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**CA FINAL (Nov 2024)**  
**GROUP II - PAPER 4**  
**DIRECT TAX LAWS & INTERNATIONAL TAXATION**  
**(Series 2)**

**Time Allowed: - 3 Hours**

**Maximum Marks: 100**

**This question paper comprises two parts, Part I and Part II.**  
**Part I comprises MCQ & Part II comprises questions which require descriptive answers.**  
**All questions relate to A.Y. 2024-25 unless stated otherwise in the question.**

**PART - I (MCQs)**  
**All MCQs are compulsory**

**Question no. 1-15 carry 2 marks each**

***This Case Scenario contains MCQ 1-5***

The following are the details about Alpha Co-operative society (referred to as Alpha Co-op), Beta Co-operative Society (referred to as Beta Co-op) and Gamma Co-operative Bank (referred to as Gamma Co-op) for the P.Y.2023-24 -

Alpha Co-op is engaged in providing credit facilities solely to its members, the profits and gains from which is ₹ 20 lakhs (computed) for the P.Y.2023-24. Alpha Co-op also derives interest of ₹ 3 lakhs from investments in Delta Co-operative Society.

Beta Co-op is engaged in marketing of agricultural produce grown by its members, the profits and gains from which is ₹ 40 lakhs (computed) for the P.Y.2023-24. It has employed 8 new employees with salary of ₹ 22,000 p.m. on 1.6.2023. Salary is paid by ECS through bank account. It gets its books of accounts audited under section 44AB. It also earns interest of ₹ 12 lakhs on fixed deposits with Axis Bank and ICICI Bank.

Gamma Co-op is engaged in banking business in Bangalore, the profits and gains from which is ₹ 110 lakhs (computed) for the P.Y.2023-24. It also gets its books of account audited under section 44AB. It is not a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

**On the basis of the facts given above, choose the most appropriate answer below, based on the provisions of the Income-tax Act, 1961 -**

- 1. Would Alpha Co-op and Gamma Co-op be entitled to deduction under section 80P for A.Y.2024-25, if they do not opt for section 115BAD?**
  - (a) Alpha Co-op is entitled to deduction u/s 80P only in respect of interest of ₹ 3 lakhs and not in respect of profits and gains of ₹ 20 lakhs. Gamma Co-op is not entitled to deduction u/s 80P.
  - (b) Alpha Co-op is entitled to deduction u/s 80P only in respect of profits and gains of ₹ 20 lakhs and not in respect of interest of ₹ 3 lakhs. Gamma Co-op is entitled to deduction

u/s 80P in respect of profits and gains of ₹ 110 lakhs.

(c) Alpha Co-op is entitled to deduction u/s 80P both in respect of profits and gains of ₹ 20 lakhs and interest of ₹ 3 lakhs. Gamma Co-op is entitled to deduction u/s 80P in respect of profits and gains of ₹ 110 lakhs

(d) Alpha Co-op is entitled to deduction u/s 80P both in respect of profits and gains of ₹ 20 lakhs and interest of ₹ 3 lakhs. Gamma Co-op is not entitled to deduction u/s 80P.

**2. Would the provisions of alternate minimum tax (AMT) be attracted in case of Alpha Co-op, Beta Co-op and Gamma Co-op for A.Y.2024-25, if they do not opt for section 115BAD?**

(a) Yes, the AMT provisions would be attracted in case of Alpha Co-op, Beta Co-op and Gamma Co-op

(b) The AMT provisions would be attracted only in case of Alpha Co-op and Gamma Co-op

(c) The AMT provisions would be attracted only in case of Alpha Co-op and Beta Co-op

(d) The AMT provisions would be attracted only in case of Beta Co-op.

**3. What would be the tax liability (rounded off) of Beta Co-op for A.Y.2024-25, if it opts for section 115BAD? It may be assumed that the gross total income is the same under the normal provisions of the Act and section 115BAD.**

(a) ₹ 1,69,130

(b) ₹ 3,02,020

(c) ₹ 10,68,950

(d) ₹ 11,75,850.

