PART I : MCQ ANSWERS — 30 MARKS

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

PART II : DESCRIPTIVE SOLUTIONS 70 MARKS

Question : 1(a) 14 Marks

Computation of Total Income of M/s Cure Ltd. for the Assessment Year 2024-25 under normal provisions of the Act

	Particulars	Rs.	Rs.
I	Profits and gains from business or profession		
	Net profit as per statement of profit & loss		95,45,000
	Add: Item debited but to be considered separately or disallowed		
	(a) Expenditure for public issue of shares [Share issue expenses is a capital expenditure, even though it could not go in for public issue on account of non-clearance by SEBI. Such expenditure was incurred only for the purpose of expansion of the capital base of the company. Since the same has been debited to statement of profit and loss, it has to be added back]	6,00,000	
	(b) Payment to micro enterprise for purchases [As per section 43B(h), no deduction shall be allowed for any sum payable by an assessee to a micro or small enterprise unless such sum is actually paid, where a due date of payment is agreed upon in writing, within such due date, subject to a maximum of 45 days from the day of acceptance/ deemed acceptance. Deduction is allowed in that	-	

	previous year in which such sum is actually paid. In this case the actual date of payment is 29.03.2024 i.e. before 31.03.2024. Hence, purchase of ` 5 lakhs shall be allowed as deduction because the payment was made before 31.03.2024]		
	(c) Expenses on freebies to medical practitioners [Expenses incurred for providing freebies to medical practitioners are an expense which is prohibited by the law. Any expenditure incurred for any purpose which is prohibited by law is not deemed to have been incurred for the purpose of business or profession and hence, has to be disallowed from business income]	7,25,000	
	(d) Depreciation on the basis of useful life of assets	12,50,000	
	(e) One-time license fee [Franchise is in the nature of an intangible asset eligible for depreciation @25%. Since one-time license fees of ` 10 lakhs paid to a foreign company for obtaining franchise has been debited to statement of profit and loss, the same has to be added back]	10,00,000	35,75,000
			1,31,20,000
	Less: Items credited but to be considered separately/ permissible expenditures and allowances		
	(f) Profit from setting of warehouse in rural area for storage of sugar [Since it is a specified business, its profits would	17,00,000	

	be computed separately]		
	(g) Power subsidy received from the Central Government [As per ICDS VII, Government grant (subsidy) which is receivable as compensation for expenses or losses incurred in a previous financial year shall be recognized as income of the period in which it is received. It would be taxable in P.Y. 2023-24 as the subsidy is received in P.Y. 2023-24. Since such subsidy has been credited to statement of profit and loss, no further adjustment is required]	-	
	(h) Profit from sale of shares of M/s ABC Ltd. [Capital gain on sale of shares of ABC Ltd. is liable to tax under the head "Capital Gains". Since the profit on sale of shares has been credited to the statement of profit & loss, the same has to be deducted while computing business income]	4,80,000	
	(i) Waiver of principal on bank loan [Waiver of principal amount of loan taken for working capital requirement is a benefit in respect of a trading liability by way of remission or cessation thereof and is, hence, taxable u/s 41(I). Since the principal amount has already been credited to statement of profit and loss, no adjustment is required]	-	
	(j) Waiver of interest on bank loan [As per section 43B, since the interest is allowable only on actual	2,00,000	

	payment, deduction in respect of interest due loan would not have been allowed as deduction in any previous year. Therefore, waiver of such interest cannot be brought to tax by invoking section 41(1). Since such interest has been credited to statement of profit and loss, the same has to be deducted while computing business income].		
	AI(iii) Depreciation as per Income tax Rules, 1962		
	- On Franchise Fee [` 10 lakhs x 25%] 2,50,000		
	- On other assets 9,20,000	11,70,000	35,50,000
	Profits & Gains from manufacture of pharmaceutical products		95,70,000
	Profits & gains from setting of warehouse in rural area for storage of sugar		
	Net profit before deduction u/s 35AD	17,00,000	
	Less: Deduction u/s 35AD [100% deduction u/s 35AD in respect of cost of warehouse (` 40 lakhs – ` 25 lakhs, being cost of land, not allowable)]	15,00,000	2,00,000
			97,70,000
II	Income from Capital Gains		
	Long-term capital gains on sale of shares M/s ABC Ltd. [Since shares were held for more than 12 months]		
	Full Value of consideration (3000 shares X ` 260)	7,80,000	
	Less: Cost of acquisitions [higher of (i) and (ii)]	5,40,000	2,40,000
	(i) Actual cost of acquisition (3000 X ` 100) ` 3,00,000		

