

FINAL EXAMINATION

June 2025

P-15(DIT)
Syllabus 2022

DIRECT TAX LAWS AND INTERNATIONAL TAXATION

Time Allowed: 3 hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.
Wherever considered necessary, suitable assumptions may be made and
clearly indicated in the respective answer.
All workings must form part of the relevant answer.*

Section-A

(Answer Question No. 1 which is compulsory)

1. Choose the correct alternative from the four alternatives given. 2×15=30

- (i) Vignesh (P) Ltd has received order passed by CIT (Appeals) confirming the additions made to its total income in the assessment. What is the time limit for filing its appeal before Income Tax Appellate Tribunal?
- (A) Within 60 days from the end of the month in which the order sought to be appealed against is communicated to the assessee
- (B) Within 120 days from the end of the month in which the order sought to be appealed against is communicated to the assessee
- (C) Within 30 days from the end of the month in which the order sought to be appealed against is communicated to the assessee
- (D) Within 2 months from the end of the month in which the order sought to be appealed against is communicated to the assessee
- (ii) 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%

- (iii) Vijay Child Welfare Trust is registered under section 12AA of the Income-tax Act. For the Assessment year 2025-2026 its income before allowing exemption under section 11 and under section 12 exceeded the maximum amount which is not chargeable to income-tax. It failed to file its return of income by 'due date' as specified under section 139(1). How much is the quantum of penalty that could be levied on the assessee for its failure to file its ITR on or before the 'due date'?
- (A) ₹ 100 per day for which the default continues
(B) ₹ 200 per day for which the default continues
(C) ₹ 500 per day for which the default continues
(D) ₹ 10,000
- (iv) 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
- (v) During the reassessment of RR Associates, a partnership firm, the Assessing Officer found misreported income to the extent of ₹ 20 lakhs. The total income originally assessed earlier was ₹ 12 lakhs. What shall be the amount of penalty leviable on the assessee for misreporting?
- (A) ₹ 12,48,000
(B) ₹ 12,00,000
(C) ₹ 3,12,000
(D) ₹ 3,00,000
- (vi) Deepti, a resident individual, subscribed to shares of various domestic companies and earned dividend income of ₹ 6.60 lakhs for the year ended 31.03.2025. She had borrowed ₹ 20 lakhs for the purpose of investment in the shares of domestic companies and interest on such borrowings for the previous year 2024-25 amounts to ₹ 2.20 lakhs. How much of dividend income is includible in the total income of Deepti?
- (A) ₹ 6.60 lakhs
(B) ₹ 5.94 lakhs
(C) ₹ 5.28 lakhs
(D) ₹ 4.40 lakhs

- (vii) For the assessment year 2024-2025, Rita Ltd. filed its return of income on 30th 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
- (viii) Amitabh is a dealer trading in mobiles and laptops. For the financial year 2024-2025, his total turnover was ₹ 105 lakhs out of this he realized ₹ 55 lakhs through UPI, and NEFT up to the 'due date' for filing the ITR. He opted to pay tax as per section 44AD of the Income-tax Act. How much would be his income chargeable under the head 'Profits and gains of business or profession' for the assessment year 2025-2026 by applying the relevant presumptive provision?
- (A) ₹ 4,40,000
(B) ₹ 6,30,000
(C) ₹ 7,30,000
(D) ₹ 8,40,000
- (ix) A search was initiated under section 132 in the premises of Sky & Co LLP on 10.12.2024 and the last authorization was executed on 18.12.2024. What would be the block period for the purpose of search assessment?
- (A) Assessment years relevant to the previous years 2023-24, 2022-23, 2021-22, 2020-21, 2019-2020, 2018-19 and the period from 1st April 2024 to 18.12.2024
(B) The assessment years 2023-24, 2022-23, 2021-22, 2020-21, 2019-2020 and 2018-19
(C) The assessment years relevant to the previous years 2023-24, 2022-23, 2021-22, 2020-21, 2019-2020, 2018-19 and the period from 1st April 2024 to 10.12.2024
(D) The previous years 2023-24, 2022-23, 2021-22, 2020-21 and the period from 1st April 2024 to 18.12.2024
- (x) Which of the following companies can be treated as resident in India?
1. PQR Ltd. of UK (turnover in India ₹ 75 crores) – operates in India through a branch office in Kolkata. Its global turnover exceeds ₹ 500 crore.
 2. Bruno GmbH of Germany (turnover in India ₹ 45 crores) – the place of effective management is wholly in India.

