

Mock Test Paper - Series II: April, 2025

Date of Paper: 9th April, 2025

Time of Paper: 2 P.M. to 5 P.M.

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 Question in Division A, working notes are not required.

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

Time Allowed – 3 Hours

Maximum Marks – 100

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

Anantam Highways Trust, a business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, has generated an interest income of ₹ 10 lakh and a dividend income of ₹ 5 lakh from Zee Ltd during the P.Y. 2024-25. It also realised short-term capital gains of ₹ 4 lakh from the sale of listed shares of Indian companies on 31-10-2024, with Securities Transaction Tax (STT) paid both at the time of purchase and sale.

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

Anantam Highways Trust has accumulated the entire income except interest income which is distributed to its unitholders in March 2025. Mr. Xavier, a resident unit holder, owns 100 units, while Mr. Yatin, a non-resident unit holder, holds 500 units. The total number of units subscribed by all unit holders amounts to 5,000.

Mr. Yatin, the Managing Director of XYZ Pvt. Ltd., has been provided with an air-conditioner worth ₹ 75,000 at his residence in Delhi as part of his employment terms. However, the company has recorded this asset in its books of account as if it were installed in the quality control section of its factory, with the intention of classifying it as "plant" and claiming depreciation accordingly.

Mr. Xavier is engaged in cryptocurrency trading. During the financial year, he transferred cryptocurrencies for ₹ 4,20,000. The cost of acquisition for these cryptocurrencies was ₹ 70,000.

In addition, he took a loan to invest in cryptocurrencies and incurred an interest expense of ₹ 20,000 on this loan.

From the information given above, choose the most appropriate answer from MCQ 1 to MCQ 3 below:

1. In respect of the component of interest income from Zee Ltd. distributed by the Anantam Highways Trust to unit-holders Xavier and Yatin -
 - (a) No tax is deductible by the Anantam Highways Trust, since such income is not taxable in the hands of unit holders
 - (b) Tax is deductible @ 5% on ₹ 20,000 distributed to Mr. Xavier and @5.2% on ₹ 1 lakh distributed to Mr. Yatin
 - (c) Tax is deductible @ 10% on ₹ 20,000 distributed to Mr. Xavier and @5.2% on ₹ 1 lakh distributed to Mr. Yatin
 - (d) Tax is deductible @ 10% on ₹ 20,000 distributed to Mr. Xavier and 10.4% on ₹ 1 lakh distributed to Mr. Yatin
2. Recording of the air-conditioner provided by XYZ Pvt. Ltd. to Mr. Yatin in its books of account to claim depreciation falls under: -
 - (a) Tax Planning
 - (b) Tax Management
 - (c) Tax Evasion
 - (d) Tax Avoidance
3. Which of the following statements is correct in respect of cryptocurrency?
 - (a) Mr. Xavier can claim deduction for both, cost of acquisition and interest expense while computing income from sale of cryptocurrency.
 - (b) Only the cost of acquisition is allowed as a deduction to Mr. Xavier. Interest expense is not deductible.
 - (c) Neither cost of acquisition nor interest expense are allowed disallowed while computing income from sale of cryptocurrency.
 - (d) Income from sale of cryptocurrency is exempt from tax in India. **(2 x 3 = 6 Marks)**

Case Scenario II

Mr. Badri, a professional interior decorator, also conducts online lectures on interior decoration through the e-commerce platform Pathshala. The details of his earnings from Pathshala are as follows:

Date of Credit of services to account of Mr. Badri	Date of Payment to Mr. Badri	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 abovementioned income, on 18.02.2025, Mr. Badri received ₹ 20,000 directly from a student rather than via the Pathshala payment system. Mr. Badri has provided PAN to Pathshala.

Mr. Badri gave Mr. Nitin in Mumbai, who had a business turnover of ₹ 1.2 crores in P.Y. 2023–2024, interior decorating services for his office and residential spaces on May 5, 2024, for a total of ₹ 40,000 and ₹ 60,000, respectively. For billing, Mr. Badri has given Mr. Nitin his PAN information.

The entire revenue received by Mr. Badri from his interior design business in the P.Y. 2024–2025 from clients in India, including Mr. Nitin, is around ₹ 40 lakhs (excluding fees for online lectures).

Further, ₹ 1,10,000 is payable by Mr. Badri to Phoenix LLC – a social networking website having no office in India and ₹ 1,05,000 to DaVita Inc., USA, for giving online advertisements for the purpose of attracting foreign clients. DaVita Inc., USA, has an office in India for providing online advertisement services. Fortunately, Mr. Badri 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.