	(ii) Being lower of fair market value as at 31.01.2018 (i.e. ` 5,40,000 being 3000 x ` 180) and sale consideration (i.e. ` 7,80,000)		
	Gross Total Income		1,00,10,000
	Less: Deduction under Chapter VI-A		
	Under Section 80JJAA (` 23,000 x 9 x 50) x 30%		31,05,000
	Total Income		69,05,000

Computation of tax liability for the A.Y. 2024-25 under normal provisions of the Act

Particulars	₹
Tax on Long-term capital gains u/s 112A = 10% of (₹ 2,40,000 – 1,00,000)	14,000
Tax on remaining income of ₹ 66,65,000 @25% [Since turnover during F.Y. 2021-22 is less than ₹ 400 crores	16,66,250
	16,80,250
Add: Health & education cess @4%	67,210
	17,47,460

Computation of tax liability of M/s Cure Ltd. for the A.Y. 2024-25 under section 115JB

Particulars	₹
Minimum Alternate Tax @15% on book profit of ₹ 99,50,000	14,92,500
Add: Health and Education cess@4%	59,700
Tax liability under section 115JB	**15,52,200**

Computation of Total Income of M/s Cure Ltd. for the Assessment Year 2024-25 under section 115BAA

Particulars	₹
Total Income under regular provisions of the Act	**69,05,000**
Add: Deduction u/s 35AD	15,00,000
	84,05,000
Less: Depreciation @10% on warehouse building	1,50,000
Total Income under section 115BAA	**82,55,000**
Tax liability	
Tax on Long-term capital gains u/s 112A = 10% of (₹ 2,40,000 – 1,00,000)	14,000
Tax on remaining income of ₹ 80,15,000 @22%	17,63,300
	17,77,300
Add: Surcharge @10%	1,77,730
	19,55,030
Add: Health & education cess @4%	78,201
Tax liability	**20,33,231**
Tax liability (Rounded off)	**20,33,230**

Suggestion to M/s Cure Ltd.

Since the tax liability under the regular provisions of the Act is ` 17,47,460, which is higher than MAT liability vis-à-vis tax liability of ` 20,33,230 computed under section 115BAA, it is not beneficial for Cure Ltd. to opt for the special provisions under section 115BAA for A.Y. 2024-25.

Question : 2(a) **8 Marks**

Tax treatment in the hands of Cowealth LLP on conversion of Cowealth Pvt. Ltd. into Cowealth LLP

(i) Business loss of ` 65 lakhs (relating to P.Y. 2020-21)

As per section 72A(6A), the business loss of ` 65 lakhs of Cowealth Pvt. Ltd. would be deemed to be the loss of Cowealth LLP for P.Y. 2024-25 and it would be able to set off and carry forward such loss.

The carry forward is for 8 assessment years subsequent to the assessment year 2025-26.

However, if subsequent to the conversion, Cowealth LLP fails to fulfill any of the conditions mentioned in section 47(xiiib), the set-off of business loss so made in any previous year would be deemed to be the income chargeable to tax in the year in which such conditions are not complied with.

(ii) Depreciation and written down value of assets

In case of conversion of Cowealth Pvt. Ltd. into Cowealth LLP, depreciation on assets shall be apportioned between the company and LLP in the ratio of the number of days for which the assets were used by them.

Total Depreciation

Plant and machinery (15%) = ` 28 lakhs x 15% = ` 4,20,000

Building (10%) = ` 64 lakhs x 10% = ` 6,40,000

In the hands of Cowealth LLP (for 182 days)

Plant and machinery (15%) = ` 4,20,000 x 182/365 = ` 2,09,425

Building (10%) = ` 6,40,000 x 182/365 = ` 3,19,123

WDV in the hands of Cowealth LLP

As per section 43(6), the actual cost of the block of assets in the hands of Cowealth LLP shall be the WDV of the block of assets as in the case of Cowealth Pvt. Ltd. on the date of conversion.

