
DIRECT TAX RTP MAY 25

QUESTIONS

Case Scenario I

Mr. Devansh is an Indian citizen and person of Indian origin who is living in the UK for the last 15 years. He comes to India every year for one month to visit his parents. For the rest of the year, he stays in UK.

He has invested in shares of Alpha Ltd., Beta Ltd., and Delta Ltd. in convertible foreign exchange. Alpha Ltd. and Beta Ltd. are companies incorporated in GIFT IFSC, Gujarat, carrying on business for which it has been approved for setting up in such a Centre in a special economic zone. Delta Ltd. is a company incorporated in New Delhi. The dividend income of Mr. Devansh from Alpha Ltd., Beta Ltd. and Delta Ltd. during the P.Y. 2024-25 is ₹ 62,500, ₹ 87,300 and ₹ 21,800, respectively. The interest expenditure incurred by him during the P.Y.2024-25 on money borrowed for investment in these shares is ₹ 12,000, ₹ 20,000 and ₹ 7,000, respectively.

Mr. Devansh has also lent foreign currency equivalent to ₹ 50 lakhs to Gamma Ltd., a company located in GIFT IFSC on 1st April, 2021. The rate of interest is 10% p.a. He has also made a deposit of foreign currency equivalent to ₹ 30 lakhs in IFSC banking unit of SEZ on 1st April, 2022. The rate of interest is 8% p.a. Dividend of ₹ 5,41,200 is due to be received in January, 2025 by Gamma Ltd. from Phi Ltd., which is also a company located in GIFT IFSC. The same was received on 28th January, 2025.

Alpha Ltd. has started availing benefit of deduction u/s 80LA(1A) from A.Y. 2023-24 while Beta Ltd. has not started availing the benefit even though it has commenced operations on 1.4.2021. Alpha Ltd. furnished the declaration to the payers about the claim of deduction under section 80LA(1A)/(2) for the P.Y. 2024-25.

From the information given above, choose the most appropriate answer of MCQs 1 to 6:

1. What is the tax liability on dividend income of Mr. Devansh during the P.Y.2024-25? Ignore surcharge and cess.
(a) ₹ 4,360 (b) ₹ 15,522
(c) ₹ 17,160 (d) ₹ 19,340 ✓
2. The tax liability on interest income of Mr. Devansh from loan to Gamma Ltd. for the A.Y.2025-26, ignoring surcharge, if any, and cess, is-
✓ (a) Nil (b) ₹ 25,000
(c) ₹ 50,000 (d) ₹ 1,00,000
3. The tax liability on interest income of Mr. Devansh on deposit made with an IFSC banking unit in SEZ for the A.Y.2025-26, ignoring surcharge, if any, and cess, is -
(a) ₹ 12,000 (b) ₹ 24,000
(c) ₹ 48,000 (d) Nil ✓
4. What is the tax liability on dividend income of Gamma Ltd. from Phi Ltd. during the P.Y.2024-25, assuming that both companies are primarily engaged in the business of leasing of an aircraft and have opted for section 115BAA?
(a) ₹ 61,913 (b) ₹ 1,23,827
(c) ₹ 1,36,209 (d) Nil ✓
5. Assuming that, for the purpose of this MCO, Alpha Ltd. and Beta Ltd. are banking units located in IFSC and both the companies are due to receive professional fee equivalent to ₹ 20 lakhs each in the P.Y. 2024-25, what is the tax deductible by the payer?
(a) Nil, Nil (b) Nil, ₹ 2 lakhs ✓
(c) ₹ 2 lakhs, Nil (d) ₹ 2 lakhs, ₹ 2 lakhs
6. Assuming that, for the purpose of this MCO, Alpha Ltd. is a qualifying company engaged in shipping business, by which date can it opt for the tonnage tax scheme, if its date of incorporation is 1.4.2022?
✓ (a) 30.6.2022 (b) 31.3.2032
(c) 30.6.2032 (d) 30.6.2033

Case Scenario II

On 01.05.2024, ABC Ltd. (a listed co.) offered right shares in the ratio of 1:10 at a value of ₹ 50 per share. One of the shareholders, Mr. Sahil had 50,000 shares of ABC Ltd. on the date of offer of rights issue. He retains 30% of the rights and renounced balance right shares in favour of his friend, Mr. Jay for ₹ 15 per share on 28.05.2024.

