

MODEL TEST PAPER 6
FINAL COURSE: GROUP - II
PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Time Allowed – 3 Hours

Maximum Marks – 100

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

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

| Date of Credit of services to account of Mr. Rohan | Date of Payment to Mr. Rohan | Value of Services Provided (₹) |
|---|-------------------------------------|---------------------------------------|
| 31.05.2024 | 10.06.2024 | 2,00,000 |
| 31.10.2024 | 10.10.2024 | 1,50,000 |
| 31.03.2025 | 10.04.2025 | 1,40,000 |

In addition to the above, Mr. Rohan received ₹ 20,000 on 18.02.2025 directly from a student instead of through the Indeco-Academy payment portal. Mr. Rohan has not furnished his PAN or Aadhar number to Indeco-Academy but has furnished his driving license for KYC requirements.

On 05.05.2024, Mr. Rohan provided interior decorating services to Mr. Naresh in Mumbai having business turnover of ₹ 1.2 crores during P.Y. 2023-24 for his office premises as well as residential premises, the consideration for which was ₹ 40,000 and ₹ 60,000, respectively. Mr. Rohan has provided his PAN details to Mr. Naresh for invoicing purpose.

Mr. Rohan's gross receipts from interior decoration profession (excluding fees for online lectures) from clients in India (including Mr. Naresh) in total in the P.Y. 2024-25 is ₹ 40 lakhs.

Further, ₹ 1,10,000 is payable by Mr. Rohan 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 an office in India, the said office is involved in providing designing services and nothing in relation to online advertisements. Fortunately, Mr. Rohan got one client based in Country A (with which India does not have a DTAA) from whom he received ₹ 3,50,000 as net income after deduction of ₹ 50,000 as foreign tax.

Profits of Mr. Rohan computed as per books of account maintained under section 44AA is ₹ 24 lakhs. He has, however, not got his books of account audited.

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

1. Is Indeco-Academy required to deduct tax at source on amount received/receivable by Mr. Rohan? If so, what is the amount of tax to be deducted?
 - (a) No tax is required to be deducted at source
 - (b) Yes; ₹ 5,100
 - (c) Yes; ₹ 25,500
 - (d) Yes; ₹ 510
2. Is Mr. Naresh required to deduct tax at source under section 194J? If so, what is the amount of tax to be deducted?
 - (a) No tax is required to be deducted at source u/s 194J
 - (b) Yes; ₹ 1,000
 - (c) Yes; ₹ 4,000
 - (d) Yes; ₹ 10,000
3. Is Mr. Rohan required to deduct equalisation levy on the amounts payable to Tumble LLC or Doodle Inc.? If so, what is the amount of levy to be deducted?

- (a) No; there is no requirement to deduct equalisation levy from the amount payable to either Tumble LLC or Doodle Inc.
 - (b) Yes; ₹ 6,600 to be deducted on the amount payable to Tumble LLC; No deduction is, however, required on the amount payable to Doodle Inc.
 - (c) Yes; ₹ 6,300 to be deducted on amount payable to Doodle Inc; No deduction is required on the amount payable to Tumble LLC.
 - (d) Yes; ₹ 6,600 to deducted on the amount payable to Tumble LLC and ₹ 6,300 to be deducted on the amount payable to Doodle Inc.
4. What is Mr. Rohan's gross income-tax liability for the P.Y.2024-25, assuming that he has opted out of the default tax regime u/s 115BAC?
- (a) ₹ 5,70,960
 - (b) ₹ 4,91,400
 - (c) ₹ 5,08,560
 - (d) ₹ 5,53,800
- (2 x 4 = 8 Marks)**

Case Scenario II

DEF Inc., a company incorporated under the laws of Country A, is engaged in management consultancy services. It has set up a branch office in India. India has a DTAA with Country A.

