

Mock Test Paper - Series I: July, 2025

Date of Paper: 24th July, 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

Integra Consulting Pvt. Ltd. is a professional firm engaged in providing consultancy and business advisory services. The company offers a wide array of solutions, including financial management, project advisory, business mergers, business valuations, and related services.

During the financial year 2024-25, Integra Consulting rendered various professional services, earning gross receipts totaling ₹ 90 crore. This was the company's first year of operations, and it believes that certain statutory compliances may not have been fully adhered to.

Additionally, during the year, due to pressing business exigencies, the company received various loans in cash from different vendors which are as under:

- ₹ 28,00,000 availed from Mr. Santosh on 19th June 2024.
- ₹ 27,000 availed from Mr. Kamal on 18th July 2024.
- ₹ 16,000 availed from Mr. Ajay on 21st October 2024.

Further, Integra Consulting Pvt. Ltd. made the following loan repayments during the year:

- ₹ 15,000 to Mr. Santosh on 15th July 2024 in cash
- ₹ 2,50,000 to Mr. Santosh on 15th August 2024 through account payee cheque
- ₹ 21,000 to Mr. Santosh on 19th September 2024 through RTGS
- ₹ 12,000 to Mr. Santosh on 17th October 2024 through crossed cheque

Integra Consulting Pvt. Ltd. has also received an amount of ₹ 2,00,000 for services rendered to Mr. Soham through bearer cheque. Also, he received cash of ₹ 90,000 for services rendered to Mr. Manoj. Furthermore, Integra Consulting Pvt. Ltd. does not know about the applicability of tax audit under section 44AB of the Income-tax Act, 1961.

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

1. What is the amount of penalty, if any, which would be leviable on Integra Consulting Pvt. Ltd. for availing loan in cash from various vendors?
 - (a) Penalty of ₹ 28,43,000 under section 271E
 - (b) Penalty of ₹ 28,27,000 under section 271D
 - (c) Penalty of ₹ 28,16,000 under section 271E
 - (d) Penalty of ₹ 28,00,000 under section 271D
2. What is the amount of penalty leviable on repayment of loan to Mr. Santosh?
 - (a) Penalty of ₹ 27,000 under section 271E
 - (b) Penalty of ₹ 16,000 under section 271D
 - (c) No penalty is leviable since the cash repayment is less than ₹ 20,000
 - (d) Penalty of ₹ 48,000 under section 271E
3. Has Integra Consulting Pvt. Ltd. violated any provision of the Income-tax Act, 1961, while receiving payment from Mr. Soham and Mr. Manoj? If yes, what is the amount of penalty which Integra Consulting Pvt. Ltd. is liable to pay?
 - (a) Yes, contravention of section 269ST on receiving payment from Mr. Soham; Penalty of ₹ 2,00,000 u/s 271DA; No contravention on receiving payment from Mr. Manoj.
 - (b) Yes, contravention of section 269ST on receiving payment from Mr. Soham and Mr. Manoj & Penalty of ₹ 2,90,000 u/s 271DA
 - (c) Yes, contravention of section 269SU on receiving payment from Mr. Soham & Penalty of ₹ 2,00,000 is attracted u/s 271DB; No contravention on receiving payment from Mr. Manoj.
 - (d) No violation on receiving payment from either Mr. Soham or Mr. Manoj

4. What is the time limit for filing tax audit report for A.Y. 2025-26 and the amount of penalty leviable if the company does not file its tax audit report within the due date?