According to the books of account maintained by Mr. Badri under section 44AA, his profits amounts to ₹ 24 lakhs. However, his books of account have not been audited.

From the information given above, choose the most appropriate answer from MCQ 4 to MCQ 8 below:

4. Is Pathshala required to deduct tax at source on amount received/receivable by Mr. Badri? 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

5. Is Mr. Nitin 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
6. Is Mr. Nitin required to deduct tax at source under section 194M? If so, what is the amount of tax to be deducted?
- (a) No tax is required to be deducted at source u/s 194M
 - (b) Yes; ₹ 600
 - (c) Yes; ₹ 1,200
 - (d) Yes; ₹ 3,000
7. Is Mr. Badri required to deduct equalisation levy on the amounts payable to Phoenix LLC or DaVita 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 Phoenix LLC or DaVita Inc.
 - (b) Yes; ₹ 6,600 to be deducted on the amount payable to Phoenix LLC; No deduction is, however, required on the amount payable to DaVita Inc.
 - (c) Yes; ₹ 6,300 to be deducted on amount payable to DaVita Inc; No deduction is required on the amount payable to Phoenix LLC.
 - (d) Yes; ₹ 6,600 to be deducted on the amount payable to Phoenix LLC and ₹ 6,300 to be deducted on the amount payable to DaVita Inc.
8. What is Mr. Badri'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 5 = 10 Marks)**

Case Scenario III

Fiserv Inc., a company headquartered in Country F, operates an online platform that provides end-user computer software under an End-User License Agreement (EULA). In the Financial Year 2024-25, Turmeric Ltd., an Indian company, entered into a contract for ₹ 6.7 crore with Fiserv Inc., which is approved by the Central Government.

Under the EULA, Fiserv Inc. grants Turmeric Ltd. a limited, non-exclusive license to install, use, access, display, and run the click-wrap web-based computer software (CWCS) on a single local hard disk or another permanent storage medium of one computer. However, Turmeric Ltd. is restricted from making the CWCS available over a network where it could be used by multiple computers at the same time.

Fiserv Inc. reserves all rights not explicitly granted to Turmeric Ltd. under the EULA. The CWCS is protected by copyright and other intellectual property laws and treaties. Fiserv Inc. owns the title, copyright and other intellectual property rights in the CWCS. The CWCS is licenced (only for use and not any other purpose), not sold.

Fiserv Inc. does not have any offices outside Country F.

Extract of Article 12 of India-Country F DTAA

Royalties and Fees for Technical Services

1. *Royalties and fees for technical services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.*
2. *However, such royalties and fees for technical services may also be taxed in the Contracting State in which they arise and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the royalties or fees for technical services, the tax so charged shall not exceed 10 per cent.*
3. *The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use :*
 - (a) *any copyright of a literary, artistic or scientific work, including cinematograph film or films or tapes used for radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience, including gains derived from the alienation of any such right, property or information*

From the information given above, choose the most appropriate answer from MCQ 9 to MCQ 12 below:

9. Is Turmeric Ltd., India required to deduct tax at source on the payment made to Fiserv Inc.? If yes, what amount of tax is required to be deducted at source on the said payment?
- (a) Yes, Turmeric Ltd. is required to deduct tax at source of ₹ 1,42,14,720.
 - (b) No, Turmeric Ltd. is not required to deduct tax at source.
 - (c) Yes, Turmeric Ltd. is required to deduct tax at source of ₹ 2,84,29,440.
 - (d) Yes, Turmeric Ltd. is required to deduct tax at source of ₹ 67,00,000
10. Would Turmeric Ltd., India be required to deduct tax at source on the payment made to Fiserv Inc, if there was no DTAA between India and Country F? If so, what amount of tax is required to be deducted at source on the said payment?
- (a) Yes, Turmeric Ltd. is required to deduct tax at source of ₹ 1,42,14,720.
 - (b) No, Turmeric Ltd. is not required to deduct tax at source, since such sum is not taxable in the hands of Fiserv Inc.
 - (c) Yes, Turmeric Ltd. is required to deduct tax at source of ₹ 2,84,29,440.
 - (d) Yes, Turmeric Ltd. is required to deduct tax at source of ₹ 71,07,360
11. What would be the tax liability of Fiserv Inc. if there is no DTAA between India and Country F, and it incurred ₹ 20,00,000 for providing end-user software to Turmeric Ltd.?
- (a) ₹ 1,42,14,720.
 - (b) Nil
 - (c) ₹ 2,84,29,440.
 - (d) ₹ 1,37,90,400
12. Is Fiserv Inc. required to file return of income for the A.Y. 2025-26, if there is no DTAA between India and Country F?
- (a) Yes, required to file return of income, since the said income is chargeable to tax in India.
 - (b) No, not required to file return of income, since the said income is not chargeable to tax in India.