During the F.Y. 2024-25, it earns the following income in India -

- (i) Fee for technical services of ₹ 75,00,000 from ABC Ltd., an Indian company, in pursuance of an agreement made with it and approved by the Central Government. The tax rate on such income under India-Country A tax treaty is 20% on gross income. The fee for technical services is not effectively connected with the branch office in India.
- (ii) DEF Inc. incurred expenses of ₹ 3,00,000 in earning such income from fee for technical services.
- (iii) Sale of shares of Bottle Pvt. Ltd., an Indian company, for ₹ 2,60,00,000 on 15th April 2024.
- (iv) Other income ₹ 10,00,000

All the above income has been credited to the statement of profit and loss of the company.

DEF Inc. had made an investment in 100% equity share capital of Bottle Pvt. Ltd., purchased for ₹ 1,75,00,000 on 5th November, 2004. The said shares were purchased out of foreign exchange of USD 3,50,000 brought from outside India.

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

5. In the context of the provisions of section 115JB, state which of the following statements is correct –
 - (a) The provisions of section 115JB do not get attracted in the hands of DEF Inc., since it is a foreign company.
 - (b) The provisions of section 115JB do not get attracted in the hands of DEF Inc., since its entire income from India is subject to tax at a rate lower than the rate prescribed u/s 115JB.
 - (c) The provisions of section 115JB are attracted in the hands of DEF Inc. since it is resident of a country with which India has a DTAA and the branch office of DEF Inc. constitutes permanent establishment in terms of such agreement.
 - (d) The provisions of section 115JB are attracted in the hands of DEF Inc., since the provisions of section 115JB are applicable to every company deriving income from India.
6. What is the rate at which fee for technical services received by DEF Inc. is chargeable to tax in India?
 - (a) 20.8% on ₹ 75 lakhs
 - (b) 10.4% on ₹ 72 lakhs
 - (c) 20% on ₹ 75 lakhs
 - (d) 41.6% on ₹ 72 lakhs
7. In respect of sale of shares in Bottle Pvt. Ltd., state which of the following statements is correct -
 - (a) The transaction of sale of shares in Bottle Pvt. Ltd. is subject to transfer pricing since DEF Inc. holds more than 26% shares in Bottle Pvt. Ltd. Hence, sale price of ₹ 2,60,00,000 shall be subject to arm's length computation.
 - (b) Sale of shares in Bottle Pvt. Ltd. shall not be considered as transfer, since DEF Inc. holds whole of the share capital of Bottle Pvt. Ltd.

- (c) Capital gains arising on sale of shares shall be taxable @20% with indexation or 10% without indexation, whichever is beneficial to DEF Inc.
- (d) Capital gains is taxable@10% without benefit of indexation and foreign currency conversion.
8. Which of the following statements is correct, assuming that the rates specified in the DTAA are the same as provided under the Act?
- (a) Only capital gains has to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax.
- (b) Only fee for technical services has to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax.
- (c) Both capital gains and fee for technical services have to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax
- (d) Capital gains, fee for technical services and other income have to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax
- (2 x 4 = 8 Marks)**

Case Scenario III

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

- (i) The total receipts of the trust for the P.Y. 2024-25 for educational institution is ₹ 3.10 crores and for the hospital it is ₹ 3.40 crores.
- (ii) Voluntary contributions [included in (i) above] received for the P.Y. 2024-25 from the public amounted to ₹ 105 lakhs. It includes corpus donations of ₹ 55 lakhs (for purchase of building for the trust) and anonymous donations of ₹ 20 lakhs.
- (iii) During the P.Y. 2024-25, computers purchased for ₹ 80 lakhs out of
- Corpus fund mentioned in (ii) above ₹ 30 lakhs.
 - Loan – ₹ 25 lakhs
 - Voluntary contributions - ₹ 25 lakhs