- (a) 30.09.2025; penalty leviable is ₹ 45,00,000 u/s 271A
- (b) 31.10.2025; penalty leviable is ₹ 45,00,000 u/s 271B
- (c) 30.09.2025; penalty leviable is ₹ 1,50,000 u/s 271B
- (d) 31.10.2025; penalty leviable is ₹ 1,50,000 u/s 271B **(2 x 4 = 8 Marks)**

Case Scenario II

Mrs. Vandana, an Indian citizen and non-resident in India, furnished the following information for the previous year 2024-25:

- (i) Dividend (gross) from YRF Ltd., an Indian Company, of ₹ 1,85,000.
- (ii) Interest on debentures of Videocon Pvt. Ltd. (subscribed in convertible foreign exchange) of ₹ 2,15,000 (gross).
- (iii) She incurred interest on loan taken for purchase of shares of YRF Ltd. and for purchase of debentures of Videocon Pvt. Ltd. of ₹ 45,000 and ₹ 55,000, respectively.
- (iv) On 15th March 2025, she sold debentures of Jargon Ltd. for ₹ 22,75,000 which were subscribed in convertible foreign exchange on 10th June 2006 in dollars equivalent to ₹ 7,85,000. She paid commission to broker of ₹ 8,000 at the time of sale.
- (v) On 30th April, 2025, she reinvested the sale proceeds of debentures of ₹ 8,40,000 for purchase of listed shares of an Indian company, Fortune Prime Ltd.

Cost Inflation Index: F.Y. 2006-07 - 122; F.Y.2024-25 – 363.

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

5. What is the amount of dividend taxable in the hands of Mrs. Vandana and at what rate YRF Ltd. is required to deduct tax at source on dividend income distributed to Mrs. Vandana?

- (a) ₹ 1,85,000 and 10%
- (b) ₹ 1,47,000 and 10%
- (c) ₹ 1,55,000 and 20.8%
- (d) ₹ 1,85,000 and 20.8%

6. Assuming for the purpose of this MCQ that Mrs. Vandana is a resident in India for the P.Y. 2024-25, determine the amount of dividend taxable in her hands and at what rate YRF Ltd. is required to deduct tax at source on dividend income distributed to her?
- (a) ₹ 1,85,000 and 10%
 - (b) ₹ 1,48,000 and 10%
 - (c) ₹ 1,40,000 and 20%
 - (d) ₹ 1,85,000 and 20%
7. What is the amount of interest on debentures of Videocon Pvt. Ltd. taxable in the hands of Mrs. Vandana and at what rate? Ignore surcharge and cess.
- (a) ₹ 2,15,000 taxable @20%
 - (b) ₹ 1,60,000 taxable @20%
 - (c) ₹ 2,15,000 taxable at slab rates
 - (d) ₹ 1,60,000 taxable at slab rates
8. What would be the amount of long-term capital gains taxable in the hands of Mrs. Vandana on sale of debentures of Jargon Ltd., as per the provisions of Chapter XII-A of the Income-tax Act, 1961? Ignore the effect of first proviso to section 48 (benefit of foreign currency conversion).
- (a) ₹ 14,82,000
 - (b) ₹ 9,32,869
 - (c) ₹ 9,34,800
 - (d) ₹ 9,31,846
- (2 x 4 = 8 Marks)**

Case Scenario III

Safe World is a Charitable trust registered under section 12AB, with its main object of providing education to poor. During the P.Y.2024-25, it received ₹ 80 lakh as voluntary contributions. The trust also borrowed ₹ 40 lakh on 1.7.2024 from Indian bank to purchase land for construction of an school building from where it can carry out its functions.

The trust repaid principal of ₹ 10 lakh to Indian bank on 31.3.2025. The trust incurred revenue expenditure of ₹ 17 lakh and capital expenditure of ₹ 60 lakh towards purchase of land for construction of school building during the P.Y.2024-25. Out of the revenue expenditure of ₹ 17 lakh, ₹ 15 lakh was paid during the P.Y.2024-25 itself. Out of the remaining ₹ 2 lakh, ₹ 1 lakh was paid in April, 2025 and ₹ 1 lakh was paid in January, 2026. During the P.Y.2024-25, the

trust also paid ₹ 3 lakh towards revenue expenditure incurred during the P.Y.2023-24 and ₹ 1 lakh towards revenue expenditure incurred during the P.Y.2022-23.

