

Mock Test Paper - Series I: March, 2025

Date of Paper: 17th March, 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 Questions 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

Total Marks: 100 Marks

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

Jandhan co-operative bank provides the following information relating to cash withdrawals by its two customers during the P.Y.2024-25:

Date of cash withdrawal	Mr. Ashok (Savings Account) (₹)	Mr. Bablu (Current Account) (₹)
05.04.2024	20,00,000	-
10.05.2024	-	18,00,000
25.06.2024	25,00,000	-
17.07.2024	-	5,00,000
28.10.2024	35,00,000	-
10.11.2024	-	38,00,000
12.12.2024	25,00,000	-
02.01.2025	-	37,00,000

Mr. Ashok has been regularly filing his return of income while Mr. Bablu has not filed his return of income for the last three years. No other co-operative bank customer had withdrawn more than ₹ 10 lakhs during the P.Y. 2024-25.

Mr. Kishor, a Jandhan Cooperative Bank customer, paid ₹ 12 lakhs out of payments for ₹ 15 lakhs raised in relation to the credit card account using an account payee check before being declared bankrupt. In the previous year 2024–2025, the bank's actual bad debts, including those owed to Mr. Kishore were ₹ 20 lakhs.

On September 30, 2025, the prescribed income tax authority sent a notification to the cooperative bank, stating that it was required to provide the statement of financial transactions by October 30, 2025 as they had failed to do so. The co-operative bank, however, furnished the statement only on November 25, 2025.

From the information given above, choose the most appropriate answer from MCQ 1 to MCQ 4 below:

1. The amount of income-tax that is required to be deducted by Jandhan co-operative bank under section 194N during the P.Y.2024-25 in respect of withdrawals by Mr. Ashok and Mr. Bablu are -
 - (a) ₹ 25,000 and Nil, respectively
 - (b) ₹ 10,000 and ₹ 3,90,000, respectively
 - (c) ₹ 10,000 and ₹ 1,56,000, respectively
 - (d) ₹ 2,10,000 and ₹ 1,96,000, respectively
2. Identify the accounts which are required to be reported in relation to the specified financial transactions in the statement of financial transaction by the Jandhan co-operative bank, based on the above-mentioned facts, for P.Y. 2024-25.
 - (a) Only Bablu
 - (b) Kishor and Bablu
 - (c) Ashok and Bablu
 - (d) Ashok, Kishor and Bablu
3. What is the amount of penalty leviable under section 271FA?
 - (a) ₹ 1,01,500
 - (b) ₹ 1,17,000
 - (c) ₹ 89,000
 - (d) ₹ 1,02,000
4. Let us assume that, on 26.02.2025, as a result of business reorganisation, Jandhan co-operative bank got succeeded by Dhanvarsha co-operative bank. Assuming that the

deduction allowable u/s 32 for the P.Y. 2024-25 is ₹ 3,50,000 and that the predecessor co-operative bank had incurred expenditure of ₹ 30,00,000 during the P.Y.2022-23 on voluntary retirement scheme for its employees, what is the aggregate deduction allowable to predecessor co-operative bank u/s 32 and 35DDA for the P.Y.2024-25?

- (a) ₹ 8,61,507
- (b) ₹ 3,17,397
- (c) ₹ 8,61,507
- (d) ₹ 9,17,397

(2 x 4 = 8 Marks)

Case Scenario II

Xylo Pvt. Ltd.(Xylo) is an Indian company. Yen Inc., (Yen) is a private company incorporated in the USA and its income is not chargeable to tax in India. Both are promoted by Mr. Aryan who holds 30% equity share capital and voting power in both Xylo and Yen. The balance sheet of Xylo as on 31st March, 2025 is as follows:

Liabilities	Amount (₹ million)	Assets	Amount (₹ million)
Paid up capital	250	Fixed Assets	700
Loans:	800	Investments	300
From Yen Inc. 620		Cash and bank balance	200
From others <u>180</u>			
Current liabilities	150		
Total	1,200	Total	1,200

Additional information:

- (i) The loan was advanced by Yen Inc. to Xylo on 1st July, 2024 in rupee terms and carries 6.5% p.a. rate of interest. For borrowers with similar risk profile who are not associated enterprises of Yen Inc., it advances loan at 4% p.a. interest rate.
- (ii) Xylo has maintained such information and document in respect of the international transaction as has been prescribed under section 92D but has not reported the transaction as an international transaction. Xylo does not make any adjustment to its total income on account of application of provisions of Chapter X of the Income-tax Act, 1961 in its return of income.

From the information given above, choose the most appropriate answer from MCQ 5 to MCQ 9 below:

5. Are Xylo and Yen associated enterprises? If so, why?
- (i) Yes, Xylo and Yen are associated enterprises because Mr. Aryan holds voting power of 30% in both the companies.
 - (ii) Yes, Xylo and Yen are associated enterprises as not less than 75% of Xylo's total loans have been availed from Yen.
 - (iii) Yes, Xylo and Yen are associated enterprises since the loan advanced by Yen to Xylo is not less than 51% of the book value of Xylo's total assets.
 - (iv) No, Xylo and Yen are not associated enterprises
- The most appropriate answer is -
- (a) Only (i)
 - (b) (i) and (ii)
 - (c) (i) and (iii)
 - (d) Only (iv)
6. What is the amount of primary adjustment required to be made to the total income of Xylo for A.Y.2025-26?
- (a) ₹ 1,16,25,000
 - (b) ₹ 58,12,500
 - (c) ₹ 1,55,00,000
 - (d) ₹ 77,50,000
7. If Xylo has accepted the primary adjustment made by the Assessing Officer on 31.3.2026, what should Xylo do if it does not want to treat the excess money as deemed advance?
- (a) The excess money which is available to Yen, has to be repatriated to India within 90 days from the due date of filing of return.
 - (b) The excess money which is available to Yen, has to be repatriated to India within 90 days from the date of order of the Assessing Officer.
 - (c) Xylo has to pay additional income-tax @20.9664% on the excess money.
 - (d) Either (b) or (c)

8. If Xylo has accepted the primary adjustment made by the Assessing Officer on 31.3.2026 and the excess money has not been repatriated into India upto 31.3.2027, what would be the consequence if Xylo has not opted to pay additional income-tax? Assume that SBI one-year marginal cost of lending rate is 10% on 1.4.2026 and 11% on 1.4.2027.
- (a) Interest of ₹ 16,56,563 has to be added to its total income for P.Y.2026-27
 - (b) Interest of ₹ 11,60,509 has to be added to its total income for P.Y.2026-27
 - (c) Interest of ₹ 15,40,313 has to be added to its total income for P.Y.2026-27
 - (d) Interest of ₹ 20,53,750 has to be added to its total income for P.Y.2026-27
9. Which factor is relevant in determining whether penalty under section 270A of the Income-tax Act, 1961 will be leviable in respect of the primary adjustment to Xylo's total income?
- (a) Since Xylo has maintained information and documents as prescribed under section 92D, that by itself is sufficient for holding that Xylo has not under-reported its income
 - (b) If the Assessing Officer/Transfer Pricing Officer makes adjustment to Xylo's total income on account of an international transaction not being in accordance with arm's length price, that by itself is sufficient to hold that X has under-reported its income; consequently, penalty u/s 270A is leviable
 - (c) Since Xylo has not reported the transaction as an international transaction, Xylo will be considered to have under-reported its income and penalty will be 50% of the amount of tax payable on the under-reported income
 - (d) Since Xylo has not reported the transaction as an international transaction, Xylo will be considered to have misreported its income and penalty will be 200% of the amount of tax payable on the misreported income

(2 x 5 = 10 Marks)

Case Scenario III

Wave Inc., a corporation incorporated in Country T, specializes in the manufacturing of computer hardware components and also owns the online social networking platform Attire. Smile Ltd., an Indian entity, generally imports computer hardware parts from Wave Inc. However, during the previous year 2024-25, Smile Ltd. did not procure any computer hardware parts from Wave Inc. Instead, on 24th July 2024, it made a payment of ₹ 5,50,000 to Wave Inc. for advertising its business on the Attire platform. However, Smile Ltd. neither deducted tax at source nor equalisation levy on such payment.

