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CA FINAL (May 2026)

GROUP II – PAPER 4

DIRECT TAX LAWS & INTERNATIONAL TAXATION

(Series 3)

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. 2026-27 unless stated otherwise in the question.

PART – I (MCQs)

All MCQs are compulsory

Question no. 1-15 carry 2 marks each

Case Study 1

The following are the details about Alpha Co-operative society (referred to as Alpha Co-op), Beta Co-operative Society (referred to as Beta Co-op) and Gamma Co-operative Bank (referred to as Gamma Co-op) for the P.Y.2025-26:

Alpha Co-op is engaged in providing credit facilities solely to its members, the profits and gains from which is ₹ 20 lakhs (computed) for the P.Y.2025-26. Alpha Co-op also derives interest of ₹ 3 lakhs from investments in Delta Co-operative Society.

Beta Co-op is engaged in marketing of agricultural produce grown by its members, the profits and gains from which is ₹ 40 lakhs (computed) for the P.Y.2025-26. It has employed 8 new employees with salary of ₹ 22,000 p.m. on 1.6.2025. Salary is paid by ECS through bank account. It gets its books of accounts audited under section 44AB. It also earns interest of ₹ 12 lakhs on fixed deposits with Axis Bank and ICICI Bank.

Gamma Co-op is engaged in banking business in Bangalore, the profits and gains from which is ₹ 110 lakhs (computed) for the P.Y.2025-26. It also gets its books of account audited under section 44AB. It is not a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

You are required to answer the following:

1. **Would Alpha Co-op and Gamma Co-op be entitled to deduction under section 80P for A.Y.2026-27, if they do not opt for section 115BAD?**

- (a) Alpha Co-op is entitled to deduction u/s 80P only in respect of interest of ₹ 3 lakhs and not in respect of profits and gains of ₹ 20 lakhs. Gamma Co-op is not entitled to deduction u/s 80P.
- (b) Alpha Co-op is entitled to deduction u/s 80P only in respect of profits and gains of ₹ 20 lakhs and not in respect of interest of ₹ 3 lakhs. Gamma Co-op is entitled to deduction u/s 80P in respect of profits and gains of ₹ 110 lakhs.

- (c) Alpha Co-op is entitled to deduction u/s 80P both in respect of profits and gains of ₹ 20 lakhs and interest of ₹ 3 lakhs. Gamma Co-op is entitled to deduction u/s 80P in respect of profits and gains of ₹ 110 lakhs
- (d) Alpha Co-op is entitled to deduction u/s 80P both in respect of profits and gains of ₹ 20 lakhs and interest of ₹ 3 lakhs. Gamma Co-op is not entitled to deduction u/s 80P.
2. **Would the provisions of alternate minimum tax (AMT) be attracted in case of Alpha Co-op, Beta Co-op and Gamma Co-op for A.Y.2026-27, if they do not opt for section 115BAD?**
- (a) Yes, the AMT provisions would be attracted in case of Alpha Co-op, Beta Co-op and Gamma Co-op
- (b) The AMT provisions would be attracted only in case of Alpha Co-op and Gamma Co-op
- (c) The AMT provisions would be attracted only in case of Alpha Co-op and Beta Co-op
- (d) The AMT provisions would be attracted only in case of Beta Co-op.
3. **What would be the tax liability (rounded off) of Beta Co-op for A.Y.2026-27, if it opts for section 115BAD? It may be assumed that the gross total income is the same under the normal provisions of the Act and section 115BAD.**
- (a) ₹ 1,69,130
- (b) ₹ 3,02,020
- (c) ₹ 10,68,950
- (d) ₹ 11,75,850.
4. **What would be the tax liability (rounded off) of Beta Co-op for A.Y.2026-27, if it does not opt for section 115BAD? AMT provisions, if applicable, have to be considered.**
- (a) ₹ 1,87,200
- (b) ₹ 2,06,540
- (c) ₹ 2,30,880
- (d) ₹ 8,11,200
5. **Would it be beneficial for Alpha Co-op, Beta Co-op and Gamma Co-op to opt for section 115BAD for A.Y.2026-27? It may be assumed that the gross total income is the same under the normal provisions of the Act and section 115BAD in all cases.**
- (a) It would be beneficial for Alpha Co-op and Gamma Co-op to opt for section 115BAD, but not for Beta Co-op.
- (b) It would not be beneficial for Alpha Co-op, Beta Co-op and Gamma Co-op to opt for section 115BAD
- (c) It would be beneficial for Alpha Co-op to opt for section 115BAD, but not for Beta Co-op and Gamma Co-op.
- (d) It would be beneficial for Gamma Co-op to opt for section 115BAD, but not for Alpha Co-op and Beta Co-op.