The trust also received ₹ 30 lakhs by way of corpus donations during the P.Y.2024-25, out of which it deposited ₹ 25 lakhs in post office savings bank account. The trust also withdrew ₹ 5 lakhs from post office savings bank account maintained for depositing corpus fund and applied towards purchase of land for construction of school building.

The trust has donated to EdCare, another trust registered under section 12AB with main object of providing education to poor, ₹ 12 lakhs out of its current year income. The trust has applied for the first time ₹ 2 lakh out of its current year income for medical treatment of brother of the trustee, who met with an accident while working in his factory.

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

9. 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?
 - (a) ₹ 59.2 lakhs
 - (b) ₹ 54.2 lakhs
 - (c) ₹ 64.2 lakhs
 - (d) ₹ 55.2 lakhs
10. If the trust does not get its accounts audited before the specified date referred to in section 44AB, what would be the consequence?
 - (a) No deduction would be allowed if the trust fails to get its accounts audited before the specified date referred to in section 44AB.
 - (b) Capital expenditure incurred on account of purchase of land for construction of school building would not be allowed.
 - (c) Amount donated to Edcare would not be allowed
 - (d) Both capital expenditure incurred on account of purchase of land and the amount donated to Edcare would not be allowed.
11. What is the amount of income which would be chargeable to tax under section 115BBI for A.Y.2025-26?
 - (a) ₹ 2,00,000
 - (b) ₹ 5,00,000

- (c) ₹ 7,00,000
- (d) ₹ 12,00,000

12. What is the quantum of penalty which can be levied under section 271AAE? Assume that the specified violation has occurred only once during the P.Y.2024-25.

- (a) ₹ 2,00,000
- (b) ₹ 4,00,000
- (c) ₹ 5,00,000
- (d) ₹ 7,00,000

(2 x 4 = 8 Marks)

13. Aarav Textiles Pvt. Ltd. is a manufacturing company engaged in the production and export of high-quality textiles and leather goods. The company commenced operations in April 2023 and during its first year of operations (F.Y. 2023-24), it experienced rapid growth, achieving significant turnover.

While preparing for the statutory compliance review in January 2025, the management of Aarav Textiles discovered that it had-

- Failed to pay tax deducted at source amounting to ₹ 52 lakhs for the 1st Quarter of the F.Y. 2023-24.
- Failed to pay tax collected at source of ₹ 85 lakhs on sale of goods to a trader which takes place in the month of August, 2023.

To avoid prosecution, the company's legal team advised filing a Consolidated Compounding Application with the competent authority of the Income Tax Department.

The consolidated application, covering both defaults in a single application, was duly prepared and filed on 22nd January 2025.

In this case, how much should Aarav Textiles Pvt. Ltd. pay as the Compounding Application Fee for filing the Consolidated Compounding Application?

- (a) ₹ 25,000.
- (b) ₹ 50,000
- (c) No, Fee is required for consolidated compounding application
- (d) ₹ 10,000

(2 Marks)

14. GlobalLink Trading Pvt. Ltd. withdrew a total of ₹ 1.80 crores in cash from its current account with National Bank Ltd. during the financial year 2024-25. The last cash withdrawal of ₹ 30 lakhs was made on 5th December 2024.

In the same financial year, an official diplomatic mission of Canada duly approved by the Ministry of External Affairs, Government of India, withdrew ₹ 2 crore in cash from its bank account with National Bank Ltd. on 10th December 2024 for its official activities.

Is National Bank Ltd. required to deduct tax at source on these cash withdrawals? Assume GlobalLink Trading Pvt. Ltd. regularly files its return of income.

