunder is as per the provisions of the Income-tax Act, 1961 and meets the required conditions.

As per clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

With respect to Form 10CCB, the Chartered Accountant later came to know about the error that the period of ten years had expired in A.Y. 2023-24 and he withdrew his report in Form 10CCB and informed M/s. PQR Waste Management Pvt. Ltd., who also had filed a revised return immediately withdrawing the claim for deduction under section 80-IA.

Accordingly, clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 may not be invoked as the chartered accountant withdrew his report in Form 10CCB as soon as he came to know about the error and informed the company and company filed a revised return accordingly.

(ii) A. GAAR provisions would not apply in this case as the assessee, M/s KKT Private Limited merely makes a selection of acquiring the machine on lease over outright purchase, out of the options available to him under the provisions of the Act for which he is eligible and satisfies the stipulated conditions, if any.

Even if choice of such option results in lower tax liability, the same is a result of **tax planning**.

B. Investment strategy adopted by the assessee to reduce its tax effect for a particular year is not a method of tax evasion.

Selling of shares of an Indian company at loss and setting off such loss against the short-term capital gain arising on sale of other listed shares is as per the provisions of law. It does not make any difference if the shares sold are purchased again in the next year. It would be considered as tax planning.

(b) As per section 245Q(2), the application of advance ruling needs to be made in quadruplicate by the applicant i.e., M/s ABC Ltd.

Since the value of transaction between M/s ABC Ltd and M/s Pinicer Inc., in respect of which ruling is sought, exceeds ₹ 100 crores but does not exceed ₹ 300 crores, fees of ₹ 5 lakhs to be accompanied with the application.

As per section 245W(1), an applicant who is aggrieved by any ruling pronounced by the Board for Advance Rulings may appeal to the High Court against such ruling of the Board of Advance Rulings.

He has to do so within sixty days from the date of the communication of that ruling or order. However, where the High Court is satisfied that the appellant was prevented by sufficient cause from presenting the appeal within the 60 days period, it may grant further period of 30 days for filing such appeal.