



**CA FINAL (May 2025)**

**GROUP II - PAPER 4**

**DIRECT TAX LAWS AND INTERNATIONAL TAXATION (Series 1)**

**Time Allowed: - 3 Hours**

**Maximum Marks: 100 Marks**

**ANSWER TO DIV - A CASE SCENARIO BASED MCQ**

1. Option (d)
2. Option (d)
3. Option (c)
4. Option (c)
5. Option (d)
6. Option (a)
7. Option (c)
8. Option (c)
9. Option (b)
10. Option (c)
11. Option (a)
12. Option (d)
13. Option (c)
14. Option (d)
15. Option (b)

## ANSWERS OF DIV - B DESCRIPTIVE QUESTIONS

## Question 1A

## Computation of total income and tax payable of P.Y. 2024-25

Particulars	₹	₹
Net profits as per Profits and Loss Account	850.00	
Add: Depreciation as per Company Act 2013	65.00	
Less: Normal Depreciation for income tax purpose	(92.00)	
Add: Employees' contribution to EPF - Paid after due date, disallowed [WN 1]	18.00	
Less: Additional depreciation (not deductible) [WN 2]	---	
Less: Employers contribution to pf as or before the due date of submission of return of income. It is deductible, sec 43B is not applicable.	---	
Add: penalty for late payment for delayed filling of GST [WN 6]	0.105	
Add: Interest for late deposit of GST (it is deductible) [WN 6]	----	
Less: Disallowance u/sec 40(a)(ia) payment to sub-contractor [7,00,000 x 30%] WN 3	(2.10)	
Add: expenditure on notified skill development project under sec 35CCCD (not deductible) as the assessee has opted for the alternative tax regime u/sec 115BAA	10.00	
Add: Loss due to destruction of machinery by fire (it is capital loss not deductible) WN 7	20.00	
Add: Dividend received from Foreign Company taxable u/s IFOS [WN 4]	(15.00)	
Less: Scrap value of machinery (capital nature it has to be deducted from depreciation value block of assets) (since it is credited to the statement of profit & loss, it has to be deducted.	(5.00)	
Add: Expenditure on dividend income (as dividend is taxable u/sec 56, expenditure pertaining to dividend income, as	0.50	

amount is debited to P&L A/c it will be added back		
Less: profit on sale of building to capital gain under sec 45(not taxable as business income)	(15.00)	
Profits and gains from business or profession		834.505
Capital Gain on transfer of building to 100% Indian company		Nil
WN 8 Income from other sources [ dividend is taxable u/sec 56 only, pertaining to interest is deductible]		15.00
Gross total income		849.505
Less : deductions under Chapter VI -A		
U/Sec. 80 M Inter corporate Dividends WN 5		15.00
Net Income		834.5050
Tax on total Income @ 22% u/s 115BAA		183.591
Add : Surcharge @10% [ u/s 115BAA]		18.359
Total tax payable		201.950
Add: health education cess @ 4 %		8.078
<b>Tax Liability</b>		<b>210.028</b>

**Working notes:**

1. Employer's contribution to pf shall be made before the due date of filing return. But employees' contribution shall be paid before the due date specified under the respective act, in order to claim deduction as per sec 36(1)(va).
2. Deduction of 100 % is available for new plant commenced on or after 01.04.2010 or in newly installed capacity in an existing plant, for production purposes.in this case, it is assumed that installed capacity is increased by the additional plant, in respect of this expenditure, no other deduction (i.e. depreciation) shall be allowed under any other provisions.
3. U/sec 40(a) (ia) In case of expenditure in respect of which TDS has not been deducted or having deducted has not been deposited before the due date of filing of return u/sec 139(1).30% of such expenditure shall disallowed since tax is deducted during previous and remitted before section 139(1) time limit, disallowance is not attracted.