- (iv) Corpus donations received during the current year are invested in -
- Post Office Savings Accounts ₹ 10 lakhs
 - Canara Bank as Fixed deposits ₹ 5 lakhs
 - Non-banking Financial Corporation (NBFC) ₹ 10 lakhs
- (v) Deposited ₹ 15 lakhs towards post office savings account which were utilised for purchase of building during the P.Y. 2020-21 and P.Y. 2021-22 out of corpus fund ₹ 10 lakhs and ₹ 5 lakhs, respectively.
- (vi) Amount paid to another trust registered u/s 12AB by way of donation of ₹ 10 lakhs. Out of the said amount ₹ 2 lakhs are given as corpus donations.
- (vii) ₹ 6 lakhs, being the amount set apart in the P.Y.2023-24 by the trust for charitable purposes u/s 11(2) utilized in the P.Y. 2024-25 for making donation to another charitable trust, whose object is also education.

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

9. Seva Niketan wants to avail exemption under section 10(23C)(iiiad) and 10(23C)(iii ae) in respect of educational institution and hospital for the P.Y. 2024-25. Can it do so?
- (a) Yes, it can do so since annual receipts for each activity do not exceed ₹ 5 crores.
 - (b) No, it cannot do so since the trust is registered under section 12AB.
 - (c) No, it cannot do so since aggregate receipts from education and hospital exceed ₹ 5 crores.
 - (d) Yes, it can do after seeking the approval from the Commissioner of Income-tax.
10. What amount of corpus donations received by the trust would not form part of the total income of the P.Y. 2024-25?
- (a) ₹ 25 lakhs
 - (b) ₹ 40 lakhs
 - (c) ₹ 15 lakhs
 - (d) ₹ 55 lakhs

11. What would be the amount of “specified income” taxable@30% u/s 115BBI for the P.Y. 2024-25?
- (a) ₹ 30 lakhs
 (b) ₹ 46 lakhs
 (c) ₹ 48 lakhs
 (d) ₹ 16 lakhs
12. What amount would be considered as application of the trust for the P.Y.2024-25 (excluding unconditional accumulation of 15%), assuming that it has fulfilled the relevant conditions stipulated under section 12A?
- (a) ₹ 36.8 lakhs
 (b) ₹ 25 lakhs
 (c) ₹ 38 lakhs
 (d) ₹ 30 lakhs
- (2 x 4 = 8 Marks)**
13. A Ltd., an Indian company, borrowed money from B Inc. in Country B, C Ltd. in Country C, D Inc. in Country D and E Ltd. in Country E, the details of which are given hereunder-

| Lender | Amount borrowed by A Ltd. | Interest paid in the P.Y.2024-25 | Is it an Associated Enterprise of A Ltd.? |
|--------|---------------------------|----------------------------------|---|
| B Inc. | ₹ 15 crores | ₹ 1.50 crores | Yes |
| C Ltd. | ₹ 25 crores | ₹ 2.50 crores | No |
| D Inc. | ₹ 25 crores | ₹ 2.50 crores | Yes |
| E Ltd. | ₹ 15 crores | ₹ 1.50 crores | No |

B Inc. has provided guarantee of loan taken by A Ltd. from C Ltd. D Inc. has deposited ₹ 15 crores with E Ltd. Earnings before Interest, Tax and Depreciation of A Ltd. for A.Y.2025-26 is ₹ 10 crores. What is the interest to be disallowed under section 94B for A.Y.2025-26?

