

MEPL CLASSES

**COURSE NAME: CMA Final**

**SUBJECT NAME: Direct Tax Laws and International Taxation**

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(Time allowed: 3 hours)

(Total marks: 100)

## DIRECT TAX LAWS AND INTERNATIONAL TAXATION (100 MARKS)

All Questions are compulsory

### Section: A

#### Question 1

Choose the correct alternative from the four alternatives given:

[2 × 15 = 30 Marks]

1. What is the rate of tax (excluding surcharge and HEC) in case a company has to pay income-tax as per MAT provisions contained in section 115JB of the Income-tax Act, 1961?

- (A) 18.5%
- (B) 15%**
- (C) 20%
- (D) 22%

2. Which of the following can be carried forward to subsequent assessment year even where the return is filed beyond the 'due date' specified in section 139(1) of the Act?

- (A) Unabsorbed depreciation**
- (B) Long-term capital loss
- (C) Business loss
- (D) Short-term capital loss

3. For the assessment year 2024-2025, Monalisa Ltd. filed its return of income on 30<sup>th</sup> October, 2024. This return was selected for scrutiny for making regular assessment under section 143(3). What is the time limit for service of notice under section 143(2)?

- (A) 31.03.2025
- (B) 30.06.2025**

- (C) 31.10.2025  
(D) 31.12.2025

4. Eddard, a non-resident but citizen of India earned a gross dividend of ₹ 50 lakhs from an Indian company. The shares were purchased in convertible foreign exchange. What shall be the rate of tax applicable on such dividend income?

**(A) At a flat rate of 20% plus applicable surcharge and HEC**

- (B) At a flat rate of 10% plus applicable surcharge and HEC  
(C) The dividend is exempt in the hands of Eddard since the shares are purchased in foreign exchange  
(D) At the slab rates applicable to him including applicable surcharge and HEC

5. What is the monetary limit of tax benefit by means of arrangement between the parties so as to attract invoking of GAAR provisions?

**(A) ₹ 3 crores**

- (B) ₹ 5 crores  
(C) ₹ 10 crores  
(D) ₹ 20 crores

6. Judy Ltd. informs you that in the assessment there is increase in income by way of ALP adjustment of ₹ 200 lakhs. Instead of making secondary adjustment, the company wants to pay additional income-tax. What is the rate at which additional income-tax is payable by the assessee?

- (A) 10.92%  
(B) 15.60%  
**(C) 20.9664%**  
(D) 34.944%

7. Under which section interest shall be charged for deferment of advance tax?

- (A) Section 234A  
(B) Section 234B  
**(C) Section 234C**  
(D) Section 234D

8. The Assessing Officer (AO) referred an international transaction for ₹ 3 crores entered into by Earnings Ltd. with Apple Inc., an associated enterprise (AE). In the same financial year, Earnings Ltd. has entered into similar transactions with ANC LLP of Singapore, [an AE] for ₹ 4 crores, and with RST LLP of Hong Kong [also an AE], for ₹ 12 crores. What is the scope of power of the Transfer Pricing Officer (TPO) as regards determination of ALP respect of international transactions entered into by Earnings Ltd.?

- (A) The TPO can determine ALP only in respect of the transaction which was referred to him by the AO.  
(B) The TPO can determine ALP in respect of any other international transaction whose value exceeded ₹ 5 crores, even though it was not referred to him.

(C) The TPO can determine the ALP of any other international transaction whose value exceeded ₹ 10 crores, even though it was not referred to him.

**(D) The TPO can determine the ALP in respect of any other international transaction also, which comes to his knowledge, regardless of the value.**

9. Mr. Pramod is using a Computer for his personal purposes, but charges as business expenditure. This is the case of .

- (a) Tax Planning
- (b) Tax Avoidance
- (c) Tax Management
- (d) Tax Evasion**

10. Which section deals with methods of computation of arm's length price?

- (a) 92A
- (b) 92C**
- (c) 92D
- (d) 92B

11. Which of the following method of computing arm's length price is not a 'Transaction Based Method'?

- (a) Comparable Uncontrolled Price Method
- (b) Resale Price method
- (c) Cost Plus Method
- (d) Profit Split Method**

12. Under the provisions of the Income-tax Act, 1961, a return of income can be revised under Section 139(5) if it was originally filed under which of the following sections?

