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 **BB VIRTUALS**  
  
  
**PREP**  
**TEST -2**

**PART 1**

All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.

**Case Scenario – I**

Ms. Ameesha Anna, an Indian citizen, moved to Dubai in 2015 for employment and has been a non-resident since then. During the Financial Year 2024–25, she earned the following income:

- She sold shares in an Indian company, Rakhi Ltd (Listed) on 23.01.2025 for Rs 10,00,000. She acquired these shares on 09.12.2008 for Rs 3,00,000 in Foreign Currency. She invests Rs 6,00,000 on 28.03.2025 in the Debentures issued by an Indian Company Sakhi Ltd and Rs 4,00,000 on 12.06.2025 in the shares of an Indian Company Lakhi Ltd.
- Interest of Rs 4,00,000 from deposits made in foreign currency with Rao Ltd, an Indian Public Company.
- Rental Income of Rs 5,00,000 from a house property in Nagpur, Maharashtra after deduction of 30% Standard Deduction and municipal taxes paid of Rs 3,000.
- Dividend received Rs 3,00,000 from Lake Ltd, an Indian company whose investment was made in Indian Currency. The unit is not located in an IFSC.

**She has decided to opt for the benefits of Chapter X11 – A. based on the above answer the following questions:**

1. What is the amount of tax to be paid by Ameesha for her interest income from Rao Ltd? (Ignore surcharge and cess)  
A) Rs 1,20,000  
B) Rs 80,000  
C) Rs 40,000  
D) Rs 20,000

**(2 Marks)**

2. What is the rate applicable to her rental income from Nagpur, Maharashtra?  
A) Exempt under Chapter XII-A  
B) Taxable at a flat rate of 20%  
C) Taxable at slab rates applicable to NRIs  
D) Taxable at Special Rates as per Chapter XII

**(2 Marks)**

3. Calculate the amount of tax (Exclude surcharge and cess) to be paid by her for the long-term capital gain for the AY 2025-26.(Index AY 2009-10 : 148, AY 2025-26 :363)

- A) Rs 33,023
- B) Rs 19,375
- C) Rs 28,000
- D) Nil

(2 Marks)

4. Dividend received would have been taxed (Exclude surcharge and cess) an amount of ..... if she opts out of the provisions of Chapter XII-A?

- A) Rs 60,000
- B) Rs 30,000
- 5. C) Rs 90,000
- 6. D) Nil

(2 Marks)

### Case Scenario - II

Mr. Naufil Nazar, a 52-year-old Indian resident and high-net-worth investor, engaged in a series of strategic financial transactions during the Financial Year 2024–25, with the intention of restructuring his investment portfolio. His decisions were driven by asset appreciation, tax planning, and succession concerns.

On 25.08.2024, Naufil sold his Delhi residential house property, which he had purchased in 1999 for ₹25 lakhs. He had spent ₹5 lakhs on renovations in 2005. Although the property was acquired before 2001, the Fair Market Value (FMV) as of 1st April 2001 was ₹18 lakhs. He sold it for ₹2.2 crores, but the stamp duty valuation was ₹2.3 crores. To save tax, Naufil invested ₹70 lakhs in NHAI bonds and 20 Lakhs in SBI Bonds on 06.10.2024 and ₹60 lakhs in a new residential house in Pune in 12.12.2024.

Earlier in April 2024, he had sold equity shares in a tech startup company (unlisted), which he had subscribed to on 05.01.2018 for ₹10 lakhs. The sale value was ₹85 lakhs, and it was executed through a registered agreement with a foreign investor.

Naufil also sold a plot of land in Kochi on 12.03.2025 for ₹95 lakhs. The land was a gift from his grandfather in 2015, who had originally purchased it in June 1998 for ₹2 lakhs. The FMV of the land on 1st April 2001 was ₹8 lakhs. No improvements were made post-gift.