Case Study 2

The Assessing Officer surveyed TR & Hotels, which was within his jurisdiction, at 11:30 p.m. on 15.8.20XX for the purpose of obtaining information which may be relevant to the proceedings under

the Income-tax Act, 1961. The restaurant is kept open for business every day between 11 a.m. and 12 a.m.

On 25.8.20XX, the Assessing Officer entered RR & Hotels which was also within his jurisdiction at 9:15 p.m. for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. This Restaurant is kept open for business every day between 7 am to 10:30 pm.

In both the above cases, the Assessing Officer impounded and retained in his custody for a period of 18 days (exclusive of holidays), books of account and other documents inspected by him, after recording reasons for doing so. The Assessing Officer, however, did not take prior permission from income-tax authority equivalent to Commissioner or above for doing so.

The owners of these restaurants claim that the Assessing Officer could not enter the restaurants after sunset and take away with him the books of account kept at the restaurants. The owners also claimed that the Assessing Officer ought to have obtained the prior approval of income-tax authority equivalent to Chief Commissioner or above before entering the restaurants.

You are required to answer the following:

- 6. Is the action of the Assessing Officer entering TR & Hotels at 11:30 pm valid?**
- A. Not valid, since Assessing Officer entered the restaurant after the sunset.
 - B. Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained for survey.
 - C. Not valid, since prior permission of income-tax authority equivalent to Chief Commissioner or above is not obtained by the Assessing Officer though he entered during the hours at which such place is open for the conduct of business.
 - D. Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above was not obtained.
- 7. Would your answer to Question no. 1 change if the Assessing Officer had surveyed TR & Hotels only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?**
- A. The action of Assessing Officer is not valid, since he entered the place after sunset and permission of income-tax authority equivalent to Chief Commissioner or above is not obtained.
 - B. The action of Assessing Officer is valid, since he entered the place during the hours at which such place is open for conduct of business and permission of Chief Commissioner or above authorities not required to be obtained.
 - C. The action of Assessing Officer is not valid, since he has not obtained the permission of Chief Commissioner.
 - D. The action of Assessing Officer is not valid, since he entered the place after 10 pm.
- 8. Is the action of the Assessing Officer entering RR & Hotels at 9:15 pm valid?**
- A. Not valid, since Assessing Officer entered the restaurant after the sunset.
 - B. Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained.
 - C. Not valid, since prior permission of Chief Commissioner or above is not obtained by the Assessing Officer though he entered the place during the hours at which such place is open for the conduct of business.

- D. Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above is not obtained.
9. **Is the action of the Assessing Officer in impounding and retaining in his custody books of account and other documents of TR & Hotels, after recording reasons for doing so, without taking prior permission from income-tax authority equivalent to Commissioner or above, valid?**
- A. The action of Assessing Officer is not valid, since prior approval of Commissioner or above authority is not obtained.
- B. The action of Assessing Officer is valid.
- C. The action of Assessing Officer is not valid, since prior approval of Joint Commissioner is not obtained.
- D. The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents for a period exceeding 10 days.
10. **Would your answer to MCQ 4 change if the Assessing Officer had surveyed TR & Hotels only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?**
- A. The action of Assessing Officer is not valid, since prior approval of Commissioner or above is not obtained.
- B. The action of Assessing Officer is valid.
- C. The action of Assessing Officer is not valid, since he cannot impound or retain books of accounts or other documents.
- D. The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents for a period exceeding 10 days.