WDV of P & M (15%) = ` 28 lakhs – ` 2,09,425 (` 4,20,000 x 182/365) = ` 25,90,575

WDV of Building (10%) = ` 64 lakhs – ` 3,19,123 (` 6,40,000 x 182/365) = ` 60,80,877

Actual cost of Plant and machinery on which deduction has been allowed or is allowable to the assessee under section 35AD would be 'NIL' in the hands of Cowealth Pvt. Ltd. and Cowealth LLP.

(iii) Cost of land acquired in 2015 at ` 90 lakhs (Market value ` 140 lakhs)

The cost of acquisition of land in the hands of Cowealth LLP would be the cost for which Cowealth Pvt. Ltd. acquired it, i.e., ` 90 lakhs.

(iv) Expenditure on voluntary retirement benefit of ` 34 lakhs

As per section 35DDA, in case of conversion of Cowealth Pvt. Ltd. into Cowealth LLP, deduction would be available to Cowealth LLP for the remaining periods from the previous year in which conversion took place. Since deduction of ` 6.8 lakhs each has been claimed by Cowealth Pvt Ltd. in P.Y. 2022-23 and P.Y. 2023-24, Cowealth LLP would be eligible for deduction of ` 6.8 lakhs each for the remaining three previous years, namely P.Y.2024-25, P.Y.2025-26 and P.Y.2026-27 under section 35DDA.

(v) Unadjusted MAT credit u/s 115JJAA of ` 9.2 lakhs

As per section 115JAA(7), in case of conversion of Cowealth Pvt. Ltd. into Cowealth LLP, the credit for MAT paid by Cowealth Pvt. Ltd. cannot be availed by the successor LLP i.e., Cowealth LLP.

(vi) Unabsorbed depreciation of ` 75 lakhs

As per section 72A(6A), Cowealth LLP would be able to carry forward and set-off the unabsorbed depreciation of ` 75 lakhs of Cowealth Pvt. Ltd.

However, if subsequent to the conversion, Cowealth LLP fails to fulfill any of the conditions mentioned in section 47(xiiib), the set-off of depreciation so made in any previous year would be deemed to be the income chargeable to tax in the year in which such conditions are not complied with.

Question : 2(b) **6 Marks**

In respect of Mr. Ravana, the Assessing Officer has information suggesting that income has escaped assessment for the purposes of section 148 and 148A, since information has been flagged for the relevant assessment year as per risk management policy formulated by the CBDT. Notice can be issued for A.Y.2023-24, A.Y.2022-23 and A.Y.2021-22, since the three-year time limit from the end of the relevant assessment year has not expired as on April, 2024. Such notice can be issued after conducting an enquiry, if required, with respect to the information suggesting escapement of income; and providing an opportunity of being heard to Mr. Ravana by serving a show cause notice. Thereafter, on the basis of material available on record including the reply of Mr. Ravana, in response to show cause notice, the Assessing Officer has to decide whether or not it is a fit case to issue notice under section 148 by passing an order, with the

prior approval of Principal Commissioner or Principal Director or Commissioner or Director.

However, notice cannot be issued in respect of A.Y.2020-21, since the three-year time limit from the end of the relevant assessment year (i.e., from 31.3.2021) has since expired on 31st March, 2024.

In case of Mr. Ramesh, since search was conducted under section 132 in April 2024, the Assessing Officer is deemed to have information suggesting that income chargeable to tax has escaped assessment. In this case, the Assessing Officer has in his possession certain documents which reveal that income chargeable to tax, represented in the form of an asset, has escaped assessment. Shares are included in the definition of "asset". However, the income chargeable to tax, represented in the form of shares, which has escaped assessment amounts to ` 49 lakhs (i.e., ` 28 lakhs + ` 21 lakhs). Since the amount is lower than ` 50 lakhs, notice cannot be issued beyond 3 years from the end of the relevant assessment year. In this case, the relevant assessment years are A.Y.2018-19 (relevant to P.Y.2017-18) and A.Y.2019-20 (relevant to P.Y.2018-19). The three-year period for A.Y.2018-19 and A.Y.2019-20 expired on 31.3.2022 and 31.3.2023, respectively. Accordingly, notice cannot be issued under section 148 in April 2024.