- (a) 139(1)
- (b) 139(4)
- (c) 139(5)
- (d) All of the above**

13. Provisions relating to advance ruling are provided in sections \_\_\_\_\_.

- (a) 80C to 80U
- (b) 245A to 245L
- (c) 237 to 245
- (d) 245N to 245V**

14. For Pizza Inc. of Italy which of the following would mean that it has a Permanent Establishment (PE) in India?

- (a) Use of facilities solely for the purpose of storage or display goods belonging to the enterprise.
- (b) Operating a factory in India**

(c) Maintenance of goods belonging to the enterprise solely for the purpose of processing by another enterprise.

(d) Maintenance of fixed place of business solely for the purpose of purchasing goods or merchandise or of collecting information, for the enterprise

15. As per section 178(3), the \_\_\_\_\_ of a company has to intimate the tax authority before he parts with any of the assets of the company or the properties in his hands and has to set aside the amount if any intimated to him by the tax authorities.

(a) Managing Director

(b) Manager

(c) Chartered Accountant

**(d) Liquidator**



## Section B

### Question 2

**A.** Small Ltd. is a wholly-owned subsidiary company of Medium Ltd., an Indian company. Small Ltd. owns Plant-A and Plant-B (depreciation rate 40%, depreciated value of the block ₹3,00,000 on 1st April, 2024). Plant-B was purchased and put to use on 10th November, 2022 (cost being ₹70,000). Plant-B is transferred by Small Ltd. to Medium Ltd. on 14th December, 2024 for ₹20,000. It is put to use by Medium Ltd. on the same day. Medium Ltd. owns Plant-C on 1st April, 2024 (depreciation rate 40%, depreciated value ₹60,000). Calculate the amount of depreciation in the hands of Small Ltd. and Medium Ltd. for the assessment year 2025-26.

(7 Marks)

#### SOLUTION

#### Depreciation in the hands of Small Ltd. for the assessment year 2025-26

Particulars	Amount(₹)
Depreciated value of the Plant A and B on 1st April, 2024	3,00,000
Less: Plant B transferred to Medium Ltd	20,000
WDV as on 31st March, 2025	2,80,000
Depreciation for the block P.Y.2024-25	1,12,000
<b>WDV at the end of the year</b>	<b>1,38,000</b>

#### Depreciation in the hands of Medium Ltd. for the assessment year 2025-26

Particulars	Amount(₹)
Depreciated value of the block on 1st April, 2024	60,000
Add: Actual Cost of Plant B acquired from Small Ltd (See Note)	33,600
WDV as on 31st March, 2025	93,600
Depreciation on transferred asset [ $₹33,600 \times \frac{1}{2} \times 40\%$ ]	6,720
Other Asset @ 40% of ₹60,000	24,000
<b>Total Depreciation</b>	<b>30,720</b>

**Note: Actual Cost of Plant B in the hands of Medium Ltd.**

Particulars	Amount(₹)
Actual Cost of Plant B in the hands of Small Ltd on Nov 10,	70,000

2022	
Less: Depreciation for P.Y 2022-23 (1/2 of 40% of ₹70,000)	14,000
Balance on April 1, 2023	56,000
Less: Depreciation for the P.Y.2023-24	22,400
<b>Balance on April 1, 2024</b>	<b>33,600</b>

**B.** Discuss the procedure followed on receipt of an application for advance ruling under Section 245R of the Income Tax Act 1961.

**(7 Marks)**

### **SOLUTION**

Section 245R of the Income Tax Act, 1961 lays down the procedure that the Authority for Advance Rulings (AAR) follows upon receiving an application. The aim is to ensure proper scrutiny and timely disposal of advance ruling requests.

