MODEL TEST PAPERS

(RELEVANT FOR MAY, 2025 AND NOVEMBER 2025 EXAMINATIONS)

FINAL COURSE

GROUP - II

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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FINAL COURSE GROUP - II

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MODEL TEST PAPER 1

FINAL COURSE: GROUP - II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.

Total Marks: 100 Marks **Time Allowed: 3 Hours**

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario I

M/s. Swift LLP filed its return of income for A.Y.2024-25, declaring total income of ₹ 18 lakhs, on 2nd December 2024. On processing of return, the total income determined under section 143(1)(a) was ₹ 22 lakhs, after disallowing claim for deduction under section 10AA on account of late furnishing of return of income. Thereafter, on scrutiny, the Assessing Officer made some additions under section 40(a)(ia) and section 43B and passed an assessment order under section 143(3) assessing total income of ₹ 35 lakhs. Later on, the Assessing Officer noticed that some information is flagged for A.Y. 2024-25 suggesting that certain income chargeable to tax had escaped assessment. Based on the said information, notice under section 148 was issued for making reassessment under section 147 after compliance with the requirements stipulated under section 148A. The total income reassessed under section 147 was ₹ 42 lakhs.

Consider that none of the additions or disallowances made in the assessment or re-assessment as above qualifies under section 270A(6). Based on the facts of the above case scenario, choose the most appropriate answer to Q. 1 to 5 below:

1. For the purpose of answering this question alone, assume that intimation under section 143(1)(a) was sent to M/s Swift LLP on 1.2.2026, would such intimation be valid?

   (a) Yes, since it was sent within one year from the end of the financial year in which return was made.

(b) No, since it was sent after the expiry of nine months from the end of the financial year in which return was made.

(c) No, since it was sent after the expiry of one year from the end of the month in which return was made.

(d) No, since it was sent after the expiry of nine months from the end of the month in which return was made.

2. For the purpose of answering this question alone, assume that in case of M/s Swift LLP, certain other incomes (which had escaped assessment and came to Assessing Officer's notice subsequently in the course of reassessment proceedings) were also assessed or reassessed in the reassessment order made under section 147, in respect of which provisions of section 148A were not complied with. Examine whether the action of the Assessing Officer is valid while making reassessment order in respect of such incomes?

(a) The action of the Assessing Officer is not valid, since reassessment cannot be made in respect of other incomes which comes to his notice subsequently.

(b) The action of the Assessing Officer is not valid, since provisions of section 148A are not complied with.

(c) The action of the Assessing Officer is not valid, due to the reasons mentioned in (a) and (b) above.

(d) The action of the Assessing Officer is valid.

3. Compute the amount of penalty to be levied under section 270A of the Income-tax Act, 1961 at the time of assessment made under section 143(3)? Assume under-reporting of income is not on account of misreporting.

(a) ₹ 2,02,800

(b) ₹ 2,65,200

(c) ₹ 5,30,400

(d) ₹ 4,05,600

4. Compute the amount of penalty to be levied under section 270A of the Income-tax Act, 1961 at the time of reassessment under section 147. Assume under-reporting of income is on account of misreporting.

   (a) ₹ 1,09,200

   (b) ₹ 4,36,800

   (c) ₹ 2,18,400

   (d) ₹ 3,12,000

5. In continuation to Q 4, assume reassessment order made under section 147 was received on 12.12.2026 and M/s Swift LLP does not prefer appeal against such order, can M/s Swift LLP make application for grant of immunity from penalty? If yes, what is time limit for making the said application?

   (a) No, M/s Swift LLP cannot make application for grant of immunity

   (b) Yes, M/s Swift LLP can make application for grant of immunity on or before 11.01.2027

   (c) Yes, M/s Swift LLP can make application for grant of immunity on or before 31.01.2027

   (d) Yes, M/s Swift LLP can make application for grant of immunity on or before 31.03.2027 **(2 x 5 = 10 Marks)**

Case Scenario II

A business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the P.Y.2024-25:

(i) Interest income from Tang Ltd. – ₹ 10 lakh;

(ii) Dividend income from Tang Ltd. – ₹ 5 lakh;

(iii) Short-term capital gains on listed shares transferred on 15.9.2024 (STT paid both at the time of purchase and sale) of Indian companies – ₹ 4 lakh;

(iv) Short-term capital gains on sale of developmental properties –₹ 8 lakh

(v) Interest received from investments in unlisted debentures of real estate companies – ₹ 1 lakh;

(vi) Rental income from directly owned real estate assets – ₹ 20 lakh

Tang Ltd. is an Indian company in which the business trust holds 100% of the shareholding. Tang Ltd. does not opt to pay tax under section 115BAA.

Assume that the business trust has distributed the entire ₹ 48 lakh to the unit holders in the P.Y. 2024-25 in the month of March, 2025.

Mr. Shivam is a resident holder holding 100 units and Mr. Sahaj is a non-resident holder holding 500 units. The total number of units subscribed to by all unit holders is 5,000.

From the information given above, choose the most appropriate answer to the following questions -

6 In respect of the component of interest income from Tang Ltd. distributed by the business trust to unit-holders Shivam and Sahaj -

(a) No tax is deductible by the business trust, since such income is not taxable in the hands of unit holders

(b) Tax is deductible@5% on ₹ 20,000 distributed to Mr. Shivam and @5.2% on ₹ 1 lakh distributed to Mr. Sahaj

(c) Tax is deductible@10% on ₹ 20,000 distributed to Mr. Shivam and @5.2% on ₹ 1 lakh distributed to Mr. Sahaj

(d) Tax is deductible@10% on ₹ 20,000 distributed to Mr. Shivam and 10.4% on ₹ 1 lakh distributed to Mr. Sahaj

7. In respect of short-term capital gains of ₹ 4 lakh on sale of listed shares of Indian companies and ₹ 8 lakh on sale of developmental properties -

(a) The business trust is liable to pay tax@15.6% and at MMR, respectively

(b) The business trust is liable to pay tax at MMR

(c) The business trust enjoys pass through status and hence, it need not pay any tax on such short-term capital gains; such income is subject to tax in the hands of unit-holders

(d) The business trust is liable to pay tax@20.8% and at MMR, respectively

8. The dividend component of income from Tang Ltd., distributed to unit-holders Shivam and Sahaj -

   (a) would be subject to distribution tax in the hands of Tang Ltd., hence exempt in the hands of the business trust and the unit holders

   (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of the unitholders Shivam and Sahaj

   (c) is taxable in the hands of the business trust; hence, exempt in the hands of the unitholders

   (d) is exempt in the hands of the business trust and in the hands of the unit holders

9. If Tang Ltd. exercises option under section 115BAA, then, the dividend component of income from Tang Ltd., distributed to unit-holders Shivam and Sahaj-

   (a) would be subject to distribution tax in the hands of Tang Ltd., hence exempt in the hands of the business trust and the unit holders

   (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of Shivam and Sahaj

   (c) is taxable in the hands of the business trust; hence, exempt in the hands of the Shivam and Sahaj

   (d) is exempt in the hands of the business trust and in the hands of the unit holders Shivam and Sahaj

10. Interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be-

   (a) subject to tax in the hands of the unit holders

   (b) subject to tax in the hands of the business trust @30%

   (c) subject to tax in the hands of the business trust at MMR

   (d) subject to tax in the hands of the business trust at the average rate of tax

11. The rental component of income from real estate assets received by the business trust and distributed to its unit holders Shivam and Sahaj would be -

(a) subject to tax in the hands of the business trust at MMR

(b) subject to tax in the hands of the business trust@31.2%

(c) subject to tax in the hands of the unit-holder Shivam @10% (on ₹ 40,000) and Sahaj @ the rates in force (on ₹ 2,00,000); such tax has to be deducted at source by the business trust

(d) subject to tax in the hands of the unit-holders Shivam and Sahaj; business trust has to deduct tax@10% on ₹ 40,000 distributed to Shivam and at the rates in force on ₹ 2,00,000 distributed to Sahaj

(2 x 6 = 12 Marks)

12. Mr. Piyush, a resident Indian aged 77 years, gets pension of ₹ 58,000 per month from the Rajasthan State Government. The same is credited to his savings account in SBI, Kota Branch. In addition, he gets interest@8% p.a. on fixed deposit of ₹ 28 lakh with the said bank. On 1.1.2025, he deposited ₹ 3 lakhs as five year term deposit in same account at interest rate of 8.5% p.a. Interest on savings bank credited to his SBI savings account for the P.Y. 2024-25 is ₹ 8,600.

What would be the tax liability of Mr. Piyush for the A.Y. 2025-26? Is Mr. Piyush required to file his return of income for A.Y.2025-26, if tax deductible at source has been fully deducted? Assume that Mr. Piyush has opted out for section 115BAC and taxing income on accrual basis.

(a) ₹ 48,880; No, Mr. Piyush is not required to file his return of income

(b) ₹ 59,280; Mr. Piyush is required to file his return of income, since his total income exceeds ₹ 5,00,000

(c) ₹ 61,880; No, Mr. Piyush is not required to file his return of income

(d) ₹ 61,880; Mr. Piyush is required to file his return of income, since his total income exceeds ₹ 5,00,000 **(2 Mark)**

13. SNO Ltd., an Indian company, paid Interest on loan taken from a wholly owned subsidiary P Inc., UK for ₹ 35 million. The SNO identified the following uncontrolled observations to arrive at this ALP:

Observation	Interest rate
1	5%
2	8%
3	14%
4	6%
5	12%
6	17%

What are the values (percentages) in the dataset to be selected by the SNO while computing the arm's length interest rate applying the range concept as per Rule 10CA?

(a) 35th percentile – 8%, Median – 10%, 65th percentile – 12%

(b) 35th percentile – 14%, Median – 10%, 65th percentile – 6%

(c) 35th percentile – 4.9%, Median – 10%, 65th percentile – 11.05%

(d) Arithmetic mean - 10.33% **(2 Marks)**

14. Smart Inc., Country X, advanced USD 10 million on 1.06.2023 to Kite (P) Ltd., India, in foreign currency. Kite (P) Ltd accepted the loan amount under an agreement approved by the Central Government of India. The loan carries interest@9% per annum payable in foreign currency. For the financial year 2024-25, Kite (P) Ltd paid interest after deducting income-tax on 31.03.2025. The TT buying rates on 01.06.2023 is 1 USD = ₹ 69; on 31.03.2025 is 1 USD = ₹ 70. What is the income-tax liability of Smart Inc. in India for the assessment year 2025-26 in respect of interest income earned in foreign currency from Kite (P) Ltd?

(a) Nil, exempt income

(b) ₹ 32,93,784

(c) ₹ 1,33,66,080

(d) ₹ 33,41,520 **(2 Marks)**

15. STP Process Ltd, an Indian company entered into a business agreement with Gayle LLP of UK in September 2024 for export of goods to various countries as directed by Gayle LLP. The amount of transaction between STP Process Ltd and Gayle LLP by way of sale of goods would be ₹ 180

crores spread over 3 financial years commencing from 01.10.2024. The parties (i.e., both STP Process Ltd and Gayle LLP) apprehend some ambiguity as regards the income chargeable to tax in the hands of Gayle LLP in India and STP Process Ltd. Can STP Process Ltd seek advance ruling in relation to its tax liability arising in respect of its transactions with Gayle LLP? If so, how much is the amount of fee to be paid for seeking advance ruling?

(a) It cannot seek advance ruling in relation to its tax liability, since STP Process Ltd. is an Indian company. Hence, the question of paying fees does not arise.

(b) It can seek advance ruling since value of transaction undertaken or proposed to be undertaken exceeds ₹ 100 crores. The amount of fee would be ₹ 5,00,000.

(c) It can seek advance ruling since value of transaction undertaken or proposed to be undertaken exceeds ₹ 100 crores. The amount of fee would be ₹ 10,00,000.

(d) It cannot seek advance ruling since value of transaction undertaken or proposed to be undertaken is only ₹ 60 crores in a year. Hence, the question of paying fees does not arise. **(2 Marks)**

Division B – Descriptive Questions

*Question No. **1** is compulsory*

*Attempt any **four** questions from the remaining **five** questions*

1. Statement of Profit and Loss of SJ Industries Ltd., engaged in production and marketing of diversified products, shows a net profit of ₹ 72,00,000 for the financial year ended 31st March, 2025 after charge of the following items:

A: Items debited to the Statement of Profit and Loss:

(i) Depreciation as per the Companies Act, 2013: ₹ 24,00,000

(ii) Interest amounting to ₹ 60,000 for short payment of advance tax paid as per section 234B relating to the assessment year 2024-25.