In addition to the transactions already mentioned, Naufil also performed the following during FY 2024–25:

- He redeemed 4,000 units of an equity-oriented mutual fund on 15th January 2025 at ₹160 per unit. These were purchased on 10th March 2022 at ₹100 per unit. STT was paid on both purchase and redemption.
- He also sold 2,000 units of another equity mutual fund on 20th February 2025 at ₹220 per unit, which were purchased on 5th January 2019 at ₹60 per unit. STT was paid on both dates.

- He incurred ₹8,000 and ₹12,000 as transaction charges (brokerage, exit loads) on the first and second mutual fund redemptions respectively.
- He redeemed units of an equity-oriented mutual fund purchased in April 2022 for ₹4 lakhs, which he sold in June 2024 for ₹6.4 lakhs. Securities Transaction Tax (STT) was paid at the time of both purchase and sale.

Cost Inflation Index (CII):

- FY 2001–02 = 100
- FY 2005–06 = 117
- FY 2017–18 = 272
- FY 2022–23 = 331
- FY 2024–25 = 363

Based on the above case scenario, answer the following questions:

5. What is the taxable capital gain from the sale of Naufil's Delhi house property, after considering the exemptions claimed?

- A. 39.15 Lakhs
- B. 9.15 Lakhs
- C. Nil
- D. 29.15 Lakhs

**(2 Marks)**

6. What is the tax treatment of the capital gains on the sale of unlisted startup shares?

- A. LTCG @ 10% under Section 112A
- B. LTCG @ 20% with indexation under Section 112
- C. STCG @ 15%
- D. Exempt under Section 54GB

**(2 Marks)**

7. For the gifted Kochi land, what will be the holding period and cost of acquisition for computing capital gain?

- A. Holding from 2015; Cost = FMV on date of gift
- B. Holding from 1998; Cost = ₹2 lakhs
- C. Holding from 1998; Cost = FMV as on 1.4.2001
- D. Holding from 2015; Cost = FMV as on 1.4.2001

**(2 Marks)**

8. What is the tax liability on the redemption of equity mutual fund units (assuming STT paid and Naufil has utilized his exemption limit of 1,25,000)?

- A. Rs 91,500
- B. Rs 78,000
- C. Rs 97,500
- D. Rs 71,500

**(2 Marks)**

### Case Scenario – III

Ms. Athira , an Indian resident and a successful businesswoman, was investigated by Indian tax authorities in November 2024 after information was received under an international automatic exchange agreement (CRS). The investigation revealed that he held the following foreign assets and income, none of which had ever been disclosed in his Income-tax Returns in India:

#### 1. Swiss Bank Account:

- Opened: April 2013
- Balance on 31st March 2024: CHF 300,000
- Total Deposits in the account : CHF 900,000
- Exchange Rate : ₹95/CHF
- Peak Balance in any financial year: CHF 550,000 (in FY 2021–22)

#### 2. Foreign Property in Dubai:

- Purchased: 22<sup>nd</sup> October 2016 for AED 1.2 million
- Fair Market Value (FMV) on 1st April 2016: AED 1.1 million
- Fair Market Value (FMV) on 31st March 2016: AED 1.3 million
- Fair Market Value (FMV) on 1st April 2024: AED 1.7 million
- Fair Market Value (FMV) on 31st March 2025: AED 1.9 million
- Sold in: August 2024 for AED 1.9 million
- Exchange rate on 1st April 2024: ₹22/AED
- Exchange rate on 31st March 2025: ₹22/AED
- Exchange rate on Date of sale: ₹23/AED
- Exchange rate on Date of Purchase: 21/AED
- Proceeds were repatriated to India and used to buy listed shares (now disclosed).

### 3. Undisclosed Foreign Income:

- Dividend received from US company in FY 2023–24: USD 8,000 (not repatriated)
- Exchange rate on date of receipt: ₹84/USD.

### 4. Partnership Interest

- Partnership Interest in a LLP in US
- Date of Joining: 12<sup>th</sup> July 2016
- Capital Contributed: \$ 200,000
- Total Capital Contributed by All Partners: \$1,000,000
- Profit Share: One-Fifth
- Net asset of firm considered: \$1,500,000
- Exchange rate: ₹84/USD.