4. Dividend received from foreign company is taxable under the head "Income under other sources".
5. Deduction under section 80M, inter-corporate dividend is deductible to the extent of dividend distributed by the investor to its own shareholders within the due date, dividend income ₹ 15,00,000 or ₹ 20,00,000 whichever is less .
6. The interest of ₹ 15,400 paid on the delayed deposit of GST in breach of contract, since it is allowable deduction. However, penalty of ₹ 10,500 for delay filing of return is not allowable though it is breach of contract.
7. Loss of ₹ 20 lakhs due to destruction of machinery by fire is not deductible since it is capital in nature. Since the loss has been debited to statement of profit and loss, the same is required to added back while computing business income.
8. Short term capital gains arise on sale of building held for less than 24 months. However, in this case the transfer is to 100% subsidiary which is an Indian Company, the same would not constitute a transfer for levy of capital gains u/sec. 47(v). Since the amounts has been credited to the Statement of P & L, there is no further adjustment is required.

**(14 Marks)**

**Question 2A**

The definition of "assessee" under the Black Money Law, inter alia, includes a person who, being a non-resident in the previous year when the undisclosed income came to the notice of the Assessing Officer, was resident in India in the previous year in which the undisclosed asset located outside India was acquired. Therefore, Deepak is an assessee under the Black Money Law since he was resident in India in the P.Y.2009-10, when the property was acquired, even though he is a non-resident in the P.Y.2024-25, when notice under Black Money Law was issued. Accordingly, the value of undisclosed asset located outside India of Deepak would be chargeable to be tax under the Black Money Law in the previous year in which such asset comes to the notice of the Assessing Officer i.e., P.Y 2024-25, even though he is a non-resident in India for that previous year.

**Computation of value of undisclosed foreign asset**

Particulars	USD	₹
<b>Value of residential property in California acquired on 25.6.2009</b>	25,000	
Value of residential property would be the fair market value,		
being the higher of -		
- Cost of acquisition	USD 20,000	
- Price that the property shall ordinarily fetch if sold in the open market on the valuation date, i.e., 1.4.2024	USD 25,000	
Converted into Indian currency taking the rate as on 1.4.2024	₹ 71/USD	17,75,000
<b>Bank Deposits in a bank A/c in New York as on 1st April 2024</b> [The sum of all the deposits made in the account with the bank since the date of opening of the account would be the value of the bank deposits]	10,000	
Converted into Indian currency taking the rate as on 1.4.2024	₹ 71/USD	7,10,000
<b>Total value of undisclosed foreign asset</b>		<b>24,85,000</b>

**(4 Marks)**

## Question 2B

## Computation of Arm's Length Price

Resale Price of Goods Purchased from Terabyte Inc.	10,000
Less: Adjustment for Differences -	
a) Normal Gross Profit Margin at 20% of Sale Price [20% x ₹ 10,000]	2,000
b) Incremental Quantity Discount by Terabyte Inc. [₹ 1,000 - ₹ 500]	500
c) Difference in Purchase related expenses [₹ 1,200 - ₹ 200]	1,000
<b>Arms Length Price</b>	<b>6,500</b>

## Computation of Increase in Total Income of R Ltd

Price at which actually bought from Terabyte Inc. of France	6,700
Less: Arms Length Price per unit under Resale Price Method	6,500
<b>Decrease in Purchase Price per unit</b>	<b>200</b>
No. of units purchased from Terabyte Inc.	3,000 units
Increase in Total Income (6,000 units x ₹ 200)	₹ 12,00,000

(4 Marks)

**Question 2C**

M/s. ABC LLP is deemed to have under-reported its income since:

1. its income assessed under 143(3) exceeds its income determined in a return processed under section 143(1)(a); and
2. the income reassessed under section 147 exceeds the income assessed under section 143(3).

Therefore, penalty is leviable under section 270A for under-reporting of income.