- (a) ₹ 1 crore
 (b) ₹ 3 crores
 (c) ₹ 4 crores
 (d) ₹ 5 crores
- (2 Marks)**

14. Mr. Anjan, a property dealer, sold a flat in Mumbai, the stamp duty of which is ₹ 2 crores for ₹ 1.80 crores to his friend Mr. Ashwin, a college lecturer. Mr. Anjan had purchased the flat one year back for ₹ 1.50 crores and the stamp duty value on that date was also ₹ 1.50 crores. What are the tax implications of such sale?
- (a) ₹ 50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin
 - (b) ₹ 50 lakhs would be taxable as business income in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin
 - (c) ₹ 50 lakhs would be taxable as business income in the hands of Mr. Anjan and ₹ 20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin
 - (d) ₹ 50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan and ₹ 20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin
15. Which of the following individuals would be entitled to opt for presumptive taxation schemes under the Income-tax Act, 1961 for A.Y.2025-26?
- (i) A retail trader having turnover of ₹ 2 crore during the previous year 2024-25.
 - (ii) A practicing chartered accountant having gross receipts of ₹ 92 lakhs during the previous year 2024-25.
 - (iii) A wholesale trader having turnover of ₹ 1.96 crore during the previous year 2024-25.
 - (iv) A doctor having gross receipts of ₹ 50 lakhs during the previous year 2024-25.
 - (v) An individual owning 8 goods carriages as on 1.4.2024. He sold 2 goods carriages on 1.5.2024 and purchased 4 goods carriages on 1.7.2024.

The correct answer is -

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

(2 Marks)

Division B – Descriptive Questions

Question No.1 is compulsory.

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

1. Kansal Cements Ltd., a resident company set up in the year 2010 is engaged in the manufacture of cement. Its Statement of Profit and Loss (from cement business) for the financial year ended 31st March, 2025 shows a net profit of ₹ 75 Lakhs after debiting/crediting the following items:
 - (i) Depreciation as per the Companies Act, 2013 ₹ 6 lakhs.
 - (ii) The assessee company received a dividend of ₹ 5,00,000 from Arnold Ltd., a foreign company. It has incurred interest expense of ₹ 1,50,000 towards borrowed funds for the purpose of investing in the shares of Arnold Ltd.
 - (iii) It contributed ₹ 5,00,000 to the State Housing Board towards construction of tenements for the company's workers which constituted 25% of the cost of construction and the assessee could use these for 15 years. Ownership of such tenements remains with the State Housing Board.
 - (iv) A trade creditor whose amount of ₹ 20 lakhs was outstanding for 10 years, has been settled for ₹ 15 lakhs on 01.03.2025 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.
 - (v) Upfront discounted interest paid during the year to the debenture-holders ₹ 5 lakhs. Debentures were issued for a period of 5 years. Apart from half yearly periodical interest, debenture holders were paid one-time upfront discounted interest payment. One fifth of the interest paid has been debited to the statement of profit and loss.

Additional Information:

- A. During the previous year 2024-25, the assessee company started a business of developing and building rental housing projects eligible under section 80-IBA. Net profit from such business amounted to ₹ 20 lakhs during the year. Assessee also earned an income of ₹ 10 lakhs for constructing a housing project eligible under the above said section which it executed as a work contract, received from X

Constructions Ltd. These projects were approved/ notified during the F.Y. 2021-22.

- B. The assessee company has purchased a land on 01.04.2010 for ₹ 5 lakhs which was compulsorily acquired by the Government on 31.03.2018. Original compensation awarded ₹ 10 lakhs was received on 30.06.2018. The assessee company has filed a suit for the additional compensation in the High Court and was awarded an additional compensation of ₹ 8 lakhs on 31.05.2024.
- C. Depreciation as per the Income-tax Act, 1961 ₹ 4.5 lakhs
- D. The assessee company has purchased machinery worth ₹ 20 lakhs on May 1, 2021 and insured it against fire, flood, earthquake etc. The insurance policy contained a reinstatement clause requiring the insurance company to pay the value of machinery, as on the date of loss due to fire, flood, earthquake etc. A fire broke out in September, 2024 causing total damage to the machinery. The company received a sum of ₹ 22 lakhs from the insurance company on 01.03.2025 (Rate of depreciation is 15% and assume that the machinery was the only asset in the block)
- E. The company declares and distributes a dividend of ₹ 6,00,000 to its shareholders on 31.08.2025

Compute the total income and tax liability of Kansal Cements Ltd for the assessment year 2025-26 under the regular provision by analyzing and applying the relevant provisions of Income-tax Law, assuming that the assessee has not opted for any concessional rates under special provisions of the Income-tax Act, 1961. Briefly explain the reasons for treatment of each item. Total turnover of the company for the previous year 2022-23 was ₹ 450 crores. **(14 Marks)**

- 2. (a) Salsy Limited has two units one engaged in manufacture of textile goods and the other involved in manufacturing of chemicals. As a restructuring drive, the company sold its chemical unit as a going concern by way of slump sale for ₹ 242 lakhs on 01.10.2024.

