

Mock Test Paper - Series I: November, 2025

Date of Paper: 24th November, 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

Raghav, a non-resident Indian aged 46 years, furnishes the following particulars of income earned by him in India during the previous year 2024-25:

- (a) Short-term capital gain (computed) on sale of equity shares of M/s ST Ltd., an Indian company – ₹ 2,40,000.

These shares were purchased in convertible foreign exchange on 01.06.2024 and sold on 30.09.2024. He invested the whole of the sale proceeds ₹ 6,00,000 in the shares of M/s TU Ltd., an Indian company on 05.10.2024. STT has been paid on purchase and sale of these shares.

- (b) Long-term capital gain on sale of equity shares of M/s CD Pvt. Ltd., an Indian company – ₹ 4,00,000 (computed).

These shares were purchased in convertible foreign exchange on 01.10.2021 and sold on 15.10.2024 for ₹ 8,00,000.

Out of the sale proceeds, he further purchased the shares of M/s Y Ltd., an Indian company for ₹ 5,50,000 on 31.02.2025.

- (c) Dividend received (gross) from M/s ST Ltd. and M/s CD Pvt. Ltd. – ₹ 90,000.

Assume that he opts out of the default tax regime. Ignore the effect of foreign currency fluctuation.

Based on the above information, choose the most appropriate option for each of the following Multiple Choice Questions (MCQs) from Q.1 to Q. 4:

1. What is the long-term capital gain chargeable to tax in the hands of Raghav for the Assessment Year 2025-26 in respect of sale of shares of M/s CD Pvt. Ltd. under the provisions of Chapter XII-A?
 - (a) ₹ 1,25,000
 - (b) ₹ 1,50,000
 - (c) ₹ 2,25,000
 - (d) Nil

2. What is the tax amount on dividend income in the hands of Raghav for the Assessment Year 2025-26 if he opts out of the provisions of Chapter XII-A? Ignore surcharge and cess.
 - (a) ₹ 13,500 u/s 115E
 - (b) ₹ 9,000 u/s 115A
 - (c) ₹ 18,000 u/s 115A
 - (d) As per the applicable slab rate

3. What is the tax liability of Raghav for the Assessment Year 2025-26 under the provisions of Chapter XII-A?
 - (a) ₹ 85,670
 - (b) ₹ 84,890
 - (c) ₹ 68,640
 - (d) ₹ 56,160

4. What is the tax liability of Raghav in respect of these incomes for the Assessment Year 2025-26 if he opts out of the provisions of Chapter XII-A, assuming that his other income exceeds the basic exemption limit?
 - (a) ₹ 66,170
 - (b) ₹ 1,08,160
 - (c) ₹ 1,20,640
 - (d) ₹ 104,390

(2 x 4 = 8 Marks)

Case Scenario II

Eagle Ltd. a company incorporated in Country Z is an associated enterprise of Nova Inc. of USA. Eagle Ltd. has a branch in India since 2011. It sells goods to Indian customers by importing from various countries, besides selling in India the goods manufactured by it in Country Z.

The adjusted total income of the Indian branch of Eagle Ltd. for the year ended 31st March, 2025 is ₹ 90 lakhs.

The branch incurred ₹ 14 lakhs by way of executive and general administrative expenditure during the financial year 2024-25. The head office has allocated ₹ 21 lakhs as the branch's share of head office expenditure, including ₹ 14 lakhs incurred by the branch.

A survey under section 133A of the Act was conducted in its branch premises in January, 2024, and unexplained investments of ₹ 1 crore were found. Assessment for the assessment year 2024-25 was completed by making addition of the entire unexplained investments of ₹ 1 crore. The assessee preferred an appeal before CIT (Appeals), who gave complete relief to the assessee. The Income-tax Department now intends to file an appeal before ITAT on 18th November 2024.

N (P) Ltd., an Indian company and a wholly owned subsidiary of Eagle Ltd., paid ₹ 60 lakhs to ABC Inc. of Country N as fee for technical services (FTS). The services were rendered by the employees of the branch of ABC Inc. in India.

There is no DTAA between India and Country N. N (P) Ltd. has entered into certain international transactions during the P.Y. 2023-24 and P.Y. 2024-25.