3. Inferno Inc. of USA (turnover in India ₹ 130 crores) – the place of effective management is wholly outside India.
- (A) Bruno GmbH only
 - (B) PQR Ltd. and Bruno GmbH
 - (C) None
 - (D) PQR Ltd, Bruno GmbH, and Inferno Inc.
- (xi) Micheal, 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 Micheal since the shares are purchased in foreign exchange
 - (D) At the slab rates applicable to him including applicable surcharge and HEC
- (xii) Giri & Co., a partnership firm, has paid a sum of ₹ 9 lakhs as interest on capital @ 12% to a non-resident partner by name Narain. The TDS obligation on the firm is:
- (A) Nil as rate of interest is 12% and it is interest on capital to a partner
 - (B) 10%, since it is payment of interest to non-resident
 - (C) 10.4%, since it is payment of interest to non-resident
 - (D) At the rate in force, as per section 195
- (xiii) 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
- (xiv) During the previous year 2024-25, Orange Ltd., Delhi bought shares for ₹ 25 crores from a Foreign Institutional Investor (FII). All the shares are listed in the recognized stock exchanges in India. The purchase and sale of shares resulted in the long-term capital gain of ₹ 3 crores (computed) and short-term capital gain of ₹ 2.50 crores (computed) to the FII. How much tax should Orange Ltd. deduct at source out of the payments made to FII for the purchase of listed shares?
- (A) ₹ 114.40 lakhs
 - (B) ₹ 116.688 lakhs
 - (C) ₹ 58.344 lakhs
 - (D) NIL

(5)

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(xv) Ganpat (P) 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%

Section-B

Answer any five questions from Question No.2 to Question No.8.

Each question carries 14 marks.

14×5=70

2. M/s. Derek Private Limited, Kolkata, reports a net profit of ₹ 22,75,000 for the year ended 31st March, 2025 after adjustment of the following items:

Items debited to Statement of Profit and Loss:	₹
(a) Interest on loan from NBFC. This amount remained unpaid till the 'due date' for filing the return.	1,85,000
(b) Depreciation as per Companies Act	3,70,000
(c) Penalty for infraction of law	60,000
(d) Payment of fee to Registrar of Companies for:	
i) Change in Articles of Association	15,000
ii) Changes in Memorandum of association	20,000
iii) Changes in Authorized Share Capital	70,000
(e) Company made following provisions:	
i) Deferred tax	50,000
ii) Provision for doubtful debts	85,000
iii) Provision for loss of wholly owned subsidiary	2,40,000
(f) Retrenchment compensation paid to employees for closing down a unit of the company during the financial year 2024-25.	8,40,000
Items Credited to Statement of Profit and Loss:	
Profit from unit established in Special Economic Zone (the unit was set up in December, 2020)	2,75,000
Income from growing and manufacturing of tea in Darjeeling	1,00,000

Other Information:

- (i) Company received a refund of income tax of ₹ 47,000 which is credited to Statement of Profit and Loss. Out of this, ₹ 7,000 is interest on income tax refund.
- (ii) Depreciation as per Income-tax Act ₹ 4,00,000.
- (iii) Business loss brought forward of assessment year 2023-2024 (non-speculative) ₹ 3,75,000.
- (iv) Business loss brought forward of assessment year 2022-2023 (speculative business) ₹ 1,00,000.
- (v) Unabsorbed depreciation brought forward ₹ 3,50,000 relating to assessment year 2012-2013.
- (vi) During the year the company purchased raw materials from Micro Enterprises (as per MSMED Act) for ₹ 45 lakhs and paid ₹ 37.50 lakhs up to the end of the year. It settled the balance on 25th May, 2025. There was no defect in the raw materials purchased. The entire purchase is debited in the Statement of Profit and Loss.
- (vii) Advance tax paid by company during the year ₹ 5,00,000.

From the above information **you are required to compute** the Total Income giving reasons for treatment of each item stated above and tax payable by the company for the assessment year 2025-2026. Company has not opted for sections 115BA/115BAA/115BAB. Assume the applicable tax rate as 25% + 4% HEC.