- On receipt of an application, the Board for Advance Rulings shall cause a copy thereof to be forwarded to the Principal Commissioner or Commissioner and, if necessary, call upon him to furnish the relevant records. Where any records have been called for by the Board for Advance Rulings, such records shall, as soon as possible, be returned to the Principal Commissioner or Commissioner.
- The Board for Advance Rulings may, after examining the application and the records called for, by order, either allow or reject the application.
- No application shall be rejected unless an opportunity has been given to the applicant of being heard. Further, where the application is rejected, reasons for such rejection shall be given in the order.
- A copy of every order (allowing or rejecting) shall be sent to the applicant and to the Principal Commissioner or Commissioner.
- Where an application is allowed, the Board for Advance Rulings shall, after examining such further material as may be placed before it by the applicant or obtained by the Board for Advance Rulings, pronounce its advance ruling on the question specified in the application.
- On a request received from the applicant, the Board for Advance Rulings shall, before pronouncing its advance ruling, provide an opportunity to the applicant of being heard, either in person or through a duly authorized representative.
- The Board for Advance Rulings shall pronounce its advance ruling in writing within 6 months of the receipt of application.
- A copy of the advance ruling pronounced by the Board for Advance Rulings, duly signed by the Members and certified in the prescribed manner shall be sent to the applicant and to the Principal Commissioner or Commissioner, as soon as may be, after such pronouncement.



### Question 3

**A.** Discuss the disclosure requirements of ICDS VII.

**(7 Marks)**

#### **SOLUTION**

a. nature and extent of Government grants recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets during the previous year;

b. nature and extent of Government grants recognised during the previous year as income;

c. nature and extent of Government grants not recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets and reasons thereof; and

d. nature and extent of Government grants not recognised during the previous year as income and reasons thereof.

**B.** Explain briefly the different Model Tax Conventions that are currently in vogue and their significance in international taxation.

**(7 Marks)**

#### **SOLUTION**

Presently, the following are the model tax conventions which are in vogue –

a. Organisation for Economic Co-operation and Development (OECD) Model

The emergence of present form of OECD Model Convention can be traced back to 1927, when the Fiscal Committee of the League of Nations prepared the first draft of Model Form applicable to all countries. Since then, it has been revised several times and the latest being in the year 2017. OECD Model is essentially a model treaty between two developed nations. This model advocates residence principle, that is to say, it lays emphasis on the right of state of residence to tax the income.

b. United Nations (UN) Model

In 1968, the United Nations set up an Adhoc Group of Experts from various developed and developing countries to prepare a draft model convention between developed and developing countries. In 1980, this Group finalized the UN Model Convention in its present form. It has further been revised a number of times, the recent ones being in the year 2021. It gives more weight to the source principle as against the residence principle of the OECD Model. UN Model is designed to encourage flow of investments from the developed countries to

developing countries. It takes into account sharing of tax-revenue with the country providing capital. Most of India's tax treaties are based on the UN Model.

c. US Model

The US Model convention was first published in 1976 and revised several times. US model is used by the United States while entering into tax treaties with various country.



## Question 4

**A.** M/s Shiny Cars, Noida is a partnership firm having three partners, namely X, Y and Z, sharing the profits and losses in the ratio of 3:2:1. On 1<sup>st</sup> April, 2024 it was taken over by Jeep Ltd., Delhi. All the assets and liabilities of the firm were taken over at book value. The capital accounts of the partners immediately before the succession showed a credit balance of ₹ 10,00,000, ₹ 8,00,000 and ₹ 6,00,000 respectively. Jeep Ltd. has only two shareholders, namely A and B, having equity share capital of ₹ 10,00,000 each. The company further allotted equity shares worth ₹ 10,00,000, ₹ 8,00,000 and ₹ 6,00,000 respectively to X, Y and Z in the company as the consideration for the transfer.

Required:

(i) Analyse the above situation in the light of the conditions specified under section 47(xiii) (transactions not regarded as transfer in the case of succession of firm by a company).

(ii) Suppose, shareholder X sells his entire shareholdings to Y for ₹ 12,00,000 on 1<sup>st</sup> January, 2025, what will be the tax implications in the hands of X and Jeep Ltd.?

(iii) Will there be any change in your answer if the company allotted 3000 9% debentures of ₹ 100 each, to the three partners in their profit-sharing ratio besides the equity shares stated earlier?

**(7 Marks)**

### SOLUTION

Transaction not regarded as transfer for the purpose of capital gain [Sec. 47(xiii)] Any transfer of a capital asset, by a firm to a company as a result of succession of the firm by a company in the business carried on by the firm, shall not be regarded as transfer provided following conditions are satisfied:

a) All assets and liabilities of the firm relating to the business immediately before the succession become the assets and liabilities of the company.