N (P) Ltd. invested in TT (P) Ltd. of Country W and received dividend of ₹ 600 lakhs during the financial year 2024-25.

It declared and distributed interim dividend of ₹ 300 lakhs on 10.11.2024 and a final dividend of ₹ 260 lakhs on 12.11.2025.

N (P) Ltd. filed its return of income on 15.11.2024 for A.Y. 2024-25 and on 30.11.2025 for A.Y. 2025-26.

Based on the above facts, choose the most appropriate answer to Q.5 to Q.8 below:

5. How much tax is to be deducted at source by N (P) Ltd. on the fee for technical services paid to ABC Inc.?
- (a) ₹ 21,84,000
 - (b) ₹ 24,96,000
 - (c) ₹ 6,00,000
 - (d) ₹ 6,24,000

6. How much of the dividend received by N (P) Ltd. would be liable to tax for the assessment year 2025-26?
- (a) ₹ 300 lakhs
 - (b) ₹ 340 lakhs
 - (c) ₹ 40 lakhs
 - (d) ₹ 600 lakhs
7. How much of the head office expenditure can be claimed by the Indian branch of Eagle Ltd. for the assessment year 2025-26?
- (a) ₹ 4,50,000
 - (b) ₹ 9,00,000
 - (c) ₹ 14,00,000
 - (d) ₹ 21,00,000
8. Can the Income-tax Department prefer an appeal before ITAT in respect of the complete relief obtained by Eagle Ltd. from CIT (Appeals)?
- (a) No, as the tax effect is less than ₹ 60 lakhs.
 - (b) Yes, as the tax effect is more than ₹ 30 lakhs.
 - (c) Yes, as the tax effect is more than ₹ 60 lakhs.
 - (d) No, as the unexplained investments do not exceed ₹ 1 crore **(2 x 4 = 8 Marks)**

Case Scenario III

The assessment of Ridhi Associates, a partnership firm, for the Assessment Year 2022-23 was made under section 143(3) on 28th March, 2024. The Assessing Officer made two additions to the income of the assessee viz.

- (i) addition of ₹ 5,00,000 under section 40(a)(ia), and
- (ii) addition of ₹ 6,50,000 on account of unexplained cash credit.

The assessee contested the addition on account of unexplained cash credit in appeal to the Commissioner (Appeals). The appeal was decided in February, 2025, against the assessee.

On 12th April, 2024, the Assessing Officer issued a notice under section 142(1) calling upon Ridhi Associates to file its return of income for Assessment Year 2023-24. In response to the said notice, Ridhi Associates furnished a return of loss comprising of business loss and unabsorbed depreciation.

Ridhi Associates pays interest on loan @14% to its partners Rahul & Rajesh from 1.4.2024, being the date of loan, which amounts to ₹ 8,00,000 in total in the Previous Year 2024-25. The same was approved by modification of the partnership deed on 1.6.2024 w.r.e.f. 1.4.2024.

Rahul, a non-resident, is a working partner, whereas Rajesh, who is resident in India, is not a working partner. Both of them share profits and losses of the firm equally.

Further, Ridhi Associates furnished the following information pertaining to installments paid to an NBFC during the previous year 2024-25 towards loan borrowed for the business:

Month	Amount	Mode of Payment
30 th April	₹ 1,20,000	Cash
31 st May	₹ 1,50,000	Account payee cheque
30 th June	₹ 1,50,000	BHIM
31 st July	₹ 1,20,000	Cash
31 st August	₹ 50,000	Cash
30 th September	₹ 3,50,000	Cash

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

9. Would Ridhi Associates be entitled to carry forward the business loss and unabsorbed depreciation for the A.Y. 2023-24?
 - (a) Yes, it can carry forward both business loss and unabsorbed depreciation
 - (b) No, it cannot carry forward the business loss and unabsorbed depreciation
 - (c) It can carry forward business loss but cannot carry forward unabsorbed depreciation
 - (d) It can carry forward unabsorbed depreciation but cannot carry forward business loss
10. Can Ridhi Associates apply for rectification under section 154 or revision under section 264 with respect to addition of ₹ 6.5 lakh on account of unexplained cash credit for A.Y. 2022-23?
 - (a) It can either apply for revision before the Commissioner under section 264 or can make application for rectification under section 154
 - (b) It cannot apply for revision before the Commissioner under section 264 but can make application for rectification under section 154
 - (c) It can apply for revision before the Commissioner under section 264 but cannot make application for rectification under section 154
 - (d) It can neither apply for revision before the Commissioner under section 264 nor for rectification under section 154