However, where the income chargeable to tax, represented in the form of shares, which has escaped assessment amounts to ` 51 lakhs (i.e., ` 30 lakhs + ` 21 lakhs), an extended period of 10 years from the end of the relevant assessment year (i.e., from the end of 31.3.2019 and 31.3.2020) would be available under section 149(1)(b) for issue of notice, which has not expired in April, 2024. Therefore, the Assessing Officer can issue notice under section 148 for A.Y.2018-19 and A.Y.2019-20 with the prior approval of specified authority.

In this case, the Assessing Officer need not conduct an enquiry and provide opportunity of being heard to Mr. Ramesh as required u/s 148A for the purpose of issue of notice u/s 148.

Note - Notice cannot be issued under section 148 in respect of the relevant assessment year beginning on or before 1.4.2021, if on the date of issue of such notice, the time limit prescribed for issue of notice under erstwhile section 153A has expired. In case of Mr. Ramesh, where income represented in the form of assets, being shares, which has escaped assessment amounts to ` 50 lakhs or more, the time limit for issue of notice under erstwhile section 153A in case of relevant assessment year beginning on or before 1.4.2021, has also not expired in April 2024. Since search had taken place in the P.Y.2024-25 relevant to A.Y.2025-26, the Assessing Officer could have issued notice for ten assessment years immediately preceding A.Y.2025-26 (i.e., from A.Y.2015-16 to A.Y.2024 25) under the erstwhile section 153A

Question : 3 (a) **5 Marks**

Rollback year means any previous year, falling within the period not exceeding four previous years, preceding the first of the five consecutive previous years for which advance pricing agreement is valid.

The application for advance pricing agreement may be filed at any time before the first day of the previous year relevant to the first assessment year for which the application is made, in respect of transactions which are of a continuing nature from dealings that are already occurring; or before undertaking the transaction in respect of remaining transactions.

In the present case, since ABC (P) Ltd. has made an application of APA and also opted for rollback provisions, the APA is apparently in respect of international transactions which are of continuing nature. Accordingly, the APA application filed on 15th February 2023 would be in respect of five previous years beginning with P.Y. 2023-24 relevant to the A.Y. 2024-25.

Consequently, APA entered by ABC (P) Ltd. can provide for determining ALP in relation to international transaction entered during rollback years i.e., from A.Y. 2020-21 to A.Y. 2023-24 subject to satisfaction of certain conditions.

In the present case, since A.Y. 2018-19 and A.Y. 2019-20 fall beyond the said four year period, ABC (P) Ltd. cannot avail roll back benefit in respect of these years. From A.Y. 2020-21 -A.Y. 2023-24, the applicability of rollback provisions would be as follows:

Rollback year	Applicability of rollback provisions
A.Y. 2020-21	Yes, rollback provisions are applicable for A.Y. 2020-21.
A.Y. 2021-22	Yes, rollback provisions are applicable for A.Y. 2021-22 even if ALP adjustment was reduced to addition of ₹ 300 lakhs as against addition of ₹ 500 lakhs originally determined by the TPO on account of APA, since such reduction in the amount of ALP adjustment does not result in reducing the total income or increasing the total loss, as declared in the return of income of the said year by ABC (P) Ltd.
A.Y. 2022-23	Yes, roll back provisions are applicable for A.Y. 2022-23, since ITAT has only set aside the order for fresh consideration and the matter has not reached finality.
A.Y. 2023-24	No, rollback provisions are not applicable for A.Y. 2023-24, since the return was filed belatedly u/s 139(4) on 29.12.2023.

Question : 3 (b) — 5 Marks

Computation of total income of Laksh Limited for the A.Y. 2025-26

Particulars		₹ (in lakhs)	
Business income before setting off brought forward losses of Pigeon Ltd.			160.00
Add: Excess depreciation claimed in the scheme of amalgamation of Pigeon Limited with Laksh Limited.			
Value at which assets are transferred by Pigeon Ltd.		150	
WDV in the books of Pigeon Ltd.		100	
Excess accounted		50	
Excess depreciation claimed in computing taxable income of Laksh Ltd. [₹ 50 lakhs × 15%] [*Explanation 2* to section 43(6)]			7.50
			167.50
Set-off of brought forward business loss of Pigeon Ltd. **(See Notes 2 & 4)**			(125.00)
Set-off of unabsorbed depreciation under section 32(2) read with section 72A **(See Notes 2 & 4)**			(20.00)
Set-off of unabsorbed capital expenditure under section 35(1)(iv) read with section 35(4) **(See Note 5)**			(2.50)
Business income			**20.00**

Notes: 1. It is presumed that the amalgamation is within the meaning of section 72A of the Income-tax Act, 1961.

