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 **BB VIRTUALS**


PREP
TEST -2

MCQ Answers

- 1) B
- 2) C
- 3) B
- 4) A
- 5) D
- 6) B
- 7) C
- 8) A
- 9) B
- 10) A
- 11) D
- 12) C
- 13) A
- 14) C
- 15) A

- 1) ₹4,00,000 interest is earned from deposits in foreign currency with an Indian public company ⇒ qualifies as income from a foreign exchange asset.

Hence, 20% tax rate applies u/s 115E. So Tax = 4 Lakh * 20% = Rs 80,000.

- 2) Income not covered under Sections 115E (i.e., income other than from foreign exchange assets), such as rental income, is taxable at normal provisions.
For an NRI, this means:

Slab rates applicable to non-residents (i.e., no basic exemption unless income is below ₹2.5 lakhs and no special exemptions).

- 3) Sale price = ₹10,00,000
Cost = ₹3,00,000
LTCG = ₹7,00,000
Eligible investment (115F) = ₹6,00,000
Exemption u/s 115F = ₹4,20,000
Taxable LTCG = ₹2,80,000
112A exemption = ₹1,25,000
LTCG taxable @12.5% = ₹1,55,000
Tax @ 12.5% = 155000*12.5% = 19,375

- 4) Dividend Income = ₹3,00,000 Tax @ 20
No rebate, no deduction, and no basic exemption allowed for such dividend under Section 115A(1)

- 5) Acquisition (Indexed) = 18 Lakh * 363/100 = 65.34 Lakh
Improvement (Indexed) = 5 Lakh * 363/100 = 15.51 Lakh
Total = 80.85 Lakh

Value of consideration = 220 Lakh (10% rule)

Exemption u/s 54EC = 50 L (SBI Bonds not available) (Limited to 50L)

Exemption u/2 54 = 60 L

So, Capital Gain = 220 - 80.85 - 50 - 60 = 29.15

- 6) Unlisted shares = Long-term if held >24 months
Resident individual → taxed under Section 112
LTCG on unlisted shares is taxed at 20% with indexation benefit
- 7) Section 49(1) — Cost of acquisition of gifted property = Cost to previous owner
Explanation 1(i)(b) to Section 2(42A) — Holding period also includes period for which the property was held by the previous owner. So, Holding from 1998; Cost = FMV as on 1.4.2001

8) Transaction	Date	Gain	Tax Rate	Tax
T1 – Equity MF	Jan 2025	₹2,32,000	12.5%	₹29,000
T2 – Equity MF	Feb 2025	₹3,08,000	12.5%	₹38,500
T3 – Equity MF	June 2024	₹2,40,000	10%	₹24,000
Total LTCG	—	₹7,80,000	—	₹91,500

- 9) “The sum of all deposits made in the account since opening”, not just the closing balance or peak balance.

So, .total deposits: CHF 900,000

CHF900,000×₹95=₹8,55,00,000

₹8,55,00,000×30%=₹2,56,50,000

- 10) On first day of year in which came into notice, so 1.7MM *22 = 3,74,00,000

- 11) FMV of interest in a firm, AOP, BOI (including LLP) =
(Net assets of the firm) × (Share of the assessee in capital/profits)

Assessee’s share = 20%
Net assets of firm = USD 1,500,000

So,

FMV=20%×USD15,00,000=USD 3,00,000

Convert to INR:

USD 3,00,000×₹84=₹2,52,00,000

- 12) Tax: 30% of income
Penalty: 3× the tax amount (i.e., 90%)
Total = Tax + Penalty = 120%
So total amount = 8000*84= 6,72,000*120%= 8,06,400

- 13) Applies to online advertisement services by non-resident to Indian resident (B2B)

Rate: 6% of amount paid (on gross basis)

Now see the match:

AdGlobal Inc. = ₹28,00,000 × 6% = ₹1,68,000

BuzzMe Ltd. = ₹6,00,000 × 6% = ₹36,000

ZedZone Tech: Not covered

Total EL = ₹2,04,000

Interest:

AdGlobal → delay = 10 months = ₹1,68,000 × 10% = ₹16,800

BuzzMe → delay = 8 months = ₹36,000 × 8% = ₹2,880

Interest = ₹19,680

Total = 2,23,680

14) As per Rule 44DAB(2):

One month from the date of receipt of specified order

Order delivered: 5-Dec-2024

Deadline: On or before 4-Jan-2025

Application filed on 29-Jan-2025

Beyond 1 month = time-barred

15) Actual Tax paid in foreign country = 450000+70000+22500 = 5,42,500

Indian Tax paid = 11,62,200

Relief = 5,42,500.

Descriptive

Question 1

Computation of Total Income and Tax Liability of Marvel Ltd for AY 2025-26 under regular provisions of the act.

	PARTICULARS	AMOUNT	
1.	Profits and gains of business or profession		
	Net Profit as per statement of profit and loss		2,50,00,000
	Add: Items debited but not to be considered or to be disallowed.		43,48,000
	i) Depreciation as per Companies Act	20,00,000	
	ii) Payments made to creditors in cash in a single day		
	DC Pvt Ltd (Separately Considered)	-	
	VN Transport Ltd (The limit of section 40A (3) is 35,000 in respect of payment made to transport operators for plying, hiring or leasing goods carriages)	-	
	VX Pvt Ltd (Disallowed u/s 40A (3) as cash payment is made to a person in a single day exceeds Rs 10,000)	18,000	
	iii) Interest expenditure towards borrowed funds for investing in shares [Allowability or otherwise of interest expenditure on earning dividend has to be considered separately under the head "Income from Other Sources". Since the amount has been debited to the statement of profit and loss, it has to be added back.]	2,00,000	
	iv) Provision for wages payable to workers (The provision is based on a fair estimate of wages and reasonable certainty of revision, the provision is allowable as a deduction, since ICDS X requires reasonable certainty for recognition of a provision which is present in this case. As the provision has already been debited no further adjustment needed.)	-	
	v) Expenses on foreign travel of two directors for a collaboration agreement which failed to materialize. (Where expenditure is incurred for a project not related to the existing business and the project was abandoned without creating a new asset, the expenses are capital in nature)	15,00,000	

vi) Interest paid for failure to deduct TDS (Is disallowed u/s 37(1) of the Income Tax Act)	2,00,000	
vii) Payment to M/s Vasco Ltd without deducting TDS (Disallowed 30% u/s 40(a)(ia))	30,000	
viii) Payment to Nile Inc without deducting TDS (Disallowed u/s 40(a)(i))	2,00,000	
ix) Advertisement in souvenir of a political party (Advertisement charges paid in respect of souvenir published by a political party is not allowable as a deduction from business profits of the company. Since the expenditure has already been debited, it has to be added back.)	2,00,000	
x) Insurance premium paid for KMP is allowable as deduction	-	
Add : Income taxable but not credited to statement of profit and loss		3,20,000
i) Payment to DC Ltd (The payment is disallowed u/s 40A(3). Since it relates to an expense for prior year and already claimed it is treated as income in the current year)	20,000	
ii) GST Not refunded (The amount of GST refunded to the company is a revenue receipt and is chargeable to tax. Since only 2 lakh refunded the balance 1 lakh would be chargeable to tax)	1,00,000	
iii) Amount received towards EPF (Section 36(1)(va) and section 57(ia) provide that the deduction in respect of any sum received by the taxpayer as contribution from his employees towards any welfare fund will be allowed only if it is credited to the employees account in the fund before the due date mentioned in that fund which is 15 th of next month in this case. So it will be treated as income as payment is made in October only.)	2,00,000	
Less		(81,20,000)
Capital expenditure deduction u/s 35AD		
Land (Amount spend on land cannot be claimed as a deduction u/s 35AD)	-	
Building 1 (Storage of sugar is covered under section 35AD)	15,00,000	
Building 2 (Storage of electronics is not covered)	10,00,000	
Depreciation as per IT Act		
Depreciation on other assets	25,00,000	
Electrical Wiring (Covered under Furniture & Fittings so applicable rate is 10% for full year)	20,000	
Electric Generator running on wind (Covered under Plant & Machinery applicable rate is 40%for full year)	60,000	
UPS (Covered under Plant & Machinery- Computer accessories, applicable rate is 40% for full year)	40,000	
Additional Compensation received (Additional compensation or otherwise is taxable under Capital Gains. Since it is credited it needs to be deducted while computing PGBP)	25,00,000	
Dividend Received (Taxable under Other income so deducted)	5,00,000	