On 9th November 2024, Wave Inc. sold 3,500 equity shares it held in XYZ Ltd., an Indian company, for a price of ₹102 per share. These shares were originally acquired by Wave Inc. on 15th April 2011 at a cost of ₹36.40 per share. The purchase and sale of these shares were carried out through a recognized stock exchange in India, and Securities Transaction Tax (STT) was duly paid on both the purchase and sale transactions. The Fair Market Value (FMV) of these shares on 31st January 2018 was assessed at ₹90 per share.

CII for F.Y.2011-12 – 182; F.Y.2024-25 – 363.

Smile Ltd. has received a draft order from the Assessing Officer under Section 144C of the Income-tax Act, 1961, following adjustments made by the Transfer Pricing Officer to the arm's length price for the Assessment Year 2024-25. However, Smile Ltd. does not prefer to file the objection against the draft order before the Dispute Resolution Panel; Instead, it wants to file an appeal before the CIT (Appeals) under section 246A against the final order received from the Assessing Officer.

From the information given above, choose the most appropriate answer from MCQ 10 to MCQ 12 below:

10. In respect of payment made by Smile Ltd. for advertising services provided by Wave Inc., which of the following statements are correct?
 - (a) Equalisation levy is not attracted and no penalty leviable for non-deduction
 - (b) Tax is deductible at source u/s 195 by Smile Ltd. and hence, interest is payable for non-deduction of TDS
 - (c) Equalization levy of ₹ 33,000 is deductible by Smile Ltd. and penalty of ₹ 1,000 per day is attracted for non-deduction
 - (d) Equalization levy of ₹ 33,000 is deductible by Smile Ltd. and penalty of ₹ 33,000 is attracted for non-deduction
11. Compute the amount of long-term capital gains arising to Wave Inc. on transfer of listed shares of XYZ Ltd. What would be the tax treatment of such capital gains under the Income-tax Act, 1961?
 - (a) ₹ 42,000. The same would be taxable@12.5% u/s 112A
 - (b) ₹ 42,000. However, the said amount would not be subject to any tax.
 - (c) No capital gain would arise, since cost of acquisition would be ₹ 102.
 - (d) ₹ 1,13,400; However, the said amount would not be subject to any tax.

12. Which of the following statements are correct, in relation to the remedies available to Smile Ltd. under the Income-tax Act, 1961, if it is not satisfied with the draft order passed by the Assessing Officer?
- (a) It can file an objection before the Dispute Resolution Panel against the draft assessment order
 - (b) It can file an appeal before CIT (Appeals) after getting the final assessment order
 - (c) Either (a) or (b)
 - (d) Both (a) and (b)

(2 x 3 = 6 Marks)

- 13.. Thunder Ltd., an Indian company, had taken on lease a commercial premises for its operations, with an initial security deposit of ₹ 4.2 crores paid to the lessor at the start of the lease agreement. After several years, the company decided to vacate the premises and relocate to a new location. However, a dispute arose between the company and the lessor concerning the terms for vacating the premises. To avoid prolonged litigation and expedite the resolution of the issue, Thunder Ltd. agreed to forgo the security deposit of ₹ 4.2 crores. Whether the amount of security deposit foregone by Thunder Ltd. allowable as deduction while computing business income?
- (a) Yes, allowable as deduction as such expenditure is of revenue nature and incurred on account of dispute
 - (b) No, deduction would not be allowed as such expenditure is of capital nature
 - (c) Yes, allowable as deduction over the five years period
 - (d) Yes, allowable as deduction since the amount of foregone security deposit becomes the income of lessor.

(2 Marks)

14. Vishwas Trust, a public charitable trust registered under section 12AB of the Income-tax Act, 1961, operates a hospital offering medical treatment for various diseases. Mr. Arjun, the son of Mr. Ranbir, the founder of the trust, was admitted to the hospital for heart surgery. While the general public is charged ₹ 7.4 lakhs for similar treatment, Mr. Arjun was charged a concessional fee of ₹3.6 lakhs. The Board of Trustees is concerned that providing this benefit to a relative of the founder may result in the cancellation of the trust's registration under section 12AB and the denial of exemption under section 11 on the entire income of the trust for the P.Y. 2024-25. Is the opinion of the Board of trustees', correct?

- (a) No; registration cannot be cancelled, however, the exemption under section 11 would be denied to the trust in respect of entire income of the trust for the P.Y. 2024-25.
- (b) Yes, registration can be cancelled, and trust would not be eligible for exemption under section 11
- (c) No; registration cannot be cancelled, and entire income is eligible for exemption under section 11.
- (d) No; registration cannot be cancelled, and the value of benefit provided to Mr. Ranbir would be deemed as income of the trust.

(2 Marks)

15. Mr. Veer, a resident individual aged 45 years, has a total income of ₹ 4,05,00,000 for A.Y. 2025-26. His income includes a computed salary of ₹ 1,80,00,000, long-term capital gains of ₹ 60,00,000 taxable at 20% under section 112, and ₹ 45,00,000 under section 112A from a transfer on 23rd December 2024. He also earned short-term capital gains of ₹ 1,00,00,000 under section 111A from a transfer on 10th January 2025 and interest income of ₹ 20,00,000. What would be his tax liability for A.Y.2025-26, assume he has opt out for the default tax regime u/s 115BAC?

- (a) ₹ 1,20,56,200
- (b) ₹ 1,02,67,400
- (c) ₹ 1,14,36,750
- (d) ₹ 1,14,51,700

(2 Marks)

Division B – Descriptive Questions

Question No. 1 is compulsory

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

1. Narmada Ltd. is engaged in the business of manufacturing car spare parts since 1st April 2021. Its statement of profit and loss shows a net profit of ₹350 lakhs for the year ended 31-03-2025, after debiting and crediting the following items:
- ◆ Fees of ₹1 lakh paid to independent directors for attending Board meeting without deduction of tax at source under section 194J.
 - ◆ The opening and closing stock for the year were ₹ 200 lakhs and ₹ 255 lakhs, respectively. They were overvalued by 10%.