11. Would any penalty be leviable for installments received by NBFC? If yes, what would be the amount of penalty and who can impose such penalty?
- (a) No penalty is leviable
 - (b) Yes, penalty is leviable for ₹ 3,50,000 under section 271DA. It can be imposed by the Joint Commissioner.
 - (c) Yes, penalty is leviable for ₹ 6,90,000 under section 271DA. It can be imposed by the Joint Commissioner.
 - (d) Yes, penalty is leviable for ₹ 3,50,000 under section 271DA. It can be imposed by any Income-tax authority.
12. Is tax required to be deducted at source by the firm on payment of interest to Mr. Rahul and Mr. Rajesh?
- (a) No tax is required to be deducted at source in respect of interest payment to Mr. Rahul & Mr. Rajesh.
 - (b) Yes, tax is required to be deducted at source in respect of payments to Mr. Rahul & Mr. Rajesh.
 - (c) No tax is required to be deducted in respect of payment to Mr. Rahul but tax is required to be deducted in respect of payment to Rajesh.
 - (d) No tax is required to be deducted in respect of payment to Rajesh but tax is required to be deducted in respect of payment to Rahul. **(2 x 4 = 8 Marks)**
13. Vardhan Foundation is a charitable trust registered under section 12AB, with its main object falling under the residuary clause "any other object of general public utility." During the Previous Year 2024-25, it received ₹1.05 crore as voluntary contributions. The trust also borrowed ₹55 lakh on 14.08.2024 from HDFC Bank to purchase land for the construction of an administrative building from where it can carry out its charitable activities. The trust repaid principal of ₹12 lakh to HDFC Bank on 31.03.2025.
- Out of its current year's income, the trust has donated ₹16 lakh (as a corpus donation) to another trust registered under section 12AB, whose main object is providing medical relief to poor persons. Assume that the trust has fulfilled all conditions under section 12A, and you are required to compute the amount of application of the trust for the P.Y. 2024-25 (excluding unconditional accumulation of 15%).
- What would be the application of income of the trust for P.Y. 2024-25?
- (a) ₹ 25.6 lakh
 - (b) ₹ 12 lakh

(c) ₹ 68.6 lakh

(d) ₹ 71 lakh

(2 Marks)

14. Which of the following deduction/exemption/set-off of losses are not allowable while computing income under respective head of income and total income of an individual as per section 115BAC?

(i) Deduction for interest on housing loan in respect of self-occupied property

(ii) Deduction for Interest on housing loan in respect of let-out property

(iii) Exemption in respect of agricultural income

(iv) Exemption in respect of minor child income included in the income of parent

(v) Set-off of loss under the head house property against income under any other head

(vi) Standard Deduction u/s 16(ia)

The correct answer is –

(a) (ii), (iii) & (vi)

(b) (i), (ii), (iii) & (vi)

(c) (i), (iv) & (v)

(d) (ii), (iv), (v) & (vi)

(2 Marks)

15. Mr. R, Managing Director of Riviera Alloys Pvt. Ltd., holds 75% of its paid-up share capital of ₹ 25 lakhs. The balance in the General Reserve of the company as on 31.03.2025 was ₹8 lakhs. On 01.04.2025, the company advanced an interest-free loan of ₹ 9.50 lakhs to its Supervisor, who draws a monthly salary of ₹16,000. Subsequently, on 28.04.2025, the Supervisor advanced the same amount to Mr. R.

Determine the amount that would be treated as deemed dividend under section 2(22)(e) of the Income-tax Act, 1961.

(a) NIL

(b) ₹ 8,00,000

(c) ₹ 9,50,000

(d) ₹ 1,92,000

(2 Marks)

Division B – Descriptive Questions

Question No. 1 is compulsory.

Attempt any four questions from the remaining five questions.