Case Study 3

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. 2025-26 is ₹ 62,500, ₹ 87,300 and ₹ 21,800, respectively. The interest expenditure incurred by him during the P.Y. 2025-26 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, 2022. 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, 2023. The rate of interest is 8% p.a. Dividend of ₹ 5,41,200 is due to be received in January, 2026 by Gamma Ltd. from Phi Ltd., which is also a company located in GIFT IFSC. The same was received on 28th January, 2026.

Alpha Ltd. has started availing benefit of deduction u/s 80LA(1A) from A.Y. 2024-25 while Beta Ltd. has not started availing the benefit even though it has commenced operations on 1.4.2022. Alpha Ltd. furnished the declaration to the payers about the claim of deduction under section 80LA(1A)/(2) for the P.Y. 2025-26

You are required to answer the following:

11. What is the tax liability on dividend income of Mr. Devansh during the P.Y.2025-26? Ignore surcharge and cess.
- (a) ₹ 4,360
 - (b) ₹ 15,522
 - (c) ₹ 17,160
 - (d) ₹ 19,340
12. The tax liability on interest income of Mr. Devansh from loan to Gamma Ltd. for the A.Y.2026-27, ignoring surcharge, if any, and cess, is-
- (a) Nil
 - (b) ₹ 25,000
 - (c) ₹ 50,000
 - (d) ₹ 1,00,000
13. The tax liability on interest income of Mr. Devansh on deposit made with an IFSC banking unit in SEZ for the A.Y.2026-27, ignoring surcharge, if any, and cess, is -
- (a) ₹ 12,000
 - (b) ₹ 24,000
 - (c) ₹ 48,000
 - (d) Nil
14. What is the tax liability on dividend income of Gamma Ltd. from Phi Ltd. during the P.Y.2025-26, 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
15. Assuming that, for the purpose of this MCQ, 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. 2025-26, what is the tax deductible by the payer?
- (a) Nil, Nil
 - (b) Nil, ₹ 2 lakhs
 - (c) ₹ 2 lakhs, Nil
 - (d) ₹ 2 lakhs, ₹ 2 lakhs

PART - II (Descriptive Questions)

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

Question 1

(14 Marks)

On, 1.4.2025, Binu Ltd. of Delhi, a domestic company, engaged in the business of manufacturing of metro rail seats, converted into an LLP by name M/s. Soumya LLP fulfilling all the conditions specified in section 47(xiii b) of the Income-tax Act, 1961. Some of the relevant information is given below in respect of Binu Ltd., as on 31.3.2025:

- (a) Voluntary Retirement Scheme (VRS) expenditure incurred by the company during the PY 2023-24 is ₹ 20 lakhs. The company was allowed deduction of ₹ 4 lakhs each for the PYs 2023-24 & 2024-25 under section 35DDA.
- (b) 150 equity shares in Toyo Ltd., an Indian company listed in Bombay Stock Exchange was acquired for ₹ 1,900 per share on 10.1.2018. On conversion, these shares become the property of M/s. Soumya LLP.
- (c) Besides other assets transferred to M/s. Soumya LLP by M/s. Binu Ltd., it also transferred two factory buildings. On 1.4.2025, M/s. Soumya LLP leased out one factory building along with plant and machineries and furniture etc. at a consolidated lease rent of ₹ 50,000 per month.

During the previous year 2025-26, the M/s. Soumya LLP earned a profit of ₹ 25,40,000 after debit/credit of the following items to its Profit and loss account:

- (i) Mr. Binu is the working partner of the LLP. He is also a working partner in another firm. He is actively engaged in the business of both the firms. Binu gets, a salary of ₹ 55,000 p.m. from M/s. Soumya LLP and the same is authorised in the deed of LLP.
- (ii) Mr. Ayushman, an employee, was deputed to work in the client's office in Mumbai for three months. The LLP has paid his salary in cash for the months when he was in Mumbai, amounting to ₹ 3,45,000 (net of TDS and other deductions), since he did not have a bank account in Mumbai. This payment was included in amount of "salary" debited to profit and loss account. Mr. Ayushman is normally posted in Delhi being the headquarter of M/s. Soumya LLP.
- (iii) Amount of ₹ 25,000 was paid towards penalty for non-fulfilment of delivery conditions of a contract for sale for the reasons beyond its control.
- (iv) The LLP had provided an amount of ₹ 18 lakhs being the sum estimated as payable to workers based on agreement to be entered with workers union towards periodical wage revision once in 3 years. The provision, is based on a fair estimation of wage and reasonable certainty of revision once in 3 years.
- (v) Depreciation debited to profit and loss account ₹ 5,40,000.
- (vi) Gratuity provisions based on actuarial valuations ₹ 6.5 lakhs. (Gratuity actually paid ₹ 4 lakhs to retired employees debited in Gratuity provision account).
- (vii) Profit on sale of shares of M/s. Toyo Ltd. ₹ 1,27,500. These shares were sold on 31.12.2025 for ₹ 2,750 per share. The highest price of Toyo Ltd. quoted on the stock exchange as on 31.1.2018 was ₹ 2,500 per share.
- (viii) Repairs to plant and machinery include ₹ 59,000 in respect of plant and machinery given on lease.
- (ix) Factory licence fee paid ₹ 15,000 for each factory building.

(x) Legal fee includes ₹ 26,000 paid to an advocate for drafting and registering the lease agreement.

Additional Information:

- (1) Under an agreement of debt restructuring, the bank has converted unpaid interest amounting to ₹ 9,00,000 up to 31.7.2025 into a new loan account repayable in 3 equal annual instalments. The first instalment was paid in March 2026 by debiting the new loan account.
- (2) Mr. Binu, being a working partner, bought a car which is registered in his own name out of the funds of LLP. The car was used exclusively for the purposes of the business of the LLP only. The depreciation on the car amounts to ₹ 15,000 for the PY 2025-26 which is not included in the depreciation amount debited to profit and loss account.
- (3) Depreciation as per Income-tax Rules ₹ 8,10,000 (including depreciation on the assets given on lease amounting to ₹ 90,000). It does not include depreciation on car.
- (4) The LLP sold import entitlements on 1.5.2025 for ₹ 1,50,000. This sum is not included in profit and loss account by treating it as capital receipt.

You are required to discuss the implication of such conversion and calculate the total income in the hands of M/s Soumya LLP for the Assessment Year 2026-27.

Question 2A

(8 Marks)

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 6th year of operations ended on 31st March, 2026:

	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 2024-25) 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 2026-27.

Question 2B

(6 Marks)

Examine in the context of provisions contained under the Income-tax Act, 1961, each of the following independent cases and state in brief whether there exists business connection in each of the cases in India so as to bring the income earned, if any, to tax net in India:

- (i) ABC Ltd., a company resident in Dubai, had set-up a liaison office at Mumbai to receive trade

inquiries from customers in India. The work of the liaison office is not only restricted to forwarding of the trade inquiries to ABC Ltd. but the liaison office also negotiates and enters into the contracts on behalf of ABC Ltd. with the customers in India.

- (ii) XYZ Inc. a resident of USA, has set up a branch at Hyderabad for the purpose of purchase of raw materials for manufacturing its products. The branch office is also engaged in selling the products manufactured by XYZ Inc. and in providing sales related services to customers in India on behalf of XYZ Inc.
- (iii) Mr. Rajesh, a resident in India and based at Delhi, is appointed as an agent by PQR Inc. a company incorporated in UK for tracking Indian markets. He was canvassing order & then communicating to PQR Inc. in UK. He had no authority to accept the orders. All the orders were directly received, accepted and after receipt of the price/value, the delivery of goods was given by PQR Inc. outside India. No purchase of raw material or manufacturing of finished goods took place in India. The agent was entitled to receive the commission on the sales so concluded by PQR Inc.