	Profits from Business or Profession		2,15,48,000
	Capital Gains		
	Additional compensation (Since additional compensation has been received pursuant to an interim order it will only be charged to tax in the year in which Final order is passed)	-	
	Income from Other Sources		
	Dividend received from Foreign Company	5,00,000	
	Less interest expenditure allowed upto 20% of dividend	(1,00,000)	4,00,000
	Gross Total Income		2,19,48,000
	Less Deduction Under Chapter VI A		6,00,000
	Section 80M (Deduction in respect of inter corporate dividend is the lower of dividend received (4 Lakh) and dividend distributed on or before the due date(6 Lakh)	4,00,000	
	Section 80GGB (Deduction is allowed as contribution is made by a company to a registered political party since payment is made otherwise by cash)	2,00,000	
	Total Income		2,13,48,000

Computation Of Tax liability of Marvel Ltd for AY 2025-26

PARTICULARS	AMOUNT
Tax @ 30% on total income(T.O in 2022-23>400)	64,04,400
Add surcharge @ 7% (TI>1 Cr but <10Cr)	4,48,308
	68,52,708
Cess @ 4%	2,74,108
Total	71,26,816

Question 2 (a)

As per Section 115VD, a “qualifying ship” must:

- Be a sea-going ship of ≥ 15 net tonnage,
- Have a valid certificate from DG Shipping or competent authority,
- Not be excluded under Explanation to Sec 115VD (e.g., pleasure crafts, fishing vessels, factory ships, etc.),
- Be operated by the company (i.e., not just owned but actually used for carriage of passengers/goods).

Ship A: It is a qualifying ship as it fulfils all the conditions.

Ship B: It is a qualifying ship as it fulfils all the conditions. (Coastal Ships are allowed)

Ship C: Pleasure Craft is specifically excluded under section 115VD. So it is non-Qualifying.

Ship D: Since the ship is chartered out for more than 3 years, the company is not the operator. So it is non qualifying,

Ship E : Fishing Vessels is specifically excluded under section 115VD. So, it is non-Qualifying.

Qualifying Tonnage

Ship A : 22,000

Ship B : 9,000

Slot Charter : 1,200*

Total – 32,200

*If the company has earned income from slot charter operations and it cannot identify the ships used the company is eligible to compute deemed tonnage for slot charter income under the notional tonnage rules (as per rule 11 Q explanation) (CIT vs Trans India Shipping Services (P) Ltd.

Slab	Units of 100 T	Rate/Day/Ton	Daily Income	Annual Income
1,000	10	70	700	2,55,500
9,000	90	53	4,770	17,41,050
15,000	150	42	6,300	22,99,500
7,200	72	29	2,088	7,62,120
Total				50,58,170

Question 2 (b)

1. Freight Forwarding Services – Not covered under tonnage income separately taxable.
2. Technical Consultancy - Not covered under tonnage income separately taxable.
3. Ship C operating Income - Not covered under tonnage income separately taxable.

So Total Income outside tonnage = 20+15+10 = 45 Lakhs.

Question 3 (a)

(i) Computation of Arm's Length price and adjustment to be made as per resale price method

PARTICULARS	AMOUNT
Resale price of each unit excluding GST (23,600*100/118)	20,000
Less Profit margin with reference to uncontrolled transaction (22% * 20,000)	4,400
Add: Benefit of brand value of Zentra (2% * 20,000)	400
Less : Benefit of extra Warranty (200)	200

ALM per unit	15,800

(ii) In the case of a unilateral APA, the application must be made to the Director General of Income-tax (International Taxation) (as prescribed under Rule 10G of the Income-tax Rules, 1962).