2. In the case of amalgamation of companies, the unabsorbed losses and unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or unabsorbed depreciation of the amalgamated company for the previous year in which the amalgamation was effected and such business loss

and unabsorbed depreciation shall be carried forward and set-off by the amalgamated company for a period of 8 years and indefinitely, respectively.

3. As per section 72A(7), the accumulated loss to be carried forward specifically excludes loss sustained in a speculative business. Therefore, speculative loss of ` 5.5 lakhs of Pigeon Ltd. cannot be carried forward by Laksh Ltd.

4. Section 72(2) provides that where any allowance or part thereof unabsorbed under section 32(2) (i.e., unabsorbed depreciation) or section 35(4) (i.e., unabsorbed scientific research capital expenditure) is to be carried forward, effect has to be first given to brought forward business losses under section 72

5. Section 35(4) provides that the provisions of section 32(2) relating to unabsorbed depreciation shall apply in relation to deduction allowable under section 35(1)(iv) in respect of capital expenditure on scientific research related to the business carried on by the assessee. Therefore, unabsorbed capital expenditure on scientific research can be set-off and carried forward in the same manner as unabsorbed depreciation.

6. The restriction contained in section 73 is only regarding set-off of loss computed in respect of speculative business. Such a loss can be set-off only against profits of another speculation business and not non-speculation business. However, there is no restriction under the Income-tax Act, 1961 regarding set-off of normal business losses against speculative income. Therefore, normal business losses can be set-off against profits of a speculative business.

Consequently, there is no loss or allowance to be carried forward by Laksh Ltd. to the A.Y. 2026-27

Question : 3 (c) **4 Marks**

Computation of taxable Capital gain in the hands of Mrs. Urvashi for A.Y.2025-26

Particulars	₹
Full value of consideration	15,50,00,000
As per section 50C, the full value of consideration would be actual sales consideration since the stamp duty value as on 15.10.2024 of ₹ 17,00,00,000 does not exceed 110% of actual consideration of ₹ 15,50,00,000.	
Less: **Cost of acquisition**	1,02,00,000
[₹ 1,02,00,000 (Higher of actual cost of ₹ 45,00,000 and Fair market value as on 1.4.2001 of ₹ 1,20,00,000, but restricted to stamp duty value as on 1.4.2001 of ₹ 1,02,00,000)	
[Indexation benefit would not available while computing capital gains since the property is transferred on or after 23.7.2024]	
	14,48,00,000
Less: **Exemption under section 54**	**10,00,00,000**
[Purchase of one residential plot of ₹ 8 crores on 18.2.2025 and deposit of ₹ 3 crores in Capital Gain Account Scheme on 31.3.2025 (before the date of filing of return of income) provided that the construction thereon is completed within the stipulated time of three years, but restricted to maximum of ₹ 10 crores]	
Taxable long term capital gains	**4,48,00,000**

Question : 4 (a) **8 Marks**

(i) Under section 268A(1), the CBDT is empowered to issue orders, instructions or directions to the other income-tax authorities, fixing such monetary limits, as

it may deem fit, to regulate filing of appeal or application for reference by any income-tax authority. Under section 268A(2), where an income-tax authority has not filed any appeal or application for reference on any issue in the case of an assessee for any assessment year, due to above-mentioned order/ instruction/ direction of the CBDT, such authority shall not be precluded from filing an appeal or application for reference on the same issue in the case of the same assessee for any other assessment year or any other assessee for the same or any other assessment year, if the tax effect exceeds the specified monetary limits. Further, in such a case, it shall not be lawful for an assessee to contend that the income-tax authority has acquiesced in the decision on the disputed issue by not filing an appeal or application for reference in any case.

In view of above provision, it would be in order for the Income-tax Department to move an appeal to the Tribunal against the orders of the CIT(A) in respect of A.Y. 2025-26 both for Shweta and Shefali, assuming the tax effect of each of them exceeds the specified monetary limits.

(ii) Section 276CC provides for prosecution for wilful failure to furnish a return of income within the prescribed time, in a case where tax would have been evaded had the failure not been discovered. Since the amount of tax which would have been evaded does not exceed ` 25 lakh, the imprisonment would be for a term of 3 months to 2 years. In addition, fine would also be attracted.

