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

**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**

LPG, a partnership firm, is engaged in the business of manufacturing of garments. It furnishes you the following data for the year ended 31.3.2024.

**Profit & Loss Account**

Particulars	₹	Particulars	₹
Expenses	2,36,00,000	Gross Turnover	2,55,00,000
Interest to partners (including ₹ 1,20,000 paid to Gopal for loan given by Gopal HUF)	5,40,000		
Salary to Partners:			
Jay (₹ 30,000 p.m.)			
Gopal (₹ 28,000 p.m.)			
Madhav (₹ 16,000 p.m.)	8,88,000		
Net Profit	4,72,000		
	<b>2,55,00,000</b>		<b>2,55,00,000</b>

Other Information:

- The partners share profits and losses equally.
- During the P.Y. 2022-23, the firm had incurred a business loss of ₹ 3,00,000 and unabsorbed depreciation of ₹ 1,50,000.
- On 01.04.2023, Mr. Jayesh, a partner died and his legal heir Mr. Jay got admitted on same date. Another partner, Mr. Raj, also retired on the same date.
- Mr. Madhav is not actively engaged in conducting the affairs of the business of the firm while Mr. Jay and Mr. Gopal are actively engaged in conducting the affairs of the business.
- Interest@16% p.a. for the first time on partner's capital was paid from 01.07.2023. The clause for the same was, however, entered in the partnership deed on 01.01.2024. Salary paid to partners is authorized by the partnership deed since inception.

- Mr. Gopal relinquished his title in a land in the name of LPG for a consideration of ₹ 18 lakhs, which was duly recorded in the books of accounts of LPG on 31.10.2022. The stamp duty value of the land on that date was ₹ 20 lakhs.

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

- How much interest can the firm claim as deduction for A.Y. 2024-25?**
  - ₹ 5,40,000
  - ₹ 4,35,000
  - ₹ 2,25,000
  - ₹ 1,05,000
- How much salary can the firm claim as deduction for A.Y.2024-25?**
  - ₹ 10,05,000
  - ₹ 8,88,000
  - ₹ 8,70,000
  - ₹ 6,96,000
- The business loss and unabsorbed depreciation allowed to be set off while computing total income of the firm for A.Y.2024-25 are -**
  - ₹ 3,00,000 and ₹ 1,50,000, respectively
  - ₹ 2,25,000 and ₹ 1,50,000, respectively
  - ₹ 1,50,000 and ₹ 1,12,500, respectively
  - ₹ 2,25,000 and ₹ 1,12,500, respectively
- What would be the total income of the firm for A.Y.2024-25?**
  - ₹ 6,30,250
  - ₹ 4,12,000
  - ₹ 6,04,000
  - ₹ 5,29,000
- What would be the capital gains in the hands of LPG assuming that the land acquired from Gopal was sold on 28.02.2024 for ₹ 25 lakhs to Mr. Jack, fair market value and stamp duty value on the date of transfer being ₹ 30 lakhs and ₹ 28 lakhs, respectively?**
  - ₹ 10,00,000
  - ₹ 12,00,000
  - ₹ 8,00,000
  - ₹ 7,00,000

**This Case Scenario contains MCQ 6-10**

M/s. MNO is a firm liable to tax@30%. The following are the particulars furnished by the firm:

	Particulars of total income	₹
(1)	As per the return of income furnished u/s 139(1)	40,00,000
(2)	Determined under section 143(1)(a)	50,00,000
(3)	Assessed under section 143(3)	65,00,000
(4)	Reassessed under section 147	85,00,000

Mr. N, a resident individual of the age of 58 years and a partner of the above firm, has not furnished

his return of income for A.Y.2024-25. However, his total income assessed in respect of such year under section 144 is ₹ 15 lakh. (Ignore Section 115BAC)

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

6. **M/s. MNO is deemed to have under-reported its income since its:**

- (1) **income determined u/s 143(1)(a) exceeds its income declared as per return of income furnished u/s 139(1)**
- (2) **income assessed u/s 143(3) exceeds its income determined u/s 143(1)(a)**
- (3) **income reassessed u/s 147 exceeds its income assessed u/s 143(3)**