- ◆ Depreciation provided in accounts as per straight line basis ₹ 50 lakhs.
- ◆ ₹ 9 lakhs contribution to a National Laboratory approved under section 35(2AA).
- ◆ GST of ₹ 2.10 lakhs, pertaining to P.Y. 2024-25, was paid on 27-12-2025.
- ◆ The company has also purchased goods of ₹ 63 lakhs from M/s. Saraswati Ltd. in which directors have substantial interest. The market value of the goods is ₹ 58 lakhs.
- ◆ The company has made cash payments for purchases of ₹ 5 lakhs on 17-08-2024 due to cash demanded by the supplier. It also made cash payments to transport operator for hiring of lorry on the following dates:
06-06-2024 - ₹ 40,000; 03-07-2024 - ₹ 35,000; 15-01-2025 - ₹ 52,000.
- ◆ The company has incurred legal expenses of ₹ 5 lakhs and ₹ 4 lakhs for issue of bonus shares and for issue of right shares, respectively.
- ◆ Donation paid to a registered political party by way of cheque ₹ 17 lakhs

Additional Information:

- (i) Normal depreciation allowable as per the Income-tax Rules, 1962 is ₹ 62 lakhs.
- (ii) A debt of ₹ 4 lakh was claimed as bad debt in the previous year 2022-23. A sum of ₹ 2 lakh was recovered during the P.Y. 2024-25. The effect of recovery of bad debt was not given in books of account.

The total turnover of the company for previous year 2022-23 was ₹ 390 crores and for financial year 2023-24 ₹ 405 crores.

You are required to compute total income of the company as per Income-tax Act, 1961 for the Assessment Year 2025-26 indicating reasons for treatment of each item, assuming that the company has not opted for special provisions under section 115BAA or 115BAB. Ignore MAT provisions. **(14 Marks)**

- 2 (a) PNG LLP, a limited liability partnership in India, is involved in the development of software and providing IT-enabled services through two distinct units: Unit A and Unit B. Unit A is located in a Special Economic Zone (SEZ), while Unit B is situated in the Domestic Tariff Area (DTA). For the 6th year of its operations, which ended on 31st March 2025, the LLP has provided the following information related to its activities and financial performance:

Items	(Amount in ₹ Lacs)	
	Unit A	Unit B
Export Turnover	1200	920
Domestic Turnover	200	460
Duty Draw Back	38	38
Profit on sale of Import Entitlement	24	Nil
Salaries paid	540	192
Other expenses	420	473
Net Profit of the year	502	753

Additional Information:

- (i) **Unit A:** Expenses of ₹24 lacs are disallowable under section 43B and export sales proceeds received in India amounted to ₹1040 lacs. Export sales of ₹1200 lacs include freight and insurance of ₹200 lacs and realization of ₹1040 lacs includes amount of insurance and freight charges of ₹140 lacs.
- (ii) **Unit B:** Export sales received in India was ₹850 lacs. Expenses charged and are to be disallowed as per section 40A(3) are of ₹47 lacs.

Compute tax payable by PNG LLP for the Assessment Year 2025-26. **(8 Marks)**

- (b) Lokesh, who is 50 years old, has been serving as the CEO of Platinum India Ltd. since April 1, 2019. His total income in India is derived from multiple sources. During the previous year 2024-25, he receives a salary of ₹ 23 lakhs before any standard deduction is applied. Additionally, he paid ₹ 1,80,000 towards interest on loan borrowed for a self-occupied property. Furthermore, he receives ₹ 1,60,000 as interest on bank fixed deposits.

For the year ending 31st March 2025, Lokesh has also earned income from several sources in Country 'A'. He earned USD 25,000 from his business operations in Country A and received USD 4,500 as rent from a house property. Although he paid municipal taxes of USD 450 on the house property, these taxes are not deductible in Country A. Lokesh also earned a dividend of USD 10,000 from shares held in Country A, which was declared and paid in March 2025. Additionally, he realized a short-term capital gain of USD 5,000 from the sale of shares of companies registered in Country A, with the sale proceeds credited to his bank account outside India on 28th March 2025.

India has DTAA with Country 'A' and the tax paid in Country 'A' is eligible for tax credit in India. The fiscal year for income-tax is the same both in India and Country

'A'. Rate of tax is 20% in Country 'A' in respect of all incomes. Income-tax was paid by Lokesh on 25.05.2025 for the incomes of the year ended 31st March 2025 in Country 'A'.

Compute the total income and net tax liability of Lokesh for the A.Y. 2025-26. Assume Lokesh pays tax under default regime under section 115BAC.

The TT buying rate of 1 USD on various dates: 28.02.2025= ₹ 70; 28.03.2025 = ₹ 70.50; 31.03.2025 = ₹ 71; 30.04.2025 = ₹ 72; and 25.05.2025 = ₹ 73.

(6 Marks)

3. (a) "Feed the People," a charitable trust registered under section 12AB of the Income-tax Act, merged with another entity on 1st April 2024, which is not eligible for section 12AB registration or section 10(23C) approval.

As a result of the merger, all assets and liabilities of the original trust were transferred to the merged entity. The trust engaged a registered valuer to determine the value of its assets and liabilities. Based on the details below, compute the tax liability arising from the merger:

- (i) Stamp duty value of land held ₹ 15 lakhs. However, if this land is sold in the open market, it would ordinarily fetch ₹ 17 lakhs. The book value of the land is ₹ 20 lakhs.
- (ii) 75,000 equity shares in Ink Ltd. traded in Delhi Stock Exchange. The lowest price per share on 1.4.2024 was ₹ 75 and the highest price on that day was ₹ 85. The book value was ₹ 67 lakhs.
- (iii) 55,000 preference shares held in N Ltd. The shares will fetch ₹ 44 lakhs, if they are sold in the open market on 1.4.2024. Book value was ₹ 25 Lakhs.
- (iv) Corpus fund as on 1.4.2024 ₹ 15 Lakhs.
- (v) Outside liabilities ₹ 90 lakhs
- (vi) Provision for taxation ₹ 5 lakhs.
- (vii) Liabilities in respect of payment of various utility bills ₹ 6 lakhs. **(8 Marks)**

- (b) FASHION Inc., a notified Foreign Institutional Investor (FII), derived the following incomes during the financial year 2024-25:-

- (1) Dividend from listed shares of Indian companies – ₹ 7,15,000
- (2) Interest on securities – ₹ 16,72,000 (Expenses of ₹ 95,000 has been incurred to earn such income)

(3) Income from sale of securities and shares:

Security/Share	Purchase Date	Sale Date	Sale Consideration (₹)	Purchase Cost (₹)
Bonds of January Ltd.	5th May 2018	7th March 2025	58,00,000	33,00,000
Listed Shares of Exe Ltd.	2nd May 2024	9th February 2025	14,50,000	9,90,000
Unlisted Equity Shares of May Ltd.	1st July 2024	7th March 2025	7,90,000	3,22,000

CII: FY 2017-18: 272; FY 2023-24: 348. In case of listed securities, STT has been paid both at the time of purchase and sale.