**Computation of penalty leviable under section 270A**

Particulars	₹	₹
Assessment under section 143(3)		
Under-reported income:		
Total income assessed under section 143(3)	35,00,000	
(-) Total income determined u/s 143(1)(a)	22,00,000	
	13,00,000	
Tax payable on under-reported income:		
Tax on under-reported income of ₹ 13 lakhs plus total income of ₹ 22 lakhs determined u/s 143(1)(a) [30% of ₹ 35 lakh + HEC@4%]	10,92,000	
Less: Tax on total income determined u/s 143(1)(a) [30% of ₹ 22 lakh +HEC@4%]	6,86,400	
	4,05,600	
Penalty leviable@50% of tax payable		2,02,800
Reassessment under section 147		
Under-reported income:		
Total income reassessed under section 147	42,00,000	
(-) Total income assessed under section 143(3)	35,00,000	
	7,00,000	
Tax payable on under-reported income:		
Tax on under-reported income of ₹ 7 lakhs plus total income of ₹ 35 lakhs assessed u/s 143(3) [30% of ₹ 42 lakh + HEC@4%]	13,10,400	
Less: Tax on total income assessed u/s 143(3) [30% of ₹ 35 lakh + HEC@4%]	10,92,000	
	2,18,400	
Penalty leviable@50% of tax payable		1,09,200

(6 Marks)

**Question 3A****Computation of total income of Z Ltd. for the P.Y.2024-25****(as per other provisions of the Act)**

Net profit as per books of accounts		45,80,000
Add: Expenditure disallowed but debited in P/L A/c		
Excess Depreciation	1,00,000	
Provisions for Contingencies	75,000	
Wealth Tax	50,000	

Loss of subsidiary company	50,000	
Proposed Dividend	1,00,000	
Provision for income tax	1,05,000	
Unpaid customs duty	40,000	5,20,000
		51,00,000
Less: Expenditure allowed but not debited in P/L A/c		
Interest on bank loan of earlier years		1,00,000
		50,00,000
Less: Brought forward business loss		42,50,000
<b>Gross Total Income</b>		<b>7,50,000</b>
Less: Deduction u/s 80G		1,00,000
<b>Total Income</b>		<b>6,50,000</b>

**Computation of Book Profit of Z Ltd. for the P.Y.2024-25**

Net profit as per books of accounts		45,80,000
Add:		
Provision for contingencies	75,000	
Loss of subsidiary company	50,000	
Proposed Dividend	1,00,000	
Provision for income tax	1,05,000	
Depreciation	5,00,000	8,30,000
		54,10,000
Less:		
Depreciation (as assets are not revalued)	5,00,000	
Lower of unabsorbed depreciation and brought forward loss (as per books of account)	3,50,000	8,50,000
<b>Book Profit</b>		<b>45,60,000</b>

**Computation of tax liability of Z Ltd.**

Particulars	Amount
Total income as per other provisions of the Act	6,50,000
Tax on above @ 25% [A]	1,62,500
Book profit u/s 115JB	45,60,000
15% of book profit [B]	6,84,000
<b>Tax [Higher of A &amp; B]</b>	<b>6,84,000</b>
Add: Surcharge [As total income is only ₹ 45,60,000/-, thus, surcharge is not applicable]	Nil
<b>Tax &amp; Surcharge</b>	<b>6,84,000</b>
Add: Health & Education Cess @ 4%	27,360
<b>Tax Liability (Rounded off)</b>	<b>7,11,360</b>

**(8 Marks)**

**Question 3B****Computation of total income of Mani Foundations for the P.Y.2024-25**

Particulars	₹	₹
Gross receipts from students towards tuition fees, development fees etc.		6,00,00,000
Government Grants (taxable, since only grant for the purpose of corpus of a trust established by the Central or State Government is excluded from the definition of income)		8,00,000
Voluntary contributions (other than anonymous donations) [₹25 lakh-₹5 lakh]		20,00,000
		6,28,00,000
Add: Anonymous donations [to the extent not chargeable to tax u/s 115BBC(1)(i)] [See Note below]		1,65,000
Less: 15% of income eligible for being set apart without any condition		6,29,65,000
Less: Amount applied for charitable purposes		94,44,750
		5,35,20,250
- Amount applied for the purpose of schools (excluding amount applied for the benefit of the founder) = ₹390 lakh -₹5 lakh	3,85,00,000	
- Amount set apart for acquiring a building to expand its Schools [It is deemed to be applied as per section 11(2)]	55,00,000	
- Corpus donations to a trust registered u/s 10(23C) [Deduction is not permissible in respect of corpus donations to a trust registered u/s 12AB or Institution u/s 10(23C)]	-	
- Excess of expenditure over income in the P.Y.2022-23	Nil	4,40,00,000
-		95,20,250
Add: Amount applied for the benefit of the founder of the trust chargeable to tax u/s 12(2) read with section 13(6)		5,00,000
Anonymous donation taxable u/s 115BBC(1)(i) [See Note below]		3,35,000
<b>Total Income of the trust</b>		<b>1,03,55,250</b>