Here, Jeep Ltd. took over all the assets and liabilities of the firm.

b) All the partners of the firm immediately before the succession became the shareholders of the company in the same proportion in which their capital accounts stood in the books of the firm on the date of succession.

Here, all the three partners became the shareholders in the company. Their capital account balances at the time of succession was in the ratio of 10:8:6 and the shareholdings in the company are also in the ratio of 10:8:6.

c) The partners of the firm do not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of allotment of shares in the company;

All the three partners received only the equity shares in the company as the consideration for transfer.

d) The aggregate of the shareholding in the company of the partners of the erstwhile firm is not less than 50% of the total voting power in the company and their shareholding continues to be as such for a period of 5 years from the date of succession.

Total share capital of the company after succession is ₹ 44,00,000. Total share capital of the three partners is more than 50% ₹ 24,00,000 i.e. 54.55%

Since all the above conditions are satisfied, the transfer of capital assets by M/s Shiny Cars to Jeep Ltd. will not be regarded as 'transfer' and no capital gain will arise.

In case X sells his entire shareholdings to Y

In the hands of Anand Pvt. Ltd.

The condition (d) says, the aggregate of the shareholding in the company of the partners of the firm is not less than 50% of the total voting power in the company and their shareholding continues to be as such for a period of 5 years from the date of succession. Therefore, if X sells his entire shareholdings to Y, then still remaining partners Y and Z are holding not less than 50% of the voting power in the company and no capital gain arises in the hands of Anand Pvt. Ltd.

In the hands of X

Short term capital gain of ₹ 2,00,000, which arises in the hands of X for the assessment year 2025-26 is chargeable to tax.

If the company issues debentures along with the equity shares to the three partners

If the company issues debentures along with the equity shares to the three partners, the above condition (c) gets violated. Hence, the firm will not get the exemption u/s 47(xiii). Capital gain arising from such transfer will be taxable in the hands of the firm.

**B.** Mukund, an Indian citizen resident of Germany, gives the following information to you relating to the financial year 2024-25:

- (i) Long-term capital gains ₹ 5,67,000 (gross) on transfer of foreign exchange asset on 12th August, 2024 (Computed as per relevant provisions of the Income-tax Act).
- (ii) Interest from notified Government Bonds (gross) ₹ 46,000.
- (iii) Amount spent for earning this interest ₹ 4,000.
- (iv) Dividend from shares in Indian companies (gross) ₹ 80,000.
- (v) Tax deducted at source (on LTCG, interest and dividend) ₹ 1,20,000.
- (vi) Investment in shares of Indian companies (date of investment 31st March, 2025) ₹ 6,50,000.

Compute the income tax payable/ refundable in accordance with Chapter XII-A of the Income-tax Act, 1961.

(7 Marks)

### SOLUTION

<b>Computation of total income and tax payable by Mukund as per Chapter XII-A for the A.Y. 2025-26</b>		
		₹
Long-term capital gains on transfer of foreign exchange asset		5,67,000
Less: Exemption under section 115F		Nil
Reason: To be eligible for exemption under section 115F, the assessee must invest the sales consideration in the shares of an Indian company within 6 months of the transfer. In the present case, since the investment is done after 6 months from the date of transfer, exemption u/s 115F is not available.		
Long-term capital gain		5,67,000
Income from other sources		
Interest from notified Government Bonds (Expenses not allowed)	46,000	
Dividend from shares in Indian companies	80,000	
		1,26,000
Gross total income		6,93,000
Tax payable		
Tax on long-term capital gains 12.5% on (5,67,000-1,25,000)		55,250
Tax on investment income: Interest from notified Government Bonds @ 10% of 46,000		4,600
Tax on dividend from shares in Indian companies @ 20% of ₹ 80,000		16,000
		75,850
Add: Cess @ 4%		3,034
Tax liability		78,884
Tax Liability (Rounded off)		78,880
Less Tax deducted at source		1,20,000

Tax refundable		41,120
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## Question 5

Present your answer for the following situations under the headings

- (i) Issue involved;
- (ii) Provisions applicable;
- (iii) Analysis of the issue and
- (iv) Conclusion.