**4. What would be the tax liability (rounded off) of Beta Co-op for A.Y.2024-25, if it does not opt for section 115BAD? AMT provisions, if applicable, have to be considered.**

(a) ₹ 1,87,200

(b) ₹ 2,06,540

(c) ₹ 2,30,880

(d) ₹ 8,11,200

**5. Would it be beneficial for Alpha Co-op, Beta Co-op and Gamma Co-op to opt for section 115BAD for A.Y.2024-25? It may be assumed that the gross total income is the same under the normal provisions of the Act and section 115BAD in all cases.**

(a) It would be beneficial for Alpha Co-op and Gamma Co-op to opt for section 115BAD, but not for Beta Co-op.

(b) It would not be beneficial for Alpha Co-op, Beta Co-op and Gamma Co-op to opt for section 115BAD

(c) It would be beneficial for Alpha Co-op to opt for section 115BAD, but not for Beta Co-op and Gamma Co-op.

(d) It would be beneficial for Gamma Co-op to opt for section 115BAD, but not for Alpha Co-op and Beta Co-op.

***This Case Scenario contains MCQ 6-11***

The Assessing Officer, with prior approval of Chief Commissioner of Income-tax, surveyed the

business premises of A Ltd., which was within his jurisdiction, at 9 p.m. on 1.6.2023 for the purpose of obtaining information which may be relevant to the proceedings under the Income-tax Act, 1961. The survey operations continued till 11 p.m. On 15.6.2023, the Assessing Officer entered the business premises of B Ltd. which was also within his jurisdiction at 8.30 p.m. for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961 and left the premises at 9.30 p.m. The business premises of A Ltd. is kept open for business every day between 10 a.m. and 10 p.m. and the business premises of B Ltd. is kept open for business every day between 9.30 a.m. to 9.30 p.m.

In both the above cases, the Assessing Officer impounded and retained in his custody for a period of 12 days (inclusive of holidays), books of account and other documents inspected by him, after recording reasons for doing so. The Assessing Officer, however, did not take specific permission from the Chief Commissioner for this action.

In July, 2023, the business premises of C Ltd. was searched after following the due procedure laid down under section 132, consequent to which the Assessing Officer has in his possession certain documents showing information pertaining to shares of value ₹ 28 lakhs purchased in the P.Y.2017-18 and shares of value of ₹ 21 lakhs purchased in the P.Y.2018-19.

**On the basis of the facts given above, choose the most appropriate answer below, based on the provisions of the Income-tax Act, 1961 –**

- 6. Is the action of the Assessing Officer in entering the business premises of A Ltd. at 9 p.m. and continuing survey operations till 11 p.m. valid? Also, is the action of the Assessing officer in entering the business premises of B Ltd. at 8.30 p.m. valid?**
- (a) Yes, the action of the Assessing Officer, in both cases, is valid.
  - (b) No, the action is not valid in both cases, as the Assessing Officer cannot enter the premises of A Ltd. and B Ltd. after sunset.
  - (c) No, the action is not valid in the case of A Ltd., as the survey operations continued beyond business hours. However, the action of the Assessing officer in the case of B Ltd. is valid.
  - (d) The action of the Assessing Officer is valid in the case of A Ltd. but not in the case of B Ltd.
- 7. Is the action of the Assessing Officer in impounding and retaining books of account and other documents of A Ltd. and B Ltd., after recording reasons for doing so, valid, where he had not taken specific permission from the Chief Commissioner for this action?**
- (a) No, the action of the Assessing Officer is not valid in the case of both A Ltd. and B Ltd.
  - (b) Yes, the action of the Assessing Officer is valid in the case of both A Ltd. and B Ltd.
  - (c) The action of the Assessing Officer is valid in the case of A Ltd. but not in the case of B Ltd.
  - (d) The action of the Assessing Officer is valid in the case of B Ltd. but not in case of A Ltd.
- 8. Can the Assessing Officer issue notice u/s 148 to A Ltd. in August, 2023, in respect of A.Y.2020-21, A.Y.2021-22 and A.Y.2022-23, consequent to survey conducted in the business premises of A Ltd?**
- (a) No, since the survey conducted is itself not valid
  - (b) Yes, he can do so; compliances stipulated u/s 148A are not necessary.
  - (c) Yes, he can do so, after following the compliances stipulated u/s 148A.
  - (d) Yes, he can do so with the prior approval of the specified authority u/s 151; other

compliances stipulated u/s 148A are not necessary.