Mr. Sahil transferred 10,000 shares out of his original shares on 15.07.2024 for ₹ 65 per share. He had acquired these 10,000 shares at a cost of ₹ 2,38,000 on 21.6.2021. Further, Mr. Jay transferred the shares acquired from Mr. Sahil for ₹ 80 per share on 26.02.2025.

XYZ Pvt. Ltd. bought back 80,000 shares on 14.12.2024 at a value of ₹ 160 per share. Such shares were issued for ₹ 20 per share (₹ 10, being the face value and ₹ 10, being premium) during the F.Y. 2012-13. Such bought back include 6,250 shares of Mr. Sahil (which he acquired on 28.5.2022 for ₹ 36.80 per share) and 250 shares of Mr. Rahul (which was inherited from his father). Rahul's father acquired these shares on 24.5.2020 for ₹ 10 per share. Apart from this transaction, Mr. Rahul has income under head "Salaries" of ₹ 12,42,000 (computed), on which no tax is withheld by the employer. Assume Mr. Sahil does not have any other income for the P.Y. 2024-25. STT has been paid on shares of ABC Ltd.

From the information given above, choose the most appropriate answer of MCQs 7 to 12:

7. Is XYZ Pvt Ltd. required to pay additional income-tax on buy back of shares? If yes, what would be the amount of such additional income- tax?
- (a) No, it is not required to pay additional income-tax on buy back of shares, since it is an unlisted company.
 - (b) Yes, it is required to pay ₹ 26,09,152 as additional income-tax on buy back of shares.
 - ✓ (c) No, it is not required to pay additional income tax, since buy back takes place on or after 1.10.2024.
 - (d) Yes, it is required to pay additional income tax of ₹ 23,29,600.

8. Compute the amount of capital gains arising in the hands of Mr. Sahil during the P.Y. 2024-25?
- ✓ (a) Long-term capital gains of ₹ 1,82,000 and Short-term capital gains of ₹ 52,500
 - (b) Long-term capital gains of ₹ 4,12,000 and Short-term capital gains of ₹ 52,500
 - (c) Long-term capital gains of ₹ 2,87,000 and Short-term capital gains of ₹ 75,000
 - (d) Long-term capital gains of ₹ 57,000 and Short-term capital gains of ₹ 52,500
9. Compute the amount of tax liability in the hands of Mr. Sahil for the A.Y. 2025-26. Assume Mr. Sahil is paying tax under section 115BAC.
- (a) Nil
 - (b) ₹ 68,720
 - (c) ₹ 14,120
 - (d) ₹ 66,120 ✓
10. Compute tax liability of Mr. Jay for the A.Y. 2025-26. Assume he has salary income of ₹ 4,25,000 (computed) and he has opted out of the default tax regime.
- (a) Nil
 - (b) ₹ 7,020 ✓
 - (c) ₹ 4,290
 - (d) ₹ 6,750
11. Whether the income arising on buy back of shares taxable in the hands of Mr. Rahul? If yes, what amount, and under which head it would be taxable?
- (a) Income from buy back of shares would be exempt in the hands of Mr. Rahul by virtue of section 10(34A).
 - ✓ (b) ₹ 40,000 as deemed dividend under the head "Income from other sources" and long-term capital loss of ₹ 2,500 would arise.
 - (c) ₹ 37,500 as long-term capital gains under the head "Capital Gains".
 - (d) ₹ 37,500 as deemed dividend under the head "Income from other sources"

12. Compute total income and tax payable by Mr. Rahul for the A.Y. 2025-26. Assume he is paying tax as per section 115BAC.