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3. (a) Babloo, an Indian resident aged 34 years started his retail trade business from 01.04.2024. He gives the following information to you relating to FY 2024-25:

- (i) Net profit as per Profit & Loss account ₹ 51,70,000
- (ii) Net profit includes gross rent received from let-out property ₹ 1,20,000.
- (iii) Interest debited to Profit & Loss A/c includes interest on loan taken for the purchase of let-out house property ₹ 2,20,000.

Additional information (Not passed through Profit & Loss A/c):

- (i) Deposit in PPF ₹ 2,00,000
- (ii) Medical Insurance Premium paid for self and spouse ₹ 30,000.

Compute total income and tax payable by Babloo for the Assessment Year 2025-26 under both, default as well as normal regime and suggest which option is better.

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- (b) Sara (P) Ltd., Kanpur is a new manufacturing company incorporated on 16.01.2021 who commenced manufacturing activity w.e.f. 01.04.2021. Its net profit as per the Statement of Profit and Loss was ₹ 30,90,000 for the financial year 2024-25, after debiting/crediting the following items:

- (i) Depreciation as per Companies Act ₹ 4,50,000.
- (ii) Employer's contribution as well as Employees' contribution to EPF of ₹ 11 lakhs each, for the month of March 2025, was deposited on 31st May, 2025.

(iii) Dividend ₹ 17 lakhs (gross) received on 15.10.2024 from another Indian company (in which Sara (P) Ltd. holds 32% shares).

(iv) Amount spent for earning the above dividend income ₹ 3,60,000

Additional information:

(i) Normal depreciation as per Income-tax Rules ₹ 4,90,000.

(ii) Additional depreciation as per Income-tax Rules ₹ 1,50,000.

(iii) Dividend declared and distributed ₹ 20 lakhs (date of dividend declaration 25.10.2024).

The company never had a gross annual turnover above ₹ 200 crores. **You are required to suggest** the company whether it should opt for the provisions of section 115BAB or not, by clearly showing your relevant computations. 7

4. (a) M/s Arihant Motors, 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 1st April, 2024 it was taken over by Anand (P) 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.

Anand (P) 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 1st January, 2025, **what will be the** tax implications in the hands of X and Anand (P) 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

(b) Zaheer, 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

5. (a) Arun Ltd, Jaipur is engaged in multiple businesses. It has the following 3 issues:
- (i) The assessee has preferred appeal against certain additions relating to assessment year 2022-23 before CIT (Appeals) and did not contest a few other additions made to its returned income in the assessment made under section 143(3). When the appeal was pending, the Commissioner of Income-tax invoked section 263 in respect of certain other issues not dealt with in the assessment. The tax counsel of the company says that the doctrine of total merger would apply and therefore the revision proposed is bad in law.
 - (ii) The company had sought a ruling from the Board for Advance Ruling and it is aggrieved with the ruling. Its tax counsel says that since the decision of the Board is binding on the applicant being the company in this case, it has no other option but to accept the ruling of the Board.
 - (iii) For the assessment year 2022-23, the Assessing Officer made an addition of ₹ 180 lakhs on account of excessive depreciation and ₹ 150 lakhs by way of disallowance under section 40A(2). The company filed an appeal before the CIT(A) against the denial of depreciation and on being unsuccessful filed a further appeal before the Appellate Tribunal. In respect of the disallowance under section 40A(2), it did not file any appeal but filed a revision petition under section 264, to the Commissioner of Income-tax, who dismissed it on the ground that the assessment was a subject matter of appeal to the Appellate Tribunal. The tax counsel says that the action of the Commissioner is not tenable in law.

Decide the correctness of the views of the tax counsel and **suggest** the course of action to be pursued by the company in respect of the above issues. 7

- (b) Surya Limited, Bhopal has a final tax liability of ₹ 15,60,000 for the financial year 2024-2025. It has paid advance tax in the following manner during the financial year 2024-2025:

15th June, 2024	₹ 3,00,000
15th September, 2024	₹ 2,00,000
15th December, 2024	₹ 4,00,000
15th March, 2025	₹ 4,00,000

Compute the shortfall in each instalment of advance tax and **calculate** interest liability under sections 234B and 234C. Assume that the company would file its return of income on 31.10.2025.