Athira has never filed a declaration under the Black Money Act, nor has he availed of the one-time compliance window under Chapter VI of the Act. The Assessing Officer issued a notice under Section 10 of the act in December 2024. Based on the above, answer the following questions:

9. What will be the amount of tax payable under the BMA on the value of the Swiss bank account?

- A. Rs 85,50,000
- B. Rs 2,56,50,000
- C. Rs 1,56,75,000
- D. Rs 8,55,00,000

**(2 Marks)**

10. What is the fair market value of the Dubai Property according the provisions of the Black Money Act?

- A. Rs 3,74,00,000
- B. Rs 4,18,00,000
- C. Rs 2,52,00,000
- D. Rs 2,31,00,000

**(2 Marks)**

11. What is the value to be considered for the interest in the partnership business in the US?

- A. Rs 1,68,00,000
- B. Rs 8,40,00,000
- C. Rs 12,60,00,000

D. Rs 2,52,00,000

(2 Marks)

12. What is the maximum total tax and penalty payable under BMA on the undisclosed US dividend income, assuming it was not reported in FY 2023–24?

- A. Rs 2,01,600
- B. Rs 4,03,200
- C. Rs 8,06,400
- D. Rs 12,01,600

(2 Marks)

13. Ezy Solutions Pvt Ltd, an Indian startup engaged in digital marketing, availed the following online services during FY 2024–25:

1. **₹28,00,000** paid to **AdGlobal Inc.** (15.05.2024), a US-based digital advertising platform (no PE in India), for Google-style banner ads displayed to Indian users.
2. **₹6,00,000** paid to **BuzzMe Ltd.**, (03.07.2024) a Singapore-based influencer marketing company, for targeted campaign services delivered through Instagram (owned by a third party).
3. **₹12,00,000** paid to **ZedZone Technologies** (25.11.2024), a UK company, for SEO audit services, which were delivered via downloadable reports through email.

None of the non-resident entities have a Permanent Establishment (PE) in India. EzySolutions Pvt Ltd did not deduct Equalisation Levy (EL) on any of these transactions and did not deposit any EL to the credit of the government till 31st March 2025. What is the total Equalisation Levy liability (tax + interest) payable by EzySolutions Pvt Ltd for FY 2024–25? (Ignore Penalty u/s 171)

- A. Rs 2,23,680
- B. Rs 2,38,400
- C. Rs 2,52,240
- D. Rs 2,19,400

(2 Marks)

14. Ms. **Shanaya Deshmukh**, a resident individual taxpayer, filed her return of income for **AY 2023–24**, declaring a total income of ₹32 lakhs. She has never been subjected to search, survey, or prosecution and has no history of misreporting or penalty under the Income-tax Act.

On **4th December 2024**, the Assessing Officer passed an assessment order under **Section 143(3)**, making an addition of ₹8.4 lakhs under **Section 69A** (unexplained cash). The order was **delivered to her e-filing account on 5th December 2024**. No penalty was initiated in the order. Due to year-end travel and illness, she could not respond immediately.

She finally decided to apply to the **Dispute Resolution Committee (DRC)** under **Section 245MA** on **29th January 2025**. Assume all relevant eligibility criteria are met, and that the DRC scheme and Rule 44DAB are fully applicable for the year.

Which of the following correctly determines the status of her application to the DRC?

- A. Application is valid, as it was filed within three months from date of receipt of the specified order.
- B. Application is valid, since variation is below ₹10 lakhs and income is below 50 Lakhs and she meets all conditions.
- C. Application is time-barred, as it was filed beyond one month from the date of receipt of the specified order.
- D. Application is invalid, since additions under Section 69A disqualify her from using the DRC route.

**(2 Marks)**

15. Mr. **Nilesh Menon**, a resident individual (aged 38), is a data consultant and has the following incomes during **FY 2024–25**:

- 1. ₹22,00,000 – Professional consulting fees from clients in India
- 2. ₹18,00,000 – Freelance software services to clients in **Country X** (credited directly to a foreign bank account)
- 3. ₹3,50,000 – Interest from fixed deposits in a bank in Country X
- 4. ₹1,50,000 – Dividends from listed shares of a foreign company in Country X.