1. The Statement of Profit & Loss of Bhagwati Private Ltd., a domestic company engaged in manufacturing, shows net profit of ₹ 1,07,00,000 for the financial year ended on 31st March, 2025, after debit/credit of the following items.
- A. Credited to the Statement of Profit and Loss:
- (i) Rent received (gross) from vacant land ₹ 2,55,000
 - (ii) Rent received (gross) from a commercial property owned by the company ₹ 5,30,000
 - (iii) Interest received on income tax refund ₹ 48,000
 - (iv) Profit on sale of plot ₹ 8,00,000.
 - (v) Dividend from AMA Inc., Canada, a wholly owned subsidiary in February, 2025 ₹ 6,00,000
- B. Debited to the Statement of Profit and Loss:
- (i) Depreciation charged to the Statement of Profit and Loss ₹ 11,86,000.
 - (ii) Donation of ₹ 85,000 paid to Swachh Bharat Kosh.
 - (iii) Actual contribution to the pension scheme of employees: ₹ 1,90,000
 - (iv) Bonus to employees ₹ 4,48,000. However, payment was made on 18th December, 2025.
 - (v) Provision made for income-tax ₹ 4,20,000 (including interest of ₹ 70,000 thereon)
 - (vi) Contribution of ₹ 1,00,000 to a University approved and notified under section 35(1)(ii).
 - (vii) Interest of ₹ 1,50,000 on loan borrowed for acquiring shares in AMA Inc., Canada

Additional information:

- (1) Depreciation as per the Income-tax Act, 1961 ₹ 18,00,000. However, while calculating such depreciation, rate applicable to computers has been adopted for (i) accessories like printers and scanners, and (ii) EPABX. The written down value of these items as on 01.04.2024 is given below:

- (a) Printers and Scanners ₹ 3,00,000
- (b) EPABX ₹ 5,00,000
- (2) Additional depreciation on plant and machinery purchased for ₹ 34,00,000 on 18th November, 2024 has not been considered while calculating depreciation as per Income-tax Act, 1961 as above.
- (3) Provision for audit fee ₹ 1,00,000 was made in the books for the year ended on 31st March, 2024 without deducting tax at source. Such fee was paid to auditors in October 2024 after deducting tax at source under Section 194J and tax so deducted was deposited on 12th December, 2024.
- (4) During the financial year 2023-24, the company made a provision for an outstanding bill of ₹ 90,000 for purchase of raw material. Out of such outstanding amount, the company paid ₹ 45,000 in cash on 20th August, 2024.
- (5) Plot was sold in March, 2025 for ₹ 58,00,000 was acquired by the company in January, 2023 for ₹ 50,00,000.
- (6) The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.
- (7) The company declared interim dividend of ₹ 5,20,000 in September, 2024.
- (8) Cost Inflation Index – FY 2022-23: 331; FY 2024-25: 363

Compute total income of Bhagwati Private Limited as per section 115BAA for the Assessment Year 2025-26 stating reasons for treatment of each item. **(14 Marks)**

2. (a) Taurus Industries Ltd., a domestic company, provides the following information of its Statement of Profit and Loss for the year ended on 31/03/2025. It earned profit of ₹ 26 lakhs after debiting/crediting of the below items:

Items debited to Statement of Profit and Loss:

S. No.	Particular	₹
1.	Provision for loss of Subsidiary	2,00,000
2.	Provision for doubtful debts	2,25,000
3.	Provision for income-tax	2,50,000
4.	Provision for gratuity based on actuarial valuation	3,50,000
5.	Depreciation	5,20,000
6.	Interest to Financial Institution (unpaid before filing of return)	2,40,000
7.	Penalty for infraction of law	1,80,000

Items credited to Statement of Profit and Loss:

S. No.	Particular	₹
1.	Profit from unit established in 2019 in special economic zone	7,50,000
2.	Share in Income of an AOP as a member	2,50,000
3.	Income from units of UTI	2,00,000

Other Information:

- (i) Provision for income-tax includes ₹ 70,000 of interest payable on income-tax.
- (ii) Depreciation includes ₹ 3,00,000 on account of revaluation of fixed assets.
- (iii) Depreciation as per Income-tax Rules is ₹ 4,30,000.
- (iv) Brought forward loss of ₹ 14 lakhs include unabsorbed depreciation of ₹ 5 lakhs.
- (v) The AOP, of which the company is a member, has paid tax at maximum marginal rate.