Applicable Fee (as per Rule 10-I):

Amount of International Transaction	APA Filing Fee
≤ ₹100 Crores	₹10 lakhs
> ₹100 Cr but ≤ ₹200 Crores	₹15 lakhs
> ₹200 Crores	₹20 lakhs

Since the value of international transaction is ₹156 Crores, which falls under the ₹100 Cr – ₹200 Cr slab so fee is 15 Lakhs.

Question 3 (a)

Computation of MAT of Quantrex India Ltd for the AY 2025-26

PARTICULARS		AMOUNT (In Cr)
Net Profit as per PL		42
Add : Revaluation depreciation to be added back.	2.5	
Provision for loss of foreign subsidiary	4	
Provision for loss of contingent/unascertained liabilities	3	
Deffered Tax expense	2.4	11.9
Less:		
LTCG on sale os shares (It is not deductible under MAT if routed through P&L)	-	
Revaluation Gain (Since it is not routed through PL no impact)	-	
Lower of Unabsorbed depreciation or business loss as per books	4.5	4.5

Book Profit u/s 115JB		49.4
MAT @ 15%		7.41
Surcharge @ 12%		0.89
HEC @ 4%		0.332
Total Mat		8.63

Question 3 (b) (i)

Particulars	Amount (₹ in lakhs)	Tax Treatment
Corpus donations (with direction)	60	Exempt u/s 11(1)(d) not considered as income
General voluntary donations	35	Treated as income u/s 12
Business income from training activity	48	Since it is incidental to object (education), and books maintained it is covered under Sec 11(4A)
FD interest on corpus fund	4	Taxable income u/s 11

Therefore total income to be applied is $35+48+4 = 87$

Total amount spend for charitable purpose - 62

Less amount spend out of corpus which is not replenished - 9

Since Form 10 was filed after due date, the accumulation of 20 Lakhs u/s 11(2) is invalid.

Therefore application – $62-9 = 53$ Lakhs.

Required Application = $85\%*87 = 73.95$ Lakhs

Therefore , Taxable Income = $87-53 = 34$ Lakhs.

(ii) Satyam Lok Kalyan Trust, though registered under Section 12AB and engaged in charitable activities, has violated provisions of Section 13(1)(c) of the Income-tax Act, 1961. As per this section, if any part of the trust's income or property is applied directly or indirectly for the benefit of a specified person (as defined in Section 13(3)), exemption under Sections 11 and 12 shall be denied to that extent. In this case, Mr. R, a trustee and hence a specified person, has a substantial interest in ABC Ltd. The trust paid ₹15 lakhs to ABC Ltd for goods worth only ₹12 lakhs, indicating an excessive and unreasonable payment of ₹3 lakhs. This excess payment constitutes indirect benefit to Mr. R through a related concern and therefore attracts the mischief of Section 13(1)(c) read with Section 13(2)(g).

However, the remaining facts do not indicate a full-scale violation. The free use of Mr. R's warehouse by the trust does not amount to misuse of trust property, as the trust benefits without incurring cost. Also, 85% of the income has

been applied for charitable purposes, satisfying the minimum application requirement under Section 11. Based on CBDT circulars and judicial rulings, the denial of exemption under Sections 11 and 12 will apply **only to the amount misused**, i.e., ₹3 lakhs. Hence, exemption shall be denied to the extent of ₹3 lakhs, while the remaining eligible income of the trust shall continue to enjoy exemption under the normal provisions.

The penalty u/s 271AAE for ensuing for the benefit of a person referred to in Sec 13(3) is 100% of the aggregate amount so applied if its for the first time. Hence the penalty is 3 Lakhs.