(iii) Interest and borrowing costs amounting to ₹ 9,50,000 and ₹ 7,00,000 though not meeting the criteria for recognition as a component of cost, included in cost of opening and closing inventory, respectively.

(iv) Expenditure of ₹ 41,000 paid in cash comprising of ₹ 22,000 directly paid to producer of dairy farming products and ₹ 19,000 paid towards printing and stationery items to a trader.

(v) ₹ 3,50,000 paid to a contractor for carrying out repair work at factory premises. Tax was not deducted at source on this payment.

(vi) ₹ 35,000 towards expenditure for earning income from transfer of carbon credits.

(vii) Contribution to electoral trust: ₹ 3,00,000 paid by way of cheque.

(viii) Expenditure towards advertising charges in a brochure of a political party registered under section 29A of Representation of People Act, 1951: ₹ 40,000 paid by way of cheque.

(ix) Interest on term loan obtained from Cooperative Bank not paid before the due date of filing of return of income ₹ 2,60,000

(x) Actual contribution to the pension scheme of employees: ₹ 1,90,000

B: Items credited to the Statement of Profit and Loss:

(i) Unrealised rent of ₹ 3,80,000 pertaining to financial year 2020-21 & 2021-22 recovered during the year in respect of a commercial property owned by the company, which was sold by the company on 23.03.2025.

(ii) Dividends from a specified foreign company ₹ 1,60,000

(iii) Profit of ₹ 3,00,000 received from hedging contract entered into for meeting out loss in foreign currency payments towards an imported printing machinery valued at ₹ 95 lakhs, installed on 15th December, 2024 and put to use from that date.

(iv) Interest from banks on fixed deposits (net of TDS) at 10% ₹ 1,35,000.

Additional Information:

(1) Depreciation as per Income-tax Rules: ₹ 28,00,000 exclusive of depreciation on the imported printing machine referred to in item B (iii)

(2) Expenditure pertaining to previous financial year allowed on due basis, but paid in current financial year in cash on 18.01.2025: ₹ 35,000

(3) Audit fee for the previous year 2023-24: ₹ 75,000. TDS deducted but not paid in the relevant previous year. However, TDS was paid on 31.12.2024.

(4) Income from transfer of Carbon Credits amounting to ₹ 4,00,000 included in Net Profit (before tax).

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

Compute the total income of SJ Industries Ltd. for assessment year 2025-26 as per the normal provisions of the Income-tax Act, 1961. Give brief reasons for the treatment given to each of the items considered in computation of income of the company. Company does not want to opt for section 115BAA. **(14 Marks)**

2. (a) G Ltd., a domestic company, provides the following information of its Statement of Profit and Loss for the year ended on 31/03/2025. It earned profit of ₹ 20 lakhs after debiting/crediting of the below items:

Items debited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Provision for the loss of subsidiary	1,70,000
2.	Provision for doubtful debts	1,75,000
3.	Provision for income-tax	2,05,000
4.	Provision for gratuity based on actuarial valuation	3,00,000
5.	Depreciation	4,60,000
6.	Interest to financial institution (unpaid before filing of return)	2,00,000
7.	Penalty for infraction of law	1,50,000

Items credited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Profit from unit established in 2019 in special economic zone	6,00,000
2.	Share in income of an AOP as a member	2,00,000
3.	Income from units of UTI	1,75,000

Other Information:

(i) Provision for income-tax includes ₹ 55,000 of interest payable on income-tax.

(ii) Depreciation includes ₹ 2,50,000 on account of revaluation of fixed assets.

(iii) Depreciation as per Income-tax Rules is ₹ 3,80,000.

(iv) Brought forward loss of ₹ 11 lakhs include unabsorbed depreciation of ₹ 5 lakhs.

(v) The AOP, of which the company is a member, has paid tax at maximum marginal rate.

Compute minimum alternate tax under section 115JB of the Income-tax Act, 1961, for A.Y. 2025-26, assuming that G Ltd. is not required to comply with the Indian Accounting Standards. **(8 Marks)**

(b) Compute the total income and net tax liability of Mr. Nitin, an individual resident in India, aged 25 years for the Assessment Year 2025-26 from the following information furnished by him for the year ended 31.3.2025:

Mr. Nitin earned royalty income of ₹ 18 lakhs from PT Inc. of Country X, for writing articles in journals and newspapers for the year ended 31.03.2025. However, he received only ₹ 13.60 lakhs during the previous year 2024-25 and the balance is outstanding as on 31.03.2025. He maintains cash system of accounting for royalty income.

He also earned a rental income of ₹ 3.60 lakhs (gross) from a house situated in Country X. Municipal taxes paid in respect of the house amounted to ₹ 12,000 which is not allowed as deduction in Country X. No DTAA exist between India and Country X. In Country X, all incomes are charged to tax @15%.

He further earned ₹ 5.50 lakhs during the year, as dividend from M Ltd., an Indian company. On 1.04.2024, he took an educational loan from bank for his son who is pursuing MBA.

Annual repayment of loan and interest amounted to ₹ 1.40 lakhs and ₹ 0.36 lakhs, respectively.

Assume that Mr. Nitin opt out of default tax regime under section 115BAC. **(6 Marks)**

3. (a) The Balance Sheet of M/s SN Charitable Trust as on 31.1.2025, and its other information is given hereunder:

Particulars	₹ in lakhs
Liabilities	
Capital fund	800.00
Sundry creditors	335.00
Total	**1135.00**
Assets	
Land (purchased in the year 2009)	100.00
Land and buildings purchased in the year 2015	800.00
2000 equity shares of ₹ 1000 each in M/s XP Ltd. shares are listed in Bombay Stock Exchange (at face value)	20.00
Balance in current account of a nationalized bank	10.00
Balanced in fixed deposits with scheduled banks	200.00
Cash in hand	3.50
Tax Deducted at Source	1.50
Total	**1135.00**

The application for registration was made on 15-4-2012 and registration under section 12AB of the Income-tax Act, 1961 was granted on 1-7-2012 to M/s SN Charitable Trust. However, the registration was cancelled on 31-1-2025. An appeal was preferred against the order of cancellation, which was dismissed by the Appellate authorities. The order confirming the cancellation was received on 31-3-2025.

Additional Information:

(1) Stamp duty value of the land (purchased in 2009) as on 31-1-2025 was ₹ 120.00 lakhs but if sold in the open market, the property would fetch ₹ 250 lakhs as per a registered valuer's certificate.

(2) Land and building (purchased in 2015), if sold in the open market will fetch ₹ 1000 lakhs as per a registered valuer's certificate. Stamp duty value as on 31-1-2025 was ₹ 1050 lakhs.

(3) The highest and lowest value per share of M/s XP Ltd. traded on 31-1-2025 was ₹ 1099 and ₹ 1051 respectively.

(4) Sundry Creditors include ₹ 30 lakhs provided on estimated basis to contractors for which no bills are received.

Based on the above information, calculate the exit tax payable by the Charitable Trust and state the latest day on which the said tax has to be paid. Give working notes wherever necessary. **(8 Marks)**

(b) STP Ltd. is an Indian company engaged in the manufacturing of supreme quality cotton bedsheets. It has total borrowings of ₹ 60 crores by way of loan as on 1.04.2024. Fix Ltd. of Canada imported 4 lakh bedsheets from STP Ltd. for the resale in Canada @₹ 2,200 per unit. STP Ltd. sold similar bedsheets to other dealers in Canada @₹ 2,300 per unit.

STP Ltd. received a bank guarantee on 1.04.2024 for availing a cash credit limit of ₹ 9 crores for which Fix Ltd. was the guarantor. The terms of trade for other dealers was to make payment within 1 month from the date of sale of goods by STP Ltd., whereas for Fix Ltd., the credit period allowed was 3 months from the date of sale of goods. The cost of capital was 12% per annum and the supply of goods is assumed to be uniform throughout the year.

You are required to determine whether STP Ltd. and Fix Ltd. are associated enterprises. If yes, compute the ALP of the transaction between them and the amount to be added to the income of STP Ltd., if any, by way of an ALP adjustment.

Assuming that the above adjustments to the transfer price have been made suo-moto by STP Ltd. in its return of income, what is the

time limit for the repatriation of such excess money? What are the implications if the excess money is not repatriated within such prescribed time limit? **(6 Marks)**

4. (a) Examine whether TDS provisions are attracted in the following cases:

(i) Kite & Co LLP withdrew from its bank account ₹ 68 lakhs cash for buying agricultural produce, from farmers/agriculturists, being raw material required for manufacture of finished products by it and ₹ 58 lakhs for purpose of other business activities. It files return of income on time regularly.

(ii) Interest of ₹ 98,000 on Capital Gains Bond issued by Power Finance Corporation Ltd. to Mr. Ajay (aged 52), a non-resident individual. **(2 x 2 = 4 Marks)**

(b) The tax assessment of Mr. Pramod was completed on 25-12-2024 and the tax due was determined as ₹ 115 lakhs. The assessee has the following (i) Bank fixed deposit with Canara Bank ₹ 22 lakhs; (ii) Receivable from T & Co Ltd ₹ 27 lakhs. He gifted a land to his son (aged 35 years) 5 years ago whose present market value is ₹ 28 lakhs. He gifted a diamond necklace to his son's wife evidenced by a gift deed dated 05.10.2021.

Discuss against which of the movable/immovable property the Tax Recovery Officer can proceed against for recovery of tax. **(4 Marks)**

(c) XYZ Ltd. provides you the Profit and loss A/c for the Financial Year 2023-24 and Financial Year 2024-25: *₹ in lakhs*

Particulars	For the F.Y. 2023-24	For the F.Y. 2024-25	Particulars	For the F.Y. 2023-24	For the F.Y. 2024-25
Employees Benefit Expenses	390	402	Gross Profit	2030	1780
Interest paid to L & T Inc.	562	389			
Depreciation	250	254			
Income Tax	271	332			
Profit transferred to Reserves	557	403			
	2030	**1780**		**2030**	**1780**

On 23rd June 2023, XYZ Ltd., an Indian Company borrowed ₹ 120 crores from L & T Inc., a company incorporated in Country R. The said loan is repayable over a period of 4 years. This loan is guaranteed by SAM Ltd., a company incorporated in Country Y. SAM Ltd. holds 36% shares in XYZ Ltd.

Calculate the income under the head Profits and Gains from business and profession of XYZ Ltd. for the Assessment Year 2025-26, assuming the gross profit is calculated as per the provisions of the Income-tax Act, 1961 and Depreciation is also as per the Income-tax Rules, 1962. Give appropriate reasons of your workings. Assume none of the companies are engaged in the business of banking. **(6 Marks)**

5. (a) Answer any two out of the following three sub-parts, viz. (i), (ii) and (iii) Your answer should cover:

(1) Issue involved

(2) Provision Applicable

(3) Analysis and conclusion

(i) "The arm's length price (ALP) determined by the Tribunal, which is the final fact-finding authority, is final and cannot be the subject matter of scrutiny by the High Court as it does not give rise to a substantial question of law; accordingly, in an appeal u/s 260A, the High Court is precluded from examining the correctness of determination of the ALP" – Examine the correctness of this statement with reference to a recent Supreme Court ruling. **(4 Marks)**

(ii) Tangram Limited entered into a contract for purchase of patented process with M/s. Dash Inc, a non-resident company based in Country X. It filed an application u/s 195(2) before the Assessing Officer to make payment to the non-resident company for purchase of patented process without deducting tax at source.

The assessee, Tangram Limited, contended that said non-resident company had no Permanent Establishment in India and in terms of the DTAA between India and Country X, no tax was to be deducted in India on same. The Assessing Officer rejected the assessee's application on grounds that

consideration for patented process constituted royalty u/s 9(1)(vi) and was liable to be taxed in India and, accordingly, assessee was directed to deduct tax at source at rate of 10% on said royalty payment.

On Appeal, the Commissioner (Appeals) passed an order in favour of the assessee. On further appeal, the Tribunal upheld the order passed by the Assessing Officer on grounds that payments made for purchase of patented processes were in the nature of royalty and tax at source to be deducted on such payment.

The assessee company filed a miscellaneous application for rectification under section 254(2) before the Tribunal. The assessee had also filed an appeal before the High Court.