**A.** Mega Mart Ltd., Mysore has 2 centres viz. Unit A at Hubli and Unit B at Guntur. Unit A is eligible for deduction under section 80-IA of the Income-tax Act. During the financial year 2023-24, the company earned a net profit of ₹ 67,00,000 from Unit A and suffered a loss of ₹ 24,00,000 from Unit B. The assessee claimed 100% of the profits from Unit A (amounting to ₹ 67,00,000) as a deduction under section 80-IA. However, the Assessing Officer applied section 80AB and allowed deduction only to the extent of income under the head "Profits and gains of business and profession", i.e., ₹ 43 lakhs.

Discuss whether the action of the Assessing Officer is tenable in law.

**(7 Marks)**

### SOLUTION

#### Quantum of deduction u/s 80-IA for an industrial undertaking

#### Issue involved

The issue involved is whether the action of the AO is tenable in law, in restricting the deduction under section 80-IA to the extent of the overall business income, as reduced by loss from any other source

#### Provisions applicable

As per section 80AB, where the GTI includes any income of nature specified under the heading C, like section 80-IA, then, notwithstanding anything contained in that section, for the purpose of computing the deduction under that section, the amount of income of that nature as computed in accordance with the provisions of the Act (before making any deduction under this Chapter) shall alone be deemed to be the amount of income of that nature which is derived or received by the assessee and which is included in his gross total income.

Section 80A(2) provides that the aggregate amount of the deduction under Chapter VI-A, shall not exceed the gross total income of the assessee

## Analysis

The import of section 80-IA is that the total income of an assessee is computed by taking into account the allowable deduction in respect of the profits and gains derived from the eligible business as the only source of income.

For the purpose of calculating profit-linked deduction under any section of Chapter VI-A, loss sustained in other division or units cannot be taken into account, as only profits from the eligible business have to be taken into account.

The deduction u/s 80-IA is undertaking-specific and is granted with reference to the impugned undertaking only. It cannot be reduced by loss, if any, from any other undertaking.

## Conclusion

The deduction u/s 80-IA for the Hubli unit has to be allowed with regard to its income (₹ 67 lakh) only, and not with reference to the overall business income. Thus, the action of the Assessing Officer is not tenable in law.

**B.** Frictions Ltd., Cochin is a part of a large multi-national group. It is engaged in the manufacturing of kids' wear. During the financial year 2024-25, it sold goods to its foreign associated enterprise, Coat Inc. of USA as well as to some unrelated parties in India and the USA. During the course of the assessment, the Transfer Pricing Officer computed arm's length price and the Assessing Officer (AO) applied it on all the transactions, with associated enterprises as well as with unrelated parties.

Aggrieved with the adjustment, the assessee seeks your opinion whether the action of the Assessing Officer is valid or not.

**(7 Marks)**

## SOLUTION

### Applying The ALP to the transactions with unrelated parties

#### Issue involved

The issue involved is whether the action of the AO is valid in law, in applying the ALP determined by the TPO to the transactions with unrelated parties also.

#### Provisions applicable

Section 92 of the Income-tax Act provides that any income arising from an international transaction shall be computed having regard to the arm's length price.

As per section 92B, international transaction means a transaction, inter alia, between two or more associated enterprises, either or both of whom are non-residents.

The ALP determined by the TPO will be binding on the AO.

### Analysis

The ALP can be determined by the TPO, only in respect of international transactions.

Reading section 92B with section 92, it can be said that, arm's length price needs to be computed for international transactions which essentially mean transactions between two or more associated enterprises.

Thus, the ALP, as determined by the TPO, can be applied by the AO, only in respect of transactions with AEs and not with other unrelated parties.

### Conclusion

The action of the Assessing Officer is not tenable in law for applying the ALP in respect of transactions with unrelated parties.

## Question 6

**A.** Shipworks Ltd. is an Indian Company in which Rower Ltd., a US company, has 32% shareholding and voting power. Following transactions were effected between these two companies during the financial year 2024-25.

(i) Shipworks Ltd. sold 1,00,000 pieces of T-shirts at \$3 per T-shirt to Rower Ltd., The identical T- Shirts were sold to unrelated party at \$4 per T-Shirt.