**Note 1:** As per section 115BBC, the anonymous donations in excess of the higher of the following would be subject to tax@30%; -₹1.65 lakh, being 5% of the total donations received i.e., 5% of ₹33 lakh; or ₹1 lakh (As per ITR Govt. grant is also treated as donation so consider for calculating 5%.)

Therefore, anonymous donations of ₹3.35 lakh (₹5 lakh ₹1.65 lakh) would be subject to tax@30% u/s 115BBC. Such anonymous donations which are subject to tax@30% are not eligible for the benefit of exclusion from total income u/ss 11 and 12.

**Note 2:** As amendment made by Finance Act, 2021 Excess applied of earlier year is not allowed as applied in current year.

**Note- 3:** Amount applied for the purpose of founder shall be taxable as specified rate of 30% u/s 115BBI.

(6 Marks)

**Question 4A**

**Computation of tax payable/refund due to Mr. Sumedh for P.Y.2024-25**

Particulars	₹	₹
<b>Capital Gains</b>		
Long-term capital gains on transfer of foreign exchange asset on 31.7.2024	6,50,000	
Less: Expenditure wholly and exclusively incurred with such transfer	<u>80,000</u>	5,70,000
<b>Less: Exemption under section 115F</b>		
- Investment of ₹ 2,00,000 in notified saving certificates referred to in section 10(4B) on 30.3.2025 [Investment in notified saving certificates referred to in section 10(4B) is to be made within six months after the date of transfer i.e., on or before 31.1.2024. Since investment is made after 31.1.2025, no exemption would be allowed]	Nil	
- Investment of ₹ 3,00,000 in shares of Indian Public Limited Companies on 31.12.2025 [Investment in specified assets, being shares in an Indian company is to be made within six months after the date of transfer i.e., on or before 31.1.2025. Since investment is made after 31.1.2025, no exemption would be allowed]	Nil	Nil
		5,70,000

<b>Income from other sources Investment Income</b>		
Interest on Government Securities 95,000		
Interest on deposits with public limited companies <u>2,60,000</u>	3,55,000	
<b>Other Incomes</b>		
Interest on deposit with private limited companies	5,90,000	9,45,000
<b>Total Income</b>		<b>15,15,000</b>

Particulars	₹	₹
<b>Tax liability [applying the special provisions under Chapter XII-A]</b>		
Tax@20% on investment income = 20% of ₹ 3,55,000	71,000	
Tax@12.5% on long-term capital gains = 12.5% of ₹ 5,70,000	71,250	
Tax on balance income of ₹ 5,90,000 at slab rate [₹ 18,000, being 20% of ₹ 90,000 + ₹ 12,500]	<u>30,500</u>	1,72,750
Add: Health and education cess@4%		6,910
Tax liability		<b>1,79,660</b>
Less: TDS		1,83,000
<b>Refund due</b>		<b>3340</b>

(6 Marks)

**Question 4B**

- (i) As per section 206C(1A), since Delta Ltd., a resident buyer, has furnished a declaration that coal is used for manufacturing steel and not for trading, Phi Ltd. is not required to collect tax at source u/s 206C(1). In case of goods covered u/s 206C(1) but exempted u/s 206C(1A), tax would not be collectible u/s 206C(1H). However, section 194Q will apply in such cases covered u/s 206C(1A) and the buyer would be liable to deduct tax u/s 194Q, if the conditions specified therein are fulfilled.