- ✓ (a) Total Income – ₹ 12,82,000; Tax Payable – ₹ 96,260
- (b) Taxable Income – ₹ 12,79,500; Tax Payable – ₹ 99,740
- (c) Taxable Income – ₹ 12,82,000; Tax Payable – ₹ 1,00,256
- (d) Taxable Income – ₹ 12,79,500; Tax Payable – ₹ 95,740

13. GlobalTech Inc., a company incorporated in the USA, has global assets worth ₹50 crores and Indian assets worth ₹25 = 50% crores. Its turnover during the P.Y. 2024-25 is US \$ equivalent to ₹90 crores. Out of 10 board meetings held during F.Y. 2024-25, only 4 were held in India. However, key

Res.

management and commercial decisions for the conduct of the company's business as a whole were made in India at these meetings. Innovate Ltd., an Indian company, intends to remit fees for technical services to GlobalTech Inc. for providing services in relation to a project in India. Assume such fees is not paid under an agreement approved by the Central Government.

Determine the residential status of GlobalTech Inc. for the P.Y. 2024-25. Whether tax is required to be deducted on fees for technical services paid by Innovate Ltd. If yes, at which rate (ignore surcharge and cess)?

- (a) Non-resident; and tax is deductible @20% u/s 195.
- (b) Non-resident; and tax is deductible @35% u/s 195.
- ✓ (c) Resident; and tax is deductible @35% u/s 195.
- (d) Resident; and tax is deductible @10% u/s 194J.

14. The Statement of Profit & Loss of Tirupati Private Ltd., a domestic company engaged in manufacturing, shows net profit of ₹ 1,07,00,000 for the financial year ended on 31st March, 2025, after debit/credit of the following items.

A. Credited to the Statement of Profit and Loss:

- ⊗ (i) Rent received from vacant land ₹ 2,55,000 **IFOS**
- ⊗ (ii) Rent received (gross) from a commercial property owned by the company ₹ 5,30,000 (Tax deducted by tenant @ 10%) **IFHP**
- ⊗ (iii) Interest received on income tax refund ₹ 48,000 **IFOS**
- ⊗ (iv) Profit on sale of plot ₹ 8,00,000. **CG**
- ⊗ (v) Dividend from ABC Inc., New York, a wholly owned subsidiary in February, 2025 ₹ 6,00,000 **IFOS**

B. Debited to the Statement of Profit and Loss:

- ⊗ (i) Depreciation charged to the Statement of Profit and Loss ₹ 11,86,000.
- ⊗ (ii) Donation of ₹ 85,000 paid to Swachh Bharat Kosh. ~~80G~~
- 1.4L ✓ ⊗ (iii) Actual contribution to the pension scheme of employees: ₹ 1,90,000
- 0.5L ✓ ⊗ (iv) Payment made to transporter ₹ 68,000 by account payee cheque, but no tax has been deducted at source. (Transporter is having PAN and furnished declaration that he is covered under section 44AE and not having more than 10 goods carriages at any time during the previous year).
- ⊗ (v) Bonus to employees ₹ 4,48,000. However, payment was made on 18th December, 2025.
- ⊗ (vi) Provision made for income-tax ₹ 4,20,000 (including interest of ₹ 70,000 thereon)
- ⊗ (vii) Contribution of ₹ 1,00,000 to a University approved and notified under section 35(1)(ii).
- ⊗ (viii) Int. of ₹ 1,50,000 on loan borrowed for acquiring shares in ABC Inc., New York **IFOS (Exp.)**

Additional information:

UBE

(1) Depreciation as per the Income-tax Act, 1961 ₹ 18,00,000. However, while calculating such depreciation, rate applicable to computers has been adopted for (i) accessories like printers and scanners, and (ii) EPABX. The written down value of these items as on 01.04.2024 is given below:

(a) Printers and Scanners ₹ 3,00,000

(b) EPABX ₹ 5,00,000

⊗
115 BAA

(2) Additional depreciation on plant and machinery purchased for ₹ 34,00,000 on 18th November, 2024 has not been considered while calculating depreciation as per Income-tax Act, 1961 as above.

UBE

(3) Provision for audit fee ₹ 1,00,000 was made in the books for the year ended on 31st March, 2024 without deducting tax at source. Such fee was paid to auditors in October 2024 after deducting tax at source under Section 194I and tax so deducted was deposited on 12th December, 2024.

UBI

(4) During the financial year 2023-24, the company made a provision for an outstanding bill of ₹ 90,000 for purchase of raw material. Out of such outstanding amount, the company paid ₹ 45,000 in cash on 20th August, 2024.