Question 4 (a)

- (i) Vartex Ltd, having turnover above ₹10 crore in FY 2023–24, is liable to deduct TDS under Section 194R at 10% on the mobile phone (benefit/perquisite) worth ₹45,000 given to its dealer. Since the value exceeds ₹20,000 and is in kind, TDS must be deducted before providing the benefit. In the case of ₹58 lakhs purchase from Raja Traders (a resident seller), TDS under Section 194Q applies on ₹8 lakhs (i.e., ₹58L – ₹50L) at 0.1%. However, since Raja Traders has not filed ITR for AY 2024–25 and the due date has expired, Section 206AB overrides, requiring TDS at 5% instead of 0.1%, assuming Raja is not exempted via Rule 114AAA(3). Failure to deduct would attract interest and disallowance under Section 40(a)(ia).
- (ii) As per Section 206C(1F), a seller is required to collect TCS @1% on sale of a motor vehicle exceeding ₹10 lakhs per transaction, regardless of whether it is for personal or business use. Hence, even for a single car sold at ₹78 lakhs, TCS is compulsory, and the seller's argument is incorrect. Further, since the buyer (Mr. Pratik) has not filed his ITR for AY 2024–25 and the due date has expired, Section 206CCA applies. The applicable TCS rate will be the higher of $2 \times 1\%$ or 5%, i.e., 5%. Therefore, TCS of ₹3.9 lakhs (5% of ₹78 lakhs) should have been collected by AutoSphere Ltd, and failure to do so may attract interest and penalty.
- (iii) Section 194Q applies to a buyer having turnover $> ₹10$ crore, requiring TDS @0.1% on purchases exceeding ₹50 lakhs from resident sellers. Section 206C(1H) requires sellers (with turnover $> ₹10$ crore) to collect TCS @0.1% on receipts exceeding ₹50 lakhs from a buyer. However, proviso to Section 206C(1H) clearly states that if the buyer is liable to deduct tax under Section 194Q, and has in fact deducted it, then TCS shall not apply. Since Sunbeam Steel satisfied all 194Q conditions and has actually deducted TDS, Alpha Metals is not permitted to collect TCS. Therefore, Sunbeam Steel is correct in denying TCS payment. Correct tax compliance = TDS under 194Q only, i.e., ₹2,000 (0.1% of ₹20L).
- (iv) As per **Section 194S**, any person responsible for paying consideration to a resident for transfer of a **virtual digital asset (VDA)** must deduct TDS @1% if aggregate consideration exceeds ₹10,000 (₹50,000 in case of individual with TO <1 cr from business or <50 Lakh in profession or not having PGBP Income). Since **Mr. Aryan (individual)** is **not in business or profession he is not required to deduct TDS** under the proviso to Section 194S(2), which exempts non-business users. So, No TDS Is required to be deducted under 194S

Question 4 (b)

As per Section 254(2A) of the Income-tax Act, the Appellate Tribunal may, on merits, grant a stay of demand in any appeal-related proceedings, but such stay cannot exceed 180 days from the date of the stay order. This is subject to the condition that the assessee deposits not less than 20% of the disputed tax or provides equivalent security. Extension beyond 180 days may be granted only if an application is made and the Tribunal is satisfied that the delay in disposing of the appeal is not attributable to the assessee. However, the total stay period, including extensions, cannot exceed 365 days.

The Supreme Court in DCIT v. Pepsi Foods Ltd (2021) 433 ITR 295 (SC) has clearly held that the stay would not stand vacated automatically after 365 days if the delay in hearing the appeal is not attributable to the assessee.

In the present case, the stay granted on 1.1.2024 was extended till 31.12.2024, and the appeal remained pending due to the intermittent functioning of the bench. Hence, the delay is not attributable to Delta Industries Ltd. Consequently, though the total stay period of 365 days ended on 31.12.2024, the action of the Assessing Officer in recovering ₹18 lakhs from Delta Industries Ltd on 5.1.2025 is not justified. Since the delay was not caused by the assessee, the stay continued beyond 31.12.2024, and therefore, the Assessing Officer's contention is incorrect.