The balance sheet of Salsy limited as on 01 October 2024, being the date on which chemical unit has been transferred, is given here under –

| Liabilities | ₹ | Assets | ₹ |
|------------------------|--------------------|--|--------------------|
| Paid up Share Capital | 2,50,00,000 | Land | |
| General Reserve | 1,35,00,000 | Textile Unit | 60,00,000 |
| Share Premium | 60,00,000 | Chemical Unit | 70,00,000 |
| Revaluation reserve | 20,00,000 | Building | |
| Trade Creditors | | Textile Unit | 90,00,000 |
| Textile Unit | 90,00,000 | Chemical Unit | 70,00,000 |
| Chemical unit | 47,00,000 | Machinery | |
| | | Textile Unit | 40,00,000 |
| | | Chemical unit | 52,00,000 |
| | | Investment in Equity Share (1,00,000) shares of ABC Ltd, a listed company at ₹ 35 per share | |
| | | Chemical Unit | 35,00,000 |
| | | Inventories | |
| | | Textile Unit | 82,00,000 |
| | | Chemical unit | 60,00,000 |
| | | Licenses and Franchises | |
| | | Textile Unit | 20,00,000 |
| | | Chemical unit | 23,00,000 |
| | 6,02,00,000 | | 6,02,00,000 |

The following information have been furnished by the management:

- (i) The Chemical unit was established in July, 2020 during the COVID period.
- (ii) Land of Chemical unit includes revaluation reserve of ₹ 20 lakhs. The Land was purchased at ₹ 50 lakhs in May 2020 and revalued at ₹ 70 lakhs as on October 1, 2024. The stamp duty value on 01.10.2024 is ₹ 62 lakhs.
- (iii) The Building and Machinery have been shown in the balance sheet at its written down value as per section 43(6)(c) of the

Income-tax Act,1961. The stamp duty value of building of Chemical unit on 01.10.2024 is ₹ 72 lakhs.

- (iv) License and Franchises were acquired on 01.06.2023 and shown in the balance sheet at its original purchase price.
- (v) Equity shares were acquired by the company through National stock exchange on 01.04.2022 and value recorded for shares of ABC Limited as on 01.10.2024 at NSE is ₹ 42 per share.

You are required to Compute the Taxable capital gain to Salsy Limited for A.Y.2025-26. **(8 Marks)**

- (b) The net result of the business carried on to a branch of US based foreign company in India for the year ended 31.03.2025 was a loss of ₹ 28 lakhs after charge of the following expenses -
 - (i) Depreciative for the current financial year of ₹ 35 lakhs.
 - (ii) Unabsorbed depreciation for previous financial year of ₹ 18 lakhs.
 - (iii) Short term capital loss of ₹ 1.5 lakhs on sale of shares of an Indian company received in US.
 - (iv) Expenditure incurred for payment in respect of voluntary retirement scheme ₹ 12 lakhs.
 - (v) Speculative Business loss brought forward for A.Y. 2023-24 of ₹ 17 lakhs.
 - (vi) Deductions under Chapter VI-A of 29 ₹ lakhs.
 - (vii) Head Office expenses of ₹ 165 lakhs allocated to the branch.