However, for the provisions of section 194Q to be attracted, a buyer is required to have total sales or gross receipts or turnover from the business carried on by it exceeding 10 crores during the financial year immediately preceding the financial year in which the purchase of goods is carried out. The CBDT has, vide Circular No. 13/2021, dated 30.6.2021, clarified that since this condition would not be satisfied in the year of incorporation, the provisions of section 194Q shall not apply in the year of incorporation. Since Delta Ltd. is incorporated in the P.Y. 2022 -23, it would not qualify as a "buyer" for the purpose of section 194Q for the said previous year, inspite its turnover exceeding ₹10 crores in the current previous year.

Thus, the transaction would neither attract TDS u/s 194Q nor TCS u/s 206C. The answer would not change even if Delta Ltd. was incorporated on 1.4.2021 and its turnover in the P.Y.2021-22 is ₹10 crores, since the said turnover does not exceed ₹10 crores.

- (ii) The first step is to examine the applicability of section 206C(1F). Section 206C(1F) requiring collection of tax at source@1% by the seller of motor car of value exceeding 10 lakhs does not, however, apply in case of sale by manufacturer to a dealer. Hence, the provisions of section 206C(1F) are not attracted in case of sale of cars by Sigma Ltd., a car manufacturer, to its dealers Epsilon Ltd. and Omega Ltd.

The second step is to examine whether the provisions of section 194 Q would be attracted in the hands of the dealers, namely, Epsilon Ltd. and Omega Ltd. Since the turnover of Epsilon Ltd. in the P.Y.2021-22 exceeds ₹10 crore and the value of cars purchased from Sigma Ltd. in the P.Y.2022-23 exceeds ₹50 lakhs, Epsilon Ltd. has to deduct tax@0.1% of ₹70 lakhs (i.e., ₹ 120 lakhs - ₹ 50 lakhs), at the time of credit to the account of Sigma Ltd. or at the time of payment,

whichever is earlier. However, Omega Ltd. is not required to deduct tax at source u/s 194Q, since its turnover in the P.Y.2021-22 does not exceed ₹10 crores.

The third step is to examine whether the provisions of section 206C(1H) would be attracted in the hands of Sigma Ltd. Sigma Ltd.'s turnover for P.Y.2021 -22 exceeds 10 crores and the value of cars sold to Epsilon Ltd. and Omega Ltd. exceed ₹50 lakhs each. Hence, it falls within the meaning of "seller" u/s 206C(1H). Accordingly, in respect of sale of cars to Omega Ltd., Sigma Ltd. is required to collect tax@0.1% of ₹30 lakhs (i.e., ₹ 80 lakhs - ₹50 lakhs) at the time of receipt. However, no tax is to be collected by Sigma Ltd. from Epsilon Ltd., since the transaction has already been subject to TDS u/s 194Q in the hands of Epsilon Ltd.

(4 Marks)

**Question 4C**

**Computation of interest u/s 234B**

Particulars	Amount (₹)
Tax and cess payable	1,03,950
Less: Tax deducted at source	36,450
Assessed tax	67,500
90% of above	60,750
Advance tax paid [₹ 18,500 + ₹ 16,125 + ₹ 25,250]	59,875
Since advance tax paid by him is less than 90% of assessed tax, sec.234B is applicable	
Shortfall (Assessed tax less Advance tax paid)	7,625
Rounded off	7,600
Period of default [From April 2024 to July 2024]	4 months
Interest u/s 234B (1% * ₹ 7,600 * 4)	304

**Computation of Interest Payable u/s 234C**

Particulars	Installment of Advance Tax (₹)			
	15-6	15-9	15-12	15-3
Rate of Advance tax	15%	45%	75%	100%
Amount payable as advance tax	10,125	30,375	50,625	67,500
Less: Amount paid till date	-	18,500	34,625	59,875
Shortfall	10,125	11,875	16,000	7,625
Rounded off (a)	10,100	11,800	16,000	7,600
Period of default (b)	3 months	3 months	3 months	1 month
Interest (1% × a × b)	303	354	480	76
Total interest payable u/s 234C			₹ 1,213	