~~IFOS~~

(5) During the year, the company has issued 1,00,000 equity shares of face value of ₹ 10 each at premium of ₹ 90 each. The fair market value is ₹ 60 per share at the time of issue of shares.

(6) Plot was sold in March, 2025 for ₹ 58,00,000 was acquired by the company in January, 2023 for ₹ 50,00,000.

● (7) The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.

80M

(8) The company declared interim dividend @10% of share capital being ₹ 5,20,000 in September, 2024.

(9) Cost Inflation Index – FY 2022-23: 331; FY 2024-25: 363
Compute total income and tax liability of Tirupati Private Limited as per section 115BAA for the Assessment Year 2025-26 stating reasons for treatment of each item.

15. Vatsal, Vihaan & Vayu are equal partners of VSK & Co., which was formed w.e.f. 01.06.2024. The firm is an authorized dealer of shoes manufactured by a reputed company. It reported Net Profit as per profit and loss account of ₹ 4,50,000 after debit / credit of the following items:

⊗ (i) Depreciation on generator and computers ₹ 1,10,000.

⊗ (ii) Working partners' salary ₹ 82,000 per month for each partner. $82000 \times 10m \times 3m$

6% ⊗ (iii) Interest on capital to partners @ 18% per annum. The total interest on capital of the firm debited to profit and loss account being ₹ 3,60,000.

⊗ (iv) Donation to registered political parties ₹ 80,000 by cash and ₹ 70,000 by electronic transfer. $8044C$

216K
90K 126K
✓ ⊗ (v) Monthly rent paid to partner Vatsal for use of his premises as godown ₹ 36,000 per month and it is occupied from 01.10.2024. The market rent for the premises is ascertained at ₹ 15,000 per month. No tax was deducted at source on the rent paid.

✓ (vi) The firm incurred ₹ 5 lakhs by way of expenditure towards the cost of gold coins awarded to customers on the first day of their showroom inauguration. The cost of each gold coin was less than ₹ 10,000 and one coin was given to each buyer on that day selected through lucky draw. No tax was deducted at source on such gold coins given to the customers.

Additional information:

UBE (i) Depn. on tangible assets allowable u/s 32 ₹ 2,43,000.

Depn. UBE (ii) One registered trademark was acquired on 10.07.2024 for ₹ 3,00,000. The firm used the trademark w.e.f. 01.12.2024 since there was some dispute in title of the previous owner and was cleared through court decree only in November 2024.

(iii) All the partners are working partners, and the salary and interest are authorized by the partnership deed.

You are required to compute the total income of the firm for the A.Y. 2025-26.

XYZ $\xrightarrow{\text{Donation}}$ ABC

16. XYZ Charitable Trust, registered under Section 12AB, derives income from property held under trust of ₹ 500 lakh during the financial year 2024-25. The trust decides to pay an amount ₹ 200 lakh to another trust, ABC Educational Trust, which is also registered under Section 12AB.

I. (a) How much the amount paid by XYZ Charitable Trust will be considered as an application of income for charitable purposes, if such contribution is given -

85% (170L)
Applied

(i) with a direction that the same shall be used for general charitable purposes and not as corpus.

Not Treated
as Applied

(ii) with a specific direction that the amount shall form part of its corpus.

Not Treated
as Applied

(b) Would your answer change to the above questions, if such amount is paid out of accumulations of XYZ trust. If yes, what other tax implications arise in its hands. Ex. w/d 30% Tax u/s 115BBI

Ex. if
Invested
u/s 11(5)

II. Also, examine the conditions which ABC Educational trust require to satisfy for not including the amount received from XYZ Charitable trust with specific direction for forming part as corpus in its total income. What other tax implications arise in the hands of ABC Educational trust if such conditions are not satisfied.

Otherwise, Taxable [30% Tax u/s 115BBI]

17. Mr. Amit, an Indian resident, invested in Virtual Digital Assets (VDAs) such as cryptocurrencies and Non-fungible Tokens (NFTs).