**The correct answer is -**

- (a) (1) and (2) above
- (b) (1) and (3) above
- (c) (2) and (3) above
- (d) (1), (2) and (3) above

7. **Mr. N is deemed to have under-reported his income since:**

- (1) **He is a partner of a firm which has under-reported its income**
- (2) **He has not filed his return of income**
- (3) **His assessed income exceeds the maximum amount not chargeable to tax**

**The correct answer is -**

- (a) (1) and (2) above
- (b) (1) and (3) above
- (c) (2) and (3) above
- (d) (1), (2) and (3) above

8. **Assuming that the underreporting of income is not on account of misreporting and none of the additions or disallowances made in assessment qualifies u/s 270A(6), penalty leviable on M/s. MNO u/s 270A at the time of assessment would be:**

- (a) ₹ 3,12,000
- (b) ₹ 1,56,000
- (c) ₹ 4,68,000
- (d) ₹ 2,34,000

9. **Assuming that the underreporting of income is on account of misreporting, penalty leviable on M/s. MNO under section 270A at the time of reassessment would be:**

- (a) ₹ 3,12,000
- (b) ₹ 2,34,000
- (c) ₹ 12,48,000
- (d) ₹ 6,24,000

10. **Assuming that the under-reporting of income is not on account of misreporting, the under-reported income of Mr. N and penalty leviable on Mr. N u/s 270A would be:**

- (a) Under-reported income ₹ 15,00,000; penalty ₹ 2,34,000
- (b) Under-reported income ₹ 12,50,000; penalty ₹ 97,500
- (c) Under-reported income ₹ 15,00,000; penalty ₹ 1,36,500
- (d) Under-reported income ₹ 12,50,000; penalty ₹ 1,36,500

**The following scenario relates to questions 11-15**

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 100 lakh on 1.1.2024, when the stamp duty value was ₹ 120 lakh. The agreement was, however, entered into on 1.9.2023 when the stamp duty value was ₹ 110 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by NEFT from Mr. Rajesh on the date of agreement. Mr. Hari has purchased the building for ₹ 50 lakh on 12.7.2022.

Mr. Hari's brother, Mr. Ravi, a retail trader, sold a residential house to Mr. Vallish, a wholesale trader for ₹ 50 lakh on 1.2.2024, when the stamp duty value was ₹ 70 lakh. The agreement was, however, entered into on 1.8.2023 when the stamp duty value was ₹ 55 lakh. Mr. Ravi had received a down payment of ₹ 5 lakh by a crossed cheque from Mr. Vallish on the date of agreement. Mr. Ravi has purchased the building for ₹ 32 lakh on 17.8.2022.

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

- 11. What is the amount of income chargeable to tax in the hands of Mr. Hari in respect of the transaction of sale of building to Mr. Rajesh and under which head is it taxable?**
- (a) ₹ 70 lakh is taxable as his business income
  - (b) ₹ 60 lakh is taxable as his business income
  - (c) ₹ 50 lakh is taxable as his business income
  - (d) ₹ 50 lakh is taxable as short-term capital gains
- 12. Is any amount taxable in the hands of Mr. Rajesh in respect of the above transaction? If so, what is the amount and under which head is it taxable?**
- (a) No amount is taxable in the hands of Mr. Rajesh
  - (b) ₹ 20 lakh is taxable under the head "Income from Other Sources"
  - (c) ₹ 10 lakh is taxable under the head "Income from Other Sources"
  - (d) ₹ 10 lakh is taxable as his business income
- 13. What is the amount of income chargeable to tax in the hands of Mr. Ravi in respect of the transaction of sale of residential house to Mr. Vallish and under which head is it taxable?**
- (a) ₹ 18 lakh is taxable as short-term capital gains
  - (b) ₹ 23 lakh is taxable as short-term capital gains
  - (c) ₹ 38 lakh is taxable as short-term capital gains
  - (d) ₹ 18 lakh is taxable as his business income
- 14. Is any amount taxable in the hands of Mr. Vallish in respect of the above transaction? If so, what is the amount and under which head is it taxable?**
- (a) No amount is taxable in the hands of Mr. Vallish
  - (b) ₹ 20 lakh is taxable under the head "Income from Other Sources"
  - (c) ₹ 5 lakh is taxable under the head "Income from Other Sources"
  - (d) ₹ 5 lakh is taxable as his business income
- 15. Is tax deductible by Mr. Rajesh and Mr. Vallish on making payment to the seller?**
- (a) Yes, tax is deductible at source by both Mr. Rajesh and Mr. Vallish
  - (b) No, tax is not deductible at source by either Mr. Rajesh or Mr. Vallish
  - (c) Tax is deductible at source by Mr. Rajesh but not by Mr. Vallish
  - (d) Tax is deductible at source by Mr. Vallish but not Mr. Rajesh