There is no Double Taxation Avoidance Agreement (DTAA) between India and Country X. However, all the above foreign incomes are taxed in Country X at source and non-refundable, as follows:

₹18,00,000 – taxed at **25%**

₹3,50,000 – taxed at **20%**

₹1,50,000 – taxed at **15%**

Mr. Menon has no other income or exemptions. He claims a deduction of ₹1,50,000 under Section 80C and files Form 67 within the due date. He is eligible to claim relief under Section 91 for doubly taxed income.

What is the amount of relief allowable to Mr. Menon under Section 91 for AY 2025–26, using the effective rate method?

- A. Rs 5,42,500
- B. Rs 6,14,100
- C. Rs 5,20,800
- D. Rs 6,90,000

**(2 Marks)**



**PART II – Descriptive Questions**

**Question No.1 is compulsory.**

Answer any four questions out of the remaining five questions.

Working notes should form part of the answer.

All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.

**Question 1**

Marvel Ltd, A Resident Company, is engaged in the business of setting up and operating warehousing facilities in India. The Profit and Loss Statement of the company for the year ended 31<sup>st</sup> March 2025 Showed a Profit of 250 Lakhs after debiting or crediting the following Items:

- a) Payment of Rs 20,000 to an M/s DC Ltd an Advertising agency for Local ads in newspapers, Rs 15,000 to M/s VN Transports Operators Ltd for leasing goods carriages and Rs 18,000 to VX Pvt Ltd for purchase of cleaning solutions. All these payments were made in cash and in a single day. The Bill of DC Ltd was booked on accrual basis in FY 2023-24 when it was accrued.
- b) The company had taken a Loan of Rs 40,00,000 during the year on which an interest expense of Rs 2,00,000 was incurred. The Loan was taken for the purpose of investing in Logix Ltd, a French Company. The company received a dividend of Rs 5,00,000 from the French Company.
- c) The company had provided for an amount of Rs 30 Lakhs being the estimated sum payable to workers based on an agreement to be entered with workers union towards periodical wage revision once in 3 years. The provision is based on an actuarial valuation and is a fair estimation and reasonable certainty of revision and meets all the requirement of the accounting standards.
- d) The company had plans for setting up an innovative model for a new business of Car rentals in collaboration with NextGen INC a US Company. The Directors of the company had incurred a travel expense of Rs 15 Lakh for the negotiation and discussion which was borne by the company. The Negotiation did not succeed and the project was abandoned.
- e) Rs 25 Lakh was received as additional compensation received from the State Government pursuant to an Interim order of the High Court in respect of land acquired by the government during the FY 2022-23.
- f) The company had paid on interest of Rs 2 Lakh for failure to deduct TDS from various parties. The company has paid the TDS amount to the government as well. However, during the current the company has failed to deduct TDS from M/s Vasco Ltd a resident company for Maintenance Expenses on Rs 1 Lakh and Nile Inc. a non-resident Company for Advertising Services of Rs 2 Lakh
- g) Advertisement Charges of Rs 2 Lakhs was paid by cheque for advertisement published in the souvenir of a political party registered with Election Commission of India.
- h) The company had paid a premium of Rs 3 Lakh for its Key Managerial Persons Insurance.
- i) Depreciation as per Companies Act Rs 20 Lakhs. However, the company had omitted to calculate depreciation for the following items:

Asset Description	Value	Useful Life	Date of Purchase
Electrical Wiring	2 Lakh	5 Yrs	06.06.2024

Electric Generator running on wind	1.5 Lakh	10 Yrs	07.08.2024
UPS	1 Lakh	3 Yrs	02.10.2024

### Additional Information

- a) During the year the company has incurred the following capital expenditures for setting up warehousing facility:

Description	Value	Purpose
Land	20 Lakh	Storage of Agri Produce
Building 1	15 Lakh	Storage of Sugar
Building 2	10 Lakh	Storage of Electronics