The Tribunal allowed said application in exercise of his powers under section 254(2) and reheard entire appeal on merits and recalled its original order and passed an order in favour of the assessee. Thereafter, the writ petition filed by the assessee with High Court was also withdrawn. Is Tribunal justified in recalling its original order? **(4 Marks)**

(iii) On 31.12.2024, a search under section 132 was conducted in the business and residential premises of Mr. Yatin and some gold bars were seized from the locker. Mr. Yatin voluntarily disclosed ₹ 12.50 crores of income during the course of search. Later on, he filed an application for sale of the gold bars weighing 5 kgs for adjustment towards the tax liability, even before the completion of the assessment by the Assessing Officer. However, the Assessing Officer rejected the application and observed that such action can be taken only after the assessment is completed and a demand has been quantified. Is the Assessing Officer justified in rejecting the application? Examine. **(4 Marks)**

(b) Describe the three-tier structure for transfer pricing documentation mandated by BEPS Action Plan 13. Which provisions under the Income-tax Act, 1961 dealt with Master File and CbC reporting.

(6 Marks)

6. (a) TMP 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. **(4 Marks)**

(b) SD Ltd., a pharmaceutical company incorporated in year 2000-01, purchased a new plant and machinery for ₹ 12 lakhs on 01-04-2024. The total income of the company for Assessment Year 2025-26 before allowing additional depreciation in respect of new plant and machinery is ₹ 22 lakhs. SD Ltd. has not opted for the concessional tax regime under section 115BAA or 115BA so far.

Compute the tax liability of SD Ltd. in most beneficial manner for A.Y. 2025-26 assuming its turnover for the previous year 2022-23 was ₹ 338 crores. Ignore the provisions of MAT. **(4 Marks)**

(c) Strawberry Ltd., a non-resident German company, has the following incomes in India during the year ended on 31.03.2025:

(i) Dividend income of ₹ 12,50,000 from XY Ltd., an Indian company listed on recognized stock exchange.

(ii) 8% debentures of ₹ 20,00,000 received from X Ltd., an Indian Company, on October 1, 2024, in consideration of providing technical knowhow (date of payment of interest being March 31 every year).

(iii) Dividend of ₹ 5,50,000 on Global Depository Receipts of Y Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of shares of the company

and purchased by Strawberry Ltd. in foreign currency through an approved intermediary.

(iv) Business Income of ₹ 8,00,000 from a unit established at Mumbai.

(v) Income by way of royalty (other than referred to in section 44DA) amounting to ₹ 10,00,000, from Z Ltd., an Indian company, in pursuance of an agreement approved by Central Government. As per DTTA between the two countries, such royalty is taxable @22%.

With brief reasons for the treatment of the above incomes, you are required to compute the tax liability of Strawberry Ltd. for the Assessment Year 2025-26. **(6 Marks)**

MODEL TEST PAPER 2

FINAL COURSE: GROUP - II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario I

Falcon Ltd of Country X is an associated enterprise of Max Inc. of USA. Falcon Ltd. has a branch in India since 2010. It was selling goods to Indian customers by importing from various countries besides sale in India of goods manufactured by it in Country X.

The adjusted total income of the Indian branch of Falcon Ltd for the year ended 31st March, 2025 is ₹ 80 lakhs. The branch incurred ₹ 12 lakhs by way of executive and general administrative expenditure during the financial year 2024-25. The head office has allocated ₹ 18 lakhs as the branch's share of head office expenditure including the expenditure of ₹ 12 lakhs incurred by the branch.

A survey under section 133A of the Act was conducted in its branch premises in January, 2025 and undisclosed assets of ₹ 90 lakhs were found. Assessment for the assessment year 2024-25 was completed by making addition of the entire undisclosed asset of ₹ 90 lakhs. The assessee preferred appeal before CIT (Appeals) who gave complete relief to the assessee. The Income-tax Department wants to file an appeal before ITAT.

T (P) Ltd. an Indian company, a wholly owned subsidiary of Falcon Ltd., paid ₹ 50 lakhs to XYZ Inc. of Country M as fee for technical services. Services were rendered by the employees of the branch of XYZ Inc. in India. There is no DTAA

between India and Country M. T(P) Ltd. has entered into certain international transactions during the P.Y. 2023-24 and P.Y. 2024-25.

T (P) Ltd. invested in SS (P) Ltd of Country Y and received dividend of ₹ 550 lakhs during the financial year 2024-25. It declared and distributed interim dividend of ₹ 250 lakhs on 10.11.2024 and a final dividend of ₹ 230 lakhs on 12.11.2025. T (P) Ltd. has filed its return of income on 15.11.2024 for A.Y. 2024-25 and on 30.11.2025 for A.Y. 2025-26.

Based on the facts of the above case scenario, choose the most appropriate answer to Q.1 to Q. 4 below:

1. How much tax to be deductible at source by T (P) Ltd on the fee for technical services paid to XYZ Inc.? (As PE in India)

   (a) ₹ 20,80,000

   (b) ₹ 20,00,000

   (c) ₹ 18,20,000

   (d) ₹ 10,40,000

2. How much of the dividend received by T (P) Ltd would be liable to tax for the assessment year 2025-26?

   (a) ₹ 70 lakhs

   (b) ₹ 320 lakhs

   (c) ₹ 300 lakhs

   (d) ₹ 550 lakhs

3. How much of head office expenditure can be claimed by the Indian branch of Falcon Ltd for the assessment year 2025-26?

   (a) ₹ 4,00,000

   (b) ₹ 6,00,000

   (c) ₹ 12,00,000

   (d) ₹ 18,00,000

4. Can the Income-tax Department prefer appeal before ITAT in respect of the complete relief obtained by Falcon Ltd from CIT (Appeals)?

   (a) No, as the tax liability is less than ₹ 60 lakhs.

(b) Yes, as the tax liability is more than ₹ 25 lakhs.

(c) Yes, as the tax liability is more than ₹ 60 lakhs.

(d) No, as the undisclosed asset is less than ₹ 100 lakhs.

(4 x 2 = 8 Marks)

Case Scenario II

Mr. Abhay, a resident Indian, is in retail business in Delhi and his turnover for F.Y.2023-24 was ₹ 9.8 crores. He regularly purchases goods from another resident, Mr. Kunal, a wholesaler in Delhi, and the aggregate payments made by Mr. Abhay to Mr. Kunal during the F.Y.2024-25 was ₹ 90 lakh (₹ 25 lakh on 8.5.2024, ₹ 20 lakh on 27.8.2024, ₹ 25 lakh on 18.10.2024 and ₹ 20 lakh on 11.2.2025). Mr. Kunal's turnover for F.Y.2023-24 was ₹ 13.5 crores.

Mr. Kunal remitted ₹ 6.5 lakh on 28.3.2025, out of his personal savings, through Canara Bank, Delhi branch, which is an authorised dealer, under the Liberalised Remittance Scheme of RBI, as gift to his elder brother residing in Dubai (since 1995), on the occasion of his 60th birthday.

Mr. Kunal paid ₹ 8.8 lakhs on 1.11.2024 to World Travels for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 19 years, in the last week of November.

He also took an education loan of ₹ 13 lakhs on 1.2.2025 from Canara Bank, Delhi Branch, for his son's two-year Master of Public Administration program in UWA University, Australia and remitted the said amount through the same bank under LRS. For his daughter's Research program in PSL Research University, USA, he remitted ₹ 12 lakhs on 15.2.2025, out of his personal savings, through Bank of India, Delhi branch, which is also an authorised dealer, under LRS.

Mr. Kunal has furnished undertaking containing the details of earlier remittance to Canara Bank and Bank of India.

Based on the facts of the above case scenario, choose the most appropriate answer to Q.5 to Q. 9 below:

5. Are provisions of TDS/TCS under the Income-tax Act, 1961 attracted in respect of purchase/sale transaction between Mr. Abhay and Mr. Kunal? If so, what is the quantum of tax to be deducted/collected for the P.Y.2024-25?

(a) No; TDS/TCS provisions are not attracted for P.Y.2024-25, since the turnover of Mr. Abhay in the immediately preceding financial year i.e., F.Y.2023-24 does not exceed ₹ 10 crores.

(b) Yes, Mr. Abhay has to deduct tax@0.1% of ₹ 40 lakhs (₹ 20 lakhs on 18.10.2024 and ₹ 20 lakhs on 11.2.2025)

(c) Yes, Mr. Kunal has to collect tax@0.1% of ₹ 40 lakhs (₹ 20 lakhs on 18.10.2024 and ₹ 20 lakhs on 11.2.2025)

(d) Yes, Mr. Kunal has to collect tax@0.1% of ₹ 90 lakhs

6. In case of failure to furnish PAN by the deductee/collectee as required based on the answer to Q.5 above, what would be the applicable rate of TDS/TCS?

(a) Not applicable, since there is no requirement to deduct or collect tax at source

(b) 20%

(c) 5%

(d) 1%

7. Is World Travels required to collect tax at source on receipt of ₹ 8.8 lakhs from Mr. Kunal for holiday package to Singapore? If so, what is the amount of tax to be collected?

(a) Yes; ₹ 36,000

(b) Yes; ₹ 71,000

(c) Yes; ₹ 44,000

(d) No tax is required to be collected at source in respect of this transaction

8. What is the amount of tax to be collected from Mr. Kunal in respect of the remittance of amounts overseas for his son's and daughter's education?

(a) TCS @0.5% of ₹ 6 lakhs and ₹ 5 lakhs is attracted in respect of remittance for son's and daughter's education, respectively.

(b) TCS @5% of ₹ 6 lakhs and ₹ 12 lakhs is attracted in respect of remittance for son's and daughter's education, respectively

(c) TCS @0.5% of ₹ 6 lakhs and TCS@5% of ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.

(d) TCS @0.5% of ₹ 6 lakhs and TCS@5% of ₹ 12 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.

9. Are TCS provisions attracted in respect of remittance of gift to brother? If so, what is the amount of tax to be collected from Mr. Kunal?

(a) No, since the remittance is out of personal savings for a personal purpose

(b) No, since the amount remitted to his sister is less than ₹ 7 lakhs

(c) Yes, ₹ 1,30,000

(d) Yes, ₹ 32,500 **(5 x 2 = 10 Marks)**

Case Scenario III

Flax (P) Ltd. availed online digital advertisement service provided by Marshall Inc. of USA in March 2025. It paid ₹ 10 lakhs and the amount outstanding as on 31st March, 2025 was ₹ 2 lakhs for the said online digital advertisement service.

Marshall Inc had taken technical services from a consultant of USA, for the purpose of expansion of one of its business units (engaged in toys manufacturing) in India. The consultant gave his report in USA and no part of services were provided in India. The Country does not have a double taxation avoidance agreement with India.

Based on the facts of the above case scenario, choose the most appropriate answer to Q.10 to Q. 12 below:

10. In respect of amount paid/payable by Flax (P) Ltd. for advertising services provided by Marshall Inc., which of the following statements are correct?

(a) Equalization levy of ₹ 60,000 is to be deducted and paid by Flax (P) Ltd.

(b) Equalization levy of ₹ 72,000 is to be deducted and paid by Flax (P) Ltd.

(c) Equalization levy of ₹ 24,000 is to be paid by Marshall Inc.

(d) Equalization levy of ₹ 72,000 is to be paid by Marshall Inc.

11. Would Flax (P) Ltd. be liable to pay any interest and/or penalty if the amount of the equalisation levy remitted on 20.6.2025?

(a) No, it would not be liable to pay any interest or penalty since the amount is remitted within the prescribed time limit.

(b) It would be liable to pay interest but no penalty is attracted.

(c) Yes, it would be liable to pay both interest and penalty.

(d) It would be liable to pay penalty but no interest is payable.

12. Would Marshall Inc. required to deduct tax at source on the amount paid to the consultant of USA?

(a) Yes, TDS is to be deducted @10% plus surcharge, if any plus HEC @4% u/s 194J.

(b) Yes, TDS is to be deducted at source @30% plus surcharge, if any plus HEC @4% u/s 195

(c) Yes, TDS is to be deducted at source @20% plus surcharge, if any plus HEC @4%u/s 195.

(d) No, tax is not required to be deducted at source, since the same is not chargeable to tax in India. **(3 x 2 = 6 Marks)**

13. Swastik is a charitable trust registered under section 12AB, with its main object falling under the residuary clause "any other object of general public utility". During the P.Y.2024-25, it received ₹ 90 lakh as voluntary contributions. The trust also borrowed ₹ 45 lakh on 14.8.2024 from Axis bank to purchase land for construction of an office building from where it can carry out its functions. The trust repaid principal of ₹ 10 lakh to Axis bank on 31.3.2025. The trust has donated (not as corpus donation) to another trust registered under section 12AB with main object of providing education to poor, ₹ 14 lakhs out of its current year income. What would be the application of the trust for the P.Y.2024-25 (excluding unconditional accumulation of 15%), assuming that it has fulfilled the relevant conditions stipulated under section 12A?