9. **Would the action of the Assessing Officer in entering the premises of A Ltd. at 9 p.m. and impounding and retaining books of account been valid if he had surveyed A Ltd. only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?**
- (a) Yes, the action of the Assessing Officer in entering the premises and impounding and retaining books of account would be valid.
  - (b) No, the action of the Assessing Officer in entering the premises at 9 p.m. and impounding and retaining books of account is not valid.
  - (c) The action of the Assessing Officer in entering the premises at 9 p.m. is valid but not the action of impounding and retaining books of account.
  - (d) The action of the Assessing Officer in entering the premises at 9 p.m. is valid but not the action of continuing the survey beyond 10 p.m.
10. **Can the Assessing Officer issue notice u/s 148 for bringing to tax income escaping assessment in the case of C Ltd., without following the compliances stipulated u/s 148A?**
- (a) Yes, he can do so with the prior approval of the specified authority u/s 151.
  - (b) No, he can do so only after following the compliances stipulated u/s 148A.
  - (c) No, he cannot issue notice u/s 148, since the three-year time limit from the end of the relevant assessment years has expired.
  - (d) No, he cannot issue notice, since “shares” do not fall within the meaning of asset for invoking the extended time limit beyond three years.
11. **Can the Assessing Officer issue notice under section 148 for bringing to tax income escaping assessment in case of C Ltd., without following the compliances stipulated u/s 148A, if the shares purchased in the P.Y.2017-18 were of ₹ 30 lakhs instead of ₹ 28 lakhs, all other facts remaining the same?**
- (a) Yes, he can do so, with the prior approval of the specified authority u/s 151
  - (b) No, he can do so only after following the compliances stipulated u/s 148A.
  - (c) No, he cannot issue notice u/s 148, since the three-year time limit from the end of the relevant assessment years has expired.
  - (d) No, he cannot issue notice, since “shares” do not fall within the meaning of asset for invoking the extended time limit beyond three years.

***This Case Scenario contains MCQ 12-15***

A business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the P.Y. 2023-24:

- (i) Interest income from Z Ltd. – ₹ 10 lakh;
- (ii) Dividend income from Z Ltd. – ₹ 5 lakh;
- (iii) Short-term capital gains on sale of listed shares (STT paid both at the time of purchase and sale) of Indian companies – ₹ 4 lakh;
- (iv) Short-term capital gains on sale of developmental properties – ₹ 8 lakh
- (v) Interest received from investments in unlisted debentures of real estate companies – ₹ 1 lakh;
- (vi) Rental income from directly owned real estate assets – ₹ 20 lakh

Z Ltd. is an Indian company in which the business trust holds 100% of the shareholding. Z Ltd. does not opt to pay tax under section 115BAA.

Assume that the business trust has distributed the entire ₹ 48 lakh to the unit holders in the P.Y. 2023-24 in the month of March, 2024. Mr. X is a resident holder holding 100 units and Mr. Y is a non-resident holder holding 500 units. The total number of units subscribed to by all unit holders is 5,000.

**From the information given above, choose the most appropriate answer to the following questions -**

**12. In respect of the component of interest income from Z Ltd. distributed by the business trust to unit-holders X and Y -**

- (a) No tax is deductible by the business trust, since such income is not taxable in the hands of unit holders
- (b) Tax is deductible@5% on ₹ 20,000 distributed to Mr. X and @5.2% on ₹ 1 lakh distributed to Mr. Y
- (c) Tax is deductible@10% on ₹ 20,000 distributed to Mr. X and @5.2% on ₹ 1 lakh distributed to Mr. Y
- (d) Tax is deductible@10% on ₹ 20,000 distributed to Mr. X and 10.4% on ₹ 1 lakh distributed to Mr. Y