However, in a case where the return of income is not filed within the due date, prosecution proceedings will not be attracted if the tax payable by a person, other than a company, on the total income determined on regular assessment, as reduced by the advance tax, if any, paid and any tax deducted at source, does not exceed ` 10,000.

In this case, even though the tax liability of the firm as per the original order of assessment exceeded ` 10,000, however, as a result of the order of the Commissioner (Appeals), it got reduced to ` 9,100, which is less than ` 10,000. Therefore, since the tax liability of the firm on final assessment was determined at ` 9,100 the prosecution proceedings are not maintainable.

In Guru Nanak Enterprises v. ITO (2005) 279 ITR 30, where the facts were similar, the Supreme Court held that prosecution was unwarranted.

(iii) Every assessee would be liable to tax@30% in respect of his undisclosed foreign income and asset of the previous year. Undisclosed foreign asset would be liable to tax in the previous year in which such asset comes to the notice of the Assessing Officer.

Section 2(2) of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 defines "assessee" to include a person being –

(a) a resident in India within the meaning of section 6 of the Income-tax Act, 1961 in the previous year; or

(b) a non-resident or not ordinarily resident in India within the meaning of section 6(6) of the Income-tax Act, 1961 in the previous year but who was resident in India either in the previous year to which the income referred to in section 4 relates; or in the previous year in which the undisclosed asset located outside India was acquired.

Mr. Rajiv is non-resident for the P.Y. 2024-25 (the previous year in which notice is issued by the Assessing Officer), since he returned to the Sigapore in April 2020 and visited every year only for 1 month. He was also a non-resident for the P.Y. 2012-13, when he acquired shares of listed companies in Singapore and P.Y. 2020-21, when he established a leather goods manufacturing factory in

Malaysia, since he was in India only during the previous years from P.Y. 2013-14 to P.Y. 2019-20. However, he was resident in India in the P.Y. 2015-16, when he acquired one apartment in Canada.

Accordingly, the issue of notice on Mr. Rajiv under section 10 of the Black Money Act, 2015, is tenable in law, in respect of apartment in Canda since he was resident in the previous year 2015-16 when the property was acquired.

However, notice issued in respect of shares of listed companies in Singapore acquired in the P.Y.2012-13 and leather goods manufacturing factory established in Malaysia in the P.Y.2020-21 is not tenable in law, since Mr. Rajiv was non-resident in the previous years in which undisclosed assets were acquired and also in the previous year in which it comes to the notice of Assessing Officer.

Question : 4 (b) **6 Marks**

A hybrid mismatch is an arrangement that exploits a difference in the tax treatment of an entity or an instrument under the laws of two or more tax jurisdictions to achieve double non-taxation.

Branch mismatches arise where the ordinary rules for allocating income and expenditure between the branch and head office result in a portion of the net income of the taxpayer escaping the charge to taxation in both the branch and residence jurisdiction. Unlike hybrid mismatches, which result from conflicts in the legal treatment of entities or instruments, branch mismatches are the result of differences in the way the branch and head office account for a payment made by or to the branch. Hybrid mismatch arrangements arise due to

(i) Creation of two deductions for a single borrowal

(ii) Generation of deductions without corresponding income inclusions

(iii) Misuse of foreign tax credit

(iv) Participation exemption regimes

Specific country laws that allow taxpayers to opt for the tax treatment of certain domestic and foreign entities may aid hybrid mismatches.

BEPS Action Plan 2 gives recommendations to neutralise the effects of hybrid mismatch arrangements, which include general changes to domestic law followed by a set of dedicated anti-hybrid rules. Treaty changes are also recommended. The 2017 report includes specific recommendations for improvements to domestic law intended to reduce the frequency of branch mismatches as well as targeted branch mismatch rules which adjust the tax consequences in either the residence or branch jurisdiction in order to neutralise the hybrid mismatch without disturbing any of the other tax, commercial or regulatory outcomes.