(a) ₹ 21.9 lakhs

(b) ₹ 24 lakhs

(c) ₹ 59 lakhs

(d) ₹ 56.9 lakhs **(2 Marks)**

14. Which of the following deduction/exemption/set-off of losses are allowable while computing income under respective head of income and total income of an individual as per section 115BAC?

(i) Deduction for interest on housing loan in respect of self-occupied property

(ii) Deduction for Interest on housing loan in respect of let-out property

(iii) Exemption in respect of agricultural income

(iv) Exemption in respect of minor child income included in the income of parent

(v) Set-off of loss under the head house property against income under any other head

(vi) Standard Deduction u/s 16(ia)

The correct answer is –

(a) (ii), (iii) & (vi)

(b) (i), (ii), (iii) & (vi)

(c) (i), (ii), (v) & (vi)

(d) (ii), (iv), (v) & (vi) **(2 Marks)**

15. Mr. Rahul, a resident Indian, purchased units in ABC REIT on 1.4.2024. ABC REIT received dividend income from TL Ltd., being a SPV. TL Ltd. opted for section 115BAA. The record date of ABC REIT is 1st June 2024 and it distributed dividend to unitholders in June, 2024. Would dividend stripping provisions of section 94(7) be attracted, if Mr. Rahul sells the units held by him at a loss in January, 2025? Is ABC REIT required to deduct tax at source on the dividend component of income received from SPV and distributed to Mr. Rahul?

(a) Dividend stripping provisions would not be attracted and ABC REIT is not required to deduct tax at source.

(b) Dividend stripping provisions would not be attracted and ABC REIT is required to deduct tax at source@10%

(c) Dividend stripping provisions would be attracted and ABC REIT is required to deduct tax at source@10%

(d) Dividend stripping provisions would be attracted and ABC REIT is not required to deduct tax at source. **(2 Marks)**

Division B – Descriptive Questions

*Question No. **1** is compulsory*

*Attempt any **four** questions from the remaining **five** questions*

1. Sheetal Ltd. is a listed company located in Mumbai. It is engaged in multiple activities at different locations. Books of account are maintained by each unit separately. The head office maintains books relating to common transactions. All the accounts are consolidated and the return of income is filed at Mumbai.

   The following information is furnished unit wise for the year ended 31st March, 2025:

   (a) **Chemical manufacturing unit, Jaipur:** The Company has reported Net Profit of ₹ 300 lakhs in the books of account of the said business unit. It entered into an agreement for use of know-how owned by a renowned scientist. The amount of royalty paid during the previous year 2024-25 was ₹ 40 lakhs. The company deducted tax at source on the amounts paid upto November, 2024 and omitted to deduct tax at source on the royalty of ₹ 10 lakhs due for the period from November, 2024 to March, 2025. The payee admitted the royalty income fully, paid tax and filed his return of income before the "due date" specified in section 139(1).

   The company paid ₹ 1,68,00,000 being 15% of basic salary *plus* DA of the employees in notified pension scheme and the amount so paid is debited as expenditure in the books of account.

   (b) **Furniture manufacturing unit, Pune:** The Company has a manufacturing unit at Pune. It reports a Net Profit of ₹ 90 lakhs as per books of account of the unit. It bought a trademark from Mr. Yellow for ₹ 25 lakhs on 01-06-2024 which is charged as expenditure in the books of account.

   The unit paid ₹ 3 lakhs as interest on loan taken from a non-resident Indian. The tax was deducted at source in March, 2025 but it was remitted only on 06-05-2025.

   The company paid ₹ 7 lakhs, being the amount of income-tax payable by the employees on non-monetary perquisites provided by the company. This amount is debited in the books of account as expenditure.

(c) **Fertilizer producing unit, Narmada:** The Company established a fertilizer producing unit in Narmada, Gujarat which become operational in July, 2024. It has acquired a Land for ₹ 1 crore and put up a Building for ₹ 2.50 crores and installed new Plant and Machinery for ₹ 3 crores. The Net Profit as per books of account of the unit is ₹ 220 lakhs (after deducting depreciation on Building of ₹ 25 lakhs and Plant and Machinery of ₹ 45 lakhs).

(d) **Warehousing facility for storage of edible oils at Delhi**: It established a warehousing facility for storage of edible oils from 01-08-2024. It made investments such as cost of Land ₹ 2 crores, Building ₹ 3 cores and Plant and Machinery (new) ₹ 5 crores. The Net Profit as per books (without deducting depreciation) was ₹ 70 lakhs.

Additional information:

The company mobilized capital during the previous year 2024-25 by public issue of shares. The application money was kept in bank pending allotment of shares. The interest income from the said deposit of ₹ 3,20,000 is credited to general reserve.

The company declared interim dividend @10% of share capital being ₹ 40 lakhs in December, 2024. It has 27% shareholding in ABC Inc., New York from whom it received ₹ 56 lakhs as dividend in February, 2025. Both dividend received and paid were credited and debited, respectively, in the Consolidated Statement of Profit and Loss.

The total turnover of the company for previous year 2022-23 was ₹ 390 crores and for financial year 2023-24 ₹ 405 crores. The company has MAT credit of ₹ 20 lakhs of the assessment year 2016-17. The book profit (computed) for the assessment year 2025-26 is ₹ 520 lakhs.

Compute the total income of the company and optimum income-tax liability for the assessment year 2025-26. Assume company have not yet opted for concessional tax regime. Your answer must give reasons for treatment of each item given above and also for the tax liability.

(14 Marks)

2. (a) ABC Pvt. Ltd was converted into limited liability partnership (LLP) as ABC LLP on 1-10-2024. You are provided with the following particulars of ABC Pvt. Ltd. as on 31-03-2024:

(i) Business loss ₹ 54 Lakhs (relating to P.Y.2020-21)

(ii) Written down value of the assets as per the Income-tax Act, 1961:

- Plant and Machinery (15%) ₹ 14 Lakhs (Market Value ₹ 20 lakhs)
- Plant and Machinery ₹ 75 Lakhs (cost) – deduction claimed u/s 35AD
- Building (10%) ₹ 40 lakhs (Market Value ₹ 80 Lakhs)

(iii) Cost of land (acquired in year 2012) ₹ 80 lakhs (Market value ₹ 120 lakhs)

(vi) Expenditure on voluntary retirement incurred by the company during the P.Y. 2022-23 is ₹ 28 Lakhs. The company has been allowed a deduction of ₹ 5.6 lakhs for each year for the P.Y. 2022-23 and P.Y. 2023-24 u/s 35DDA.

(v) Unadjusted MAT credit u/s 115JAA ₹ 8.6 lakhs

(vi) Unabsorbed depreciation ₹ 48 lakhs

Explain the tax treatment of each item stated above in the hands of LLP, assuming that the conversion satisfies all the conditions laid down in section 47(xiiib). **(8 Marks)**

(b) Mr. Mani Prasad, aged 71 years furnished the following information in respect of income earned by him for the previous year ended 31-03-2025:

Particulars	Amount (₹)
India	
Pension from State Government	4,80,000
Short term capital gains on sale of plot	3,20,000
Deposit in PPF Account	1,50,000
Speculative Income	1,56,000
Country M	
Agricultural Income (gross)	86,000
Dividends from a company incorporated in Country M (gross) [Exempt in Country M]	68,000

Country N	
Business loss (proprietary business) [Not eligible for set off against other incomes in Country N]	1,16,000
Gross rental income from a house property (No statutory deduction was available in Country N)	3,20,000
Municipal taxes paid in respect of the above property (not allowed as deduction in Country N)	21,000

Additional Information:

(1) There is no agreement under section 90 for relief for avoidance of double taxation between India and Country M and Country N where the incomes have accrued or arisen.

(2) Mr. Mani Prasad is resident in India, and he has paid applicable taxes on incomes earned in Country M and Country N, where the applicable tax rates are 10% and 5%, respectively.

Compute the total income and net tax liability of Mr. Mani Prasad after providing relief under section 91 for A.Y. 2025-26. Mr. Mani Prasad is paying tax under default tax regime under section 115BAC. **(6 Marks)**

3. (a) Examine the following based on the relevant provisions of the Income-tax Act, 1961 and judicial pronouncements:

(i) Satvik public charitable trust sold one of its building which was held by it for charitable purposes, for ₹ 4.2 lakhs on 28th September, 2024. The asset were acquired on 25-6-2022 for ₹ 2.20 lakhs. It invested ₹ 3 lakhs in fixed deposits for the tenure of 2 years.

(ii) HelpAge, a trust established for the purpose of religious and charitable purposes. It runs a temple and a school. During the year 2024-25, it received anonymous donation amounting to ₹ 3 crores for temple and ₹ 8 crores for school.

(iii) M/s XYZ, an electoral trust incorporated in the year 2022, provides the following information to you in respect of its transactions for the year 2024-25

Total voluntary contributions received ₹ 420 lakhs

Surplus brought forward from earlier P.Ys. ₹ 18 lakhs

Expenses incurred for the purpose of managing its affairs ₹ 8 lakhs. What is the amount of surplus that can be distributed by the electoral trust assuming all other conditions as provided under the Income-tax Act, 1961 are satisfied?

(8 Marks)

(b) (i) Trax & Co. is engaged in providing scientific research services to several non-resident clients. Such services are also provided to Olive Inc., which guarantees 12% of the total loans of Trax & Co. Examine whether transfer pricing provisions are attracted in respect of this transaction.

(ii) Without prejudice to the answer to (i) above, assuming that transfer pricing provisions are attracted in this case and that the Assessing Officer had made a primary adjustment of ₹ 310 lakhs to the transfer price in the P.Y.2023-24 *vide* order dated 31.3.2025 and the same was accepted by Trax & Co., what are the consequent requirements as per the Income-tax Act, 1961 and the implications of non-compliance with the said requirements?

Assume that the transaction is denominated in Indian Rupees and no amount has been repatriated upto 31.3.2026. The one year marginal cost of fund lending rate of State Bank of India as on 1.4.2025 is 9%. **(6 Marks)**

4. (a) Marigold Ltd., an Indian Company engaged in trading of electronic appliances through retail stores all across India, reported a total turnover of ₹ 70 crores during the previous year 2023-24 and ₹ 45 crores during the previous year 2024-25. The customers who purchase appliances from its stores can pay only through cash, cheque, credit card or debit card. Discuss the relevant provisions of the Act with respect to relevant compliances that should have been ensured by Marigold Ltd. and in the absence of such compliances, what will be the amount of penalty, if any, that can be levied on Marigold Ltd. **(4 Marks)**

(b) An Indian company pays gross salary, including allowances and monetary perquisites amounting to ₹ 7,30,000 to its General Manager (aged 45 years). Besides, the company provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. General manager has not given any declaration regarding opting out of section 115BAC. Examine the liability for tax deduction at source in the hands of the Indian Company for the assessment year 2025-26. **(4 Marks)**

(c) XYZ Co., an Indian company, is engaged in the business of manufacture of packaging material having its manufacturing facility in India. XYZ Co. is a wholly owned subsidiary of Flix Inc., a company incorporated in Country M. Angelo and James, citizens and residents of the Country N, each of them hold 50% of the share capital of Flix Inc. Angelo and James, each had invested equivalent to INR 100 crores in Flix Inc. in April 2015.

On 1st June 2024, Angelo and James, having received an offer which they believe was fair, sold their entire stake in Flix Inc. to Ishaan, resident of Country N for amount equivalent to INR 350 crores each.

The accounting period of Flix Inc. is January to December, the relevant extract of the balance sheet of Flix Inc. as on 31st December 2023, 1st June 2024 and 31st December 2024 are as follows:

Particulars	**As on 31st December 2023 (in INR crores)**	**As on 1st June 2024 (in INR crores)**	**As on 31st December 2024 (in INR crores)**
Details regarding Flix Inc.			
Book value of assets	1,000	1,300	1,500
Liabilities	300	250	350
Fair Market Value of assets (without	800	1100	950

reduction of liabilities)			
Details regarding investment in XYZ Co.			
Cost of acquisition	150	150	150
Book value of assets in balance sheet of XYZ Co.	350	550	480
Liabilities	150	200	250
Fair market value of assets in balance sheet of XYZ Co. (without reduction of liabilities)	350	600	600

Determine whether the income arising from transfer of shares of Flix Co. chargeable to tax in India in the hands of Angelo and James for the A.Y. 2025-26. Assume there is no DTAA between India-Country M and between India-Country N. **(6 Marks)**

5. (a) Answer **any two** of the following three sub-parts (i), (ii), (iii) on the basis of decided case laws, bringing out the following –

(1) Issue involved

(2) Relevant provisions of law

(3) Analysis and Conclusion

(i) During the scrutiny assessment of Orange Ltd., a company engaged in manufacture and distribution of packaged Coconut water and fresh drinks, the Assessing Officer increased the income passed an order of demand. Aggrieved by the order, the assessee filed an appeal to CIT(A), who confirmed the order of Assessing Officer. The assessee further appealed to Appellate Tribunal requesting for the stay of collection of tax, which the Tribunal provided initially for 180 days on deposit of 20% of the amount of tax by Orange Ltd. Thereafter, the Bench was functioning intermittently and therefore, the disputed matter could not be disposed off. The company applied for extension of stay and was granted

extension upto 365 days. The Appellate Tribunal did not dispose off the appeal before the time extended for collection of tax. The revenue served an order of demand citing the reason that the order of stay automatically gets vacated post the expiry of 365 days. The assessee seeks your opinion as to whether the contention of the revenue is justified.