Compute minimum alternate tax under section 115JB of the Income-tax Act, 1961, for A.Y. 2025-26, assuming that Taurus Industries Ltd. is not required to comply with the Indian Accounting Standards (Ind AS). **(8 Marks)**

- (b) Calculate the total income and net tax liability of Mr. Arvind, aged 72 years, for A.Y. 2025-26, after granting relief under section 91, based on the income earned by him from various sources during the previous year ended 31-03-2025:

India

Pension from State Government ₹ 4,10,000

Short term capital gains on sale of plot ₹ 2,40,000

Deposit in PPF Account ₹ 1,70,000

Speculative Income ₹ 1,25,000

Country X

Agricultural Income (gross) ₹ 1,00,000

Dividends from a company incorporated in Country X (gross) ₹ 70,000 [Exempt in Country X]

Country Y

Business loss (proprietary business) ₹ 1,20,000 [Not eligible for set off against other incomes in Country Y].

Gross rental income from a property ₹ 3,40,000 (No statutory deduction was available in Country Y).

Municipal taxes paid in respect of the above property (not allowed as deduction in Country Y) ₹ 25,000.

Additional Information:

- (1) There is no agreement under section 90 for relief for avoidance of double taxation between India and Country X and Country Y where the incomes have accrued or arisen.
- (2) Mr. Arvind is an individual resident in India, and he has paid applicable taxes on incomes earned in Country X and Country Y, where the applicable tax rates are 10% and 5%, respectively.

Assume Mr. Arvind paying tax under default tax regime under section 115BAC.

(6 Marks)

3. (a) Lotus Welfare Foundation, a charitable trust registered under section 12AB, derived income from property held under trust of ₹ 650 lakh during the P.Y. 2025-26.

During the year, the trust decided to pay an amount of ₹ 80 lakh to another registered charitable trust, Harmony Educational Trust, which is also registered under section 12AB.

How much of the amount paid by Lotus Welfare Foundation will be considered as application of income for charitable purposes, if such contribution is given—

- (i) with a direction that the amount shall be used for general charitable purposes and not as corpus; and
- (ii) with a specific direction that the amount shall form part of the corpus of Harmony Educational Trust.

Also, examine the conditions that Harmony Educational Trust must satisfy for not including the amount received from Lotus Welfare Foundation (given with a specific direction to form part of its corpus) in its total income. **(4 Marks)**

- (b) SDP Foundation is a charitable trust registered under section 12AB engaged in the activity of providing old-age homes to senior citizens. The total receipts of the trust for the financial year 2024-25 was ₹ 145 lakhs. This receipt of ₹ 145 lakhs

includes a voluntary contribution received from Mr. Karan, a resident individual, amounting to ₹ 70,000. During F.Y. 2024-25, out of the total receipts, the trust gave an unsecured loan of ₹ 5 lakhs to Mr. Karan at an interest rate of 12% p.a. The scheduled banks charge interest at the rate of 11.50% for a similar kind of loan. The trust has always applied 85% of the total receipts for its objects. Discuss the implications in the hands of the trust as per the provision of the Income-tax Act, 1961. **(4 Marks)**

(c) Compute the total income and tax liability Winter Technologies Inc., a non-resident German company for the A.Y. 2025-26. The following are the details of income earned in India during the year ended on 31.03.2025:

- (i) Dividend income of ₹ 12,50,000 from BlueWave Ltd., an Indian company listed on recognized stock exchange.
- (ii) 8% debentures of ₹ 20,00,000 received from X Ltd., an Indian Company, on October 1, 2024, in consideration of providing technical knowhow (date of payment of interest being March 31 every year).
- (iii) Dividend of ₹ 5,50,000 on Global Depository Receipts of Greenfields Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of shares of the company and purchased by Winter Technologies Inc. in foreign currency through an approved intermediary.
- (iv) Business Income of ₹ 8,00,000 from a unit established at Mumbai.
- (v) Income by way of royalty (other than referred to in section 44DA) amounting to ₹ 10,00,000, from RedTech Ltd., an Indian company, in pursuance of an agreement approved by Central Government. As per DTTA between the two countries, such royalty is taxable @22%. **(6 Marks)**