**13. In respect of short-term capital gains of ₹ 4 lakh on sale of listed shares of Indian companies and ₹ 8 lakh on sale of developmental properties -**

- (a) The business trust is liable to pay tax@15.6% and 34.944%, respectively
- (b) The business trust is liable to pay tax@42.744%
- (c) The business trust enjoys pass through status and hence, it need not pay any tax on such short-term capital gains; such income is subject to tax in the hands of unit-holders
- (d) The business trust is liable to pay tax@15.6% and 42.744%, respectively

**14. The dividend component of income from Z Ltd., distributed to unit-holders X and Y -**

- (a) would be subject to distribution tax in the hands of Z Ltd., hence exempt in the hands of the business trust and the unit holders
- (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of the unit holders X and Y
- (c) is taxable in the hands of the business trust; hence, exempt in the hands of the unit holders
- (d) is exempt in the hands of the business trust and in the hands of the unit holders

**15. If Z Ltd. exercises option under section 115BAA, then, the dividend component of income from Z Ltd., distributed to unit-holders X and Y-**

- (a) would be subject to distribution tax in the hands of Z Ltd., hence exempt in the hands of the business trust and the unit holders
- (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of X and Y
- (c) is taxable in the hands of the business trust; hence, exempt in the hands of the X and Y
- (d) is exempt in the hands of the business trust and in the hands of the unit holders X and Y

## PART - II (Descriptive Answers)

**This part comprises 6 questions. Question No. 1 is compulsory. Attempt any 4 questions out of the remaining 5 questions.**

- 1 MP Ltd. is engaged in the manufacture of textile since 01.05.2014. Its Statement of Profit and Loss for the financial year ended 31<sup>st</sup> March, 2024 shows a profit of ₹ 560 lakhs after debiting or crediting the followings items: 14
- (a) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 52 lakhs.
- (b) Industrial power tariff concession of ₹ 5.40 lakhs, received from Madhya Pradesh Government was credited to Statement of Profit and Loss.
- (c) Contribution of ₹ 2.50 lakhs to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
- (d) Profit of ₹ 8 lakhs on sale of a plot of land to AVM Limited, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by MP Ltd. on 30<sup>th</sup> June, 2022.
- (e) Payment of ₹ 3.50 lakhs towards transportation of various materials procured by one of its units to M/s Bansal Transport, a partnership firm, without deduction of tax at source. The firm opts for presumptive taxation under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.
- (f) Bonus paid to staff includes an amount of ₹ 1.50 lakhs which was provided for in the books on 31.03.2023 but has been paid in August 2023.
- (g) Interest of 15 lakhs paid on loans taken specifically for purchase of plant and machinery. Out of this ₹ 5 lakh is for upto the period till such machinery was commissioned.
- (h) A debtor who owed the company an amount of ₹ 20 lakhs was declared insolvent and hence, was written off by debiting the Statement of Profit and Loss.
- (i) ₹ 5 lakhs, being the additional compensation received from the State Government pursuant to an interim order of Court in respect of land acquired by the State Government in the previous year 2020-21.
- (j) In order to expand its overseas business, the company planned online advertisement campaign for which it engaged Fastex Inc., a London based company not having any PE in India, and paid ₹ 5 lakhs for services availed. No tax/TDS was deducted by the company.
- (k) ₹ 2 lakhs paid to consultant for expert opinion on new business set-up.
- Additional Information:**
- (i) Normal depreciation computed as per Income-tax Rules on the book assets is ₹ 71 lakhs.
- (ii) Debenture of face value of 1500 lakhs having 5 years tenure were issued at a discount of 3% and were subscribed in full.
- (iii) The company received a bill for ₹ 3 lakhs on 31<sup>st</sup> March, 2024 from a

supplier of cotton for supply made in March, 2024. The bill was omitted to be recorded in the books in March, 2024. Payment against the bill was made in April, 2024 and necessary entry was made in the books then. The same has been considered in closing inventory valuation during physical verification conducted on 31.03.2024.