- (c) Yes, required to file return of income, even if the said income is not chargeable to tax in India as information of income arising from India is to be disclosed in return.
- (d) No, not required to file return of income, if Turmeric Ltd. deducted tax at source on such income. **(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. Under which of the following cases, will arm's length price be determined by considering the median of the dataset?

Case	Most Appropriate Method	No. of entries in the dataset	Does the price at which the transaction is undertaken fall within the arm's length range beginning from the 35 th percentile of the dataset and ending on the 65 th percentile of the dataset?
I	CUP	5	-
II	RPM	6	Yes

III	TNMM	7	Yes
IV	Cost Plus	8	No

- (a) II and III
- (b) I and IV
- (c) Only IV
- (d) Only I

(2 Marks)

15. Mr. Raghav, a resident, and Mr. John, an American citizen and a non-resident in India, are both sports commentators deriving income of ₹ 5 lakh from sports commentaries in India for A.Y.2025-26. Which of the following statements are correct?

- (i) Tax is deductible u/s 194J from remuneration payable to Mr. Raghav.
- (ii) Tax is deductible u/s 194E from remuneration payable to Mr. John.
- (iii) Tax is deductible u/s 195 from remuneration payable to Mr. John.
- (iv) Mr. John is not required to file his return of income u/s 139, if tax deductible at source is fully deducted.
- (v) Mr. Raghav is not required to file his return of income u/s 139, if tax deductible at source is fully deducted.

Which of the above statements are correct, assuming that this is the only source of income for Mr. Raghav and Mr. John?

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

(2 Marks)

Division B – Descriptive Questions

Question No. 1 is compulsory

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

1. M/s Suraj Industries Ltd., an Indian company, is engaged in manufacturing and assembling of automobiles and auto components in Pune, Maharashtra. The net profit after debit/credit of the following amounts to its Statement of Profit and Loss for the year ended 31-03-2025 was ₹ 9,50,00,000.
 - (i) Depreciation calculated as per useful life of its assets ₹ 2,80,00,000.
 - (ii) Donation of ₹ 12,00,000 given to a political party by way of account payee cheque.
 - (iii) On 15-08-2024, the company contributed ₹50,00,000 to a research institution recognized and notified by the Central Government, which is engaged in scientific research.
 - (iv) Dividend received from foreign company of ₹ 15,00,000 in which it holds 30% of the equity share capital.
 - (v) On 15-05-2024, a long-term capital gain of ₹ 4,00,000 was realized from the sale of equity shares on which STT was paid at the time of acquisition and sale.
 - (vi) Interest at 10% p.a. on ₹ 4,20,00,000, being amount borrowed from State Bank of India on 01-06-2024 for purchase of machinery. The interest outstanding as on 31-03-2025 was paid on 01-12-2025.
 - (vii) Profit of ₹ 8,00,000 was earned from the sale of a plot of land to PQR Limited, an Indian company wholly owned by Suraj Industries Ltd. The plot was originally acquired on 30-06-2023.
 - (viii) Salary of ₹ 1,00,00,000 to foreign technicians for installation of machinery at the factory premises was paid.
 - (ix) The company sold automobile parts for ₹ 22,00,000 to M/s ABC Co Engineers, a sole proprietary concern, on 01.11.2022. On 01.02.2024 ₹ 12,00,000 was written off in the books as bad debts. The sole proprietor died on 01.03.2025 and the company managed to collect ₹ 11,00,000 towards full and final settlement on 30.03.2025. The entire amount collected was shown as bad debts recovered and credited to Statement of Profit and Loss.

Additional Information:

1. Depreciation computed as per Income-tax Rules, 1962 is ₹ 1,50,00,000 other than on the additions in assets made during the year.
2. During the year, the company made additions to its assets, including:
 - Office building worth ₹3,00,00,000 [Put to use on 15-12-2024]
 - Computers valued at ₹25,00,000 [Put to use on 11-05-2024]
 - Plant and machinery amounting to ₹5,00,00,000 [Installed and put to use on 31-12-2024]
3. The company declared and distributed dividend for the financial year 2024-25 on 31.5.2025 for ₹ 12,00,000.