(ii) The assessment of Mr. Sharma was completed u/s 143(3) of the Income-tax Act 1961 with an addition of income of ₹ 8.5 lakhs to the returned income. Mr. Sharma contends that the order of assessment is bad in law as no notice was issued u/s 143(2) even though he had participated in the assessment proceedings. The Assessing Officer, relying on section 292BB, contends that since Mr. Sharma has participated in assessment proceedings, he cannot raise such objection.

Examine the validity of the contentions of both Mr. Sharma as well as the Assessing Officer.

(iii) Fast Construction Pvt. Ltd. is engaged in the construction of bridges and flyovers. During the previous year 2024-25, it made payment to various parties and deducted tax amounting to
₹ 18 lakhs. However, the company failed to deposit the said amount with the income-tax department within the time prescribed under the Income-tax Act, 1961. The company submitted that it is facing financial hardship since a large sum of money has been stuck-up with its debtors and also with the income-tax department in the form of tax refunds. It is further submitted that inspite of financial crisis, the company has *suo-moto* deposited the TDS amount along-with interest u/s 201(1A), before receiving any notice from the income-tax department in this regard. However, prosecution proceedings were initiated under section 276B against the company and its directors. The company has approached you to advise in the matter. **(2 x 4 marks)**

(b) "In addition to allocating the taxing rights and elimination of double taxation, there are various other important considerations while entering into tax treaty". Elucidate. **(6 Marks)**

6. (a) Critically examine the following cases and discuss whether the provisions of General Anti-avoidance Rules (GAAR) can be invoked in these cases?

(i) Shiva Ltd., an Indian company has 2 manufacturing units, unit X in the Special Economic Zone (SEZ) and unit Y in non-SEZ. Manufacturing activities are carried out in unit Y while unit X only does the packaging of the goods manufactured by unit Y. In its books of accounts, it shows the manufacturing to be carried out in unit X and claims allowable deductions.

(ii) Vishnu Ltd., an Indian company has 2 manufacturing units, unit M in the Special Economic Zone (SEZ) and unit N in non-SEZ. It transfers the goods manufactured by unit N to unit M at a price significantly lower than the market value of the goods and thus becomes eligible for higher deductions.

(4 Marks)

(b) Right & Co, a firm engaged in retail business, employed 30 new employees on 1.4.2024 on a monthly salary of ₹ 24,500 to be paid by account payee cheque. In addition, each employee was entitled to 10% employer contribution to recognised provident fund. The employees were also entitled to transport allowance of ₹ 3,500 p.m. paid in cash. The gross total income of Right & Co. included profits and gains from business of ₹ 75 lakhs.

The firm claimed deduction under section 80JJAA of ₹ 26,46,000, being 30% of ₹ 88,20,000 lakh (30 new employees x ₹ 24,500 p.m. x 12) on the basis of the report of the chartered accountant issued in Form 10DA. The same chartered accountant was also the tax auditor of the firm. The chartered accountant contended that "emoluments" do not include employer contribution to PF. Also, cash payments were not to be considered as "additional employee cost" for the purpose of section 80JJAA. Hence, only ₹ 24,500 p.m. per employee paid by account payee cheque has to be treated as additional employee cost. Since the same does not exceed the limit of ₹ 25,000 p.m. and the employees have been employed for more than 240 days in the P.Y.2024-25, the employees would qualify as "additional employees" for the purpose of deduction under section 80JJAA for A.Y.2025-26.

Is his contention correct? Examine the ethical implications in this case. **(6 Marks)**

(c) The Indian branch of D Co Ltd, Country K has carried out some transactions with LT Co Ltd, Bengaluru in the financial year 2024-25. The value of the transaction is ₹ 600 crores. LT Co Ltd. applied for advance ruling in January, 2025 to know exactly the tax consequences of its transactions with the non-resident D Co Ltd., Country K, both for itself and on non-resident. Application for ruling is accepted by Board for Advance Rulings (BAR). On 30.4.2025, BAR pronounced its ruling and said ruling was communicated to LT Co. Ltd. on the same date. LT Co. Ltd. was, however, not satisfied with said ruling.

State whether the advance ruling pronounced by BAR is binding on LT Co. Ltd. Is there any remedy available to LT Co. Ltd. if it is aggrieved with the said ruling? Examine. **(4 Marks)**

MODEL TEST PAPER 3

FINAL COURSE: GROUP - II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario I

The following information pertains to Mr. Apoorv, an Indian citizen and non-resident in India, for the previous year 2024-25:

(i) Dividend from TPO Ltd., an Indian Company (gross) of ₹ 1,30,000.

(ii) Interest on debentures of SLP Pvt. Ltd. (subscribed in convertible foreign exchange) of ₹ 1,35,000 (gross).

(iii) He incurred interest on loan taken for purchase of shares of TPO Ltd. and for purchase of debentures of SLP Pvt. Ltd. of ₹ 30,000 and ₹ 20,000, respectively.

(iv) On 15th March 2025, he sold debentures of Fix Ltd. for ₹ 18,25,000 which were subscribed in convertible foreign exchange on 10th June 2004 in dollars equivalent to ₹ 4,65,000. He paid commission to broker of ₹ 7,000 at the time of sale.

(v) On 30th April, 2025, he reinvested the sale proceeds of debentures of ₹ 4,80,000 for purchase of listed shares of an Indian company, Fly High Ltd.

Cost Inflation Index: F.Y. 2004-05 - 113; F.Y.2024-25 – 363.

Based on the facts of the above case scenario, choose the most appropriate answer to Q.1 to Q. 5 below:

1. What is the amount of dividend taxable in the hands of Mr. Apoorv and at what rate TPO Ltd. is required to deduct tax at source on dividend income distributed to Mr. Apoorv?

   (a) ₹ 1,30,000 and 10%

   (b) ₹ 1,04,000 and 10%

   (c) ₹ 1,00,000 and 20.8%

   (d) ₹ 1,30,000 and 20.8%

2. Assuming for the purpose of this MCQ that Mr. Apoorv is a resident in India for the P.Y. 2024-25, determine the amount of dividend taxable in his hands and at what rate TPO Ltd. is required to deduct tax at source on dividend income distributed to him?

   (a) ₹ 1,30,000 and 10%

   (b) ₹ 1,04,000 and 10%

   (c) ₹ 1,00,000 and 20%

   (d) ₹ 1,30,000 and 20%

3. What is the amount of interest on debentures of SLP Pvt. Ltd. taxable in the hands of Mr. Apoorv and at what rate? Ignore surcharge and cess.

   (a) ₹ 1,35,000 taxable @20%

   (b) ₹ 1,05,000 taxable @20%

   (c) ₹ 1,08,000 taxable at slab rates

   (d) ₹ 1,05,000 taxable at slab rates

4. What would be the amount of long-term capital gains taxable in the hands of Mr. Apoorv on sale of debentures of Fix Ltd., as per the provisions of Chapter XII-A of the Income-tax Act, 1961? Ignore the effect of first proviso to section 48 (benefit of foreign currency conversion).

   (a) ₹ 13,53,000

   (b) ₹ 9,95,772

   (c) ₹ 9,97,142

   (d) ₹ 13,60,000

5. Assuming for the purpose of this MCQ that Mr. Apoorv is a resident in India for the previous year 2024-25, what would be the amount of taxable capital gains on sale of debentures of Fix Ltd. in the hands of Mr. Apoorv?

   (a) ₹ 13,53,000

   (b) ₹ 3,85,965

   (c) ₹ 9,95,772

   (d) ₹ 13,60,000 **(5 x 2 = 10 Marks)**

Case Scenario II

Omega Inc., a Country F company, maintains an online web-platform through which it provides end user computer software through an End-user Licence Agreement (EULA). Trailor Ltd., an Indian company, has entered into a contract for ₹ 6.7 crores with Omega Inc., for the Financial Year 2024-25, which is approved by the Central Government.

The broad terms of the EULA between the two companies are as follows-

Grant of licence. Omega Inc. grants Trailor Ltd. a limited non-exclusive licence to install, use, access, display and run the click wrap web-based Computer Software (CWCS) on a single local hard disk(s) or other permanent storage media of one computer. Trailor Ltd. should not make CWCS available over a network where it could be used by multiple computers at the same time.

Reservation of rights and ownership. Omega Inc. reserves all rights not expressly granted to Trailor Ltd. in this EULA. The CWCS is protected by copyright and other intellectual property laws and treaties. Omega Inc. owns the title, copyright and other intellectual property rights in the CWCS. The CWCS is licenced (only for use and not any other purpose), not sold.

Omega Inc. does not have any offices outside Country F.

Extract of Article 12 of India-Country F DTAA

Royalties and Fees for Technical Services

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

2. *However, such royalties and fees for technical services may also be taxed in the Contracting State in which they arise and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the*

royalties or fees for technical services, the tax so charged shall not exceed 10 per cent.

3. *The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use :*

   (a) any copyright of a literary, artistic or scientific work, including cinematograph film or films or tapes used for radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience, including gains derived from the alienation of any such right, property or information

Based on the facts of the above case scenario, choose the most appropriate answer to Q.6 to Q.9 below: Assume that the transactions relate to a period prior to 31.07.2024

6. Is Trailor Ltd., India required to deduct tax at source on the payment made to Omega Inc.? If yes, what amount of tax is required to be deducted at source on the said payment?

   (a) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 1,42,14,720.

   (b) No, Trailor Ltd. is not required to deduct tax at source.

   (c) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 2,84,29,440.

   (d) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 67,00,000

7. Would Trailor Ltd., India be required to deduct tax at source on the payment made to Omega Inc, if there was no DTAA between India and Country F? If so, what amount of tax is required to be deducted at source on the said payment?

   (a) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 1,42,14,720.

   (b) No, Trailor Ltd. is not required to deduct tax at source, since such sum is not taxable in the hands of Omega Inc.

   (c) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 2,84,29,440.

   (d) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 71,07,360

8. What would be the tax liability of Omega Inc. if there is no DTAA between India and Country F, and it incurred Rs. 20,00,000 for providing end-user software to Trailor Ltd.?

(a) ₹ 1,42,14,720.

(b) Nil

(c) ₹ 2,84,29,440.

(d) ₹ 1,37,90,400

9. Would Omega Inc. is required to file return of Income for the A.Y. 2025-26, if there is no DTAA between India and Country F?

(a) Yes, required to file return of income, since the said income is chargeable to tax in India.

(b) No, not required to file return of income, since the said income is not chargeable to tax in India.

(c) Yes, required to file return of income, even if the said income is not chargeable to tax in India as information of income arising from India is to be disclosed in return.

(d) No, not required to file return of income, if Trailor Ltd. deducted tax at source on such income. **(2 x 4 = 8 Marks)**

Case Scenario III

Sharma Pvt. Ltd. ("S") files its return of income for the P.Y. 2024-25 on 30th September 2025 declaring loss of ₹ 18,00,000. The rate of income-tax applicable to the company is 25%.

The tax auditor of S, in his audit report submitted under section 44AB, has reported a disallowance of ₹ 2,80,000 towards personal expenditure of directors as no evidence was produced by S in support of this expenditure. However, S did not disallow the same in its computation and return of income.

The return of income was processed by the Centralised Processing Centre making an addition of ₹ 2,80,000 towards personal expenditure and the loss u/s 143(1) was computed at ₹ 15,20,000.

The return of income was selected for scrutiny assessment and by order passed u/s 143(3), the loss as per normal provisions was reduced to ₹ 11,60,000 by making an addition of ₹ 3,60,000.

The assessment was reopened u/s 147 and by order passed u/s 147, the loss as per preceding order u/s 143(3) was converted into income of ₹ 3,20,000.

Based on the facts of the above case scenario, choose the most appropriate answer to Q.10 to Q. 12 below:

10. Which of the following statements regarding penalty on addition of ₹ 2,80,000 towards personal expenditure is correct?