The assessable adjusted total income of the assessee for the three immediately preceding assessment years was:

| Assessment year | ₹ (in lakhs) |
|-----------------|--------------|
| 2024-25 | 600 |
| 2023-24 | 450 |
| 2022-23 | 500 |

You are required to compute income to be declared by the branch in its return for the assessment year 2025-26. **(6 Marks)**

3. (a) Examine each of the following independent cases of charitable trust/ institutions based on the relevant provisions of the Income-tax Act and judicial pronouncements for the assessment year 2025-26:
- (i) M/s MPL, an electoral trust incorporated on 1st April 2024, provides following information for the previous year 2024-25.
Total voluntary contributions received ₹ 600 lakhs. It spends ₹ 5 lakhs on management of its affairs.
- In light of the provisions of section 13B of the Income-tax Act and rule 17CA notified by the Central Government in this context, give answer to the following questions.
- What is the amount of surplus that can be distributed by the electoral trust to a registered political party assuming all other conditions as provided under the Act are satisfied?
- What will be your answer if out of the total voluntary contributions of ₹ 600 lakhs, ₹ 100 lakhs received from individuals who are not citizen of India? **(4 Marks)**
- (ii) Astha Foundation is a not for profit trust that runs a secondary school and a hospital. The trust had total receipts of ₹ 1.2 crores from school and ₹ 4.2 crores from hospital for the assessment year 2025-26. Can the trust claim exemption under section 10(23C)(iiiad) and section 10(23c)(iii ae) for assessment year 2025-26? **(2 Marks)**
- (iii) Care for All Foundation is claiming exemption under section 10(23C)(vi). On 15.11.2024 it gets notified under section 10(46). The foundation intends to know whether it can enjoy the benefits of both sections in section 10(46) and section 10(23C)(vi) simultaneously. **(2 Marks)**
- (b) Mr. Ashok, aged 66 years, a resident individual furnishes the following particulars of income earned by him in India and Country N for the assessment year 2025-26:
- (i) Taxable income from a sole proprietary concern in Mumbai ₹ 8,00,000.
- (ii) Income from Country N with which India does not have any Double Taxation Avoidance Agreement:

- (A) Business income ₹ 9,50,000.
 - (B) Gift in foreign currency from a friend ₹ 65,000.
 - (C) Dividend (gross) (taxed in country N) ₹ 1,40,000.
 - (D) Brought forward business loss of assessment year 2021-22 in Country N ₹ 50,000. The domestic tax laws of Country N do not permit set off of business loss against any income.
 - (E) Country N taxed dividend income at the rate of 10% and all other income at the rate of 20%.
- (iii) Mr. Ashok has deposited ₹ 1,50,000 in Public Provident fund and paid contribution to approved Pension fund of LIC ₹ 22,000.

Compute taxable income and net tax liability of Mr. Ashok in India for assessment year 2025-26. Assume that Mr. Ashok pays tax under default tax regime provided under section 115BAC(IA). **(6 Marks)**

4. (a) Discuss the relevant provisions of the Income-tax Act, 1961, with respect to collection/deduction of tax in the following situations:
- (i) Mr. Bhavan, an individual purchased urban land on 12.07.2015 which was compulsory acquired by Maharashtra State Government on 10.04.2023. The compensation for acquisition was fixed at ₹ 2,40,000, which was paid to Mr. Bhuvan on 10.04.2024. Against the order of court, the compensation was enhanced by ₹ 50,000 and paid to Mr. Bhuvan on 10.12.2024. **(2 Marks)**
 - (ii) On 1st October, 2024. Mr. Aman makes payment of ₹ 9,00,000 towards cost of overseas tour programme package to Mr. Robert, a seller of an overseas tour programme package and an authorized dealer under the Liberalised Remittance Scheme of the RBI.

Mr. Aman has not filed his return of income the last two assessment years i.e., 2024-25 and 2023-24. Mr. Aman has total TCS of ₹ 51,000 in A.Y. 2024-25 and ₹ 60,000 in A.Y. 2023-24 to his credit. Tax is collected and deposited before due date of filing return of income for both the assessment years. **(3 Marks)**

- (iii) Dream 44 is an online gaming portal. Mr. Z is a user of this portal and he has a credit balance of ₹ 10,000 in his user account with Dream 44 as on 31.03.2024. He deposited ₹ 1,00,000 from his accumulated savings on 02.04.2024 to play online games. He earned ₹ 30,00,000 from online games during IPL season which started on April 4, 2024 and ended on May 31, 2024. During the previous year 2024-25, Mr. Z also earned Referral bonus of ₹ 50,000 from Dream 44 for referring new users on 31.03.2025.