- b) Depreciation as per IT Act (Computed except for omitted Assets) is Rs 25 Lakhs.
- c) The company declares and distributed dividend to its shareholders of Rs 6 Lakh on 21.08.2025.
- d) GST of Rs 7 lakhs was collected from its customers was paid by the company on the due dates. On an Appeal, the High Court directed the GST Department to refund Rs 3 Lakhs to the company. The company in turn refunded Rs 2 Lakh to the customers to him its was collected and balance 1 Lakh is still lying under the head "Current Liabilities".
- e) The company had received Rs 2 Lakh in total from its Employees a part of their contribution to EPF for the month of August. However, due to inefficiency on the part of the Company the amount was deposited on 15<sup>th</sup> October.

Compute the total income and tax liability of Kansal Cements Ltd for the assessment year 2024-25 under the regular provision by analysing and applying the relevant provisions of Income-tax Law, assuming that the assessee has not opted for any concessional rates under special provisions of the Income-tax Act, 1961. Briefly explain the reasons for treatment of each item. Total turnover of the company for the previous year 2022-23 was ` 450 crores.

(14 Marks)

### Question 2

- a) Global Oceanic Pvt Ltd (GOPL) is an Indian company engaged in operating ships and has opted for the Tonnage Tax Scheme (TTS) under Chapter XII-G of the Income-tax Act. The company owns 5 Ships. The details for the previous year are as follows:

**Ship A (Owned)** – Qualifying ship, used for international voyage.

**Ship B (Owned)** – Qualifying ship, used exclusively for coastal shipping.

**Ship C (Owned)** – Owned, used as a pleasure craft for luxury tourism operations within India.

**Ship D (Owned)** – Owned, chartered out on bareboat charter for 3 years and 2 months to another shipping company.

**Ship E (Owned)** – Owned, registered outside India, used as a fishing vessel

Additionally, GOPL has earned the following incomes:

- ₹50 lakhs from **slot charter operations** (without identifying any specific ship).
- ₹20 lakhs from **freight forwarding services** involving third-party ships not controlled by GOPL.
- ₹15 lakhs from **technical consultancy** to another shipping company.
- ₹10 lakhs from **operating Ship C**.

The company has fulfilled the minimum tonnage requirement under Section 115VA.

**Required:**

(i) Analyse which ships and income streams will qualify under the Tonnage Tax Scheme and compute the presumptive tonnage income (TTS) for GOPL for the year, assuming the net tonnage of each qualifying ship is as below:

- Ship A – 22,000 tons
- Ship B – 9,000 tons
- Ship C – 5,000 tons
- Ship D – 10,500 tons
- Ship E – 7,500 tons.

Assume **slot charter equivalent tonnage is 1,200 tons** as per Rule 11Q. Show detailed working and reasoning.

(ii) Discuss the tax treatment of non-TTS incomes under normal provisions, if any.

**(8 Marks)**

b) Zentra India Pvt Ltd (ZIPL), a wholly-owned subsidiary of Zentra GmbH (Germany), imports premium consumer audio devices from its AE and resells them in India. ZIPL resold 12,000 units in India to unrelated retailers. The following details are relevant:

Average Resale Price per unit (including 18% GST) - Rs 23,600

Purchase price per unit (from AE) – Rs 18,000

Selling & distribution expenses (incl. dealer incentives) – Rs 1,100 per unit

General admin & warehousing costs – Rs 400 per unit

Zentra GmbH gives after sales warranty of 1 year whereas comparable suppliers provide 2 year warranty

ZIPL uses Zentra brand name with high recall, while comparable sell lesser-known brands

Comparable independent distributors earn gross margin of 22% on resale price (excluding GST), without warranty obligation or branding advantage.

ZIPL incurred ₹6 lakhs during the year on after-sales servicing (warranty servicing for 3-year coverage)

The brand premium attributable to the Zentra brand is estimated at 2% of the resale price (excluding GST).

The warranty adjustment for the extra 2 years (compared to comparable) is estimated at ₹200 per unit.