Compute the total income and tax liability of the FII, FASHION Inc., for the A.Y. 2025-26 as per section 115AD, assuming that no other income is derived by FASHION Inc. during the F.Y.2024-25. **(6 Marks)**

4. (a) Examine the liability for tax deduction at source in the following cases for the assessment year 2025-26:
- (i) On 21st July 2024, Mr. Anuj, a resident, bought a house property in Chennai from Mr. Josh for ₹ 85 lakhs. Additionally, he acquired an urban plot in Mumbai from Mr. Anant for ₹ 49,00,000 and rural agricultural land from Mr. Digvijay for ₹ 55 lakhs in two independent transactions. The Stamp Duty value of urban plot is ₹ 54 lakhs.
 - (ii) Under section 10(47) of the Income-tax Act, 1961, a notified infrastructure debt fund paid ₹ 6 lakhs as interest to a Hongkong based company, which incurs ₹ 15,000 as expenses to earn this income. It also makes an interest payment of ₹ 2.5 lakhs to Mr. Aman, a resident of a notified jurisdictional area.
 - (iii) Vikasa Ltd. has incurred an expenditure of ₹ 18 lakhs towards landing and parking charges, paid to the Airports Authority of India, for the year ending 31st March 2025.
 - (iv) An employee of the Central Government who receives arrears of salary for

the past three years wants to know if tax is to be deducted on the entire amount during the current year. **(8 Marks)**

- (b) ASHA (P) Ltd., located in Cochi, is engaged in the manufacturing of toys and exports them to various associated and other enterprises across Southern Countries. The company has consistently furnished reports regarding its international transactions with its associated enterprises, complying with transfer pricing regulations. On February 15, 2024, ASHA (P) Ltd. applied for an Advance Pricing Agreement (APA), which was subsequently signed on May 5, 2024, in order to ensure pricing certainty for these international transactions.

The company also applied in respect of the international transactions to which APA applies for rollback benefit which was agreed and signed in January 2025. The details of the status of income tax assessments are as follows:

Assessment Year	Status of Assessment/Dispute
2019-20	The matter is pending before High Court with regard to acquisition of a company by the assessee and the dispute is about set off of loss of the erstwhile company
2020-21 & 2021-22	There is no dispute and the assessments have been completed.
2022-23	The assessment for the A.Y. 2022-23 was completed by making reference to the TPO who enhanced the arm's length price of the international transaction by ₹ 500 lakhs.
2023-24	ALP of international transaction was disputed before the tribunal which set aside the order for fresh consideration by the Assessing Officer in November 2024.
2024-25	The income tax return ('ITR') was filed on 29 th December 2024.

If the APA is applied, the ALP determined for the A.Y. 2022-23 would get enhanced by ₹ 300 lakhs as against ₹ 500 lakhs originally determined by TPO.

Discuss the applicability of rollback agreement for various assessment years in case of ASHA (P) Ltd. **(6 Marks)**

5. (a) Attempt **any two** out the following three sub-parts:
- (i) An Income-tax authority did not file an appeal to the Income-tax Appellate Tribunal against an order of the Commissioner (Appeals) decided against the Income-tax department on a particular issue in case of one assessee, Bela for assessment year 2024-25 on the ground that the tax effect of such

dispute was less than the monetary limit prescribed by CBDT. In assessment year 2025-26, similar issue arose in the assessments of Shweta and her sister Shefali, which was decided by the Commissioner (Appeals) against the Department. Can the Income-tax department move an appeal to the Tribunal in respect of A.Y. 2025-26 against the orders of the Commissioner (Appeals) for Shweta and her sister Shefali? **(4 Marks)**

- (ii) The Assessing Officer filed a complaint against M/s. D & G, a firm, for failure to furnish its return of income for the A.Y.2018-19 within the due date under section 139(1). The complaint was filed in accordance with section 276CC of the Income-tax Act, 1961. The tax payable on the assessed income, as reduced by the advance tax paid and tax deducted at source, was ₹70,000. The appeal filed by the firm against the order of assessment was allowed by the Commissioner (Appeals). The Assessing Officer passed an order giving effect to the order of the Commissioner (Appeals). The tax payable by the firm as per the said order of the Assessing Officer was ₹ 9,100. The Assessing Officer has accepted the order of the Commissioner (Appeals) and has not preferred an appeal against it to the Income Tax Appellate Tribunal. The firm wants to know if the prosecution's actions may be sustained given the case's facts and circumstances. **(4 Marks)**
- (iii) In March 2013, Mr. Rajiv, an Indian national, returned to India to take charge as CEO of BOS (P) Ltd., an Indian company. He held this position from April 1, 2013, to March 31, 2020. Before this, he worked for Orange Inc. in the Singapore from May 2000 to February 2013. He returned to Orange Inc. in the Singapore in April 2020 and permanently settled there. Mr. Rajiv visits India every year only for 1 month during his stay in Singapore. It was discovered that throughout his tenure as CEO of BOS (P) Ltd., he accumulated undeclared wealth and income, including
- (i) shares of listed companies in Singapore acquired on 10th December, 2012;
 - (ii) acquired one apartment in Canada on 20th April 2015 and
 - (iii) established a leather goods manufacturing factory in Malaysia on 15th April 2020.

The above undisclosed assets came to the notice of Assessing Officer in April 2024, and he issued notice under the Black Money Act, 2015 in July, 2024.

Is the Assessing Officer's notice of Mr. Rajiv under the Black Money Act of

2015 legally tenable?

(4 Marks)

- (b) What does a hybrid mismatch mean, and how is it different from a branch mismatch? Describe briefly the reasons of hybrid mismatch arrangements. Which BEPS Action Plan provides recommendations in this regard? **(6 Marks)**

6. (a) The Assessing Officer conducted a survey at 9:30 p.m. at a well-known gym under his jurisdiction called "Silver" for collecting information which may be useful for the purpose of Income-tax Act, 1961. The concerned gym is kept open for business every day between 5 a.m. and 10 p.m. The owner of the gym claims that the A.O. could not enter his business premises after sunset and late in the night. The Assessing Officer wanted to take away with him the books of account and cash kept at the premises of the Gym. Determine whether the Gym's owner's claim is correct and whether the Assessing Officer's suggested course of action is appropriate. **(4 Marks)**

- (b) Determine if the following practices fall under the categories of (i) tax planning, (ii) tax management, or (iii) tax evasion. Briefly explain your response.

(I) Ms. Kanika deposits ₹1,50,000 in PPF account to lower her total income from ₹5,90,000 to ₹4,70,000, in order to be in the 5% total income slab.

(II) A corporate entity installed an air-conditioner costing ₹70,000 at a director's home in accordance with the terms of his appointment, but it is treated as if it was installed in the factory's quality control area. This procedure is performed with the aim of treating it as a plant for depreciation purposes. **(4 Marks)**

- (c) A foreign national hockey player who is a non-resident in India, Mr. Robert Jonson, won ₹ 45 lakhs by competing in hockey competitions in India. In addition, he received ₹ 10,000 for writing an article about hockey for an Indian sports magazine. He earned about ₹ 69,100 in lottery winnings (net).

With reference to the provisions of the Income-tax Act, 1961, you are required to—

(i) Examine whether the above income are subject to deduction of tax at source.