On 15 April, 2024, he purchased 1 Bitcoin (BTC) for ₹ 60 lakhs. His friend, Sushil gifted him NFTs (the transfer of these tokens does not result in transfer of underlying tangible asset) having FMV of ₹ 5 lakhs on his birthday on 16.8.2024. Sushil has bought these NFTs for ₹ 4.5 lakhs. Amit also buys NFTs worth ₹ 10 lakhs on 16.11.2024.

Due to some financial need, on 1.12.2024, he sold 0.5 BTC for ₹ 28 lakhs and NFTs received from friend for ₹ 6.50 lakhs. He incurred expenses of 0.1% on transfer of BTC and NFTs.

He has other income of ₹ 6,50,000 during the P.Y. 2024-25. Compute the tax payable by Mr. Amit for A.Y. 2025-26 assuming he has exercised the option to shift out of section 115BAC.

18. During the previous year 2024-25, Mr. Vivek, a non-resident became partner in a partnership firm M/s Pal & Co., India and contributed ₹ 50 lakhs towards capital. He was paid interest @10% as interest on capital and his profit share every year by the firm, as per the terms of the partnership deed. In the P.Y. 2024-25, his profit share was ₹ 4 lakhs. During the P.Y. 2024-25, firm paid ₹ 5 lakhs to Mr. Vikas, (a non- resident) friend of Mr. Vivek towards fees for technical services (FTS) for rendering of services for a project in India. Mr. Vivek and Mr. Vikas both are the resident of Country X.
- (i) As a tax consultant for M/s Pal & Co., India, you need to advise the firm regarding tax deduction at source on the payments (i.e., interest on capital and share of profit) made to Mr. Vivek and FTS payment to Mr. Vivek, considering that India has no DTAA with Country 'X'. In case tax is not deductible at source, is there any other related requirement to be complied with by the firm?
- (ii) If India has a DTAA with Country 'X' providing for deduction of tax at 10% in respect of FTS then, what is the remedy available in case M/s Pal & Co., India has deducted tax at the requisite rate provided under the Income-tax Act, 1961?
19. Mr. Bhuvan proposes to purchase for his business, certain raw materials from Mr. Srinivas. In view of the scarcity of the products, Srinivas insists on cash payments for the purchases, to which Bhuvan agrees. On 27-3-2025, the purchases are effected through a cash invoice for ₹ 3,20,000.
- In respect of the above transactions, will there be any detrimental effect in the hands of Bhuvan and Srinivas under the provisions of the Income-tax Act, 1961? Explain briefly. Will your answer be different, if the cash purchases are effected by the buyer Bhuvan on two different dates for different raw materials for ₹ 1,80,000 and ₹ 1,40,000 respectively?

20. Mrs. Sudha Sharma, aged 61 years, is married and settled in Calcutta. She is a Hindustani classical singer and composer who performs concerts in India and Country M. She visits Country M every year during the music season in October to participate in the Mega music concert held there. For the rest of the year, she performs concerts in India.

Income from concerts held – In India - ₹ 10 lakhs

In Country M - CMD 12,245

Tax deducted in Country M in October, 2024 in respect of income earned by her in that country was 2500 CMD.

She earns income of CND 10000 by way of royalty in respect of copyright of her musical compositions in Country N. The royalty is paid to her every year on 25th March after deduction of tax@10%.

In India, she has interest income of ₹ 4 lakhs from bank fixed deposits in her name and ₹ 25,000 from savings bank account. She pays medical insurance premium of ₹ 27,000 to insure her health and ₹ 30,000 to insure the health of her husband, a resident aged 64 years. She deposits ₹ 1.50 lakhs in public provident fund and ₹ 3 lakhs in five-year fixed deposit in the name of her son, Mr. Sahil.

The conversion rates are as follows –

TT buying rate	30.9.24	31.10.24	28/2/25	31.3.25
Country M dollar (CMD)	₹ 80	₹ 84	₹ 78	₹ 80
Country N dollar (CND)	₹ 80	₹ 82	₹ 78	₹ 79

India has no double taxation avoidance agreement with Country M but has a DTAA with Country N.