## 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 M/s Diamond Industries Ltd., an Indian company, is engaged in assembling and manufacturing of automobiles and auto components in Indore, Madhya Pradesh. The net profit after debit/credit of the following amounts to its Statement of Profit and Loss for the year ended 31.03.2024 was ₹ 9,50,00,000. 14
- (i) Depreciation calculated as per useful life of its assets ₹ 2,80,00,000.
  - (ii) Donation of ₹ 12,00,000 given to a political party by way of account payee cheque.
  - (iii) The company has paid ₹ 50,00,000 on 15.08.2023 to a research institution recognized and notified by the Central Government which has as its object, undertaking of scientific research.
  - (iv) Dividend received from foreign company of ₹ 15,00,000.
  - (v) Long-term capital gain of ₹ 4,00,000 on sale of equity shares on which STT was paid at the time of acquisition and sale.
  - (vi) Interest at 10% p.a. on ₹ 4,20,00,000 being amount borrowed from State Bank of India on 01.06.2023 for purchase of machinery. The interest outstanding as on 31.03.2024 was paid on 01.12.2024.
  - (vii) Profit of ₹ 8,00,000 on sale of a plot of land to PQR Limited, an Indian company, entire shares of which are held by the Diamond Industries Ltd. The plot was acquired on 30<sup>th</sup> June, 2022.
  - (viii) Salary of ₹ 1,00,00,000 to foreign technicians for installation of machinery at the factory premises was paid.
  - (ix) The company sold automobile parts for ₹ 22,00,000 to M/s ABC Co Engineers, a sole proprietary concern, on 01.11.2022. On 01.02.2024 ₹ 12,00,000 was written off in the books as bad debts. The sole proprietor died on 01.03.2024 and the company managed to collect ₹ 11,00,000 towards full and final settlement on 30.03.2024. The entire amount collected was shown as bad debts recovered and credited to Statement of Profit and Loss.

**Additional Information:**

1. Depreciation computed as per Income-tax Rules, 1962 is ₹ 1,50,00,000 other than on the additions in assets made during the year.
2. Additions made to the assets were as follows:
  - (i) Office Building ₹ 3,00,00,000 - Put to use from 15-12-2023.
  - (ii) Computers ₹ 25,00,000 - Put to use on 11-05-2023.
  - (iii) Plant and machinery ₹ 5,00,00,000 - Installed and put to use on 01-01-2024.
3. The company declared and distributed dividend for the financial year 2023-24 on 31.5.2024 for ₹ 12,00,000.

Compute the total income of the company and tax liability for the assessment year 2024-25, assuming company opts for concessional tax regime under section

115BAA. Total turnover of the company for the P.Y. 2021-22 was ₹ 402 crores.

- 2 (a) Siddarth Ltd. has an undertaking (Unit-X) in Special Economic Zone (SEZ) and another undertaking (Unit-Y) in Free Trade Zone (FTZ) for manufacturing of computer software. It furnishes the following particulars for its 5<sup>th</sup> year of operations ended on 31<sup>st</sup> March, 2024:

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	Unit X ₹ (In Lacs)	Unit Y ₹ (In lacs)
Total Sales:	180	120
Export Sales: (Inclusive of ₹ 10 lacs for onsite development of computer software outside India by Unit X)	120	10
Profit earned [After claim of bad debts under section 36(1)(vii) in Unit X]	63	36

Plant and machinery (Purchased in PY 2022-23) used in the business has been depreciated at 15% on straight line method (SLM) basis and depreciation of ₹ 9 lacs was charged to profit and loss account in the proportion of sales during the previous year. (Ignore Additional Depreciation)

₹ 100 lacs were realized out of export sales in time and balance of ₹ 20 lacs becomes irrecoverable due to bankruptcy of one of the foreign buyers in Unit-X.