Question 3A

(8 Marks)

The following particulars pertaining to the Previous Year 2025-26 are furnished to you by the trust:

		(₹) in crores
(1)	Gross receipts from students towards admission fees, tuition fees, development fees, etc.	145.00
(2)	Dividend received on units of mutual funds specified in section 10(23D)	12.00
(3)	Donations received (including corpus donations of ₹ 8.50 crores and anonymous donation ₹ 2.50 crores). The corpus donation is invested in modes specified under section 11(5).	20.00
(4)	Government Grant	9.50
(5)	Amount applied for the purposes of schools. This includes ₹ 15 crores paid to resident teachers and contractors on which TDS is required to be deducted under section 192 and 194C and TDS has not been deducted	92.25
(6)	Purchase of computers and laboratory equipment	18.50
(7)	Corpus Donation given to a trust registered under section 10(23C)	3.00
(8)	The institution has accumulated ₹ 35 crores under section 11(2) in the previous year 2023-24 for a period of two years for acquiring and developing a plot of land for construction of a new school. Only land was purchased for ₹ 22 crores and no development was made during the two years	
(9)	Excess of expenditure over income in the previous year 2024-25	28.00
(10)	Repayment of loan taken earlier for the construction of school building	10.00

Compute total income of the trust for the Assessment Year 2026-27.

Question 3B

(6 Marks)

Mr. S is a performing musician, resident of India. He has following income for year ended 31.3.2026.

- (1) Income from music performances in India ₹ 5,00,000.
- (2) Income from Country A with which India does not have any Double Taxation Avoidance Agreement ₹ 5,00,000. Tax deducted from this income was at 20%.
- (3) Income from Country B during January 2025 ₹ 1,00,000, July 2025 ₹ 1,00,000 and January 2026 ₹

3,00,000.

Tax withheld by Country B is at 10%.

Country B follows Calendar Year for its tax purposes. India has entered into a Double Taxation Avoidance Agreement with Country B.

- (4) Rent received from his property at Chennai ₹ 30,000 per month.
- (5) Contribution to PPF is ₹ 1,50,000.

Compute tax payable by Mr. S for the Assessment Year 2026-27, assuming that he opted out of the default tax regime under section 115BAC.

Question 4A

(8 Marks)

Examine the applicability of Tax Deducted at source and calculate the amount of TDS in the following independent cases:

- (i) Raj Keshri Hotels and Resorts Limited is engaged in business of owning, operating and managing hotels. The tips are paid by the guests by way of charge to the Credit Cards, UPI or Net Banking in the bills. The company disburse the same to the employees at periodic intervals. Explain with reason whether the company is responsible for deducting tax at source from disbursement of tips to its employees.
- (ii) Lalit, an individual whose total sales in business during the year ended 31.3.2025 was ₹ 1.50 crores, opted to compute income under section 44AD for A.Y. 2025-26. He paid ₹ 5,00,000 by cheque on 1.2.2026 to a contractor (an individual), for construction of his factory building. No amount was credited earlier to the account of the contractor in the books of Lalit.

He also pays a monthly rent starting from 1st April, 2025 to 31st March, 2026 of ₹ 46,000 p.m. for the office premises to Mr. Hemant, the owner of building. Besides, he also pays service charges of ₹ 6,000 per month to Mr. Hemant towards the use of furniture, fixtures and vacant land appurtenant to office. Examine the obligation of tax deducted at source for A.Y.2026-27.

- (iii) XY and Co., a partnership firm selling its products 'R' through the digital facility provided by ABC Limited (an E-commerce Operator). On 28th February, 2026, ABC Limited credited in its books of account, the account of XY and Co. with a sum of ₹ 4,90,000 for the online sale of products 'R' made during the month of February 2026.

The company released a payment of ₹ 4,30,000 on 6th March 2026 to XY and Co. out of above sales made during February. Mr. Rai, who purchases products 'R' through the digital facility of ABC Limited made payment of ₹ 60,000 directly to XY and Co. on 15th March, 2026.