Relevant Extracts of DTAA between "India - Country N"

ARTICLE 12

ROYALTIES AND FEES FOR TECHNICAL SERVICES

1. Royalties and fees for included services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

Article 23

ELIMINATION OF DOUBLE TAXATION

3. The amount of tax paid, under the laws of Country N and in accordance with the provisions of the Agreement, whether directly or by deduction, by a resident of India, in respect of income from sources within Country N which has been subjected to tax both in India and Country N shall be allowed as a credit against the Indian tax payable in respect of such income but in an amount not exceeding that proportion of Indian tax which such income bears to the entire income chargeable to Indian tax.

Compute the total income and net tax liability (taking into account the foreign tax credit) of Mrs. Sudha Sharma for A.Y. 2025-26, if she has opted out of the default tax regime.

21. Manan who remained in Country X returned to India permanently in 1st February 2024. He has a house property in Country X from which he earned and received rental income of Country X \$ 30,000 and Country X \$ 34,000 for the year ended 31st March, 2024 and 31st March, 2025, respectively, in bank account maintained in Country X. He is eligible for basic exemption limit of Country X \$ 18,200 and on the balance income, he paid income-tax for both the years @ 20% in Country X. The tax was paid for the let out property on income earned in Country X for both the years on 5th April 2024 and on 10th April 2025, respectively, from his bank account in India. His income from business in India is ₹ 12,50,000 for the year ended 31-03-2025.

He transferred land situated in Indore on 23.12.2024 to Mr. Sarthak for ₹ 80,00,000, which he acquired on 18.5.2022 for ₹ 30 lakhs. Cost Inflation Index – FY 2022-23: 331; FY 2024-25: 363

The exchange rate of 1 Country X Dollar on various dates is given below:

31st March 2024 = ₹ 80;

05th April 2024 = ₹ 80.50;

31st December 2024 = ₹ 81;

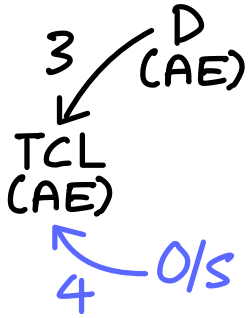
31st March 2025 = ₹ 82;

10th April 2025 = ₹ 81.50 and

31st December 2025 = ₹ 83

Compute the tax liability of Manan in India for assessment year 2025-26 under default tax regime.

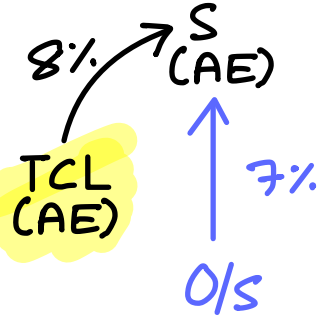
22. Triveni Cement Ltd. (TCL) is an Indian company, having its head office at Chennai. For the P.Y. 2024-25, it furnished the following information of certain entities and the transactions undertaken with these companies:



— Drift Inc. is a wholly owned foreign subsidiary in Japan of TCL. It is currently paying royalty of USD 3 million per annum to TCL for supply of know-how. For similar supply of know how to Elite LLC., a wholly owned Government Company in Japan, TCL receives annual royalty of USD 4 million. (1 USD = ₹ 82).

— TCL has borrowed a sum of equivalent of ₹ 220 crores from Swift Inc., Dubai on 1.4.2024. On this date, the assets position of TCL was as under:

	(In ₹ Crores)	
Type of assets	Market value	Book value
Tangible fixed assets	350	270
Intangible assets	30	25
Other assets	40	35



Swift Inc., has charged interest at 8% and TCL has paid interest of ₹ 17.6 crores for the year ended 31.3.2025. Though the normal lending rate of Swift Inc. was 7% per annum to other parties, in view of the urgent requirement of funds and pressing financial commitments, TCL decided to borrow this amount then.

— TCL supplies goods to True Words Ltd. (TWL), in Singapore. The paid-up capital of TWL in foreign currency equivalent is ₹ 92 crores. TCL holds shares to the tune of ₹ 22 crores in TWL. The voting power in the company is directly proportional to the number of shares held.

< 26%
(Not AE)

You are required to examine the various transactions entered into by TCL and determine the applicability of transfer pricing provisions for each transaction. Ignore provisions of section 94B, if applicable, in this case.

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