Compute the deduction under section 10AA of the Income-tax Act, 1961 and taxable income of Siddarth Ltd. for the Assessment Year 2024-25.

- 2 (b) Mr. Suresh, an individual resident in India aged 60 years, furnishes you the following particulars of income earned in India, Country "X" and Country "Y" for the previous year 2023-24. India has not entered into double taxation avoidance agreement with Country X and has a double taxation avoidance agreement with country Y.

6

Particulars	₹
Income from profession carried on in India	8,00,000
Agricultural income in Country "X" (gross)	60,000
Dividend income from a company incorporated in Country "Y" (gross)	1,50,000
Royalty income from a literary book from Country "X" (gross)	6,00,000
Expenses incurred for earning royalty	1,00,000
Business loss in Country "Y" (Proprietary business)	65,000
Rent from a house situated in Country "Y" (gross)	2,40,000
Municipal tax paid in respect of the above house in Country "Y" (not allowed as deduction in Country "Y")	10,000

**Note:** Business loss in Country "Y" not eligible for set off against other incomes as

per law of that country. Royalty income brought in India in May, 2024. The rates of tax in Country "X" and Country "Y" are 10% and 15%, respectively. Foreign Tax paid in Country "Y" = ₹ 58,500. Compute total income and tax payable by Mr. Suresh in India for Assessment Year 2024-25, assuming that he does not opt for Section 115BAC.

**3 (a)** Examine the tax consequences in the case of the following charitable institution/trust, considering each case independently – **8**

- (i) A charitable institution, having its main object as “any other object of general public utility”, carries on business in the course of actual carrying out of such advancement of any other object of general public utility and maintains separate books of account in respect of business. The gross receipts during the year is ₹ 2 crore, which comprises of receipts of ₹ 44 lakh from such business and ₹ 1.56 crore by way of voluntary contributions (not being corpus donations). It has applied 85% of its gross receipts for charitable purposes.
- (ii) A charitable trust paid annual rent of ₹ 12 lakh in the P.Y.2022-23 and ₹ 15 lakh in the P.Y.2023-24 in respect of a building used for charitable purposes, after deducting tax at source. However, tax deducted on such rent in the P.Y.2022-23 was remitted only in January, 2024; and tax deducted in the P.Y.2023-24 was remitted only in July, 2024.
- (iii) A charitable trust registered under section 12AB with the object of “Relief of poor” changed its object on 1.4.2023 to “any other object of general public utility”. The application of income in the year P.Y.2023-24 was towards general public utility and not relief of poor. It has, however, not applied for fresh registration under section 12AB (based on the modified object) upto 31.3.2024.

**3 (b)** Mr. Robin, a non-resident, aged 62 years has following incomes for F.Y.2023-24. **6**

Income from a business in Jaipur (50% received in India)	1,90,000
Dividend from a Chinese company received in Singapore	95,600
Income from profession in Singapore, which was set up in India, received in Singapore but spent in India	80,000
Agriculture Income from a land in Jodhpur	45,000
Interest on Savings bank deposit in Sate Bank of India	10,500
Income from a business in Singapore which is controlled from Jaipur (50% received in India)	1,00,000
Income from agricultural land in Hong Kong received there and then brought to India	41,300
Interest received from an India company on Rupee Denominated Bonds which were issued in Singapore on 01.03.2019	15,000
Income received from units of Unit Trust of India purchased in foreign currency	20,000
Long-term capital gain on sale of shares purchased and sold through	1,25,000

recognized stock exchange (STT Paid)

You are required to compute his total income for the A.Y.2024-25.

**4 (a)** What is the rate at which the tax is either to be deducted or collected under the provisions of the Act in the following cases? **8**

- (i) A partnership firm making sales of timber September 2023 which was procured and obtained under a forest lease.
- (ii) Payment of income of ₹ 25 lakh on investments in securities to the Foreign Institutional Investor.
- (iii) A nationalized bank receiving professional services from a registered society made provision on 31-03-2024 of an amount of ₹ 25 lakh against the service charges bills to be received.
- (iv) Payment of ₹ 5 lakh on 8<sup>th</sup> December, 2023 made to Mr. Phelps who is an athlete by a manufacturer of a swim wear for brand ambassador.