**(4 Marks)**



<b>Gross Total Income</b>		<b>20,12,800</b>
Deductions under Chapter VI-A		Nil
<b>Total Income</b>		<b>20,12,800</b>

**Notes:**

1. As per section 40(b), simple interest at 12% p.a. to partners relating to the period after the date of partnership deed is allowable. Excess interest @ 3% paid from 1st June 2024 to 31st March 2025 is to be disallowed. Excess interest of 3% being ₹15,00,000 × 3/15 = ₹ 3,00,000.
2. Even though Z is a partner in a representative capacity, he is still a partner. Therefore, remuneration to Z should also be subject to the limits prescribed in section 40(b). This view finds support from the decision of the Supreme Court in the case of Rashik Lal & Co. vs CIT (1998) 229 ITR 458 (SC).
3. As per Explanation 1 to section 40(b), where an individual is a partner in a firm in representative capacity, the provisions of section 40(b) shall not apply to any interest payable by the firm to such individual in his personal capacity. Z represents his HUF in the firm. However, Z gave the loan in his individual capacity. Hence, assuming that the provisions of section 40A(2) do not get attracted in this case, such interest shall be allowed as deduction in full even though the interest rate is more than 12% p.a.
4. It may be noted that the limits specified under section 40(b)(v) are applicable in case of payment of salary, bonus, commission, or remuneration, by whatever name called, to a working partner. From a plain reading of the section, it is clear that any remuneration, by whatever name called, paid to a working partner, is subject to the limits laid down in section 40(b)(v). Therefore, the royalty of ₹ 5 lakhs paid to partner X would also be subject to the limits laid down in section 40(b)(v). Hence, the same has to be added back for computing book profits.
5. Section 40A(3) provides for disallowance of any expenditure in respect of which the actual payment exceeding ₹ 10,000 is made otherwise than by an account payee cheque, account payee bank draft or use of ECS through bank account or through such other electronic mode as may be prescribed in a single day to a person. Hence, the payments of ₹ 18,000 and ₹ 15,000 in cash on 1.2.2025 to

Altaf, a hairdresser, shall be disallowed, since the aggregate payment of ₹ 33,000 exceeds the limit of ₹ 10,000.

The payment of bill of the assistant cameraman of ₹ 19,000 on 1st February is also liable for disallowance under section 40A(3) since the aggregate payment in cash on a single day has exceeded ₹ 10,000.

6. As per section 40(a)(i), any sum payable to a non-resident shall not be allowed as deduction, if tax has not been deducted at source or after deduction, has not been paid on or before the due date specified under section 139(1). Tax deducted from the amount of remuneration credited to payee's account on 31st March 2025 has to be deposited latest by 31st July 2025/ 31st October 2025 (as the case may be). The firm has paid the tax on 3rd June 2025 and hence, the remuneration shall be allowed. Since the same is already debited to profit and loss account, no further adjustment is made.
7. As per section 40A(7), any provision made for payment of gratuity to employees on their retirement or on termination of employment for any reason is disallowed. However, gratuity of ₹ 1.50 lakhs paid to retired employees is allowable as deduction. Hence, the balance provision of ₹ 4.50 lakhs (i.e., ₹ 6 lakhs - ₹ 1.50 lakhs) is to be disallowed.
8. Interest on income-tax refund is assessable under the head "Income from other sources".