    (i) Since S has claimed deduction of amount incurred towards personal expenditure of directors, S shall be considered to have under-reported its income.

    (ii) The under-reporting on account of claiming personal expenditure of directors as deduction can be construed as misreporting of income as it is a claim of expenditure not substantiated by any evidence.

    (iii) Since addition of ₹ 2,80,000 is an adjustment referred to in section 143(1)(a), no penalty is leviable in respect of this addition.

    (iv) No penalty is leviable if S offers an explanation and the Assessing Officer is satisfied that the explanation is *bona fide* and S has disclosed all the material facts to substantiate the explanation offered.

    (a) (i) and (iv)

    (b) (ii) and (iv)

    (c) (iv) only

    (d) (iii) only

11. What is the amount of penalty leviable u/s 270A as a consequence of assessment u/s 147, if the addition was not on account of misreporting?

    (a) ₹ 1,09,200

    (b) ₹ 1,92,400

    (c) ₹ 41,600

    (d) ₹ 1,85,000

12. Assuming that the additions made in the order u/s 147 are not on account of misreporting of income but only on account of under-reporting, S seeks to claim immunity from imposition of penalty u/s 270A and initiation of proceedings u/s 276C of the Act by filing an application in this regard before the Assessing Officer. What are the other conditions that need to be satisfied by S in this regard?

(i) Pay the tax and interest payable as per the order u/s section 147 within the period specified in the notice of demand.

(ii) Pay the tax as per the order u/s section 147 within the period specified in the notice of demand.

(iii) Contest the additions made in the order, after payment of tax and interest, within the period specified in the notice of demand.

(iv) No appeal should be or should have been filed against the order.

The correct answer is-

(a) (ii) and (iv)

(b) (i) and (iv)

(c) (i) and (iii)

(d) (ii) and (iii) **(3 x 2 = 6 Marks)**

13. During the P.Y.2024-25, YourCare Charitable Trust registered under section 12AB received donations of ₹ 90 lakhs, out of which ₹ 10 lakhs were corpus donations which were deposited in post office savings bank account and ₹ 20 lakhs were anonymous donations. The trust applied ₹ 40 lakhs towards its objects during the P.Y.2024-25. The tax liability of the trust for A.Y.2025-26 is -

(a)₹ 7,51,140

(b)₹ 7,02,000

(c)₹ 6,25,560

(d)₹ 6,42,720 **(2 Marks)**

14. Mr. Sugam, a resident Indian aged 61 years, has income of ₹ 48 lakhs under the head "Profits and gains of business or profession". One of his businesses is eligible for deduction @100% of profits under section 80-IB for A.Y. 2025-26. The profit from such business included in the business income is ₹ 20 lakhs. What would be the tax liability (computed in the most beneficial manner) of Mr. Sugam, assuming that he has no other income during the P.Y.2024-25.

(a) ₹ 6,52,500

(b) ₹ 11,75,200

(c) ₹ 9,23,520

(d) ₹ 6,76,000 **(2 Marks)**

15. Mr. Sahil set-up a three-star hotel "Cloud View" in Bhopal on 16.5.2009 and another three-star hotel "Green View" in Mumbai on 1.4.2012. His brother Mr. Akhil is in the business of building and operating hospitals. He has set-up hospital "Lifeline" (with 50 beds capacity) in Mumbai which begins to operate on 1.8.2008 and another hospital "Lifecare" (with 120 beds capacity) in Bhopal which begins to operate on 15.5.2016. For the previous year, 2024-25, Mr. Sahil has profit from hotel "Cloud View" of ₹ 95 lakhs and loss from hotel "Green View" of ₹ 35 lakhs. Mr. Akhil has profit from Hospital "Lifeline" of ₹ 54 lakhs and loss from hospital "Lifecare" of ₹ 25 lakhs for the P.Y. 2024-25. What would be the profits and gains from business or profession of Mr. Sahil and Mr. Akhil and also determine the loss to be carried forward, if both of them opt out to pay tax as per section 115BAC?

(a) Business income of ₹ 60 lakhs in the hands of Mr. Sahil and amount to be carried forward would be Nil. Business income of ₹ 54 lakhs in the hands of Mr. Akhil and ₹ 25 lakhs loss to be carried forward.

(b) Business income of ₹ 95 lakhs in the hands of Mr. Sahil and ₹ 35 lakhs loss to be carried forward. Business income of ₹ 29 lakhs in the hands of Mr. Akhil and no amount to be carried forward.

(c) Business income of ₹ 60 lakhs in the hands of Mr. Sahil and amount to be carried forward would be Nil. Business income of ₹ 29 lakhs in the hands of Mr. Akhil and no amount to be carried forward.

(d) Business income of ₹ 95 lakhs in the hands of Mr. Sahil and ₹ 35 lakhs loss to be carried forward. Business income of ₹ 54 lakhs in the hands of Mr. Akhil and ₹ 25 lakhs to be carried forward.

(2 Marks)

Division B – Descriptive Questions

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

1. Fun Limited, a domestic company, set-up and commenced business of manufacturing of mixer grinder on 01-4-2024 in the State of Madhya Pradesh. The net profit of the company as per Statement of Profit and Loss for the year ended 31st March, 2025, revealed profit of ₹ 1,47,50,000 after debiting or crediting the following items:

   (i) Depreciation charged during the year amounted to ₹ 34,00,000.

   (ii) Lumpsum consideration of ₹ 36 lakhs paid to a foreign company for obtaining designs & models of mixer grinder on 12-12-2024

   (iii) Purchased raw material valued at ₹ 96 lakhs from Gold Ltd. in which directors have substantial interest. The market value of the goods is ₹ 82 lakhs.

   (iv) Cash subsidy of ₹ 15 lakhs received from State Government on acquisition of new plant & machinery [mentioned at point (c) in additional information] acquired on 01-07-2024 which was credited to Statement of profit and loss.

   (v) Legal expenses incurred for issue of bonus shares at ₹ 6 lakhs and legal expenses for issue of right shares at ₹ 8 lakhs.

   (vi) Short term capital gains of ₹ 15 lakhs arising on transfer of a capital asset being equity shares in a company on 15.05.2024 on which security transaction tax is charged.

   Additional information:

   (a) Depreciation eligible under section 32 is ₹ 36 lakhs.

   (b) During the previous year 2024-25, the company transferred unlisted equity shares for a consideration of ₹ 22,00,000 which were acquired on 1.5.2024. The cost of these shares acquired is ₹ 12,00,000.

   (c) New Plant & Machinery acquired on 01-07-2024 for ₹ 75 lakhs and payment of ₹ 10 lakhs made by bearer cheque and balance by way of transfer through RTGS. Depreciation on this machinery is not included in depreciation amount given at point (a).

Book profits for the previous year 2024-25 is ₹ 320 lakhs.

Compute the total income and tax liability of Fun Limited for the Assessment Year 2025-26 in a most beneficial manner clearly stating the reasons for treatment of each item. **(14 Marks)**

2. (a) The profit and loss account of the Heros and Sons, a partnership firm, showed a net profit of ₹ 80 lakhs after debiting/crediting of the following sums:

   (i) Interest on capital @14% - ₹ 7,00,000

   (ii) Interest on loan taken from one of the partners@ 15% - ₹ 90,000

   (iii) Interest on bank fixed deposits made out of surplus funds - ₹ 25,000 (Gross)

   (iv) Depreciation as per books of accounts - ₹ 1,02,000

   (vi) A building purchased in the year 2018 having a WDV as on 1.4.2024, of ₹ 36.45 lakhs was sold on 05.11.2024 for ₹ 90 lakhs. The differential amount was credited to profit and loss account. The building was the only asset in the block.

   Additional Information:

   (a) The firm has four partners. Only 2 are working partners. Partnership deed authorises payment of interest to partners in the range of 12% - 16% and also payment of remuneration to all the four partners @ ₹ 20,000 per month (not debited to profit and loss account).

   (b) It applied for establishing a unit in SEZ and the letter of approval was granted on 30.3.2020. However, it started the operation of SEZ only on 15.10.2020. The total turnover, export turnover received in convertible foreign exchange upto 30.9.2025 and net profit for the year ended 31.3.2025 were ₹ 120 lakhs, ₹ 40 lakhs and ₹ 7.5 lakhs respectively. The net profit is included in the profit of ₹ 80 lakhs mentioned above.

   (c) Out of the amount received from sale of building, the firm invested ₹ 60 lakhs on 2.4.2025 in 5-years specified bonds of the National Highways Authority of India. The bonds were issued on 31.5.2025.

(d) Depreciation as per Income-tax Rules, 1962 is ₹ 14,000 excluding depreciation on assets mentioned in (e) and (f) below.

(e) WDV of Motor car as on 1.4.2024 - ₹ 6,80,000.

(f) Cost of mobile phones (purchased and put to use on 11.10.2024) ₹ 20,000

Compute the total income of the firm for the A.Y. 2025-26 giving reasons/explanations for the treatment of each item under the normal provisions of the Act. **(8 Marks)**

(b) Mr. Albert, a non-resident and American citizen, is employed in an American company. The American company has a PE in India. Albert visited India during the F.Y. 2024-25 on official work and stayed for 80 days. His salary for that period was ₹ 25,00,000 which is borne by the Indian PE.

Albert held 1200 shares of Shine Pvt. Ltd. (SPL), an Indian company since 31.12.2018 which he acquired for ₹ 35 per share. For acquiring the shares, he remitted USD 50,000 to India on 15.12.2018. He sold these shares on 20.8.2024 for ₹ 63 per share.

Albert also held 2000 equity shares of YoC Inc., another American company, which he had acquired for dollars equivalent to ₹ 145 per share in 2018. YoC Inc. follows April to March as its financial year. He sold all these shares for dollars equivalent to ₹ 615 per share to Mishel, another non-resident, on 10.10.2024. The relevant information of YoC Inc. as on 31.3.2025 is given below:

(i) Total value of assets ₹ 15 crores.

(ii) Total value of immovable properties worldwide= ₹ 12 crores.

(iii) Immovable properties held in India (included in (ii) above) - ₹ 8 crores.

Dividend earned from Shine (Pvt) Ltd. on 28.06.2024 was - ₹ 13,200 (gross).

You are required to compute the total income taxable assuming he has opted out of section 115BAC in India of Mr. Albert ignoring the provisions of DTAA between India and USA.

Exchange rates for 1 USD on the relevant dates is given as hereunder:

Date	Buying Rate (1 US $)	Selling Rate (1 US$)
31.12.2018	₹ 68	₹ 70
15.12.2018	₹ 66	₹ 68
20.8.2024	₹ 90	₹ 92

(6 Marks)

3. (a) The Head of Accounts of Heathy Wealthy Foundation, a trust, established for the purpose of promotion of Yoga has approached you to guide about the tax implications of the following:

(i) During the financial year 2024-25, it received a voluntary contribution of ₹ 150 lakhs with a specific direction that it should form part of the corpus of the trust. The trust invested such amount in the shares of M/s. ABC Private Ltd., a private sector company.

(ii) Apart from the above-mentioned ₹ 150 lakhs, during the financial year 2024-25, it received ₹ 80 lakhs as other voluntary contributions and ₹ 50 lakhs as fees towards providing Yoga classes. **(4 Marks)**

(b) Mr. Shyam is the founder of UVX Trust, a public charitable trust registered u/s 12A of the Income-tax Act, 1961. The trust runs a hospital for the treatment of various diseases. Mr. Umesh, son of Mr. Shyam, was admitted in May 2024 in the hospital for treatment. He was charged a total fee of ₹ 2.20 lakhs as against the amount of ₹ 3.50 lakhs charged by the hospital for similar treatment to the general public.

The Board of trustees were served with a notice by the income tax authorities for cancellation of registration u/s 12AB.

Discuss whether registration can be denied to the trust. What are the further tax implications? **(4 Marks)**

(c) Mr. Sarthak, an Indian citizen aged 51 years, left India for the first time on 1st April 2021 to settle in Country Y. But owing to some personal unavoidable circumstances, he returned back to India permanently on 1st June 2024.

He has a residential property in Country Y from which he earned an income of $ 32,000 for the year ended 31st March 2025. He is eligible for basic exemption limit of $ 9,000 and on balance income, he paid income tax @20% in Country Y. The tax was paid on 10th May 2025 from his bank account in India.

His income from business in India is ₹ 6,20,000 for the year ended on 31st March 2025. He also received dividend amounting to ₹ 2,25,000 from an Indian company and interest of ₹ 13,500 on saving bank account with SBI, during the year.