- (a) National Bank Ltd. has to deduct tax at source @2% on ₹ 80 lakhs, being the amount exceeding ₹ 1 crore withdrawn by GlobalLink Trading Pvt. Ltd., but no tax is required to be deducted for cash withdrawal by the diplomatic mission of Canada.
- (b) National Bank Ltd. has to deduct tax at source @2% on ₹ 80 lakhs and ₹ 1 crores, being the amount exceeding ₹ 1 crore on cash withdrawal by GlobalLink Trading Pvt. Ltd. and diplomatic mission of Canada.
- (c) No tax is required to be deducted on either of the cash withdrawals by GlobalLink Trading Pvt. Ltd. or diplomatic mission of Canada.
- (d) National Bank Ltd. has to deduct tax at source @2% on ₹ 1 crore, being the amount exceeding ₹ 1 crore withdrawn by the diplomatic mission of Canada, but no tax is required to be deducted for cash withdrawal by GlobalLink Trading Pvt. Ltd.

(2 Marks)

15. Zenith Global Ltd., a company incorporated in the United Kingdom, has established a liaison office in India after obtaining the necessary approval from the Reserve Bank of India (RBI). The liaison office is primarily engaged in promoting the parent company's business and facilitating communication between Indian customers and the UK headquarters.

The liaison office operates strictly within the guidelines laid down by the RBI and does not undertake any commercial, trading, or industrial activities in India.

For the financial year 2024-25, by what date Zenith Global Ltd. should furnish the prescribed statement (Form 49C) to the Assessing Officer under Section 285 of the Income Tax Act, 1961?

- (a) Within 4 Months from the end of Financial Year, i.e. 31st July 2025.
- (b) Within 7 Months from the end of Financial Year, i.e. 31st October 2025.

- (c) Within 8 Months from the end of Financial Year, i.e. 30th November 2025.
- (d) Not required to file the statement as company is incorporated in United Kingdom and having only liaison office in India. **(2 Marks)**

Division B – Descriptive Questions

Question No. 1 is compulsory

Attempt any four questions from the remaining five questions

1. Blue Cloths Ltd. is engaged in the manufacture of fabrics since 01-06-2014. Its Statement of Profit and Loss for the previous year ended 31st March, 2025 shows a profit of ₹ 840 lakhs after debiting or crediting the following items:
 - (a) The company had provided ₹ 18 lakhs, being sum fairly estimated as payable with reasonable certainty, to workers on agreement to be entered with the workers union towards periodical wage revision once in every three years.
 - (b) Expense of ₹ 4.5 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a new hotel project to be set up. The negotiation did not succeed, and the project was abandoned.
 - (c) Depreciation charged on the basis of useful life of assets as per the Companies Act, 2013 is ₹ 43 lakhs.
 - (d) A debtor who owed the company an amount of ₹ 29 lakhs was declared insolvent and hence, was written off by debiting the Statement of Profit and Loss.
 - (e) Long term capital gain of ₹ 6.2 lakhs on sale of equity shares on 10th September 2024. The Securities Transaction Tax (STT) was paid at the time of acquisition and sale.
 - (f) Provision for gratuity based on actuarial valuation was ₹ 440 lakhs. Actual gratuity paid debited to gratuity provision account was ₹ 280 lakhs.
 - (g) Industrial power tariff concession of ₹ 9.15 lakhs, received from Maharashtra State Government was credited to Statement of profit and loss.
 - (h) Loss of ₹ 21 lakhs, due to destruction of a machine worth ₹ 32 lakhs by fire due to short circuit and ₹ 5.5 lakh received as scrap value. The insurance company did not admit the claim of the company on charge of gross negligence.

Additional Information:

- (i) Normal depreciation computed as per Income-tax Rules, 1962 is ₹ 78 lakhs. Ignore adjustment, if any, due to scrap value of ₹ 5.5 lakhs.
- (ii) During the previous year 2020-21, the assessee company started a business of developing and building rental housing projects eligible under section 80-IBA. Net profit from such business is amounted to ₹ 38 lakhs during the P.Y. 2024-25. Assessee company also earned an income of ₹ 12 lakhs for constructing a housing project eligible under the above said section which it executed as a work contract, received from Daksh Constructions Ltd. These projects were approved/ notified during the F.Y. 2021-22
- (iii) GST of ₹ 7.6 lakhs collected from its customers was paid by the company on the due dates. However, on an appeal made, the High Court directed the GST department to refund ₹ 2.5 lakhs to the company. The company, in turn, refunded ₹ 2 lakhs to the customers from whom it was collected and the balance ₹ 0.5 lakhs is still lying under the head "Current Liabilities".