(ii) Decide whether it is necessary for him to file his return of income for A.Y. 2025-26. **(3 Marks)**

- (d) Mr. Saiyyam, a non-resident, made an application to the Authority for Advance Rulings on 15.6.2024 in relation to a transaction proposed to be undertaken by him. On 21.7.2024, he decides to withdraw the said application. Can he withdraw the application on 21.7.2024? Examine. **(3 Marks)**

Mock Test Paper - Series I: March, 2025

Date of Paper: 17th March, 2025

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

FINAL COURSE: GROUP – II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Division A – Multiple Choice Questions

Answer Keys

MCQ No.	Answer
1.	(c) ₹ 10,000 and ₹ 1,56,000, respectively
2.	(b) Kishor and Bablu
3.	(d) ₹ 1,02,000
4.	(c) ₹ 8,61,507
5.	(c) (i) and (iii)
6.	(a) ₹ 1,16,25,000
7.	(d) Either (b) or (c)
8.	(c) Interest of ₹ 15,40,313 has to be added to its total income for P.Y.2026-27
9.	(d) Since X has not reported the transaction as an international transaction, X will be considered to have misreported its income and penalty will be 200% of the amount of tax payable on the misreported income
10.	(d) Equalization levy of ₹ 33,000 is deductible by Smile Ltd. and penalty of ₹ 33,000 is attracted for non-deduction
11.	(b) ₹ 42,000. However, the said amount would not be subject to any tax.
12.	(c) Either (a) or (b)
13.	(b) No, deduction would not be allowed as such expenditure is of capital nature
14.	(d) No; registration cannot be cancelled, and the value of benefit provided to Mr. Ranbir would be deemed as income of the trust.
15.	(c) ₹ 1,14,33,010

Division B – Descriptive Choice Questions

1. Computation of Total Income of Narmada Ltd. for the A.Y.2025-26

Particulars	Amount (₹)	
Profits and Gains from Business and Profession		
Net profit as per profit and loss account		3,50,00,000
Add: Items debited but to be considered separately or to be disallowed		
Fees paid to directors without deducting tax at source [Disallowance@30% would be attracted under section 40(a)(ia) for non-deduction of tax at source from director's remuneration on which tax is deductible under section 194J]	30,000	
Depreciation provided on straight line basis [Depreciation provided in the accounts on straight line basis (i.e., ₹ 50 lakhs) has to be added back]	50,00,000	
Contribution to a National Laboratory [Contribution to a National Laboratory under section 35(2AA) qualifies for deduction@100%].	Nil	
GST liability [GST liability of ₹ 2.10 lakhs would attract disallowance under section 43B, since it was paid only on 27.12.2025 (i.e., after the due date of filing return of income of A.Y.2025-26). It would be allowed in the year of payment (i.e., P.Y.2025-26). Hence, it has to be added back for computing business income]	2,10,000	
Disallowance under section 40A(2) for excess payment to related person [Saraswati Ltd. is a related person under section 40A(2), since the directors of Narmada Ltd. have substantial interest in Saraswati Ltd. Therefore, excess payment of ₹ 5 lakh to Saraswati Ltd. for purchase of goods would attract disallowance under section 40A(2).]	5,00,000	
Disallowance under section 40A(3) for payment exceeding ₹ 10,000 made in cash for purchases and expenditure [Cash payments exceeding ₹ 10,000 a day attracts disallowance under section 40A(3). Accordingly, cash payment of ₹ 5 lakhs made on 17-8-2024 would attract	5,00,000	

disallowance under section 40A(3), even if such payment is made due to demand of supplier]		
Disallowance under section 40A(3) for cash payment exceeding ₹35,000 in a day to transport operators for hiring of lorry	92,000	
[In respect of cash payments to transport operators, a higher limit of ₹ 35,000 per day is permissible. Therefore, cash payment of ₹ 35,000 on 03-07-2024 would not attract disallowance under section 40A(3). However, cash payments of ₹ 40,000 and ₹ 52,000 on 06-06-2024 and 15-01-2025, respectively, would attract disallowance under section 40A(3) since the same exceeds ₹ 35,000 per day]		
Legal expenses for issue of bonus shares	-	
[There is no fresh inflow of funds or increase in capital employed on account of issue of bonus shares and there is only reallocation of the company's fund. Consequently, since there is no increase in the capital base of the company, legal expenses of ₹ 5 lakhs in connection with issue of bonus shares is revenue expenditure and is hence, allowable as deduction. It has been so held by Apex Court in case of <i>CIT vs. General Insurance Corpn. (2006) 286 ITR 232</i> .		
Legal expenses for issue of right shares	4,00,000	
₹ 4 lakhs, being legal expenses in relation to issue of rights shares results in expansion of the capital base of the company and is, hence, a capital expenditure. Therefore, the same is not allowable as deduction. It has been so held in <i>Brooke Bond India Ltd. v. CIT (1997) 225 ITR 798 (SC)</i>]		
Donation to a registered political party	17,00,000	
[Donation paid to a political party is not an allowable expenditure under section 37 since it is not laid out wholly or exclusively for the purposes of business or profession. Hence, the same has to be added back while computing business income.		

Bad debt written off earlier, recovered now [The amount of bad debt written off earlier when recovered subsequently, such recovery is taxable under section 41(4)]	2,00,000	86,32,000
Less: Items credited but to be considered separately or to be allowed/ Expenditure to be allowed		4,36,32,000
Depreciation allowable under the Income-tax Act, 1961 [Depreciation calculated as per Income-tax Rules, 1962 (i.e. ₹ 62 lakhs) is allowable as deduction under section 32]	62,00,000	
Over-valuation of stock [₹ 55 lakhs x 10/110] [The amount by which stock is over-valued has to be reduced for computing business income. ₹ 50 lakhs, being the difference between closing and opening stock, has to be adjusted to remove the effect of over-valuation]	5,00,000	
		<u>67,00,000</u>
Gross Total Income		3,69,32,000
Less: Deduction under Chapter VI-A		
Donation to registered political party [under section 80GGB] [Donation made by a company to a political party is allowable deduction under section 80GGB from gross total income, subject to the condition that payment is made otherwise than by way of cash. Since the donation is made by cheque the same is allowed as deduction under section 80GGB]		<u>17,00,000</u>
Total Income		<u>3,52,32,000</u>

Computation of tax liability of Narmada Ltd. for A.Y.2025-26

Particulars	₹
Tax@25% on total income of ₹ 3,52,32,000 [Since the total turnover or gross receipt in P.Y. 2022-23 ≤ 400 crore]	88,08,000
Add: Surcharge@7% (since total income exceeds ₹ 1 crore but does not exceed ₹ 10 crores)	<u>6,16,560</u>
Tax payable including surcharge	94,24,560
Add: Health and Education cess@4%	<u>3,76,982</u>
Total tax payable	<u>98,01,542</u>
Tax payable (Rounded off)	98,01,540

2 (a)

Computation of total income of PNG LLP

Particulars	₹ (in lacs)
Profit from Unit A [₹ 502 lakhs + ₹ 24 lakhs, being disallowance u/s 43B]	526
Profit from Unit B [₹ 753 lacs + ₹ 47 lacs, being disallowance u/s 40A(3)]	<u>800</u>
	1326
Less: Deduction under section 10AA [See Working Note below]	<u>174</u>
Total Income	<u>1152</u>
Tax on total income@30%	345.60
Add: Surcharge@12%, since total income > ₹1 crore	<u>41.47</u>
	387.07
Add: Health and Education cess @4%	<u>15.48</u>
Tax liability (as per normal provisions)	402.55

Computation of Adjusted total income and Alternate Minimum tax of PNG LLP as per the provisions of section 115JC for A.Y. 2025-26

Particulars	₹ (in lakh)
Total income as per the normal provisions	1152
Add: Exemption under section 10AA	<u>174</u>
Adjusted Total Income	<u>1326</u>
Tax@18.5% of Adjusted Total Income	254.31
Add: Surcharge @12% as the adjusted total income is > ₹1 crore	<u>29.44</u>
	274.75
Add: Health and Education cess @4%	<u>10.99</u>
Alternate Minimum Tax as per section 115JC	<u>285.74</u>

Since the tax payable as per the normal provisions of the Act is more than the alternate minimum tax payable, the total income as per normal provisions shall be liable to tax and the tax payable for A.Y. 2025-26 shall be ₹402.55 lakhs.