- (i) Compute the Arm's Length Price (ALP) per unit, after making appropriate adjustments.
- (ii) Suppose Zentra Pvt Ltd wants to enter into an advance pricing agreement referred to in Sections 92CC and 92CD, to whom the application must be made in case of a unilateral agreement? Also state the applicable fee if the amount of international taxation concerned is 156 Crores.

(6 Marks)

### Question 3

(a) Quantrex India Ltd, a listed Indian company following Ind AS, has reported a Profit Before Tax (PBT) of ₹42 crores for the year ending 31st March 2025 in its audited standalone financials. The company has not opted for taxation under Section 115BAA or 115BAB. The following information is available:

- i. Depreciation as per books is ₹11.8 crores (includes ₹2.5 crores on revaluation). Depreciation under Income Tax Act is ₹9.4 crores.
- ii. The company made a provision of ₹4 crores for probable loss in a foreign subsidiary based on a board-approved impairment review. This has been debited to the P&L.
- iii. ₹3 crores was provided for pending litigation (contingent liability), not acknowledged as debt.
- iv. The company earned Long-Term Capital Gain (LTCG) of ₹6 crores, on sale of listed equity shares, reported in the P&L. This gain is exempt under Section 112A due to grandfathering and threshold benefit.
- v. A property revaluation gain of ₹8 crores was directly credited to Revaluation Reserve (Other Equity), not routed through P&L.
- vi. Deferred tax expense debited to P&L is ₹2.4 crores.

### Additional Info

The company has brought forward losses as per Books:

- Unabsorbed Depreciation – ₹6.5 crores
- Business Loss – ₹4.5 crores

The company has brought forward losses as per Income tax:

- Unabsorbed Depreciation – ₹ 5.5crores
- Business Loss – ₹3.5 crores

Compute the **Book Profit** under Section **115JB** for AY 2025–26, clearly explaining all adjustments and MAT payable.

(8 Marks)

(b) Answer the independent scenarios of two Charitable institutions :

(i) Kamar Taj, a public charitable trust registered under Section 12AB, has the object of providing education and relief to the poor. For the previous year 2024–25 (AY 2025–26), the trust received the following:

- Voluntary donations (with specific direction to form part of corpus): ₹60 lakhs
- Other voluntary donations (general): ₹35 lakhs
- Income from business activity related to a training institute it runs: ₹48 lakhs
- Income from investment of corpus fund (FD interest): ₹4 lakhs

The trust applied ₹62 lakhs towards charitable purposes (including ₹9 lakhs spent out of corpus fund), and accumulated ₹20 lakhs as per Section 11(2), but the Form 10 for such accumulation was filed **after the due date of filing return**. The trust filed its return of income within the due date prescribed under section 139(1). No part of the income was applied or accumulated towards any non-charitable object.

Examine and compute the amount of income liable to tax in the hands of Shantam Sanstha for AY 2025–26 with appropriate reasoning.

(ii) Satyam Lok Kalyan Trust is registered under Section 12AB and is engaged in providing free primary healthcare in rural areas. The trust is not approved under Section 10(23C). The following facts pertain to the previous year 2024–25:

- One of the trustees, Mr. R, owns a warehouse, which the trust uses for free storage of medicines. No rent is charged.
- During the year, the trust paid ₹15 lakhs to ABC Ltd, a company in which Mr. R holds substantial interest, for supply of medical kits. The market value of such kits is ₹12 lakhs.

The trust applied 85% of its income towards its objects.

The trust contends that it has applied income for charitable purposes and hence seeks full exemption under Sections 11 and 12.

Discuss whether Satyam Lok Kalyan Trust is eligible to claim exemption under Sections 11 and 12 for AY 2025–26. Also state the penalty u/s 271AAE if it is done for the first time during any previous year.