Compute the total income and tax liability of Blue Cloths Ltd. for the A.Y. 2025-26 by analyzing and applying the relevant provisions of income tax law. Briefly explain the reasons for treatment of each item. Ignore the provisions relating to Minimum Alternate Tax. Assume that the company has not opted for section 115BAA.

Note - The turnover of Blue Cloths Ltd. for the P.Y. 2022-23 was ₹ 920 crores.

(14 Marks)

- 2 (a) The profit and loss account of the Disha Darpan & Associates, a partnership firm, showed a net profit of ₹ 95 lakhs after debiting/crediting of the following items:
- (i) Interest on capital @13% - ₹ 9,75,000.
 - (ii) Interest on loan taken from one of the partners @17% - ₹ 2,55,000.
 - (iii) Royalty of ₹ 5 lakhs paid to partner X, who is a professional script writer, for use of his scripts as per agreement between the firm and X. The same is authorized by partnership deed.
 - (iv) Depreciation as per books of accounts - ₹ 2,18,990
 - (v) A building purchased in the year 2021 having a WDV as on 1.4.2024 of ₹ 37.83 lakhs was sold on 05.11.2024 for ₹ 87 lakhs. The differential amount was credited to profit and loss account. The building was the only asset in the block.

Additional Information:

- (a) The firm has four partners. Only 2 are working partners. Partnership deed authorises payment of interest to partners in the range of 12% - 16% and also payment of remuneration to all the four partners @ ₹ 35,000 per month. Remuneration paid to partners not debited to P & L A/c.
- (b) It applied for establishing a unit in SEZ and the letter of approval was granted on 30.3.2022. However, it started the operation of SEZ only on 15.10.2022. The total turnover, export turnover and net profit for the year ended 31.3.2025 were ₹ 220 lakhs, ₹ 70 lakhs and ₹ 12.5 lakhs, respectively. The net profit is included in the profit of ₹ 95 lakhs mentioned above.
- (c) Out of the amount received from sale of building, the firm invested ₹ 26 lakhs on 3.5.2025 in 5-years specified bonds of the National Highways Authority of India. The bonds were issued on 31.5.2025.
- (d) Depreciation as per Income-tax Rules, 1962 is ₹ 27,000 excluding depreciation on assets mentioned in (e) and (f) below.
- (e) WDV of Car as on 1.4.2024 (purchased and put to use on 1.1.2022) of ₹ 9,70,000.
- (f) Cost of second hand machinery (purchased and put to use on 09.11.2024) - ₹ 55,000

Compute the total income of the firm for the A.Y. 2025-26 giving reasons/explanations for the treatment of each item under the normal provisions of the Act.

(8 Marks)

- (b) Gill, a foreign national and a cricketer came to India as a member of Australian cricket team in the year ended 31st March, 2025. He stayed for 40 days in India. He received ₹ 12 lakhs for participation in matches in India. He also received ₹ 3.2 lakh for an advertisement of a product on TV. He contributed articles in a newspaper for which he received ₹ 17,000. When he stayed in India, he also won a prize of ₹ 54,000 from horse racing in Mumbai. He has no other income in India during the year.
 - (i) Compute tax liability of Gill for Assessment Year 2025-26.
 - (ii) Are the income specified above subject to deduction of tax at source?
 - (iii) Is he liable to file his return of income for Assessment Year 2025-26?