**(6 Marks)**

**Question 5B**

**Computation of total income and tax payable by Mr. Ritesh for P.Y.2024-25**

Particulars	₹	₹
<b>Profits and Gains of Business or Profession</b>		
Income from business in India		4,85,000
<b>Income from Other Sources</b>		
Royalty from Country N [As per India-Country N DTAA, royalty is taxable in Country N only]	Nil	
Interest from Country Y [US \$ 9,500 × 80 (being conversion rate as on 31.3.2025 i.e., last day of the previous year - Rule 115)]	7,60,000	
Agricultural Income in Country M [Not exempt in India]	1,09,000	8,69,000
<b>Gross Total Income/ Total Income</b>		<b>13,54,000</b>
<b>Tax liability on ₹ 13,54,000</b>		
Tax on total income [30% of ₹ 3,54,000 + ₹ 1,12,500]		2,18,700
Add: Health and Education cess@4%		8,748
		<b>2,27,448</b>
<b>Less: Deduction under section 91</b> [Since agricultural income is exempt in Country M, there is no doubly taxed income. Hence, no deduction under section 91 is allowable]		Nil
<b>Less: Deduction u/s 90 (See Working Note below)</b>		74,100
<b>Tax payable</b>		<b>1,53,348</b>
<b>Tax payable (Rounded off)</b>		<b>1,53,350</b>

**Working Note: Calculation of deduction under section 90**

Particulars	₹
Average rate of tax in India [i.e., ₹2,27,448 / ₹ 13,54,000 × 100]	16.798%
Tax payable in India on interest from Country Y [₹ 7,60,000 × 16.798%]	1,27,665
Tax paid in Country Y [US \$ 950 × 78, being conversion rate as on 31.1.2022 i.e., the last day of the month immediately preceding the month in which tax has been deducted - Rule 128]	74,100
<b>Deduction u/s 90</b> [being the lower of tax paid on interest income in Country Y and tax payable in India]	<b>74,100</b>

**Note** -Interest from Country Y represents interest other than interest on securities, in the absence of specific information that the same represents interest on securities. Accordingly, the same has been converted applying the TTBR as on 31.3.2025, being the last day of the P.Y.2024-25. If it is specifically assumed that the same represents interest on securities, then, the TTBR as on 31.3.2024, being the last date of the month immediately preceding the month in which interest became due (April, 2024) has to be considered.

**(4 Marks)****Question 5C**

As per section 71, business loss of the current year can be set off against income from other sources of that year. Therefore, business loss of ₹ 3,18,000 can be set off against interest of ₹ 18,000 from fixed deposits.

As per section 115BBH, business loss cannot be set off against income from transfer of VDA. Therefore, balance business loss of ₹ 3,00,000 cannot be set off against Income from VDA of ₹ 4,00,000 (₹ 4,20,000 – ₹ 20,000). The same has to be carried forward to A.Y.2025-26 for set-off against business income of that year.

Tax on Income from VDA would be ₹ 1,24,800 (i.e., 31.2% of ₹ 4 lakh).

Section 194S provides for deduction of tax on payment on transfer of virtual digital asset to a resident at the rate of 1% of consideration. Hence, the transferor would have deducted tax of ₹ 4,200, being 1% of ₹ 4,20,000.

Net tax payable by Mr. Raj = ₹ 1,24,800 – ₹ 4,200 = ₹ 1,20,600.

**(4 Marks)**

**Question 6A**

As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

**Ascertainment of tax liability of PQR Limited from slump sale of Software unit**

Particulars	₹ (in lakhs)
Full value of consideration for slump sale of Software Unit	385
Less: Cost of acquisition, being the net worth of Software Unit	185
Long term capital gains arising on slump sale (The capital gains is long-term as the Software Unit is held for more than 36 months)	200
Tax liability on LTCCG	
Under section 112 @ 12.5% on ₹ 200 lakhs	25.00
Surcharge@ 7%	1.75
	26.75
Health and Education cess@4%	1.07
	27.82

**Working Note:****Computation of Full value of consideration**

Particulars	₹ (in lakhs)
Fair market value of the capital assets transferred by way of slump sale	
Land, being an immovable property [stamp duty value on 31.3.2024, being the date of slump sale] [A]	55
Other Fixed assets (Furniture and Plant & machinery) [Book value as appearing in the books of accounts] [₹ 200 lakhs - ₹ 60 lakhs] [B]	140
Debtors [Book value as appearing in the books of accounts] [C]	110
Inventories [Book value as appearing in the books of accounts] [D]	35
	340
Less: Liabilities of Software Unit [₹ 750 - ₹ 40] [L] 710 Excluding: Paid up share capital      300 General Reserve              150 Share Premium                50 Revaluation reserve          120                              620	90
Fair market value of the capital assets transferred by way of slump sale [A+B+C+D- L] [FMV1]	250
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]	385
Full value of consideration [Higher of FMV1 or FMV2]	385