**(6 Marks)**

#### Question 4

a) Discuss the relevant provisions of the Income-tax Act, 1961, with respect to collection/deduction of tax in the following situations:

- Vartex Ltd**, a company engaged in the wholesale trade of electronics, had a turnover of ₹12 crore in FY 2023–24. During FY 2024–25, it gifted a premium mobile phone worth ₹45,000 to its top dealer for achieving quarterly sales targets. It also purchased raw materials worth ₹58 lakhs (excluding GST) from **Raja Traders**, a resident who has not filed ITR for AY 2024–25 and TDS for the said PY was Rs 70,000. No TDS was deducted on either transaction. Examine the TDS implications under the Income-tax Act, 1961, specifying applicable sections and rates.
- AutoSphere Ltd, a luxury car dealer having turnover of ₹48 crores in FY 2023–24, sold a single motor vehicle worth ₹78 lakhs (ex-showroom price) to Mr. Pratik, a resident individual, during FY 2024–25 for his personal use. Mr. Pratik has not filed his ITR for AY 2024–25, and the time limit under section 139(1) has expired. He paid the entire consideration through banking channels, but AutoSphere Ltd did not collect

any TCS, contending that since only one vehicle was sold and it was not for business use, no TCS is applicable. Examine the correctness of this position and compute the applicable TCS liability, if any.

- (iii) Sunbeam Steel Ltd, having turnover of ₹11 crore in FY 2023–24, purchased goods worth ₹70 lakhs during FY 2024–25 from Alpha Metals Pvt Ltd, whose turnover in FY 2023–24 was ₹12 crore. Alpha Metals collected TCS @0.1% under Section 206C(1H) on ₹20 lakhs (₹70L – ₹50L). However, Sunbeam Steel claims that it had already deducted TDS under Section 194Q @0.1% on the same transaction and refused to pay TCS. Alpha Metals argues both apply and demands TCS again. Who is correct? Examine with reference to relevant provisions and compute correct tax compliance.
- (iv) Mr. Aryan, a resident individual and a banker, purchased cryptocurrency worth ₹40,000 on 20th August 2024 through a peer-to-peer platform and paid the seller in cash. The seller, Mr. Rishi, is also a resident individual. Neither party deducted TDS. Examine whether TDS was required under Section 194S, and who was responsible for deduction in this case.

**(8 Marks)**

- (b) A petition for stay of demand was filed by Delta Industries Ltd. before the Income-tax Appellate Tribunal (ITAT) in respect of a disputed tax demand of ₹30 lakhs, against which an appeal was pending. The ITAT granted a stay vide order dated 01.01.2024 for a period of 180 days, subject to payment of 20% of the disputed demand by the assessee. Delta Industries complied with this condition.

Due to non-availability of the bench and administrative delays, the appeal could not be disposed for a while. Meanwhile, in June 2024, Delta Industries filed an application for extension of the stay, which was granted till 31.12.2024.

However, on 5.2.2025, the Assessing Officer (AO) attached the bank account of Delta Industries and recovered ₹18 lakhs towards the outstanding tax demand. The company requested a refund, arguing that the stay was still operative, since the delay was not attributable to them.

The AO rejected the request, contending that the stay granted by ITAT had expired on 31.12.2024 and therefore stood vacated automatically.

Examine the correctness of the AO's contention with reference to the Income-tax Act, 1961 and judicial precedents.

**(6 Marks)**

### Question 5

- (a) Answer any two out of the following three sub-parts viz (i), (ii) and (iii)
- (i) Zyto Biotech Ltd commenced trial production in February 2025 and made its first sale of finished goods in March 2025, though full-scale commercial production began only in April 2025. The company claimed deduction under Section 80-IE starting from A.Y. 2025–26, arguing that sale of goods during trial production proves that the product was marketable and the conditions for deduction were met. The Assessing Officer rejected this, stating that the ten-year period under Section 80-IE should begin only from the year of commercial production (i.e., A.Y. 2026–27). Examine the correctness of the AO's view with reference to judicial precedent.
- (ii) Pradhan Infrastructures Ltd. filed its original return of income under Section 139(1) for A.Y. 2024–25 on 20th July 2024, declaring a total income of ₹2.3 crores. Later, during assessment proceedings, the company submitted a revised statement of income, claiming additional depreciation and a higher refund, without filing a revised return under Section 139(5). The Assessing Officer refused to consider the revised statement, stating that no fresh claims can be made except through a revised return. The company argued that it is only a statement and should be considered for correct assessment.