Question : 5 (a) — 8 Marks

Computation of net tax liability of Ms. Kaviya Maran for A.Y.2025-26

	Particulars		₹	₹
I	**Income from house property**			
	Income from house property in India		4,30,00,000	
	Less: Loss from house property in Country X		1,30,00,000	3,00,00,000
II	**Profits and gains of business or profession**			
	Business/ Professional income in India			
	- From singing profession	9,00,00,000		
	- From being the owner of cricket team Delhi Super Players	5,50,00,000		
			14,50,00,000	
	Business/ Professional income in Country X			
	- Other business	7,20,00,000		
	- Share income from firm	4,80,00,000	12,00,00,000	
	Business/Professional income in Country Y			
	- Singing	2,00,00,000		

	profession			
	- Other business	2,90,00,000	4,90,00,000	
				31,40,00,000
III	**Income from Other Sources**			
	Agricultural income from India [Exempt u/s 10(1)]		-	
	Agricultural income from Country Y		1,20,00,000	1,20,00,000
Gross Total Income				**35,60,00,000**
***Less:* Deductions under Chapter VI-A** [Not allowable since Ms. Kanika is paying tax under default tax regime]				Nil
Total Income				**35,60,00,000**
Computation of tax liability:				
Step 1: Tax on ₹ 37,10,00,000, being non-agricultural income and agricultural income				
[30% x ₹ 36,95,00,000 + ₹ 1,40,000]			11,09,90,000	
Step 2: Tax on ₹ 1,53,00,000, being agricultural income and basic exemption limit of ₹ 3,00,000				
[30% x 1,38,00,000 + ₹ 1,40,000]			42,80,000	
Step 3: Step 1 - Step 2				10,67,10,000
Add: Surcharge@25% (since her total income exceeds ₹ 2 crore)				2,66,77,500
				13,33,87,500
Add: HEC @4%				53,35,500
Tax liability				**13,87,23,000**
Less: Deduction under section 91 **[See Working Notes 1 & 2 below]**				4,30,29,870
Net Tax liability (rounded off)				**9,56,93,130**

Working Note 1: Computation of deduction under section 91

	Average rate of tax in India		
	[13,87,23,000 x 100/35,60,00,000]	38.967%	
	Average rate of tax in Country X		
	[2,16,00,000 x 100/12,00,00,000]	18%	
	Average rate of tax in Country Y		
	[2,44,00,000 x 100/6,10,00,000]	40%	
I	**Deduction under section 91 in respect of doubly taxed income in India and Country X**		
	Doubly taxed income:		
	Country X (i.e., ₹ 7.2 crores, being business income (+) ₹ 4.8 crores, being taxable share income from firm (-) ₹ 1.3 crores, loss from house property)	10,70,00,000	
	Lower of Indian rate of tax of 38.967% and rate of tax in Country X of 18%	**18%**	
	Deduction u/s 91 = 18% x ₹ 10.70 crores		1,92,60,000
II	**Deduction under section 91 in respect of doubly taxed income in India and Country Y**		
	Doubly taxed income:		
	Country Y (i.e., ₹ 2 crores, being professional income (+) ₹ 2.9 crores, being business income (+) ₹ 1.2 crores, being taxable agricultural income)	6,10,00,000	
	Lower of Indian rate of tax of 38.967% and rate of tax in Country X of 40%	**38.967%**	
	Deduction u/s 91 = 38.967% x ₹ 6.10 crores		2,37,69,870
Deduction under section 91			**4,30,29,870**

Question : 5 (b) **6 Marks**

As per section 44AB, every person, inter alia, carrying on profession is required to get his accounts audited before the "specified date" by an accountant, if total sales, turnover or gross receipts in profession exceeds ` 50 lakh in any previous year.

However, a person who declares profits and gains for the previous year as per section 44ADA is not required to get his account audited.

As per section 44ADA, resident individual or resident partnership firm (but not LLP) engaged in any profession specified u/s 4AA(1), such as legal, medical, engineering, architectural profession or profession of accountancy or technical consultancy or interior decoration or other notified whose gross receipt ≤ ` 50 lakhs in the P.Y. (where aggregate cash receipt does not exceed 5% of total gross receipts, higher threshold limit of ` 75 lakhs applicable) can declare 50% of total gross receipts or a sum higher than the aforesaid sum claimed to have been earned by the assessee.

For this purpose, the receipt of amount or aggregate of amounts by a cheque drawn on a bank or by a bank draft, which is not account payee, would be deemed to be the receipt in cash.

In the present case, since Mr. Pradeep is carrying on the profession of interior decoration, he is eligible for the presumptive taxation under section 44ADA.