The exchange rates of 1 $ on various dates is given below:

01.04.2024 - ₹ 74; 31.03.2025, ₹ 75; 30.04.2025 - ₹ 75.5;

Compute the net tax liability of Mr. Sarthak in India for the assessment year 2025-26 after providing relief u/s 91 (ignore foreign tax credit rules) on the assumption that there is no DTAA between India and Country Y.

Assume that Mr. Sarthak shifted out of the provisions of section 115BAC. **(6 Marks)**

4. (a) In respect of the following independent case scenarios you are required to discuss the provisions related to tax deducted/collected at source and amount of tax deductible for the year ended 31st March 2025:

(i) During the previous year 2024-25, Mr. Amit purchased scrap of ₹ 65 lakhs from Mr. Bharat for the purpose of his manufacturing unit. Mr. Amit also furnished a declaration to Mr. Bharat that the scrap shall be utilized for manufacturing process carried on by him and shall not be used for trading purposes. Mr. Amit made the payment of ₹ 49 lakhs during F.Y 2024-25 to Mr. Bharat. Assume turnover of both Mr. Amit and Mr. Bharat from the business carried on by them exceeds ₹ 10 crores in the financial year 2023-24. **(4 Marks)**

(ii) Cloud Ltd., a real estate development company, entered into a Joint Development Agreement with Mr. Ashok, a resident individual, whereby Mr. Ashok would transfer a plot of land measuring 10 acres for a part consideration of ₹ 6.5 crores to be paid on the date of agreement, i.e., 1.6.2024. Cloud Ltd. has planned to develop a high-rise apartment complex on

such land by 31.3.2027. Upon completion of the project, Cloud Ltd. would transfer 6 flats in the apartment to Mr. Ashok as final settlement. The FMV of the flats is estimated to be ₹ 1.35 crores each as on 31.3.2027. **(2 Marks)**

(iii) State Government of Madhya Pradesh grants a lease of coal mine to M/s Maple Co. Ltd. on 01.09.2024 and charged ₹ 12 crores for the lease. M/s Maple Co. Ltd. sold coal for ₹ 1 crore to M/s DL (P) Ltd. during the previous year 2024-25. The turnover of M/s Maple Co. and M/s DL (P) Ltd. for the financial year 2023-24 amounted to ₹ 7 crores and ₹ 8 crores, respectively. **(2 Marks)**

(b) Aster Ltd., Australia, holds 30% equity shares in Bhuvan Ltd., India. Bhuvan Ltd. develops software and also provides related support services. Bhuvan Ltd. during the year billed Aster Ltd., Australia for 150 man-hours at the rate of ₹ 2,700 per man hour. The total cost (direct and indirect) for executing this work amounted to ₹ 4,52,000.

However, Bhuvan Ltd. billed Gaurav Ltd., India at the rate of ₹ 3,800 per man hour for the similar level of manpower and earned Gross Profit of 40% on its cost.

The transactions of Bhuvan Ltd. with Aster Ltd. and Gaurav Ltd. are comparable, subject to the following differences:

(i) While Bhuvan Ltd. also derives technological support from Aster Ltd., there is no such support from Gaurav Ltd. The value of technological support received from Aster Ltd. may be put at 15% of normal gross profits.

(ii) As Aster Ltd. gives business in large volumes, Bhuvan Ltd. offered to Aster Ltd., a quantity discount which may be valued at 10% of the normal gross profits.

(iii) In the case of rendering services to Aster Ltd., Bhuvan Ltd. neither runs any risk nor incurs any marketing costs. On the other hand, in the case of services to Gaurav Ltd., Bhuvan Ltd. has to assume all the risks and costs associated with the marketing function which may be estimated at 20% of the normal gross profits.

(iv) Bhuvan Ltd. offered one month credit to Aster Ltd. The cost of providing such credit may be valued at 5% of the normal gross profits. No such credit was given to Gaurav Ltd.

Compute the Arm's Length Price alongwith income to be adjusted under the cost plus method. **(6 Marks)**

5. (a) Answer **any two** of the following three sub-parts (i), (ii), (iii) on the basis of decided case laws, bringing out the following –

(1) Issue involved

(2) Relevant provisions of law

(3) Analysis and Conclusion

(i) In the case of M/s Hyper Ltd., the Income-tax Appellate Tribunal decided against the assessee and issued order under section 254. The assessee filed an appeal to the jurisdictional High Court by framing the substantial question of law under section 260A(2)(c). The High Court, without framing the question of law u/s 260A(3) at the time of admission of appeal, issued notices, heard both the parties and decided the appeal affirming the order of the Tribunal on the questions raised by the assessee appellant. You are required to discuss whether the High Court was justified in not formulating the substantial question of law as required under section 260A(3) and adjudicating merely on the questions put forth by the appellant under section 260A(2)(c).

(ii) Krishna Cooperative Society, the assessee is engaged in marketing of fertilizers and purchase and processing of seeds. The assessee had claimed deduction under section 80P(2)(d) on dividend income received from NAFED and one Cooperative bank and also on interest on deposits with Co-operative banks. The Assessing Officer contended that the aforesaid income were not included in the total income and wants to invoke section 14A by disallowing the expenditure incurred with respect to earning income which is not liable to income tax.

Discuss whether the action taken by the Assessing Officer is tenable in law.

(iii) On 1st May 2024, M Sudarshan, a resident individual, received 1,500 bonus shares from Sugam Pvt. Ltd. in which he held 3,000 equity shares. The Assessing Officer held that since the assessee has not paid any consideration for bonus shares, he was under an obligation in law to offer the market value as income from other sources under section 56(2)(x) of the Act. The Assessing Officer computed the fair value of these bonus shares and added the amount to the income of M Sudarshan as "Income from other sources".Whether the decision of the Assessing Officer is correct in law? **(2 x 4 Marks = 8 Marks)**

(b) What is meant by Digital economy? What are the taxation issues in E-Commerce? List out the OECD recommendations under Action Plan 1 which deals with the digital economy. **(6 Marks)**

6. (a) In the following independent circumstances, discuss whether the provisions of GAAR would be applicable:

(i) Right Inc., a company incorporated in Country M, holds 1200 equity shares in PS Ltd., an Indian listed entity since 1.4.2016. On 1.5.2024, PS Ltd. issued 1200 bonus shares to Right Inc. As per the treaty between India and Country M, the capital gain is taxable in the country where the transferor of shares is a resident. The tax laws of Country M, exempt capital gains. Right Inc. sells all the shareholding in PS Ltd. on 1.1.2025 and earned a capital gain of ₹ 5 crores.

(ii) D Ltd., an Indian company, incorporates a wholly owned subsidiary Company C, in Country X which is a Low Tax Jurisdiction with equity share capital of ₹ 1 crore. Out of the equity capital, company C gives loan to C Ltd., an Indian company at the rate of 5%. There is no other activity in Company C. **(4 Marks)**

(b) (i) The Income-tax department collected documents from MNO Bank which revealed that M/s. Aster Travels and Consultancy Services (Aster Travels) had remitted substantial amounts

abroad. The documents collected include Form 15CB issued by the chartered accountant, list of passengers, copy of their passports, date of travel and invoice raised by the foreign party. On enquiring from the passengers and verifying their passports, it is found that they did not travel abroad during the dates mentioned in the documents. Further, the passengers denied any sort of transactions with Aster Travels. The department, therefore, concluded that the amounts were remitted abroad on the basis of false invoices and for wrong reasons, leading to FEMA violations and that the Form 15CB issued by the chartered accountant facilitated such violations. During the nine-month period in question, the chartered accountant had issued 105 certificates in Form 15CB approximately involving remittances of ₹ 22 crores in favour of Aster Travels.

The chartered accountant submitted that he had issued Form 15CB based on invoices produced by the company and verifying the KYC documents of the signatory to the invoices. He however, failed to bring on record the invoices. He further submitted that since he was not the statutory auditor of the company, he did not examine the books of account before issue of Form 15CB or conduct due diligence of its business activities. He had charged ₹ 3,500 per certificate. Mostly, the fees was collected in cash. Some part of the fee was credited to his bank account.

Examine the ethical implications in this case. **(3 Marks)**

(ii) XYZ & Co., a partnership firm engaged in trading of electronic goods, furnished the following information:

	Particulars	₹
(i)	Total turnover of F.Y.2024-25	2,78,00,000
(ii)	Aggregate of all receipts during the year (including amount received for turnover mentioned in (i) above)	4,56,00,000
(iii)	Cash receipts out of (i) above	13,00,000

(iv)	Cash receipts out of (ii) above (This is inclusive of the figure mentioned in (iii) above)	19,00,000
(v)	Aggregate of all payments during the year	2,38,00,000
(vi)	Cash payments out of (v) above	3,80,000

Examine whether XYZ & Co. is required to get its books of account audited mandatorily as per section 44AB from the above information. **(3 Marks)**

(c) Explain the correctness or otherwise of the following statements giving proper reasons thereof:

(i) Mr. Rakul, a resident individual, is aggrieved by an order passed by the Board for Advance Ruling on 1.10.2024. Since the decision of the Board is binding on the applicant, he has no other option but to accept the ruling of the Board.

(ii) M/s Sun Ltd., an Indian public sector company, wants to seek advance ruling from the Board for Advance Rulings (BAR) in respect of a matter relating to computation of its total income involving a question of law relating to such computation. However, the matter is already pending before the Income-tax Appellate Tribunal (ITAT) as on the date of application for advance ruling i.e., 12.12.2024. It cannot seek the BAR ruling till the matter is pending before the ITAT. **(4 Marks)**

MODEL TEST PAPER 4

FINAL COURSE: GROUP - II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.

Time Allowed: 3 Hours **Total Marks: 100 Marks**

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario I

On 1.4.2024, Focus Ltd., an Indian company, borrowed ₹ 50 crores@ 9.5% p.a. from Max Inc., a US entity, thereby increasing its total borrowings to ₹ 65 crores. The said loan is guaranteed by Hik Inc., another US entity. The place of effective management of both Max Inc. and Hik Inc. is in the USA. The book value of total assets of Focus Ltd. is ₹ 180 crores.

Focus Ltd. imported turbo equipment worth ₹ 30 crores from Hik Inc. Import duty of ₹ 4.50 crores on the same was paid by Focus Ltd. The equipment was sold to T Ltd., an unrelated party for ₹ 40 crores. Normal GP margin of Focus Ltd. in similar uncontrolled transaction is 20% on sale.

Net profit of Focus Ltd. of A.Y.2025-26 was ₹ 8 crores after debiting interest of ₹ 6 crores (out of which ₹ 1.25 crores interest pertaining to local borrowings), depreciation of ₹ 2.5 crores and income tax of ₹ 1.5 crores.

Based on the facts of the above case scenario, choose the most appropriate answer to Q. 1 to 6 below:

1. What is the amount of interest to be allowed in the computation of total income of Focus Ltd. for A.Y. 2025-26, if for A.Y. 2024-25 there was an

interest expenditure disallowed to the extent of ₹ 4 crores under section 94B?

(a) ₹ 6,65,00,000

(b) ₹ 4,75,00,000

(c) ₹ 6,00,00,000

(d) ₹ 3,65,00,000

2. The transfer pricing adjustment for the arm's length purchase price to be made in the computation of total income of Focus Ltd. for A.Y. 2025-26 would be-

(a) ₹ 3,00,00,000

(b) ₹ 2,50,00,000

(c) ₹ 2,00,00,000

(d) No adjustment is required, since transfer pricing adjustment cannot result in reduction of income

3. If Focus Ltd. repatriated the excess money on 31.03.2026, what will be the interest income that would be added to its total income of A.Y.2026-27, if SBI's one-year marginal of lending rate is 11.25% on 1.4.2025 and 10.25% on 1.4.2026? Assume that Focus Ltd. *suo motu* made the primary adjustment in its books of account and filed its return for A.Y.2025-26 on 30.11.2025.

(a) ₹ 12,01,712

(b) ₹ 12,08,333

(c) ₹ 9,32,363

(d) ₹ 8,49,486

4. If Focus Ltd. decides not to repatriate the excess money and instead, pay additional income-tax on the entire excess money, then, what would be the additional income-tax payable?

(a) ₹ 62,89,920

(b) ₹ 52,41,600

(c) ₹ 41,93,280

(d) ₹ 53,87,200

5. If Focus Ltd. decides to pay additional income-tax on the entire excess money on 15.03.2026, should interest be calculated and added to its total income of A.Y.2026-27? If so, what is the amount to be added? Assume that SBI one-year marginal cost of lending rate is 11.25% on 1.4.2025 and 10.25% on 1.4.2026 -

   (a) No, since it has paid additional income-tax on the entire excess money in the P.Y.2025-26

   (b) Yes; ₹ 9,70,890

   (c) Yes; ₹ 10,42,808

   (d) Yes; ₹ 8,09,075

6. In addition to the facts given in the case scenario, assuming that -

   (i) on 23.08.2024, Focus Ltd. has entered into an agreement for sale of turbo equipment with Y Ltd., an Indian company not related to Focus Ltd;

   (ii) Y Ltd. had already entered into an agreement on 21.8.2024 for the sale of the same goods to Kite Inc. (unrelated to Y Ltd.), a UK entity whose place of effective management is also in the UK; and

   (iii) Focus Ltd. holds shares carrying 28% voting power in Kite Inc.