In light of judicial precedent, examine whether the AO's action is correct. Also discuss whether any other remedy is available to the assessee.

- (iii) During a search operation under Section 132 conducted in April 2024, the Income Tax Department found evidence of unaccounted loans in the books of Mr. Y, a prominent businessman. No immediate tax, penalty, or interest liability was determined on the seized documents, as the assessment was pending. However, the Department initiated prosecution under Section 276C(1) for "attempt to evade tax" based solely on the discovery of these unaccounted transactions.

With reference to judicial precedent, examine whether such prosecution is legally sustainable in the absence of a concluded tax liability.

**(8 Marks)**

- (b) Under which action plan of BEPS does Hybrid Mismatch arrangements fall under? What are the ways in which hybrid mismatch arrangements are used to achieve unintended double non-taxation or long-term tax deferral?

**(3 Marks)**

- (c) "In addition to allocating the taxing rights and elimination of double taxation, there are various other important considerations while entering into a tax treaty" Elucidate.

**(3 Marks)**

### Question 6

- (a) (i) Ritvika Textiles Ltd., engaged in textile manufacturing, has followed the FIFO method for valuing closing stock for many years. For A.Y. 2024–25, it shifted to the weighted average method due to fluctuations in input prices, but did not disclose this change in the tax audit report. Additionally, the company excluded GST paid on purchase of inputs while valuing its closing stock, arguing that it is eligible for full input tax credit.

As the tax auditor, explain your responsibilities under Clause 14 of Form 3CD in reporting the above changes. Also state whether Ritvika Ltd.'s treatment complies with Section 145A.

- (ii) Arunodaya Engineers Pvt. Ltd., a closely held company, has made payments towards purchase of machinery parts worth ₹45 lakhs during the financial year 2023–24 to Ankur Enterprises, a proprietorship concern owned by the managing director's brother. The payments were made at rates 20% higher than similar purchases from unrelated vendors. No specific disclosure was made in the tax audit report regarding this transaction under Clause 23.

As the tax auditor, what are your responsibilities in relation to this transaction under Clause 23? Is disclosure mandatory even if the transaction is deemed reasonable by the assessee?

- (iii) Shree Ganesh Traders, a proprietorship firm, reported total sales of ₹9.6 crores for the P.Y. 2023–24. During the year, it received ₹48 lakhs in cash from customers and made cash payments amounting to ₹30 lakhs, including payments for purchases and expenses.

Examine whether the provisions of Section 44AB requiring tax audit are applicable in this case, based on the thresholds and conditions prescribed.

**(6 Marks)**

- (b) **Zerovia Pvt. Ltd.**, engaged in the manufacturing of precision medical equipment, structured a transaction wherein it sold its entire finished goods inventory at a significantly reduced price to an unrelated offshore entity based in a low-tax jurisdiction. Within 20 days, the offshore entity resold the same goods at market price to Zerovia's regular customers, with no added value. The offshore entity had negligible infrastructure and employed only one local nominee director.

Zerovia claimed this was a legitimate tax planning measure aimed at expanding global reach and managing logistical costs. However, the Assessing Officer proposed to invoke GAAR provisions under Chapter X-A of the Income-tax Act, alleging that this structure was a colourable device for tax avoidance.

**Discuss**, with reasons, whether the arrangement constitutes **tax planning**, **tax avoidance**, or **tax evasion**, and the appropriateness of the Assessing Officer's stand.

**(4 Marks)**

- (c) Mr. Rohan received an assessment order under section 143(3) dated 3rd February 2025, demanding additional tax of ₹3,50,000 plus interest, to be paid within 30 days. He paid the full amount on 15th March 2025 but simultaneously filed an appeal against the assessment order on 18th March 2025. Later, on 5th April 2025, he decided to apply for immunity from penalty under section 270AA, arguing that he had paid the tax and interest in time.

Is Mr. Rohan eligible to claim immunity from penalty and prosecution under section 270AA? Also state the period of rigorous imprisonment for wilful attempt to evade payment of tax, penalty or interest.

**(4 Marks)**