Working Note:

Computation of deduction under section 10AA in respect of Unit A located in a SEZ

Particulars	₹ (in lacs)
Total turnover of Unit A = (₹ 1200 lacs + ₹ 200 lacs) – ₹ 200 lacs, being freight and insurance included therein. Since freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also	1200
Export Turnover of Unit A Export sale proceeds received in India	1040
Less: Insurance and freight not includible in export turnover	<u>140</u>
	900
Profit “derived from” Unit A Net profit for the year	502
Add: Disallowance under section 43B	<u>24</u>
	526
Less: Items of business income which are in the nature of ancillary profits and hence, do not constitute profit ‘derived from’ business for the purpose of exemption under section 10AA	
Duty drawback	38
Profit on sale of import entitlement	<u>24</u>
	<u>62</u>
	464
Deduction under section 10AA (6th year of operations)	
Profit derived from Unit A	x
Export turnover of Unit A	-----x 50%
Total turnover of Unit A	
= 50% of 464 x 900/1200 =	174

(b) Computation of total income of Lokesh for A.Y. 2025-26 as per section 115BAC

Since Mr. Lokesh is a resident in India for the P.Y.2024-25, his global income would be subject to tax in India. Therefore, income earned by him in Country A would be taxable in India.

Particulars	Amount (₹)	Amount (₹)
Salaries		
Salary from Platinum Ltd.	23,00,000	
Less: Standard deduction u/s 16(ia)	<u>75,000</u>	22,25,000
Income from house property		
Let out property in Country A		
Gross Annual Value ¹	USD 4,500	
Less: Municipal taxes	<u>USD 450</u>	
Net Annual Value	USD 4,050	
Less: Deduction under section 24 – 30% of NAV	<u>USD 1,215</u>	
	USD 2,835	
[\$ 2,835 x 71, being the last day of previous year i.e., 31.3.2025 as per Rule 115]	2,01,285	
Self-occupied property in India		
Loss from self-occupied property [Interest u/s 24(b) is not allowable in respect of self-occupied property under section 115BAC]	<u>-</u>	
		2,01,285
Profits and gains from business or profession		
Income from business in Country A [\$ 25,000 x 71, being the last day of previous year i.e., 31.3.2025 as per Rule 115]		17,75,000
Capital Gains		
Short term capital gains on sale of shares of companies registered in Country A [\$ 5,000 x 70, being the last day of the month immediately preceding the month in which the		3,50,000

¹ Rental Income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.

shares are transferred i.e., 28.2.2025 as per Rule 115]		
Income from Other Sources		
Interest on bank fixed deposits	1,60,000	
Dividend from shares held in Country A [\$ 10,000 x 70, being the last day of the month immediately preceding the month in which the dividend is declared i.e., 28.2.2025 as per Rule 115]	<u>7,00,000</u>	
		<u>8,60,000</u>
Gross Total Income/Total Income		<u>54,11,285</u>
Total Income (Rounded off)		54,11,290

Computation of Net tax liability of Lokesh for A.Y.2025-26

Particulars		Amount
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [i.e., ₹ 4,00,000 @5%]	20,000	
₹ 7,00,001– ₹ 10,00,000 [i.e., ₹ 3,00,000 @10%]	30,000	
₹ 10,00,001– ₹ 12,00,000 [i.e., ₹ 2,00,000 @15%]	30,000	
₹ 12,00,001– ₹ 15,00,000 [i.e., ₹ 3,00,000 @ 20%]	60,000	
₹ 15,00,001– ₹ 54,11,290 [i.e., ₹ 39,11,290 @ 30%]	<u>11,73,387</u>	
		13,13,387
Add: Surcharge@10% [Since total income exceed ₹ 50 lakhs but does not exceed ₹ 1 crore]		<u>1,31,339</u>
		14,44,726
Add: Health & Education Cess@4%		<u>57,789</u>
		15,02,515
Less: Foreign tax credit, being lower of -		
- Tax payable in India @27.767% on ₹ 30,26,285, being income from house property of ₹ 2,01,285, business income of ₹ 17,75,000 plus capital gains of ₹ 3,50,000 plus dividend income of	8,40,309	

₹ 7,00,000 [i.e ₹ 15,02,515/ ₹ 54,11,290 x 100] = 27.767%		
- Tax paid in Country A@20% [₹ 44,500 @20% x ₹ 72, being the rate on 30.4.2024, being the last day of the month immediately preceding the month in which tax is paid, i.e., May 2025]	6,40,800	
		<u>6,40,800</u>
Net tax liability		<u>8,61,715</u>
Net tax liability (Rounded off)		8,61,720

3. (a) As per section 115TD, the accreted income of “Feed the people”, a charitable trust, registered under section 12AA which merged with an entity not entitled for registration under section 12AB or approval under section 10(23C), would be chargeable to tax at maximum marginal rate @ 34.944% [30% plus surcharge @12% plus cess@4%].

Computation of accreted income and tax liability in the hands of the trust arising as a result of merger with the “not eligible” entity for A.Y. 2025-26

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.2024, being the specified date (date of merger) [See Working Note 1]	1,21,00,000
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	96,00,000
Accreted Income	25,00,000
Tax Liability @ 34.944% of ₹ 25,00,000	8,73,600
Working Notes:	
(1) Aggregate fair market value of total assets on the date of merger	
- Land, being an immovable property [The fair market value of land would be higher of ₹ 17 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 15 lakhs, being stamp duty value as on the specified date]	17,00,000
- Quoted equity shares in Ink Ltd. [75,000 x ₹ 80 per share]	60,00,000

[₹ 80 per share, being the average of the lowest (₹ 75) and highest price (₹ 85) of such shares on the date of merger]		
-	55,000 preference shares of N Ltd. [The fair market value which it would fetch if sold in the open market on the date of merger i.e., FMV on 1.4.2024]	44,00,000
		1,21,00,000
(2) Total liability		
-	Outside liabilities	90,00,000
-	Corpus Fund of ₹ 15 lakhs [not includible]	-
-	Provision for taxation ₹ 5 lakhs [not includible]	-
-	Liabilities in respect of payment of various utility bills [since this liability is an ascertained liability]	6,00,000
		96,00,000

(b) Computation of total income of FASHION Inc., a notified FII, for A.Y.2025-26

Particulars	₹	₹
Dividend income	7,15,000	
Interest on securities [No deduction is allowable in respect of expenses incurred in respect thereof]	<u>16,72,000</u>	23,87,000
Long-term capital gains on sale of bonds of January Ltd.		
Sale consideration	58,00,000	
Less: Cost of acquisition [Benefit of indexation is not allowable]	<u>33,00,000</u>	15,00,000
Short-term capital gains on sale of STT paid equity shares of Exe Ltd.		
Sale consideration	14,50,000	
Less: Cost of acquisition	<u>9,90,000</u>	4,60,000
Short-term capital gains on sale of unlisted equity shares of May Ltd.		
Sale consideration	7,90,000	
Less: Cost of acquisition	<u>3,22,000</u>	<u>4,68,000</u>
Total Income		48,15,000