- (iv) The company has purchased 1000 bales of cotton at ₹ 5,000 per bale from Enpee LLP, a firm in which majority of the directors are partners. The normal selling price in the market for the same material is ₹ 4,600 per bale.

Compute total business income of the company for A.Y. 2024-25 giving a brief explanation to each item of addition or deletion. Ignore MAT provisions and the provisions of section 115BAA.

- 2 (a) Godavari Ltd., an Indian Company engaged in manufacture and sale of electrical appliances in India and abroad, started adoption of Ind AS w.e.f. 1<sup>st</sup> April, 2022. The following particulars are furnished for the year ended 31<sup>st</sup> March, 2024:

8

- (a) The book profit after adjustment of all items specified in section 115JB(2) amounted to ₹ 87.34 lakhs (except the adjustment for brought forward losses/unabsorbed depreciation), for the year ended 31.3.2024.
- (b) Brought forward losses as per books are as under: (₹ In lakhs)

Financial Year	Business loss	Depreciation
2021-22	8.20	7.60
2022-23	7.30	9.50

- (c) The particulars of "Other Comprehensive Income" for the year ended 31.03.2024: (₹ In lakhs)

Other Comprehensive Income (OCI) that will not be re-classified to profit and loss:		Debit	Credit
(i)	Deferred costs of hedging	3.80	
(ii)	Changes in fair values of equity instruments	8.00	
(iii)	Revaluation surplus for assets		8.20
(iv)	Deferred gains on cash flow hedges		6.70
(v)	Re-measurement of post-employment benefit obligations		5.20
(vi)	Share of other comprehensive income of other associates		2.80
Other Comprehensive Income (OCI) that may be re-classified to profit and loss:		Debit	Credit
(i)	Deferred gains on cash flow hedges		8.20
(ii)	Comprehensive income from discontinued operations		5.30
(iii)	Exchange Differences of foreign exchange operations	1.80	
(iv)	Deferred costs of hedging	0.80	

- (d) The transition amount as on convergence date (01.04.2022) stood at ₹ 48 lakhs (credit balance) including capital reserve of ₹ 6 lakhs and adjustment of ₹ 5 lakhs relating to translation difference in a foreign operation.
- (e) The National Company Law Tribunal (NCLT), Mumbai Bench has admitted an application under section 7 of Insolvency and Bankruptcy Code, 2016 (IBC) made by financial creditor against company for initiation of Corporate Insolvency Resolution Process on 30<sup>th</sup> March, 2024.

You are required to compute the MAT liability for the assessment year 2024-25, applying the provisions relating to Ind AS compliant companies. Assuming that the income tax under normal provisions of Income-tax Act, 1961 for the assessment year 2024-25 works out to ₹ 10.20 lakhs, compute the tax credit, if any, to be carried forward by the company.

- 2 (b) Smt. Laxmi (age 70), a resident individual furnishes you the following particulars: 6

Particulars	₹
Income from business in India (computed)	6,00,000
Loss from let out property at Chennai	4,40,000
Dividend income from a domestic company	2,00,000
Business income in country "B" (tax paid thereon at 20%)	4,00,000
Rental income from property at Mumbai (computed)	1,80,000

**Note:** Assume that there is no double taxation avoidance agreement between India and country "B" and she does not opt for the provisions of section 115BAC.

Compute the total income and tax payable by Smt. Laxmi for the A.Y.2024-25.

- 3 (a) Ramnarayan Foundation Trust was formed on 01.04.2009. It applied for registration u/s. 12AA of the Act and got the registration approved from prescribed authority with effect from 01.04.2013. The trust got the exemption from payment of taxes satisfying the conditions laid down in Sections 11 to 13 from 01.04.2013. The trust got dissolved on 29.12.2023. 8