Compute the total income of the company and tax liability for the assessment year 2025-26, assuming company opts for concessional tax regime under section 115BAA. Total turnover of the company for the P.Y. 2022-23 was ₹ 402 crores. **(14 Marks)**

- 2 (a) (i) Pigeon Limited was amalgamated with Laksh Limited on 01.04.2024. All the conditions of section 2(1B) were satisfied.

Pigeon Limited has the following carried forward losses as assessed till the Assessment Year 2024-25:

- Speculative Loss: ₹ 5.5 lakhs
- Unabsorbed Depreciation: ₹ 20 lakhs
- Unabsorbed Capital Expenditure on Scientific Research: ₹ 2.5 lakhs
- Business Loss: ₹ 125 lakhs

Laksh Limited has computed a profit of ₹ 160 lakhs for the Financial Year 2024-25, which is before adjusting the eligible losses of Pigeon Limited but after accounting for depreciation at 15% on ₹ 150 lakhs, the consideration at which plant and machinery were transferred upon amalgamation. However, as per Income-tax records, the written down value (WDV) of the assets in the hands of Pigeon Limited as on 1st April 2024 was ₹ 100 lakhs.

The profit of Laksh Limited of ₹ 160 lakhs also includes a speculative profit of ₹ 10 lakhs.

Compute the total income of Laksh Limited for Assessment Year 2025-26 and indicate the losses/ other allowances to be carried forward by it. **(5 Marks)**

- (ii) Mrs. Urvashi, aged 56 years, a resident individual acquired a residential house at Ayodhya on 01.04.1993 for ₹ 45,00,000. The Fair market value of the property as on 01.04.2001 was ₹ 1,20,00,000 and the stamp duty value as on 01.04.2001 was ₹ 1,02,00,000.

Mrs. Urvashi sold her residential house located at Ayodhya to Mr. Sandeep Kumar on 15.10.2024 for ₹ 15,50,00,000. The value determined by the Stamp Duty Authority on 15.10.2024 was ₹ 17,00,00,000. Mr. Sandeep Kumar was handed over the possession of the property on 15.10.2024 and the registration process was completed on the same date. He paid the sale proceeds in full on the date of registration.

After recovering the sale proceeds from Sandeep Kumar, Mrs. Urvashi purchased one residential plot at Amritsar for ₹ 8 crores on 18.02.2025. She also deposited ₹ 3 crores in a Saving account opened with State Bank of India, Amritsar under Capital gain account scheme on 31.03.2025 for the construction of the residential house on above plot.

You are required to calculate the taxable capital gain in the hands of Mrs. Urvashi for the A.Y. 2025-26 as per the provisions of Income-tax Act, 1961. Cost Inflation Index for F.Y. 2001-02: 100 and 2024-25: 363. **(3 Marks)**

- (b) Mr. Pradhyuman, aged 48 years, a resident individual has furnished the following details of income earned during the previous year 2024-25:

India

- (i) Income from a sole-proprietary business in Indore ₹ 80 lakhs.
(ii) Share of profit from a partnership firm in Bhopal ₹ 20 lakhs.

Country G

- (iii) Agricultural Income (gross) from tea gardens of CGD 40000. Taxable @20%.
(iv) Brought forward business loss of F.Y.2019-20 in Country G was CGD 5,200 which is not permitted to be set off against other income as per the laws of that country.

Country M

- (v) Dividend income (gross) of CMD 30,000. Taxable @10%.
- (vi) Rental Income of CMD 52,000 from house property. Taxable @15%. CMD 6,000 paid towards Municipal taxes in Country M. Municipal taxes are not allowed as deduction in Country M.

Other Information

- Mr. Pradhyuman has deposited ₹1,50,000 in public provident fund and paid medical insurance premium of ₹ 28,000 by account payee cheque to insure the health of himself and his wife (aged 48 years).
- India has no DTAA with Country G and Country M.

Compute total income and tax liability of Mr. Pradhyuman for the A.Y. 2025-26 after providing for deduction under section 91, assuming that 1 CGD/CMD = ₹ 70. Mr. Pradhyuman is opting out of the default tax regime and paying tax under normal provisions of the Act. **(6 Marks)**

3. (a) (i) A not-for-profit trust, engaged in philanthropic activities, operates both an educational institution and a hospital. During P.Y. 2024-25, the trust recorded annual receipts of ₹ 4.5 crores from its educational institution and ₹ 4.5 crores from its hospital.