6. (a) Ramesh (P) Ltd., Chennai is engaged in the manufacture of electronic goods and exporting the same to its Associated Enterprise (AE) outside India and various other unrelated enterprises. It has applied for Advance Pricing Agreement (APA) in respect of its transactions with its AE. The application for APA was filed on 10th February, 2024 and the APA was signed on 15th May, 2024. It applied for rollback in June 2024 which was signed on 18th October, 2024. The details of the status of income tax assessments as on the date of signing of rollback are as follows:

- AY 2020-21: Reassessment under section 148 of the Income-tax Act is pending and it is in respect of the Arm's Length Price (ALP) determination, which was alleged by Revenue as wrongly computed in the original assessment.
- AY 2021-22: The matter is pending before the High Court with regard to acquisition of a company by the assessee and the dispute is about the set off of loss of the erstwhile company.
- AY 2022-23: Assessment was completed by making the reference to Transfer Pricing Officer (TPO) who enhanced the Arm's Length Price (ALP) of the international transaction by ₹ 200 crores. If APA is applied, ALP determined would get enhanced by ₹ 150 crores only instead of ₹ 200 crores determined by TPO.
- AY 2023-24: Assessment regarding the computation of ALP of the international transaction was disputed before the Tribunal which set aside the order and directed for fresh consideration by the Assessing Officer in December 2024.
- AY 2024-25: Notice under section 143(2) of the Act was issued and the assessment is pending.

The income tax returns for all the above assessment years were filed within the 'due date' under section 139(1).

You are required to state with reasons, the assessment years for which the APA and the rollback would apply. 7

(b) Hari, aged 42 years, a resident individual furnishes the following particulars of income earned by him in India and Country SA for the financial year 2024-25. India does not have a Double Taxation Avoidance Agreement (DTAA) with Country SA.

Particulars	₹
Income from profession carried on in India	10,50,000
Agricultural Income from Country SA	2,65,000
Dividend from a company incorporated in Country SA (gross)	66,000
Royalty income from Country SA (gross)	10,10,000

Expenses incurred for earning royalty	2,10,000
Business loss in Country SA	2,50,000

Assume that the royalty earned outside India is eligible for deduction under section 80QQB. Income-tax law of Country SA permits set-off of business loss against any other income. The rate of income-tax in Country SA is 15%.

Compute total income and net tax liability of Hari in India for A.Y. 2025-26, assuming that Hari has satisfied all the conditions for the purposes of section 91 and opted out of the default tax regime under section 115BAC(1A). 7

7. (a) Ashish Ltd., Indore, imports Air Conditioners (ACs) for resale in the Indian market from Bear LLC., its US based holding company. ACs are sold to the distributors in India in the same form as imported without any customization or value-addition. During the financial year 2024-25, it purchased 2000 ACs from Bear LLC at ₹ 35,000 each and sold to third party distributors @ ₹ 40,000 per unit. Based on a TP benchmarking conducted by the company, three independent comparable companies earn resale margin (gross profit on sales) of 15%, 23% and 19% respectively from distribution of similar products in India.

Based on the details provided—

- (i) **Which method** is the most appropriate method for determination of Arm's Length Price (ALP) for the import of ACs from Bear LLC and state why?
- (ii) **Compute the ALP** for the transaction between Ashish Ltd. and Bear LLC and the adjustment to be made to the total income of Ashish Ltd. 7
7. (b) Sakshitha Ltd., Madurai is engaged in providing IT enabled services (ITES). The following is the extract from Statement of Profit and Loss for the year ended 31st March, 2025:

Particulars	(₹ in lakhs)
Net profit as per books (after tax)	180
Depreciation	60
Interest to AE 1 (Sri Lanka)	90
Interest to AE 2 (Japan)	250
Interest to others (unrelated parties)	100
Amortization	20
Provision for Taxation	80

As per the transfer pricing provisions, **how much would** be the amount of interest that will be allowed as deduction while computing the income under the head "Profits and gains of business or profession"? **Can the disallowed** interest, if any, be carried forward? **Explain.** 7

8. 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) True (P) 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.

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- (b) Shirt 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.

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