**4 (b)** On 23<sup>rd</sup> June 2022, R Ltd., an Indian Company borrowed ₹ 100 crores from M Pte. Ltd., a company incorporated in Singapore. The said loan is repayable over a period of 6 years. This loan is guaranteed by L Ltd., a company incorporated in U.S.A. L Ltd. holds 30% shares in R Ltd. R Ltd. provides you the following information with respect to its P/L account. **6**

**₹ in lakhs**

Particulars	F.Y. 2022-23	F.Y. 2023-24	Particulars	F.Y. 2022-23	F.Y. 2023-24
Employees Benefit Expenses	280	301	Gross Profit	1630	1550
Interest paid to M Pte. Ltd.	589	238			
Depreciation	250	254			
Income Tax	271	232			
Profit transferred to Reserves	240	525			
	<b>1630</b>	<b>1550</b>		<b>1630</b>	<b>1550</b>

Calculate the income under the head Profits and Gains from business and profession of R Ltd. for the Assessment Year 2024-25, assuming the gross profit is calculated as per the provisions of Income-tax Act and Depreciation is also as per Income-tax Rules. Give appropriate reasons of your workings.

Assume none of the companies are engaged in the business of banking.

**5 (a)** (i) Ms. RSRZ and Co. Ltd., sold one of its factory building for ₹ 14 lakhs on 19-4-2023. The building was acquired on 1-4-2013 and the assessee was using it for manufacturing activity and accordingly, depreciation was also being claimed. After sale of the building, the assessee reinvested the amount of capital gain in long-term specified assets under section 54EC and claimed **8**

exemption thereunder. The AO rejected the claim for exemption by the assessee and regarded that since the asset sold was depreciable asset, provisions of section 50 will be applicable and accordingly the assessee is not entitled to exemption under section 54EC. Discuss the validity of AO's claims.

- (ii) On 31.12.2023, a search under section 132 of the Income-tax Act was conducted in the business and residential premises of Mr. Rajshekar and some gold bars were seized from the locker. Mr. Rajshekar voluntarily disclosed ₹ 12.50 crores of income during the course of search. Later on, he filed an application for sale of the gold bars worth 5 kgs for adjustment "towards the automatic tax liability", even before the completion of the assessment by the AO. However, AO rejected the application and observed that such action can be taken only after the assessment is completed and a demand has been quantified. Is the AO justified in rejecting the application?

- 5 (b)** M/s. XYZ.com, an e-commerce operator, incorporated in China has no physical presence in India. It has no permanent establishment in India. **6**
- (a) It sells goods worth ₹ 1.20 crores to Indian residents.
- (b) Service provided to persons resident in India by way of sale of online advertisement. When amount of bill (or aggregate amount of bills) to a recipient of service during the financial year does not exceed ₹ 1 lakh per recipient of service (Gross amount of all bills is ₹ 70 lakhs).
- (c) Service provided to non-residents by way of sale of online advertisements, which target resident Indian customers, amounting to ₹ 20 lakhs.
- The above data pertains to F.Y. 2023-24. Discuss the implications of Equalisation levy on XYZ.com.
- 6 (a)** When does it become necessary to apply the tie-breaker rule? Discuss the manner of application of the tie-breaker rule. **6**
- 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)** Ravinder, an Indian citizen, left India and settled in United Kingdom from 10.4.2016. He had never left India previously since April, 2008. He acquired a property worth ₹ 200 lakhs in his name in the financial year 2013-14 at Malaysia. **4**

The Assessing Officer came to know of this in March, 2024 based on the investigation made by Enforcement Directorate in some other person's case.

The Assessing Officer, having recorded some concrete evidences against Ravinder, issued a notice under section 10 of the Black Money and Imposition of Tax Act, 2015 on 27.3.2024. Mr. Ravinder's counsel contended that since Mr. Ravinder is not a resident in the financial year 2023-24, a notice under section 10 could not be issued to him.

Is issue of notice on Ravinder under section 10 of Black Money Act, 2015 tenable in law? Examine.