Question 4B

(6 Marks)

Examine the following transactions and discuss whether the transfer price declared by the following assessee, who have exercised a valid option for application of safe harbour rules, can be accepted by the Income-tax Authorities:

	Assessee	International transaction	Aggregate value of transactions entered	Declared Operating Profit Margin	Operating Expense
(1)	TechMitra Solutions Ltd., an Indian	Provision of system support services to BlueOrbit Systems Inc., which hold 30% voting power in	₹ 99 crore	₹ 8 crore	₹ 50 crore

	company	TechMitra Solutions Ltd.			
(2)	NextEra Systems India Ltd., an Indian company	Provision of data processing services with the use of information technology to NeuroCore Technologies Inc., its foreign subsidiary.	₹ 265 crore	₹ 45 crore	₹ 225 crore
(3)	Pragati & Co., a partnership firm registered under the Partnership Act, 1932	Provision of contract R & D services relating to development of internet technology, to Stratosphere Innovations Inc., a foreign firm, which holds 12% interest in Pragati & Co.	₹ 175 crore	₹ 50 crore	₹ 250 crore

In all the above cases, it may be assumed that the Indian entity which provides the services assumes insignificant risk. It may also be assumed that the foreign entities referred to above are non-resident in India.

Would your answer change, if in any of the cases mentioned above, the foreign entity is located in a notified jurisdictional area?

Question 5A

(8 Marks)

- (i) Anustup Chandra Textiles Ltd., had borrowed a sum of ₹ 2 crores from a bank during the period when its business was being set up. From the surplus funds, it made short-term deposits and earned interest of ₹ 3 lakhs. The assessee claimed that it was not a revenue receipt but a capital receipt, since the interest was earned prior to commencement of business and in any case, the interest received would be offset by the interest paid on the loan borrowed. The Assessing officer negative the claim of the assessee. Is the AO justified in his action?
- (ii) Ghosh Group of Educational Institutions||, running three famous colleges in Kolkata, claimed exemptions under section 10(23C). In all these three colleges, there is a net surplus after meeting all its expenses. The Assessing Officer (AO) rejected the claim for exemption on the ground that the presence of net surplus leads to the inference that the assessee-institution does not exist solely for educational purposes. Is the rejection of the AO justified in law?

Question 5B

(6 Marks)

Explain the term "Exchange of information" as per Article 26 of Model Tax Conventions under OECD Model and UN Model and explain importance of Article 26.

Question 6A

(6 Marks)

ABC Ltd. is engaged in transportation of building material and transportation of goods to contractors. It made payment for hiring dumpers for this purpose. The company has not deducted tax at source on the ground that since the payment was for transportation of goods and not renting out machinery and equipment, such payments could not be termed as rent paid for use of machinery under section 194-I and hence, no tax was deductible at source.

The tax auditor is, however, of the view that the transactions being in the nature of contracts for shifting of goods from one place to another would be covered under works contracts, thereby attracting the provisions of section 194C. He relied upon the Gujarat High Court ruling in CIT (TDS) v. Shree

Mahalaxmi Transport Co. (2011) 339 ITR 484.

What is the reporting responsibility of the tax auditor in such a case and the consequent ethical implications? Examine.

Question 6B

(4 Marks)

Examine whether General Anti-Avoidance Rules (GAAR) can be invoked to deny the treaty benefit in the following case, assuming that all other conditions prescribed for application of GAAR are being satisfied:

Yan Ltd is a company incorporated in country C1. Yan Ltd incorporates 100% subsidiary company Y Ltd in country A. X Ltd, an Indian Company and Y Ltd (100% subsidiary of YAN Ltd) located in country "A" formed a joint venture company XY Ltd in India. As per the joint venture agreement, 51% of shares are held by X Ltd and 49% are held by Y Ltd in XY Ltd. There is no other business activity in Y Ltd.

Y Ltd is designated as Permitted Transferee of YAN Ltd. Permitted Transferee means though shares of XY Ltd are held by Y Ltd, all rights of voting, management, right to sell etc. are vested with YAN Ltd.

The shares held by Y Ltd in XY Ltd are sold to P Ltd which is a group company of X Ltd. As per the tax-treaty between India and Country "A", there is no tax for capital gains either in source country or in Country "A". Consequently, the capital gains arising to Y Ltd are not taxable in India.

Question 6C

(4 Marks)

The Board for Advance Rulings has the powers of compelling the production of books of account – Examine the correctness or otherwise of this statement.