(ii) Shipworks Ltd. borrowed \$ 2,00,000 from a foreign lender based on the guarantee of Rower Ltd. for this Shipworks Ltd. paid \$ 10,000 as guarantee fee to Rower Ltd. To an unrelated party for the same amount of loan, Rower Ltd. collected \$ 8,000 as guarantee fee.

(iii) Shipworks Ltd. paid \$ 15,000 to Rower Ltd. for getting various potential customers details to improve its business. Rower Ltd. provided the same service to unrelated parties for \$ 12,000.

(iv) Assume the rate of exchange as 1\$ = ₹84

Shipworks Ltd. is located in a Special Economic (SEZ) and its income before transfer pricing adjustments for the year ended 31st March, 2025 was ₹ 1,200 lakhs.

Compute the adjustments to be made to the total income of Shipworks Ltd. State whether it can claim deduction u/s 10AA for the income enhanced by applying transfer pricing provisions.

**(7 Marks)**

### SOLUTION

Shipworks Ltd., the Indian company and Rower Ltd., the US company are deemed to be associated enterprises as per section 92 A (2) (a), since Rower Ltd. holds shares carrying not less than 26% of the voting power in Shipworks Ltd.

As per Explanation to section 92B, the transactions entered into between these two companies for sale of product, lending or guarantee and provision of services relating to market research are included within the meaning of "international transaction".

Accordingly, transfer pricing provisions would be attracted and the income arising from such international transactions have to be computed having regard to the arm's length price. In this case, from the information given the arm's length has to be determined taking the comparable uncontrolled price method to be the most appropriate method.

Accordingly, transfer pricing provisions would be attracted and the income arising from such international transactions have to be computed having regard to the arm's length price. In this case, from the information given the arm's length has to be determined taking the comparable uncontrolled price method to be the most appropriate method.

Particulars		₹ in lakhs
Amount by which total income of Shipworks Ltd. is enhanced on account of adjustment in the value of international transactions:		
(i)	Difference in price of T-Shirt @\$1 each for 1,00,000 pieces sold to Rower Ltd. ( $\$1 \times 1,00,000 \times 84$ )	84.00
(ii)	Difference for excess payment of guarantee fee to Rower Ltd. for loan borrowed from foreign lender ( $\$2,000 \times 84$ )	1.68
(iii)	Difference for excess payment for services to Rower Ltd. ( $\$3,000 \times 84$ )	2.52
Shipworks Ltd. cannot claim deduction u/s 10AA in respect of ₹88.2 lakhs, being the amount of income by which the total income is enhanced by virtue of the first proviso section 92C (4). Assume income increased by AO.		88.2

**B.** Wright Ltd. is a Subsidiary of Steve LLC of USA. On 1st June, 2024 Wright Ltd. borrowed ₹2500 lakhs from Steve LLC for which interest is payable at 6% per annum. There is no other borrowing made by Wright Ltd.

The Net profit of Wright Ltd. for the year ended 31st March, 2025 was ₹95 lakhs after deduction of the following: (i) Depreciation ₹ 50 lakhs; (ii) Provision for Income-tax ₹20 lakhs; (iii) Amortisation of preliminary expenditure ₹10 lakhs; and (iv) Interest on loan borrowed from Steve LLC.

Explain thin capitalization's applicability and compute the amount of interest eligible for deduction and /or liable for disallowance in the case of Wright Ltd. Also state the consequence of interest disallowance.

**(7 Marks)**

### SOLUTION

As per section 94B where an Indian company being the borrower incurs any expenditure by way of interest to the AEs exceeding ₹ 100 lakhs which is deductible in computing income under the head "Profits and gains of business or profession" in respect of any debt issued by a non-resident being an associated enterprise of such borrower, the interest to the extent it exceeds 30% of EBITDA is not eligible for deduction.

	₹ in lakhs
Interest paid of AE	125.00
EBITDA	300.00
Interest payment limited to 30% of EBITDA	90.00
Excess interest liable for disallowance (125 - 90)	35.00

The disallowed portion of interest is eligible for carry forward for 8 assessment years immediately succeeding the assessment year 2025-26.