(6 Marks)

3. (a) Wonder, a Real Estate Investment Trust (REIT), registered under relevant SEBI Regulations, holds 65% shares in Water Ltd. Wonder REIT provides the following information about its income for the F.Y. 2024-25.

- (i) Interest income from Water Ltd. - ₹ 12 crores
- (ii) Dividend income from Water Ltd. - ₹ 2 crores
- (iii) Short-term capital gains on sale of developmental properties - ₹ 1.2 crore
- (iv) Interest received from investments in unlisted debentures of companies - ₹ 12 lakhs
- (v) Rental income from directly owned real estate assets - ₹ 2 crores

Mr. Kartik, a resident Indian, holds 70% of the units of the REIT. He acquired units in the REIT at an issue price of ₹ 1.5 crores. He does not have any other income during the year. During the P.Y. 2024-25, REIT distributed ₹ 20 crores to its unit holders.

Compute the total income in the hands of Wonder Ltd. and Mr. Kartik.

Note: Water Ltd. has opted to pay tax under section 115BAA. Ignore TDS implications. **(8 Marks)**

- (b) Mr. Varun, an Indian citizen aged 44 years, left India for the first time on 1st April 2022 to settle in Country 'B'. But owing to some personal unavoidable circumstances, he returned back to India permanently on 1st June 2024.

He has a residential property in Country 'B' from which he earned a rental income of \$ 48,000 for the year ended 31st March 2025. He is eligible for basic exemption limit of \$ 15,000 and on balance income, he paid income tax @20% in Country 'B'. The tax was paid on 7th June 2025 from his bank account in India.

His income from business in India is ₹ 9,40,000 for the year ended on 31st March 2025. He also received dividend amounting to ₹ 3,37,500 (Net of TDS) from an Indian company and interest of ₹ 19,800 on saving bank account with PNB, during the year.

The exchange rates of 1 \$ on various dates is given below:

01.04.2024 – ₹ 84; 31.03.2025- ₹ 86; 31.05.2025 – ₹ 88.

Compute the net tax liability of Mr. Varun in India for the assessment year 2025-26 after providing relief u/s 91 (ignore foreign tax rules) on the assumption that there is no DTAA between India and Country 'B'.

Assume Mr. Varun files his income-tax return as per default tax regime. **(6 Marks)**

4. (a) Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31st March, 2025
- (i) Mr. Shivanand has been running a sole proprietary business with turnover of ₹ 202 lakhs for the F.Y.2023-24. He pays a monthly rent of ₹ 15,000 for the office premises to Mr. Sam, the owner of building. Besides, he also pays service charges of ₹ 6,000 per month to Mr. Sam towards the use of furniture, fixtures and vacant land appurtenant thereto.
 - (ii) Mr. Jay, an individual whose total sales in business during the year ended 31.3.2024 was ₹ 2.20 crores, paid ₹ 9 lakhs by cheque on 1.1.2025 to a contractor (an individual), for construction of his factory building. No amount was credited earlier to the account of the contractor in the books of Mr. Jay.
 - (iii) Whiteblue Pvt. Ltd. credited ₹ 28,000 towards fees for professional services and ₹ 27,000 towards fees for technical services to the account of Mr. Grey in his books of account on 6.10.2024. The total sum of ₹ 55,000 was paid by cheque to Mr. Grey on 18.12.2024.
 - (iv) XYZ Ltd., an insurance intermediary registered and operating from the International Financial Services Centre (IFSC), started its business operations in September 2023. During the financial year 2024-25, it earned an insurance commission of ₹ 1,50,000 from UVW Ltd., an Indian resident company. Assume XYZ Ltd. is claiming deduction u/s 80LA and furnished the details to XYZ Ltd. regarding it. **(2 x 4 = 8Marks)**
- (b) NeoVentures Ltd., Australia, holds 30% equity shares in Akshaya InfraTech Pvt Ltd., India. Akshaya InfraTech Pvt Ltd. develops software and also provides related support services. Akshaya InfraTech Pvt Ltd. during the year billed NeoVentures Ltd., Australia for 150 man-hours at the rate of ₹ 2,700 per man hour. The total cost (direct and indirect) for executing this work amounted to ₹ 4,52,000.