Question 5 (a)

- (i) The view taken by the Assessing Officer is not correct. As held in *CIT v. Nestor Pharmaceuticals Ltd. / Sidwal Refrigerations Ind Ltd. v. DCIT* (2010) 322 ITR 631 (Delhi HC), the commencement of the deduction period under Section 80-IE (and previously under Section 80-IA) depends on the commercial sale of marketable goods, and not merely on the formal date of full-scale commercial production. In this case, since Zyto Biotech Ltd effected a sale in March 2025, and the final saleable product was manufactured and sold, it indicates that marketable quality was established. The quantum or purpose of sale is irrelevant. Therefore, the conditions under Section 80-IE were fulfilled in A.Y. 2025–26 itself, and the ten-year deduction period should commence from that year. The company's claim is valid, and the AO's rejection is unsustainable in law.
- (ii) The action of the Assessing Officer is correct in law. As held in *Orissa Rural Housing Development Corpn. Ltd. v. ACIT*, an assessee cannot revise the particulars of income submitted in the original return by merely filing a revised statement of income. The Income-tax Act, 1961 permits a change in income particulars only through filing a revised return under Section 139(5). A revised statement has no legal sanctity and cannot be considered by the AO during assessment.
The AO is therefore justified in rejecting the fresh claim for additional depreciation and increased refund made by Pradhan Infrastructures Ltd. through a revised computation, as it was not accompanied by a valid revised return.
As an alternative remedy, the assessee may explore filing an updated return under Section 139(8A) within the prescribed time limit, subject to its restrictions (e.g., it cannot be used to increase refund or decrease tax liability). Therefore, unless a revised return under 139(5) was filed within due time, the fresh claim is not legally admissible.
- (iii) The prosecution initiated under Section 276C(1) of the Income-tax Act is not legally sustainable in the given scenario. As held in the case of *D.K. Shivakumar*, the mere discovery of unaccounted transactions, such as unaccounted loans during a search, does not automatically amount to an attempt to evade tax, penalty, or interest. Section 276C(1) deals with the wilful attempt to evade tax, interest, or penalty. The term "attempt" in legal parlance refers to an overt act or step in furtherance of committing an offence. For prosecution to be valid, there must be a positive act by the assessee indicating such an attempt. Mere possession of unaccounted documents, without establishing a tax liability or intent to evade, is insufficient to launch prosecution.
In Mr. Y's case, since the assessment proceedings were still pending and no determination of tax liability had been made, the preconditions for launching prosecution were not met. Therefore, initiating prosecution solely based on the discovery of unaccounted loans, without proving tax evasion, is premature and invalid in law.

Question 5 (b)

The Hybrid Mismatch arrangements fall under BEPS Action Plan 2.

Hybrid mismatch arrangements are sometimes used to achieve unintended double non-taxation or long-term tax deferral in one or more of the following ways:

1. Creation of two deductions for a single borrowal;
2. Generation of deductions without corresponding income inclusions;
3. Misuse of foreign tax credit; and
4. Participation exemption regimes.

Question 5 (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, as mentioned below:

- a. Ensuring non-discrimination between residents and non-residents
- b. Resolution of disputes arising on account of different interpretation of tax treaty by the treaty partner
- c. Providing assistance in the collection of the fair and legitimate share of tax

Further, in addition to above, there are some other principles which must be considered by countries in their tax system –

(i) Equity and fairness:

Same income earned by different taxpayers must be taxed at the same rate regardless of the source of income.

(ii) Neutrality and efficiency:

Neutrality factor provides that economic processes should not be affected by external factors such as taxation. Neutrality is two-fold.

- (a) Capital export neutrality and
- (b) Capital import neutrality (CIN).

Capital export neutrality (CEN) provides that business decision must not be affected by tax factors between the country of residence and the target country; whereas CIN provides that the level of tax imposed on non-residents as well as the residents must be similar.

(iii) Promotion of mutual economic relation, trade and investment:

In some cases, it is observed that avoidance of double taxation is not the only objective. The other objective may be to give impetus to a country's overall economic growth and development.

Question 6 (a)

(i) As the tax auditor, under Clause 14 of Form 3CD, there is a duty to:

1. Report the method of valuation of closing stock employed by Ritvika Textiles Ltd. during the relevant previous year, and
2. State any deviation from the method prescribed under Section 145A and its impact on profit or loss.