In this case, the turnover of Mr. Pradeep exceeds ` 50 lakhs but does not exceed ` 75 lakhs. Accordingly, it has to be seen whether cash receipts exceed 5% of aggregate receipts to determine whether tax audit is compulsory.

During the P.Y. 2024-25, his cash receipts are ` 1,12,000 plus ` 1,22,800 totaling 2,34,800, which is 3.61% of total receipts of ` 65,00,000. Since his cash receipts during the P.Y. 2024-25, does not exceed 5% of aggregate receipts, he is not required to get the accounts audited under section 44AB.

Hence, the contention of Mr. Pradeep is correct he can opt for presumptive taxation under section 44ADA and he is not required to get his accounts audited.

Question : 6 (a) **6 Marks**

Principle of Contmporanea Expositio

A treaty's terms are normally to be interpreted on the basis of their meaning at the time the treaty was concluded. However, this is not a universal principle. In Abdul Razak A. Meman's (2005) 276 ITR 306, the AAR observed that "there can be little doubt that while interpreting treaties, regard should be had to material contemporanea expositio. This proposition is embodied in article 32 of the Vienna Convention and is also referred to in the decision of the Hon'ble Supreme Court in K. P. Varghese v. ITO [1981] 131 ITR 597.

Teleological Interpretation

In this approach the treaty is to be interpreted so as to facilitate the attainment of the aims and objectives of the treaty. This approach is also known as the 'objects and purpose' method.

In case of Union of India v. Azadi Bachao Andolan 263 ITR 706, the Supreme Court observed that "the principles adopted for interpretation of treaties are not the same as those in interpretation of statutory legislation. The interpretation

of provisions of an international treaty, including one for double taxation relief, is that the treaties are entered into at a political level and have several considerations as their bases."

One instance is where the Apex Court agreed with the contention of the Appellant that "the preamble to the Indo-Mauritius DTAA recites that it is for 'encouragement of mutual trade and investment' and this aspect of the matter cannot be lost sight of while interpreting the treaty.

Question : 6 (b) **4 Marks**

Since the value of transaction between M/s ZH Co. Ltd and Slack Ltd, in respect of which ruling is sought, exceeds ` 300 crores, fees of ` 10 lakhs to be accompanied with the application

Advance ruling pronounced by Board for Advance Rulings is not binding on ZH Co. Ltd. Section 245W provides that the applicant who is aggrieved by any ruling pronounced or order passed by the Board for Advance Rulings may appeal to the High Court against such ruling. He has to do so within 60 days from the date of the communication of that ruling or order, in the prescribed form and manner.

Accordingly, if ZH Co. Ltd. is aggrieved by the advance ruling pronounced by BAR, it can file an appeal before the High Court on or before 29th June 2025. The High Court can grant extension of a further period of 30 days for filing the appeal, if it is satisfied, on an application made by ZH Co. Ltd. in this behalf, that it was prevented by sufficient cause from presenting the appeal within the 60 days period as specified above.

Question : 6 (c) 4 Marks

Computation of Taxable Income of Mr. Mohan

	₹
Sale of 2500 Bitcoin 15.07.2024	
Sale Consideration	25,500
Less: Cost of Acquisition (2500 x 50000/5000)	25,000
Gain	**500**
Sale of 2500 Bitcoin 20.07.2024	
Sale Consideration	28,750
Less: Cost of Acquisition (2500 x 50000/5000)	25,000
Gain	**3,750**
Sale of 6000 NFT 16.08.2024	
Sale Consideration	89,000
Less: Cost of Acquisition (6000 x 150000/10000)	90,000
Loss on Sale of NFT [Neither setoff of loss nor carry forward of loss allowed]	**1,000**
Sale of 4000 NFT 31.08.2024	
Sale Consideration	56,000
Less: Cost of Acquisition (4000 x 150000/10000)	60,000
Loss on Sale of NFT [Neither setoff of loss nor carry forward of loss allowed]	**4,000**
Taxable income	**4250**

Note: VDA income would be taxed @30% under section 115BBH without any deduction of expenses

CA FINAL | **P4: DIRECT TAX LAWS** | **15.08.2025**

[PRE FINAL – FULL SYLLABUS]

TIME : 3 HR 00 Min | **TOTAL : 100 MARKS**

ALL THE BEST

Join our telegram Channel for More updates

https://t.me/catestseries_thewaychannel