4. (a) (i) M/s Crystal Wash Pvt. Ltd., a domestic company engaged in the business of manufacturing and selling washing powder and bars, hires agents to promote and boost sales of its products by paying them incentives and commission based on the sales achieved through them. During the P.Y. 2024-25, Mr. Mohan Kumar, a resident individual, worked as an agent for the company. The company paid him commission of ₹ 1,55,000 on 21st July 2024 for achieving the sales target of Quarter 1, ₹ 1,80,000 on 10th January 2025 for achieving the sales target of Quarter 3, and other incentives amounting to ₹ 1,60,000 on 15th January 2025 are given as reimbursement for booking air tickets for an event in Singapore for Mr. Mohan Kumar and his family members who accompanied him. Additionally, the company gave Mr. Mohan Kumar a laptop worth ₹ 80,000

in October 2024 for achieving the sales target for the month of September 2024.

Examine the applicability of tax deducted at source/tax collected at source and calculate the amount of TDS as per the provisions applicable for A.Y. 2025-26 **(4 Marks)**

- (ii) Suhas (aged 43 years) is working with TP Ltd. He is entitled to a salary of ₹ 85,000 per month w.e.f. 1.4.2024. He has a house property which is self-occupied. He paid an interest of ₹ 1,95,000 on loan, during the previous year 2024-25. The loan was taken for construction of house. He has notified his employer TP Ltd. that there will be a loss of ₹ 1,95,000 in respect of this house property for financial year ended 31.3.2025. Suhas declared that he has exercised option to shift out of default regime of section 115BAC.

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.

(4 Marks)

- (b) Pristine Cement Industries Ltd. (PCIL) is an Indian company, having its head office at Chennai. For the P.Y. 2024-25, it furnished the following information of certain entities and the transactions undertaken with these companies:

- Sakura Industries Ltd. is a wholly owned foreign subsidiary of PCIL, having its head office in Japan. It is currently paying royalty of USD 3 million per annum to PCIL for supply of know-how. For similar supply of know how to Hikari Ltd., a wholly owned Government Company in Japan, PCIL receives annual royalty of USD 4 million. (1 USD = ₹ 82).
- PCIL has borrowed a sum of equivalent of ₹ 220 crores from Orion Capital Inc., Dubai on 1.4.2024. On this date, the assets position of PCIL was as under:

Type of assets	(In ₹ Crores)	
	Market value	Book value
Tangible fixed assets	350	270
Intangible assets	30	25
Other assets	40	35

Orion Capital Inc., has charged interest at 8% and PCIL has paid interest of ₹ 17.6 crores for the year ended 31.3.2025. Though the normal lending

rate of Orion Capital Inc. was 7% per annum to other parties, in view of the urgent requirement of funds and pressing financial commitments, PCIL decided to borrow this amount then.

- PCIL supplies goods to Pacific Build Corp. (PBC), in Singapore. The paid-up capital of PBC in foreign currency equivalent is ₹ 92 crores. PCIL holds shares to the tune of ₹ 22 crores in PBC. The voting power in the company is directly proportional to the number of shares held.

You are required to examine the various transactions entered into by PCIL and determine the applicability of transfer pricing provisions for each transaction. Ignore provisions of section 94B, if applicable, in this case. **(6 Marks)**

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

- (i) Novatech Industries Pvt. Ltd. filed its return of income for assessment year 2023-24 on 25th October 2024. The return is selected for regular assessment under section 143(3) for which notice under section 143(2) is served on the company on 9th July 2025. The company responded to the notice under section 143(2). Examine whether the service of the notice is within time and if not, whether the assessment order can be challenged by the assessee.
- (ii) Assessee had taken an engine on lease under an agreement with a foreign company (lessor), a tax resident of the Germany, having no permanent establishment (PE) in India. The foreign company also does not have PAN in India. The assessee company deducted tax at source @10% on lease rental as per the provisions contained under DTAA between India and Germany.

However, revenue contended that in the absence of furnishing of PAN, the assessee was under an obligation to deduct tax at a higher rate of 20% following the provisions of section 206AA. In the light of the latest Supreme Court rulings, discuss whether the contention of Revenue is correct or not.