The Balance Sheet of the Trust on the date of dissolution was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Corpus of the trust	6,00,000	Land and Building	12,00,000
Reserves (created out of accumulated amount of 15% each year)	3,00,000	Investment in Equity Shares - Quoted	4,00,000
Loan taken for purchase of Land and Building	9,00,000	Investment in Equity Shares - Unquoted (in Z Ltd.)	1,50,000
Loan taken for the purchase of unquoted shares (taken in year 2010-11)	1,00,000	Cash	1,00,000
		Bank Balance	50,000
<b>Total</b>	<b>19,00,000</b>	<b>Total</b>	<b>19,00,000</b>

**Additional information:**

- (i) FMV of Land and Building is ₹ 50,00,000.
- (ii) Land and Building of ₹ 3,00,000 is acquired out of agricultural income.
- (iii) Market Value of quoted shares on the date of dissolution is ₹ 18,00,000.
- (iv) 50% of the Unquoted shares were acquired during the year 2010-11.
- (v) With respect to Z Ltd. in which the trust invested in unquoted shares, the following additional information was available as on 29.12.2023:
  - (a) 1,00,000 Equity Shares with face value of ₹ 10 each
  - (b) Total Book Value of the assets (other than bullion, jewellery) is ₹ 60,00,000.
  - (c) Market Value of bullion and jewellery is ₹ 30,00,000.
  - (d) Liabilities amounting to ₹ 35,00,000.
- (vi) The trust distributed the assets on dissolution, valuing ₹ 8,00,000 to another trust registered u/s 12AB of the Act before 31.12.2024.

Compute the tax payable by Ramnarayan Foundation Trust u/s 115TD.

**3 (b)** State with reasons whether the following income of the non-resident is deemed to accrue or arise in India: **6**

- (1) M/s XYZ Highway Ltd, a resident Indian company is engaged in the business of building highway projects in India. It has borrowed US \$ 250 million from a financial institution resident in US to invest in one of its ongoing projects in India. The rate of interest charged is 8% p.a. Assume 1 US\$ = ₹ 69.

Will your answer differ in case the money is invested in one of its ongoing projects in Sri Lanka?

- (2) Mr. A, a non-resident, staying in England, holds 10% of the total share capital in M/s ABC Ltd. a company incorporated in England. M/s ABC Ltd. directly owns assets in India. Mr. A has transferred his entire share capital to Mr. B an Indian resident when he was in England.

**4 (a)** Discuss the liability of TDS provisions in the following independent cases: **8**

- (i) Mr. Shan, an individual, whose turnover from the business carried on by him during the financial year immediately preceding the financial year exceed ₹ 100 lakh, paid fee to an architect of ₹ 50,000 for furnishing his residential house.
- (ii) Mr. Soham purchased licensed copy of computer software from the software vendor (resident of India) along with all right to use it for ₹ 50,000 to be used for business purposes.
- (iii) M/s. Sunivesh Investors is engaged in the business of stock broking, depositories, mobilisation of deposits and marketing of public issues. It is a registered member of Bombay Stock Exchange. Every year it makes payment amounting to ₹ 10 lakhs, to Stock Exchange by way of transaction charges in respect of fully automated online trading facility. This service is

available to all members of stock exchange in respect of every transaction that is entered into. Would it be liable for tax deduction u/s 194J?

- (iv) Maha Bank Ltd accepted fixed deposits of ₹ 20 crores in the name of Registrar General of the High Court and issued a fixed deposit receipt in compliance with a direction passed by court in relation to certain proceedings. The Bank did not deduct tax on the interest accrued. The Assessing Officer issued a notice to the bank to show cause as to why it should not be treated as an assessee in default under sections 201(1) and 201(1A) for not deducting tax at source on interest accrued. Examine whether the bank is correct in not deducting tax on interest accrued.

**4 (b)** Shahi Pvt. Ltd., a domestic company, located in Special Economic Zone (SEZ) since November 2014. The company is engaged in manufacturing of consumables goods. The manufacturing is wholly dependent on raw material which is imported from Sumi Inc. of Japan. The following details are furnished for F.Y. 2023-24:

**6**

- (I) Shahi Pvt. Ltd. imported goods for ₹ 30 crores from Sumi Inc.  
(II) Sumi Inc. supplied similar raw materials to unrelated parties with a mark-up of 10% on cost, whereas for Shahi Pvt. Ltd. it earned a mark-up of 20% on cost.  
(III) Shahi Pvt. Ltd. was allowed to use the brand name of Sumi Inc. without any payment and whereas the unrelated parties cannot use such brand name in India. The annual cost of brand value is ₹ 90 lakhs.  
(IV) The Assessing Officer referred the matter to the Transfer Pricing Officer (TPO) for determination of Arm's Length Price (ALP).