In this case, the assessee changed its method from FIFO to weighted average, which is a change in the method of valuation. This must be specifically disclosed in Clause 14(a), and the financial impact of this change on profit or loss must be reported under Clause 14(b). Failure to report this change may result in incorrect income computation.

Further, as per Section 145A, the value of inventory must include all taxes, duties, cess, etc. incurred to bring the goods to their present location and condition. Although Ritvika Ltd. is eligible for full ITC on GST, Section 145A requires inclusion of such taxes in inventory valuation. Excluding GST from closing stock valuation is a deviation from Section 145A, and this must also be reported along with quantification of the impact on profit.

Hence, both deviations (valuation method change and GST exclusion) are to be **clearly disclosed** in the tax audit report.

- (ii) Under Clause 23 of Form 3CD, the tax auditor is required to report particulars of payments made to persons specified under Section 40A(2)(b), irrespective of whether the payments appear excessive or unreasonable.

In this case, Ankur Enterprises is owned by the brother of the managing director, who qualifies as a specified person under Section 40A(2)(b). Therefore, the ₹45 lakh payment must be disclosed in the tax audit report under Clause 23.

As per guidance, the auditor must:

- **Obtain a full list of specified persons** from the assessee,
- **Scrutinize all payments** made to them,
- **Call for agreements or invoices**, and
- **Compare terms** with similar third-party transactions to evaluate excessiveness

Even if the assessee considers the rate justifiable, disclosure is still mandatory. The power to disallow unreasonable payments lies with the Assessing Officer, not the auditor. The auditor's role is limited to reporting factual data.

Failure to disclose such transactions can result in non-compliance with reporting requirements and may impact the reliability of the audit report.

- (iii) Since Shree Ganesh Traders has a turnover of ₹9.6 crores, it falls below the ₹10 crore threshold prescribed under the first proviso to Section 44AB(a). For exemption from tax audit, the assessee must also satisfy the twin conditions: aggregate cash receipts (including for sales) and aggregate cash payments (including for expenses) during the previous year should not exceed 5% of total receipts and total payments respectively. In this case, cash receipts are ₹48 lakhs, which is exactly 5% of ₹9.6 crores, and cash payments are ₹30 lakhs, assumed to be 3.33% of total payments (₹9 crores). Since both conditions are satisfied, tax audit is **not applicable** to Shree Ganesh Traders for the P.Y. 2023–24.

- (b) The arrangement by Zerovia Pvt. Ltd. appears to be a classic instance of **tax avoidance**, not legitimate tax planning. Although the transaction was structured to appear legal on paper, the substance of the arrangement lacks commercial rationale apart from securing a tax benefit. The offshore entity acted merely as a conduit with no real economic activity, indicating the use of a **colourable device** to divert profits to a low-tax jurisdiction. This kind of arrangement falls within the scope of **Impermissible Avoidance Arrangement (IAA)** under **Section 96 of the Income-tax Act**, satisfying tests such as lack of commercial substance and misuse of tax provisions. Therefore, the Assessing Officer is justified in invoking **GAAR** provisions under Chapter X-A to deny the tax benefit. Since tax evasion involves concealment and illegality (which is not evident here), and tax planning involves genuine optimization within legal bounds, the present case clearly reflects **aggressive tax avoidance**.

- (c) Mr. Rohan is not eligible to claim immunity under section 270AA because, although he paid the tax and interest within the time specified in the notice of demand (which satisfies one condition), he did not meet the second mandatory condition of *not preferring an appeal* against the assessment order. Section 270AA clearly states that the assessee must both pay the tax and interest and must not file an appeal to be granted immunity from penalty and prosecution. Since Mr. Rohan filed an appeal on 18th March 2025, he violated this condition, making his subsequent application for immunity on 5th April 2025 invalid under section 270AA.

As per section 276C the period of imprisonment for wilful attempt to evade payment of tax, penalty or interest is 3 months to 2 years at the discretion of the court.