However, Akshaya InfraTech Pvt Ltd. billed Vedanta Ltd., India at the rate of ₹ 3,800 per man hour for the similar level of manpower and earned Gross Profit of 40% on its cost.

The transactions of Akshaya InfraTech Pvt Ltd. with NeoVentures Ltd. and Vedanta Ltd. are comparable, subject to the following differences:

- (i) While Akshaya InfraTech Pvt Ltd. also derives technological support from NeoVentures Ltd., there is no such support from Vedanta Ltd. The value of technological support received from NeoVentures Ltd. may be put at 15% of normal gross profits.
- (ii) As NeoVentures Ltd. gives business in large volumes, Akshaya InfraTech Pvt Ltd. offered to NeoVentures Ltd., a quantity discount which may be valued at 10% of the normal gross profits.
- (iii) In the case of rendering services to NeoVentures Ltd., Akshaya InfraTech Pvt Ltd. neither runs any risk nor incurs any marketing costs. On the other hand, in the case of services to Vedanta Ltd., Akshaya InfraTech Pvt Ltd. has to assume all the risks and costs associated with the marketing function which may be estimated at 20% of the normal gross profits.
- (iv) Akshaya InfraTech Pvt Ltd. offered one month credit to NeoVentures Ltd. The cost of providing such credit may be valued at 5% of the normal gross profits. No such credit was given to Vedanta Ltd.

Compute the Arm's Length Price alongwith income to be adjusted under the cost plus method. **(6 Marks)**

5. (a) Answer any two of the following questions three sub-parts, viz. (i), (ii) and (iii)
- (i) An order for A.Y. 2023-24 was passed by the Assessing Officer as per section 143(3), but the typist wrongly typed in the order, the assessment year as A.Y.2022-23 and the relevant previous year as ending on 31.3.2022. The assessee claimed in appeal that the same is an invalid order which was not accepted by the CIT (Appeals) on the ground of the error being of clerical nature. Discuss the correctness of the order of the CIT(Appeals). **(4 Marks)**
 - (ii) The Commissioner of Income-tax issued notice to revise the order passed by an Assessing Officer under section 143. During the pendency of proceedings before the Commissioner, on the basis of material gathered during survey under section 133A after issue of the first notice, the Commissioner of Income-tax issued a second notice, the contents of which were different from the contents of the first notice. Examine whether the action of the Commissioner is justified as to the second notice. **(4 Marks)**

- (iii) Forecast Limited entered into a contract for purchase of patented process with M/s. YPL Inc, a non-resident company based in Country Z. It filed an application u/s 195(2) before the Assessing Officer to make payment to the non-resident company for purchase of patented process without deducting tax at source.

The assessee, Forecast Limited, contended that said non-resident company had no Permanent Establishment in India and in terms of the DTAA between India and Country Z, no tax was to be deducted in India on same. The Assessing Officer rejected the assessee's application on grounds that consideration for patented process constituted royalty u/s 9(1)(vi) and was liable to be taxed in India and, accordingly, assessee was directed to deduct tax at source at rate of 10% on said royalty payment.

On Appeal, the Commissioner (Appeals) passed an order in favour of the assessee. On further appeal, the Tribunal upheld the order passed by the Assessing Officer on grounds that payments made for purchase of patented processes were in the nature of royalty and tax at source to be deducted on such payment.

The assessee company filed a miscellaneous application for rectification under section 254(2) before the Tribunal. The assessee had also filed an appeal before the High Court.

The Tribunal allowed said application in exercise of his powers under section 254(2) and reheard entire appeal on merits and recalled its original order and passed an order in favour of the assessee. Thereafter, the writ petition filed by the assessee with High Court was also withdrawn. Is Tribunal justified in recalling its original order?