**Computation of net worth of Software Unit**

	₹ (in lakhs)
(1) Book value of non-depreciable assets	
Land (Revaluation not to be considered)	40
Debtors	110
Inventories	35
(2) Written down value of depreciable assets under section 43(6)	90
(See Note below)	
Aggregate value of total assets	275
Less: Current liabilities of Software unit	90
Net worth of software unit	185

**Note:** For computing net worth, the aggregate value of total assets in the case of depreciable assets shall be the written down value of the block of assets as per section 43(6).

**b. Tax advice**

- i. Transfer of any capital asset by a holding company to its 100% Indian subsidiary company is exempt from capital gains under section 47(iv). Hence, PQR Limited should try to acquire the remaining 26% equity shares in S Limited then make the slump sale in the above said manner, in which case the slump sale shall be exempt from tax. For this exemption, PQR Limited will have to keep such 100% holding in S Limited for a period of 8 years from the date of slump sale, otherwise the amount exempt would be deemed to be income chargeable under the head "Capital Gains" of the previous year in which such transfer took place.
- ii. Alternatively, if acquisition of 26% share is not feasible, PQR Limited may think about demerger plan of Software Unit to get benefit of section 47(vib) of Income-tax Act, 1961.

**(6 Marks)**

**Question 6B**

- i. An assessee, aggrieved by the order passed under section 143(3) by the Assessing Officer, can file an appeal before the Joint Commissioner (Appeals) under section 246 or the Commissioner of Income-tax (Appeals) under section 246A(1), within 30 days of the date of service of the notice of demand relating to the assessment. However, where the assessee does not want to prefer an appeal, then he can move a revision petition before the Principal Commissioner or Commissioner of Income-tax under section 264 within a period of one year from the date of on which the order was communicated to him or the date on which he otherwise came to know of it, whichever is earlier.
- ii. An assessee, aggrieved by the order passed under section 263 by the Commissioner of Income-tax, can file an appeal to Income-tax Appellate Tribunal under section 253(1)(c) within 60 days of the date on which the order sought to be appealed against is communicated to the assessee.
- iii. An assessee, aggrieved by the order passed under section 272A by the Director General, can file an appeal before the Income-tax Appellate Tribunal under section 253(1)(c) within 60 days of the date on which the order sought to be appealed against is communicated to the assessee.
- iv. An assessee, aggrieved by the order passed under section 254 by the Income-tax Appellate Tribunal, can file an appeal before the High Court under section 260A within 120 days from the date of receipt of order of Income-tax Appellate Tribunal, only where the order gives rise to a substantial question of law.

**(4 Marks)**

**Question 6C**

Dispute Resolution Committee (DRC) would resolve dispute in the case of a person who opts for dispute resolution under Chapter XIX-AA in respect of dispute arising from any variation in the specified order in his case and who fulfils the specified conditions. Specified order includes an assessment order passed under section 143(3), where the aggregate sum of variations made vide such order does not exceed ₹ 10 lakh; the total income as per such return furnished by the assessee for the assessment year relevant to such order does not exceed ₹ 50 lakhs and such order is not based on search or requisition or survey or any information received under a DTAA.

Accordingly, in the present case, Mr. Vijay can file an application before DRC, since the assessment order received on 26.11.2024 is a specified order and he satisfies the specified conditions on account of no order of detention being made and no prosecution proceedings being initiated or instituted against him. Non-levy of penalty under income-tax law is not a specified condition, therefore, the levy of penalty under section 271D on him does not result in non-compliance with the specified condition. Mr. Vijay has to file an application for resolution of dispute in the prescribed form on or before 25.12.2024 i.e., within one month from the date of receipt of the specified order.

However, once a modified order is passed by the DRC, no appeal or revision would lie against such order.

If assessment order is based upon the information received under an DTAA entered with India, Mr. Vijay, will not be eligible to make an application before DRC, since it is not a specified order. **(4 Marks)**