Out of the above sum Mr. Z withdrew ₹ 25,00,000 on 01.02.2025 and kept the balance of ₹ 6,60,000 in user account on 31.03.2025 to utilise it in next year online games.

(3 Marks)

- (b) Surya Ltd., an Indian Company, is engaged in manufacturing activities by importing raw material from Sun Inc. of UK. Sun Inc. has a total loan of 1 million pounds from XYZ Bank of UK. Out of that, Surya Ltd. guarantees 20% of total borrowings in case of any default made by Sun Inc.

During the financial year 2024-25, Surya Ltd. imported goods for ₹ 60 crores from Sun Inc. Sun Inc. supplied similar raw materials to unrelated parties with a mark-up of 20%, whereas, for Surya Ltd. it provided a mark-up of 25%. Surya Ltd. was allowed to use the brand name of Sun Inc., without any payment and whereas the unrelated parties cannot use such brand name in India. The annual cost of brand value is ₹ 100 Lakhs. Surya Ltd. was allowed credit period of 2 months, whereas for the unrelated parties, Sun Inc. allowed only 1 month as credit period. The interest cost may be taken as 12% per annum and the purchases were uniform throughout the year.

The Assessing Officer referred the matter to Transfer Pricing Officer (TPO) for determination of Arm Length Price (ALP).

You are required to (i) Compute the ALP and the adjustments to be made to the income of Surya Ltd. (ii) What is the due date for Surya Ltd. for furnishing audit report u/s 92E? (iii) What amount of penalty is leviable on Surya Ltd., if it fails to furnish audit report u/s 92E?

(6 Marks)

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

(i) Mr. Balram Kumar, a jeweller was intercepted by Police personnel with 1 kg of gold ornaments at New Delhi on 17.01.2024. The case was referred to Income Tax Investigation wing by the Police and the gold ornaments were seized by the Income Tax Department. The registered valuer made the valuation of the gold ornaments amounting to ₹ 65.30 lakhs, to which the assessee did not raise any objection

During the assessment proceedings, the AO was not satisfied with the explanation given by the assessee and the AO made the additions of ₹ 65.30 lakhs as unexplained jewellery u/s 69A in the hands of Mr. Balram Kumar and applied section 115BBE for applicability of tax alongwith Interest. As a result, a demand of tax of ₹ 50.934 lakhs and interest of ₹ 12.35 lakhs were created against the assessee,

The assessee filed an appeal before the Commissioner of Income Tax (Appeals), as per Law. The CIT(Appeals) allowed the appeal and the addition of ₹ 65.30 lakhs was deleted by the CIT being satisfied with the nature and source of the ornaments found from the assessee.

The jurisdictional CIT contemplates to file an appeal in December 2024 before the ITAT against the order of CIT(Appeals). Can Jurisdictional CIT do so? Discuss while explaining the provisions of Income-tax Act and Rules.

(ii) Due to the nature, complexity and volume of the accounts of M/s ABC Private Limited, during the assessment proceedings, the Assessing Officer issued the direction for inventory valuation under section 142(2A) of the Income-tax Act. The relevant approval has been taken by the AO and the company was given an opportunity of being heard as per law. The AO wants to appoint a Chartered Accountant in practice for the purpose. The AO fixed the fees for inventory valuation at ₹ 1,00,000 and asked the CA to raise the bill for valuation report directly to the company after completion of the valuation.

Is AO justified in doing so? What are the relevant provisions for Inventory valuation under section 142(2A)? Discuss in detail.