Your answer should cover: (1) Issue involved, (2) Provision Applicable and (3) Analysis and conclusion **(4 Marks)**

- (b) (i) Explain the concept of the Mutual Agreement Procedure (MAP) as provided under international tax treaties. What differentiates the OECD Model Convention from the UN Model Convention in the context of arbitration for MAP?
- (ii) Briefly explain the purpose of the Multilateral Instrument (MLI) under the BEPS Project. How does it help in modifying existing bilateral tax treaties? **(3 x 2= 6 Marks)**

6. (a) (i) M/s GreenTech Innovations Pvt. Ltd., a resident Indian company, is planning to enter into a collaboration with a German firm for technology licensing. To understand the taxability of royalty payments under the India-Germany DTAA, it files an application for Advance Ruling before the Board for Advance Rulings in April 2025.

However, it is later revealed that M/s GreenTech Innocations Pvt. Ltd. had already submitted a detailed note on the same transaction to its Assessing Officer in March 2025 as part of a suo moto disclosure during scrutiny proceedings for A.Y. 2024–25. The AO had not yet issued any order but had acknowledged the issue for further verification.

1. In light of Section 245R(2) of the Income-tax Act, 1961, will the application for advance ruling filed by M/s GreenTech Innovations Pvt. Ltd. be allowed?
2. What is the remedy available to an applicant who is aggrieved by the ruling of Board for Advance Rulings? **(4 Marks)**

- (ii) M/s Skyline Design Solutions Ltd., a company incorporated in Country X, is engaged in providing architectural design services globally. It receives a contract from Sunrise Hospitality Pvt. Ltd., an Indian company, to design and develop a chain of resorts across India.

As per the India–Country X tax treaty, payments for architectural services are treated as fees for technical services (FTS) and are taxable in India when paid to a company. However, when the same services are rendered by a partnership firm or individual, the income is taxable in India only if:

- The firm has a fixed base in India, or
- The stay of partners or employees in India exceeds 180 days.

The tax treaty does not contain a Limitation of Benefits clause.

To leverage the treaty benefit, M/s Skyline Design Solutions Ltd. forms a partnership firm in

Country X with one of its directors holding a nominal stake. The contract is routed through this firm, and the company sends its employees to the firm to perform the services. The firm claims treaty protection, stating that it neither has a fixed base nor exceeds the 180-days stay condition, and hence no tax is paid in India.

Does this restructuring of income from a company to a partnership firm, aimed at availing treaty benefits and avoiding Indian tax liability, fall within the scope of GAAR provisions? **(4 Marks)**

- (b) Mr. Pradeep started his interior decoration profession in 2023. His total income receipts for the F.Y. 2024-25 are ₹ 65 lakhs. The details of receipts during the year 2024-25 are as follows:

Particulars	Amount (₹)	Mode of receipt/payment
Date of Receipt		
08.4.2024	15,15,000	NEFT
	32,500	A/c payee cheque
	1,12,000	Bearer cheque
27.06.2024	74,000	A/c payee cheque
	8,75,000	NEFT
12.09.2024	12,28,000	NEFT
	2,18,000	UPI
	2,14,000	A/c Payee Cheque
Other aggregate receipts not exceeding ₹ 2,000 per person on certain occasions from various customers till 31 st March 2025. Out of this, receipts of ₹ 1,22,800 are received in Bearer cheque.	22,31,500	A/c payee cheques, NEFT and UPI
Payments		
Aggregate of all payments made during the P.Y. 2024-25	35,00,000	
Amount incurred for expenditure in cash (not exceeding ₹ 10,000 per person in each case)	23,19,000	

Mr. Pradeep contended that he is not required to get his accounts audited since his turnover does not exceed ₹ 75 lakhs and he is eligible to declare his income as per presumptive provisions of section 44ADA. Examine the contention of Mr. Pradeep. **(6 Marks)**