Computation of tax liability of FASHION Inc. for A.Y.2025-26

Particulars	₹
Tax@20% on interest on securities and dividend = 20% x ₹ 23,87,000	4,77,400
Tax@10% on long-term capital gains on sale of bonds of January Ltd. = 10% x ₹ 15,00,000	1,50,000
Tax @ 20% on short-term capital gains on sale of listed equity shares of Exe Ltd., in respect of which STT has been paid = 20% of ₹ 4,60,000	92,000
Tax @ 30% on short-term capital gains on sale of unlisted equity shares of May Ltd. = 30% of ₹ 4,68,000	<u>1,40,400</u>
	8,59,800
Add: HEC@4%	<u>34,392</u>
Tax liability	<u>8,94,192</u>
Tax liability (rounded off)	8,94,190

4. (a) (i) Since the consideration for transfer of house property at Chennai exceeds ₹ 50 lakhs, Mr. Anuj, being the transferee, is required to deduct tax @1% under section 194-IA on ₹ 85 lakhs, being the amount of consideration for transfer of property.
- Mr. Anuj is required to deduct tax as source @1% under section 194-IA from the amount of ₹ 54 lakhs, being the higher of the stamp duty value of ₹ 54 lakhs and consideration of ₹ 49,00,000 paid to Mr. Anant for transfer of urban plot, since the stamp duty value exceeds ₹ 50 lakhs.
- Mr. Anuj is not required to deduct tax at source under section 194-IA from the consideration of ₹55 lakhs paid to Mr. Digvijay for transfer of rural agricultural land, since the same is specifically excluded from the scope of immovable property for the purpose of tax deduction under section 194-IA.
- (ii) As per section 194LB, tax would be deductible @ 5% on gross interest paid/credited by a notified infrastructure debt fund, eligible for exemption under section 10(47), to a non-resident not being a company or to a foreign company.
- In the first case, since the payment is to a foreign company, health and education cess @4% has to be added to the applicable rate of TDS. Therefore, the tax deductible under section 194LB would be ₹31,200 (i.e., 5.20% of ₹6 lakhs).

However, in case the notified infrastructure debt fund pays interest to a person who is a resident of a notified jurisdictional area, section 94A will apply. Accordingly, tax would be deductible @30% (plus health and education cess@4%) under section 94A, even though section 194LB provides for deduction of tax at a concessional rate of 5%. Therefore, the tax deductible in respect of payment of ₹ 2.5 lakh to Mr. Aman, who is a resident of a notified jurisdictional area, would be ₹ 78,000, being 31.2% of ₹ 2,50,000.

- (iii) The landing and parking charges which are fixed by the Airports Authority of India are not merely for the "use of the land". These charges are also for services and facilities offered in connection with the aircraft operation at the airport which include providing of air traffic services, ground safety services, aeronautical communication facilities, installation and maintenance of navigational aids and meteorological services at the airport [*Japan Airlines Co. Ltd. v. CIT / CIT v. Singapore Airlines Ltd. (2015) 377 ITR 372 (SC)*]. Thus, tax is not deductible under section 194I which provides deduction of tax for payment in the nature of rent.

Hence, tax is deductible @2% under section 194C by the airline company, Vikasa Ltd., on payment of ₹18 lakhs made towards landing and parking charges to the Airports Authority of India for the previous year 2024-25.

- (iv) As per section 192, tax is deductible at source by any person who is responsible for paying any income chargeable under the head 'Salaries'. However, as per sub-section (2A) of said section, the employee will be entitled to relief u/s 89 and consequently, he will be required to furnish to the person responsible for making the payment, such particulars in the prescribed form (i.e., Form No.10E). The person responsible for making the payment shall compute the relief and take into account the same while deducting tax at source from salary.
- (b) Rollback year means any previous year, falling within the period not exceeding four previous years, preceding the first of the five consecutive previous years for which advance pricing agreement is valid.

The application for advance pricing agreement may be filed at any time before the first day of the previous year relevant to the first assessment year for which the application is made, in respect of transactions which are of a continuing nature from dealings that are already occurring; or before undertaking the transaction in respect of remaining transactions.

In the present case, since ASHA (P) Ltd. has made an application of APA and also opted for rollback provisions, the APA is apparently in respect of international transactions which are of continuing nature. Accordingly, the APA application filed on 15th February 2024 would be in respect of five previous years beginning with P.Y. 2024-25 relevant to the A.Y. 2025-26.

Consequently, APA entered by ASHA (P) Ltd. can provide for determining ALP in relation to international transactions entered during rollback years i.e., from A.Y. 2021-22 to A.Y. 2024-25 subject to satisfaction of certain conditions.

In the present case, since A.Y. 2021-22 and A.Y. 2020-21 fall beyond the said four-year period, ASHA (P) Ltd. cannot avail roll back benefit in respect of these years. From A.Y. 2021-22 to A.Y. 2024-25, the applicability of rollback provisions would be as follows:

Rollback year	Applicability of rollback provisions
A.Y. 2021-22	Yes, rollback provisions are applicable for A.Y. 2021-22.
A.Y. 2022-23	Yes, rollback provisions are applicable for A.Y. 2022-23 even if ALP adjustment was reduced to addition of ₹ 300 lakhs as against addition of ₹ 500 lakhs originally determined by the TPO on account of APA, since such reduction in the amount of ALP adjustment does not result in reducing the total income or increasing the total loss, as declared in the return of income of the said year by ASHA (P) Ltd.
A.Y. 2023-24	Yes, roll back provisions are applicable for A.Y. 2023-24, since ITAT has only set aside the order for fresh consideration and the matter has not reached finality.
A.Y. 2024-25	No, rollback provisions are not applicable for A.Y. 2024-25, since the return was filed belatedly u/s 139(4) on 29.12.2024.

5. (a) (i) Under section 268A(1), the CBDT is empowered to issue orders, instructions or directions to the other income-tax authorities, fixing such monetary limits, as it may deem fit, to regulate filing of appeal or application for reference by any income-tax authority.

Under section 268A(2), where an income-tax authority has not filed any appeal or application for reference on any issue in the case of an assessee for any assessment year, due to above-mentioned order/ instruction/ direction of the CBDT, such authority shall not be precluded from filing an

appeal or application for reference on the same issue in the case of the same assessee for any other assessment year or any other assessee for the same or any other assessment year, if the tax effect exceeds the specified monetary limits. Further, in such a case, it shall not be lawful for an assessee to contend that the income-tax authority has acquiesced in the decision on the disputed issue by not filing an appeal or application for reference in any case.

In view of above provision, it would be in order for the Income-tax Department to move an appeal to the Tribunal against the orders of the CIT(A) in respect of A.Y. 2025-26 both for Shweta and Shefali, assuming the tax effect of each of them exceeds the specified monetary limits.

- (ii) Section 276CC provides for prosecution for wilful failure to furnish a return of income within the prescribed time, in a case where tax would have been evaded had the failure not been discovered. Since the amount of tax which would have been evaded does not exceed ₹ 25 lakh, the imprisonment would be for a term of 3 months to 2 years. In addition, fine would also be attracted.