You are required to answer the following:

- (i) Compute the arm's length price of the transaction and adjustments to be made to the income of Shahi Pvt. Ltd while discussing relevant provisions.  
(ii) If Transfer Pricing Officer (TPO) had enhanced the income of Shahi Pvt. Ltd. by ₹ 2 crores, will that enhanced amount of income be eligible for deduction u/s 10AA?  
(iii) Will Shahi Pvt. Ltd. become liable for penalty for under-reporting of income based on the report of the Transfer Pricing Officer (TPO)?

**5 (a)** (i) Anustup Chandra Textiles Ltd., had borrowed a sum of ₹ 2 crores from a bank during the period when its business was being set up. From the surplus funds, it made short-term deposits and earned interest of ₹ 3 lakhs. The assessee claimed that it was not a revenue receipt but a capital receipt, since the interest was earned prior to commencement of business and in any case, the interest received would be offset by the interest paid on the loan borrowed. The Assessing officer negative the claim of the assessee.

**8**

Is the AO justified in his action?

- (ii) Ghosh Group of Educational Institutions||, running three famous colleges in Kolkata, claimed exemptions under section 10(23C). In all these three

colleges, there is a net surplus after meeting all its expenses. The Assessing Officer (AO) rejected the claim for exemption on the ground that the presence of net surplus leads to the inference that the assessee-institution does not exist solely for educational purposes.

Is the rejection of the AO justified in law?

- 5 (b)** M/s. Raghuram Co. Ltd., Mumbai entered into the following agreements with various non-resident entities during the year: **6**
- (i) Paid ₹ 4,00,000 to M/s. Neil Inc., a company based in USA for online advertisement of its products. M/s. Neil Inc., does not have a PE in India.
  - (ii) Paid ₹ 50,000 to Mr. David, a non-resident individual, against providing digital space for online advertisement of its products.
- Examine the equalisation levy implications of such payments. Also, state the consequence of non-deduction of equalisation levy.
- 6 (a)** Aditya Co. Ltd. is engaged in manufacturing activity. The machineries owned by it have become old and obsolete. The company wants to know whether to replace machineries by borrowing loan (or) buy the finished goods from open market and sell in its brand name. Relevant details are as under: **6**
- Cost of machinery if acquired ₹ 500 lakhs. The company has own funds of ₹ 200 lakhs and would borrow ₹ 300 lakhs from bank@9% per annum interest to buy the machinery. The sales would be ₹ 2500 lakhs with net profit of 15% before tax.
- In case, the assessee decided to buy and sell the goods, the margin of profit would be 5%. The funds so retained would earn interest income of 9% per annum.
- Note: Ignore other commercial considerations and GST input tax credit. Assume tax rate @30% (ignore Surcharge and Cess).
- Advise the company suitably supporting your views.
- 6 (b)** "NEPTUNE" is a shipliner, used in carrying passengers and cargo, owned by M/s Thomas & Thomas of U.K. The ship carried the passengers and cargo in June, 2023 from Singapore to Chennai and vice versa and collected charges thereof amounting to ₹ 200 lacs. It left Chennai port on 15.6.2023 for its journey to Korea. No other journey to India was undertaken by any of the vessels of the company during the year ended on 31.3.2024. The non-resident company had authorized its Indian agent to comply with the income tax provisions. **4**
- You are consulted by the company to explain about the procedure as to return of income to be filed and the period within which the assessment thereof will be completed by the Assessing Officer.
- 6 (c)** Explain the expression "Round Trip Financing" in relation to Impermissible Avoidance Agreement (IAA). **4**