The trust seeks to claim exemption separately under section 10(23C)(iiiad) for the educational institution and section 10(23C)(iii ae) for the hospital, on the basis that the receipts for each entity individually do not exceed ₹ 5 crores, the threshold specified for exemption under the respective provisions. Can it do so? Examine. **(4 Marks)**

- (ii) A public charitable trust, registered under section 12AB, earned a gross income of ₹ 21 lakhs during the previous year ending 31st March 2025, comprising
- ₹ 14 lakhs from properties held by the trust,
 - ₹ 6 lakhs as net income from a business incidental to its main objectives,
 - ₹ 9 lakhs from voluntary contributions received from the public

The trust applied a sum of ₹ 12.80 lakhs towards charitable purposes during the year which includes repayment of loan taken for construction of orphanage ₹ 4.80 lakhs. The entire expenditure incurred on construction of orphanage was allowed as application of income in the P.Y. 2020-21.

Determine the taxable income of the trust for the assessment year 2025-26.

(4 Marks)

- (b) (i) Laurus Labs Limited specializes in providing scientific research services to various non-resident clients, including Meta Inc. A key aspect of this arrangement is that Meta Inc. extends a guarantee for 12% of Laurus Labs Limited's total loans. The primary consideration here is whether this financial guarantee constitutes an "international transaction" under the transfer pricing provisions of the Income-tax Act, 1961. **(2 Marks)**

- (ii) Without prejudice to the answer to (i) above, if transfer pricing provisions are applicable and the Assessing Officer has made a primary adjustment of ₹ 310 lakhs to the transfer price for P.Y. 2022-23 through an order dated 01.04.2024, which has been accepted by Laurus Labs Limited, what are the statutory compliance requirements under the Income-tax Act, 1961? Furthermore, if the transaction is denominated in Indian Rupees and the adjusted amount is not repatriated as on 31.03.2025, what would be the tax implications for non-compliance. Given that the one year marginal cost of fund lending rate of State Bank of India as on 1.4.2024 is 9%. **(4 Marks)**

4. (a) (i) Vijaya Bank credited ₹ 65,50,000 as interest on deposits into a separate account for macro-monitoring purposes using its Core-branch Banking Solutions (CBS) software. However, no tax was deducted at source (TDS) on the credited interest, even in cases where the interest on certain deposits exceeded ₹ 40,000.

The Assessing Officer disallowed 30% of interest expenditure, where interest on time deposits exceeded ₹ 40,000 and further levied a penalty under section 271C for non-deduction of TDS.

Examine whether the action taken by the Assessing Officer is justified.

(4 Marks)

- (ii) Examine in the context of provisions contained in Chapter XVII of the Act and also work out the amount of tax to be deducted by the payer of income in the following cases:
- (I) "Profit Commission" of ₹ 1 lakh paid on 18.7.2024 by a re-insurance company to the insurer company after the expiry of the term of insurance and where there was no claim during the treaty.
 - (II) Amrish, a part time director of Krish Pvt. Ltd. was paid an amount of ₹ 3,10,000 as fees which was actually in the nature of commission on sales for the period 1.4.2024 to 30.6.2024. **(4 Marks)**
- (b) (i) Tekken Ltd., an Indian company engaged in the manufacturing and trading of video games under the brand name "TIMETODIE", undertook a large-scale publicity campaign in overseas markets to boost export sales. As part of its online advertising strategy, the company hired Moonland Inc., an Australian-based company with no permanent establishment (PE) in India, for digital advertising services. Tekken Ltd. paid ₹ 20 lakhs to Moonland Inc. for its services in the previous year 2024-25.
- Discuss the tax and TDS implications of such transaction both in the hands of Tekken Ltd. and Moonland Inc. **(3 Marks)**
- (ii) The Board for Advance Rulings has the powers of issuing commissions – Examine the correctness or otherwise of this statement. **(3 Marks)**
5. (a) (i) Examine whether the following persons are required to file return of income for A.Y.2025-26, giving brief reasons for your answer –
- (I) Mr. Govind, 28 years old, started his business in P.Y. 2024-25, making it his first year of operations. During the year, his turnover from business amounted to ₹ 70 lakhs, and his total income, as computed from his books of account is ₹ 2 lakhs. He has no other sources of income and has not claimed any deductions under Chapter VI-A or Section 10AA of the Income-tax Act, 1961.
 - (II) Mr. Vicky, aged 54 years, received a gift of ₹ 50 lakhs from his son, Mr. Shravan (aged 26 years), who is employed in a company. He deposited the entire amount in his savings bank account with IDFC Bank on 28th March 2025. Subsequently, on 25th April 2025, he

utilized ₹ 30 lakhs from the said sum to purchase a residential flat for self-occupation, while the remaining balance was transferred to a one-year fixed deposit on 28th April 2025. Mr. Vicky does not maintain any other bank account and does not have any additional sources of income, except for the interest accrued on the fixed deposit. **(4 Marks)**