- (iii) Metro Buildcon Pvt. Ltd. is engaged in the construction of bridges and flyovers. During the previous year 2024-25, it made payment to various parties and deducted tax amounting to ₹ 18 lakhs. However, the business did not deposit the aforementioned sum with the income-tax department within the time period specified under the Income-tax Act, 1961. The company stated that it is having financial difficulties as a result of a significant amount of money being held up by both its debtors and the income tax department in the form of tax refunds. It is further submitted

that inspite of financial crisis, the company has *suo-moto* deposited the TDS amount along-with interest u/s 201(1A), before receiving any notice from the income-tax department in this regard. However, prosecution proceedings were initiated under section 276B against the company and its directors. The company has approached you to advise in the matter.

(4 x 2 = 8 Marks)

- (b) (i) Explain the term "Exchange of information" as per Article 26 of Model Tax Conventions under OECD Model and UN Model and explain importance of Article 26. **(4 Marks)**
- (ii) What do you understand by "GloBE Rules"? Which entities are covered under these Rules? **(2 Marks)**
6. (a) India-Z9 tax treaty provides that architectural services are technical services and payment for the same to a company may be taxed in India. However, if such professional services are provided by a firm or individual, then payment for such services are taxable only if the firm has a fixed base in India or stay of partners/ employees in India exceed 180 days. Limitation of benefit clause does not exist in tax treaty between India-Z9.

M/s DesignSphere Inc is a company incorporated in country Z9. It is engaged in the business of providing architectural design services all over the world. It receives an offer from Serenity Estates Pvt Ltd, an Indian company, for design and development of resorts all over India. M/s DesignSphere Inc forms a partnership firm with a third party (director of the company) having only a nominal share. The firm enters into an agreement to carry out the services in India. The company seconded its trained manpower to the firm. The manpower stayed in India for less than 180 days.

Thus, the partnership firm claimed the treaty benefit and no tax was paid in India. Can such an arrangement be examined under GAAR? **(4 Marks)**

- (b) An agreement has been made between Orange Inc., a company registered in Country A, and Unicorn Ltd., an Indian company, to provide technical know-how. Orange Inc.'s sister company, XYZ LLC of Country A, has received an Advance Ruling about a similar technological know-how arrangement with another Indian business, MNC Ltd.

The agreement is expected to be of ₹ 350 crores and expected tax liability would be ₹ 120 crores.

Can Unicorn Ltd. make an application to the Board for Advance Rulings to issue same ruling for Unicorn Limited in accordance with the Act? Examine whether the Board can ask for the submission of books of accounts when a decision on a related matter has already been made. Examine in the context of the provisions of the Income-tax Act, 1961? **(4 Marks)**

- (c) On February 28, 2025, a search was conducted u/s 132 of the Income-tax Act, 1961 in the instance of the gold jewelry retail chain USHA Jewellers (P) Ltd. Data from the billing software was analyzed as part of the post-search inquiries. After this data was analyzed, it was discovered that the company has substantially violated section 40A(3) by purchasing old gold for about ₹ 18 crores.

Some of the clients whose locations were known via computer records were approached, and their responses were recorded under oath in order to confirm the conclusions drawn from digital data. These customers admitted under oath that they had sold old gold and received the amounts (all exceeding ₹ 10,000) in cash. The fact which emerged from the enquiries is that USHA Jewellers (P) Ltd. purchase old gold and make payments for these purchases in cash, even if they exceed ₹ 10,000.

However, the tax auditor had mentioned "Yes" in response to the statement in sub-clause (A) of Clause 21(d) on whether the expenditure covered under section 40A(3) read with Rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. The tax auditor submitted that standing instructions were given by the management of the entity to the employees to make payments above ₹ 10,000 only through account payee cheques and/or bank drafts or other permissible electronic modes; and copy of these instructions were verified by him. He further submitted that he had also taken a representation from the Management that net payment in cash to any person in a day did not exceed ₹ 10,000. Also, he mentioned that the test checks conducted by him did not reveal any violation. Examine the ethical implications in this case and the consequences thereof. **(6 Marks)**