- (iii) M/s SBE Cellular Limited, a domestic company, had entered into franchisee agreement with various distributors for sale of its prepaid connections. Under these agreements, they sold startup kits and recharge vouchers at discounted prices to distributors, who in turn sold them to customers. The Assessing Officer while going through the TDS return filed by the company found that the company had paid commission on startup kits and recharge vouchers to 10 parties herein called "Franchisees" and though the company had deducted TDS on commission and deposited the same during the period from April 2024 to July 2024, such deduction of tax at source however was discontinued by the company treating such payment to the franchisee not as commission but discount which was outside the ambit of TDS under section 194H. The revenue contended that the company should deduct tax under section 194H on the amounts which, as per Revenue, is a commission payable to an agent by the company under the franchise agreement between the company and the franchisees.

However, as per M/s SBL Cellular Limited, neither are they paying a commission or brokerage to the franchisees/distributors, nor the franchisees/distributors are their agents. In the light of the latest Supreme Court rulings, discuss whether the contention of Revenue is correct or not?

(2 x 4 = 8 Marks)

- (b) (i) What do you understand by Automated Digital Services as per UN model? List out the services (at least 4) mentioned in paragraph 6?
- (ii) What is meant by Hybrid Mismatch Arrangement? What are the ways in which hybrid mismatch arrangements are used to achieve unintended double non-taxation or long-term tax deferral?

(3 + 3 = 6 Marks)

6. (a) (i) M/s. PQR Waste Management Pvt. Ltd., a domestic company, engaged in developing, operating and maintaining a solid waste management system filed its return of income for A.Y. 2024-25 on 30th September, 2025 claiming deduction under section 80-IA, on the basis of Form 10CCB issued by the chartered accountant. However, in November 2025, it came to the notice of the chartered accountant that the ten years period for which the company had been eligible to claim deduction had expired in A.Y.2023-24. The chartered accountant withdrew the audit report in Form 10CCB and advised the company to file a revised return u/s 139(5). The company, accordingly, filed a revised return withdrawing the claim under section 80-IA. The Assessing Officer completed the assessment on the basis of the revised return and issued the assessment order.

However, the department concluded that the concerned chartered accountant had issued Form 100CB without ensuring that the ten years period had expired or not.

The chartered accountant contended that as soon as he came to know about the error, he withdrew his report in Form 10CCB and informed the assessee accordingly. Further, according to him, his report in Form 10CCB was neither the subject matter at the time of assessment nor at the time of penalty proceedings.

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

- (ii) A. The management of M/s. KKT Private limited, Chennai planned to acquire 5 JCB machines for business purposes. The total depreciation on such machines is around ₹ 30 lakhs for one year. However, a choice is made by the management of the company by acquiring the machines on lease over outright purchase. The lease rentals are ₹ 36 lakhs per annum. The company claims deduction for lease rentals. Would the lease rent payment, being higher than the depreciation, be disallowed as expense under GAAR provisions?

B. Mr. Dhaval, aged 45 years, is making investment in Equity shares at recognised stock exchange through registered broker. During previous year 2024-25, he made a short term capital gain in Equity shares of ₹ 10,00,000 till 20.03.2025.

He was holding 1000 Equity shares of SPR Limited (purchased on 01.01.2025 at ₹ 500 per share). The market price of it was ₹ 200 per share on 31.03.2025. Mr. Dhaval sold all the shares of SPR Limited on 31.03.2025 and purchased the same quantity of these shares back on 01.04.2025. He did it so that his short-term capital gain may reduce by ₹ 3,00,000 for P.Y. 2024-25.

Is it a tax planning or tax evasion? **(4 Marks)**

(b) M/s ABC Limited, an Indian company makes an application to Board of Advance rulings in relation to the tax liability of M/s. Pinicer Inc, a non-resident arising out of a transaction which is proposed to be undertaken by ABC Limited with M/s. Pinicer Inc. The value of transactions entered into between both the parties is ₹ 250 crores.

What would be the amount of fees to be accompanied with the application for advance ruling.

What is the remedy available to M/s ABC Limited if it is aggrieved by the ruling of Board for Advance Rulings? Also, state the time limit within which it should exercise this remedy. **(4 Marks)**