OR

(ii) Examine the correctness or otherwise of the following propositions in the context of the Income-tax Act, 1961:

- (I) At the time of hearing of rectification application, the Income-tax Appellate Tribunal can re-appreciate the evidence produced during the proceedings of the appeal hearing.
- (II) The High Court cannot interfere with the factual finding recorded by the lower authorities and the Tribunal, without any valid reasons.

(4 Marks)

(b) Determine the penalty leviable under section 270A of the Income-tax Act, 1961, in the case of Alibaba Ltd., an Indian company, considering that none of the additions or disallowances made during the assessment or reassessment fall under section 270A(6) and that the under-reported income does not result from misreporting.

	Particulars of total income of A.Y.2025-26	Alibaba Ltd., an Indian company
		(₹)
(1)	As per the return of income furnished u/s 139(1)	(12,00,000)
(2)	Determined under section 143(1)(a)	(7,50,000)
(3)	Assessed under section 143(3)	(5,00,000)
(4)	Reassessed under section 147	4,50,000

Note - The total turnover of Alibaba Ltd. for the P.Y.2022-23 was ₹ 350 crore. The company has not opted for special provisions under section 115BAA or 115BAB. **(4 Marks)**

- (c) Explain the following terms in the context of interpretation of tax treaties:
- (i) Principle of Contemporanea Expositio
 - (ii) Teleological Interpretation. **(6 Marks)**
6. (a) (i) In a search operation conducted under section 132 of the Income-tax Act on 31.10.2024, the department seized cash amounting to ₹ 25 lakhs. The assessee, after duly explaining the source of the seized cash, submitted an application on 15.12.2024 requesting its release. However, the department declined the request. The assessee seeks your opinion on, the following issues:
- (i) Can the department retain the seized cash even after the assessee has explained its source?
 - (ii) If yes, then to what extent and upto what period? **(4 Marks)**
- (ii) Under the tax treaty between India and Country X, capital gains from the sale of shares of Red Chilies Ltd., an Indian company, are taxable only in Country X, provided the transferor is a resident of Country X, except when the transferor holds more than 10% equity in Red Chilies Ltd. X Ltd., a resident of Country X, invests in Red Chilies Ltd. through its two wholly owned subsidiaries, Lalit Ltd. and Mohan Ltd., both incorporated in Country X. Each subsidiary individually holds 9.95% shares, resulting in a combined holding of 19.9% in Red Chilies Ltd. The subsidiaries sell the shares of Red Chilies Ltd and claim exemption as each is holding less than 10% equity shares in the Indian company. Examine whether GAAR be invoked to deny treaty benefit? **(4 Marks)**
- (b) Mischief Ltd. is a company incorporated in Maldives and 55% of its shares are held by Kaveri (P) Ltd., an Indian company. Mischief Ltd. has its presence in India also. The details relating to Mischief Ltd. for the P.Y.2024-25, are as under:

Particulars	India	Maldives
1. Assets		
Fixed assets at depreciated values for tax purposes (₹ in crores)	120	80
Intangible assets (₹ in crores)	50	200
Other assets (value as per books of account) (₹ in crores)	40	120

2. Income		
Income from trading operations (₹ in crores)	25	50
The above figure includes:		
(i) Income from transactions where purchases are from associated enterprises and sales are to unrelated parties	2	4
(ii) Income from transactions where sales are to associated enterprises and purchases are from unrelated parties	3	5
(iii) Income from transactions where both purchases and sales are from/to associated enterprises	5	10
Interest and dividend from investments (₹ in crores)	20	15
3. Employment Details		
Number of employees (Residents in respective countries)	70	90
Payroll expenses on employees (₹ in crores)	8	12

Determine the residential status of Mischief Ltd. for A.Y.2025-26, if during the F.Y.2024-25, eight board meetings were held – 3 in India and 5 in Maldives.

(6 Marks)