However, in a case where the return of income is not filed within the due date, prosecution proceedings will not be attracted if the tax payable by a person, other than a company, on the total income determined on regular assessment, as reduced by the advance tax, if any, paid and any tax deducted at source, does not exceed ₹ 10,000.

In this case, even though the tax liability of the firm as per the original order of assessment exceeded ₹ 10,000, however, as a result of the order of the Commissioner (Appeals), it got reduced to ₹ 9,100, which is less than ₹ 10,000. Therefore, since the tax liability of the firm on final assessment was determined at ₹ 9,100 the prosecution proceedings are not maintainable.

In *Guru Nanak Enterprises v. ITO* (2005) 279 ITR 30, where the facts were similar, the Supreme Court held that prosecution was unwarranted.

- (iii) Every assessee would be liable to tax@30% in respect of his undisclosed foreign income and asset of the previous year. Undisclosed foreign asset would be liable to tax in the previous year in which such asset comes to the notice of the Assessing Officer.

Section 2(2) of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 defines “assessee” to include a person being -

- (a) a resident in India within the meaning of section 6 of the Income-tax Act, 1961 in the previous year; or
- (b) a non-resident or not ordinarily resident in India within the meaning of section 6(6) of the Income-tax Act, 1961 in the previous year but who was resident in India either in the previous year to which the income referred to in section 4 relates; or in the previous year in which the undisclosed asset located outside India was acquired.

Mr. Rajiv is non-resident for the P.Y. 2024-25 (the previous year in which notice is issued by the Assessing Officer), since he returned to the Singapore in April 2020 and visited every year only for 1 month. He was also a non-resident for the P.Y. 2012-13, when he acquired shares of listed companies in Singapore and P.Y. 2020-21, when he established a leather goods manufacturing factory in Malaysia, since he was in India only during the previous years from P.Y. 2013-14 to P.Y. 2019-20. However, he was resident in India in the P.Y. 2015-16, when he acquired one apartment in Canada.

Accordingly, the issue of notice on Mr. Rajiv under section 10 of the Black Money Act, 2015, is tenable in law, in respect of apartment in Canada since he was resident in the previous year 2015-16 when the property was acquired.

However, notice issued in respect of shares of listed companies in Singapore acquired in the P.Y.2012-13 and leather goods manufacturing factory established in Malaysia in the P.Y.2020-21 is not tenable in law, since Mr. Rajiv was non-resident in the previous years in which undisclosed assets were acquired and also in the previous year in which it comes to the notice of Assessing Officer.

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

Branch mismatches arise where the ordinary rules for allocating income and expenditure between the branch and head office result in a portion of the net income of the taxpayer escaping the charge to taxation in both the branch and residence jurisdiction. Unlike hybrid mismatches, which result from conflicts in the

legal treatment of entities or instruments, branch mismatches are the result of differences in the way the branch and head office account for a payment made by or to the branch.

Hybrid mismatch arrangements arise due to -

- (i) Creation of two deductions for a single borrowal
- (ii) Generation of deductions without corresponding income inclusions
- (iii) Misuse of foreign tax credit
- (iv) Participation exemption regimes

Specific country laws that allow taxpayers to opt for the tax treatment of certain domestic and foreign entities may aid hybrid mismatches.

BEPS Action Plan 2 gives recommendations to neutralise the effects of hybrid mismatch arrangements, which include general changes to domestic law followed by a set of dedicated anti-hybrid rules. Treaty changes are also recommended. The 2017 report includes specific recommendations for improvements to domestic law intended to reduce the frequency of branch mismatches as well as targeted branch mismatch rules which adjust the tax consequences in either the residence or branch jurisdiction in order to neutralise the hybrid mismatch without disturbing any of the other tax, commercial or regulatory outcomes.

6. (a) The Assessing Officer can exercise his power of survey under section 133A only after obtaining the approval of the Principal Director General or the Director General or the Principal Chief Commissioner or the Chief Commissioner.

Assuming that he has obtained such approval in this case, he is empowered under section 133A to enter any place of business of the assessee within his jurisdiction only during the hours at which such place is open for the conduct of business.

In the case given, the “Silver” a popular Gym is open from 5.00 a.m. to 10.00 p.m. for the conduct of business. The Assessing Officer entered the Gym at 9:30 pm in the night which falls within the working hours of the Sports Complex.

Therefore, the claim made by the owner to the effect that the Assessing Officer could not enter the Gym at night is not valid.

Further, as per section 133A(3)(ia), the Assessing Officer may, impound and retain in his custody for such period as he thinks fit, any books of account or other documents inspected by him after recording reasons for doing so. However, the Assessing Officer cannot remove cash kept at the Gym. Moreover, he shall not retain any books of account or other documents in his custody for a period

exceeding 15 days (excluding holidays) without obtaining the approval of the Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General or the Principal Commissioner or Commissioner or Principal Director or Director, as the case may be.

(b) Tax Planning / Tax Management / Tax Evasion

	Answer	Reason
(I)	Tax planning	Depositing money in PPF and claiming deduction under section 80C is as per the provisions of law. Hence, it is a legitimate tax planning measure which enables her to reduce her tax liability by claiming a deduction permissible under the Income-tax Act, 1961.
(II)	Tax evasion	An air conditioner fitted at the residence of a director as per the terms of his appointment would be a furniture qualifying for depreciation@10%, whereas an air conditioner fitted in a factory would be a plant qualifying for a higher depreciation@15%. The wrong treatment unjustifiably increases the amount of depreciation and consequently, reduces profit and consequent tax liability. Treatment of air-conditioner fitted at the residence of a director as a plant fitted at the factory would tantamount to furnishing of false particulars with an attempt to evade tax.

(c) (i) Yes, the above income are subject to deduction of tax at source.

Income referred to in section 115BBA (i.e., Participation in hockey tournaments in India and Contribution of an article relating to the sport of hockey in a sports magazine in India) is subject to deduction of tax at source@20% under section 194E.

Income referred to in section 115BB (i.e., winnings from lotteries) is subject to deduction of tax at source@30% under section 194B.

Since Mr. Mr. Robert Jonson, is a non-resident, the amount of tax to be deducted calculated at the prescribed rates mentioned above, would be increased by health and education cess@4%.

(iii) Section 115BBA provides that if the total income of the non-resident sportsman or non-resident entertainer comprises of only income referred to in that section and tax deductible at source has been fully deducted, it shall not be necessary for him to file his return of income.

In this case, although Mr. Robert Jonson is a non-resident sportsman, he has winnings from lotteries as well. Therefore, he cannot avail the benefit of exemption from filing of return of income as contained in section 115BBA. Hence, he has to file his return of income for A.Y.2025-26.

- (d) Section 245Q(3) of the Income-tax Act, 1961 provides that an applicant, who has sought for an advance ruling, may withdraw the application within 30 days from the date of the application. Since more than 30 days have elapsed from the date of application by Mr. Saiyyam to the Authority for Advance Rulings, he cannot withdraw the application.

However, the Authority for Advance Rulings (AAR), in *M.K. Jain AAR No.644 of 2004*, has observed that though section 245Q(3) provides that an application may be withdrawn by the applicant within 30 days from the date of the application, this, however, does not preclude the AAR from permitting withdrawal of the application after the said period with its permission, if the circumstances of the case so justify.