   With which of the following enterprises would a transaction with Focus Ltd. be considered an international transaction or a deemed international transaction?

   (a) Hik Inc. and Kite Inc.

   (b) Max Inc. and Kite Inc.

   (c) Hik Inc., Kite Inc. and Y Ltd.

   (d) Max Inc., Hik Inc. and Kite Inc. **(2 x 6 = 12 Marks)**

Case Scenario II

The Assessing Officer surveyed Surabhi & Hotels, which was within his jurisdiction, at 11:30 p.m. on 15.8.2024 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 25.8.2024, the Assessing Officer entered Suraj & 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 13 days (exclusive of 3 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 Chief 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.

Based on the facts of the above case scenario, choose the most appropriate answer to Q. 7 to 11 below:

7. Is the action of the Assessing Officer entering Surabhi & 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.

8. Would your answer to Question no. 7 change if the Assessing Officer had surveyed Surabhi & 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.

9. Is the action of the Assessing Officer entering Suraj & 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.

10. Is the action of the Assessing Officer in impounding and retaining in his custody books of account and other documents of Surabhi & Hotels, after recording reasons for doing so, valid if prior permission from income-tax

authority equivalent to Chief Commissioner or above has been taken only for the purpose of survey and not for retaining books of accounts etc.?

(a) The action of Assessing Officer is not valid, since prior approval of Chief Commissioner or above authority is not obtained for retaining the impounded books of account etc.

(b) The action of Assessing Officer is valid.

(c) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts for period exceeding 15 days (inclusive of holidays) without prior approval of Chief Commissioner or above authority.

(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 (exclusive of holidays).

11. Would your answer to Question no. 10 change if the Assessing Officer had surveyed Surabhi & 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 for retaining impounded books of Accounts.

(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. **(2 x 5 = 10 Marks)**

12. RM Ltd., Pathankot, is a Maruti Cars dealer and also runs a service station. The sale of cars of RM Ltd. for F.Y.2023-24 is ₹ 8.40 crores. The sale of spare parts and service station is ₹ 80 lakhs for F.Y.2023-24. M/s. ABC Ltd., dealing in textile manufacturing, bought three Maruti cars on 18.7.2024, 18.8.2024 and 15.12.2024 for ₹ 18 lakhs, 22 lakhs and ₹ 9.5 lakhs for business purposes. On 16.1.2025, M/s ABC Ltd. purchased five

more cars valuing ₹ 8.9 lakhs each. The payment against each purchase made on the same date of invoice itself. The turnover of ABC Ltd. for the F.Y. 2023-24 is ₹ 15.5 crores.

What is the amount of tax required to be collected or deducted at source on sale transaction entered between RM Ltd. and ABC Ltd.?

(a) RM Ltd. is required to collect tax at source of ₹ 40,000 under section 206C(1F).

(b) RM Ltd. is required to collect tax at source of ₹ 40,000 under section 206C(1F) and ₹ 400 under section 206C(1H).

(c) RM Ltd. is required to collect tax at source of ₹ 40,000 under section 206C(1F) and ABC Ltd. is required to deduct tax at source of ₹ 400.

(d) RM Ltd. is required to collect tax at source of ₹ 94,000 under section 206C(1F). **(2 Marks)**

13. Mr. Mohit, a resident individual, starts a new business on 01-11-2024 for sale of designer suits. He obtained a valid PAN in his name and registers himself on Fine.com (a Country M based website), an e-commerce operator, for sale of his products in India. Mr. Mohit sold goods worth ₹ 80 lakhs through Fine.com upto 31-03-2025. E-commerce operator credited ₹ 35 lakhs on 31.12.2024, ₹ 12 lakhs on 1.1.2025 and ₹ 18 lakhs on 28.2.2025 payable to Mr. Mohit in its books of accounts. These amounts were paid to Mr. Mohit on 15.3.2025 after deducting a commission of 10% on gross sale proceeds.

On 31.3.2025, remaining amount of ₹ 15,00,000 were directly credited in Mr. Mohit bank account by the buyers. Who is liable to deduct tax at source on the above transactions? When and what amount of tax is deductible?

(a) Fine.com is required to deduct tax at source of ₹ 35,000, ₹ 12,000, ₹ 18,000 and ₹ 15,000 on 31.12.2024, 1.1.2025, 28.2.2025 and on 31.3.2025, respectively.

(b) Fine.com is required to deduct tax at source of ₹ 3,500, ₹ 1,200, ₹ 1,800 and ₹ 1,500 on 31.12.2024, 1.1.2025, 28.2.2025 and on 31.3.2025, respectively.

(c) Fine.com is required to deduct tax at source of ₹ 80,000 on 15.3.2025.

(d) Fine.com is required to deduct tax at source of ₹ 65,000 on 15.3.2025. **(2 Marks)**

14. Mr. Aryan, a non-resident, received foreign currency equivalent to ₹ 85,000 from his friend, a resident Indian in January 2025. The same was paid by such resident from his bank account in Country X and was received by Mr. Aryan in his bank account in Country X. The friend also gifted a Gold Chain to Mr. Aryan in Country X. Fair Market Value of Gold Chain on the date of gift was ₹ 95,000. Are the gifts received by Mr. Aryan taxable in his hands under the Income-tax Act, 1961? Assume no DTAA exist between India and Country X.

(a) Yes; ₹ 1,80,000 would be taxable as Income from other sources.

(b) Partially; ₹ 85,000 received from resident friend would be taxable as Income from other sources.

(c) Partially; only ₹ 35,000, being cash gift in excess of ₹ 50,000, received from resident friend would be taxable as Income from other sources.

(d) No; such gifts are not taxable in the hands of Mr. Arihant under the Income-tax Act, 1961, since they are received outside India.

(2 Marks)

15. A Co Inc., a foreign company has a branch office in India. The branch has developed an online platform which facilitates online sale of various materials and products related to ink, colour pigments and printer accessories. During the F.Y. 2024-25, on 01.10.2024, Indian branch made payment of ₹ 2,65,00,000 to SI Ltd., an Indian company for sales undertaken on this online platform. Whether the Indian branch of A Co. is liable to deduct tax source? If yes, under which section it is required to deduct such tax at source?

(a) No, it is not required to deduct tax source, since A Co. Inc. is a non-resident.

(b) Yes, it is required to deduct tax at source u/s 195.

(c) Yes, it is required to deduct tax at source u/s 194-O.

(d) No, it is not required to deduct tax at source since such income is not taxable in the hands of A Co. Inc. in India. **(2 Marks)**

Division B – Descriptive Questions

*Question No. **1** is compulsory*

*Attempt any **four** questions from the remaining **five** questions*

1. Paras Ltd. is engaged in the manufacture of fabrics since 01-04-2012. Its Statement of Profit and Loss for the previous year ended 31st March, 2025 shows a profit of ₹ 750 lakhs after debiting or crediting the following items:

(a) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 52 lakhs.

(b) Industrial power tariff concession of ₹ 4.80 lakhs, received from Maharashtra State Government was credited to Statement of profit and loss.

(c) The company had provided ₹ 18 lakhs, being sum fairly estimated as payable with reasonable certainty, to workers on agreement to be entered with the workers union towards periodical wage revision once in every three years.

(d) Dividend received from a US company ₹ 12 lakhs.

(e) Loss ₹ 17 lakhs, due to destruction of a machine worth ₹ 24 lakhs by fire due to short circuit and ₹ 3 lakh received as scrap value. The insurance company did not admit the claim of the company on charge of gross negligence.

(f) Provision for gratuity based on actuarial valuation was ₹ 320 lakhs. Actual gratuity paid debited to gratuity provision account was ₹ 160 lakhs.

(g) Advertisement charges ₹ 2.30 lakhs, paid by cheque for advertisement published in the souvenir of a political party registered with the Election Commission of India.

(h) Long term capital gain ₹ 3 lakhs on sale of equity shares on 12.4.2024 on which Securities Transaction Tax (STT) was paid at the time of acquisition and sale.

Additional Information:

(i) Normal depreciation computed as per Income-tax Rules is ₹ 71 lakhs (after giving effect to the scrap value).

(ii) GST ₹ 8 lakhs collected from its customers was paid by the company on the due dates. On an appeal, the High Court directed the GST department to refund ₹ 3 lakhs to the company. The company in turn refunded ₹ 2 lakhs to the customers from whom it was collected and the balance ₹ 1 lakh is still lying under the head "Current Liabilities".

Compute the total income of Paras Ltd. for the A.Y. 2025-26 by analyzing and applying the relevant provisions of income-tax law. Briefly explain the reasons for treatment of each item. Ignore the provisions relating to Minimum Alternate Tax. Assume that the company has not opted for section 115BAA. **(14 Marks)**

2. (a) Parth Curators, a partnership firm, has earned a gross total income of ₹ 300 lakhs for the year ended 31-3-2025. The firm has not undertaken any international transaction or specified domestic transaction during the said year.

The above income includes a profit of ₹ 220 lakhs from an undertaking having a turnover of ₹ 80 crores. This is the fifth year and deduction under section 80-IA is available to the extent of ₹ 200 lakhs.

There are some grey areas in the taxation workings and hence, the assessee is contemplating to file the return of income on 7-12-2025, after seeking clarifications from tax experts.

Advise the assessee-firm by working out the total income and tax payable, where the return is filed on 31-10-2025 or when the same is filed on 7-12-2025.

What is the practical solution as regards obtaining clarifications, which might or might not have an impact on the total income? You may ignore interest under section 234A, 234B, 234C and 234F while making the computation in support of your advice. **(8 Marks)**

(b) Compute the total income and net tax liability after providing relief under section 91 by Mr. Gaurav aged 73 years for A.Y. 2025-26

from the following information in respect of income earned by him in various places for the previous year ended 31-03-2025:

India

Pension from State Government ₹ 3,90,000

Short term capital gains on sale of plot ₹ 2,10,000

Deposit in PPF Account ₹ 1,50,000

Speculative Income ₹ 1,16,000

Country M

Agricultural Income (gross) ₹ 90,000

Dividends from a company incorporated in Country M (gross) ₹ 64,000 [Exempt in Country M]

Country N

Business loss (proprietary business) ₹ 1,06,000 [Not eligible for set off against other incomes in Country N].

Gross rental income from a property ₹ 3,00,000 (No statutory deduction was available in Country N)

Municipal taxes paid in respect of the above property (not allowed as deduction in Country N) ₹ 20,000

Additional Information:

(1) There is no agreement under section 90 for relief for avoidance of double taxation between India and Country M and Country N where the incomes have accrued or arisen.

(2) Mr. Gaurav is an individual resident in India, and he has paid applicable taxes on incomes earned in Country M and Country N, where the applicable tax rates are 10% and 5%, respectively.

Assume Mr. Gaurav paying tax under default tax regime under section 115BAC. **(6 Marks)**

3. (a) (i) A public charitable trust registered under section 12AB, for the previous year ending 31.3.2025, derived gross income of ₹ 21 lakhs, which consists of the following:

	(₹ in Lacs)
(a) Income from properties held by trust	10
(b) Income from business (incidental to main objects)	4
(c) Voluntary contributions from public	7

The trust applied a sum of ₹ 11.60 lacs towards charitable purposes during the year which includes repayment of the loan borrowed in the P.Y. 2020-21 taken for construction of orphanage ₹ 3.60 lacs. The entire expenditure incurred on construction of orphanage was allowed as application of income in the P.Y. 2020-21.

Determine the taxable income of the trust for the assessment year 2025-26. **(4 Marks)**

(ii) A not-for-profit trust undertakes philanthropic activities through an educational institution and a hospital. During the P.Y. 2024-25 the trust had annual receipts of ₹ 3 crores from its educational institution and ₹ 4 crore from the hospital. During the P.Y. 2024-25, it desires to avail exemption under section 10(23C)(iiiad) and 10(23C)(iiiae), as the individual threshold under each of the sub-clauses, is less than ₹ 5 crore. Can it do so? Examine. **(4 Marks)**

(b) Tip Inc., a foreign company, headquartered at Malaysia, has a branch in India. For the financial year ended 31.03.2025, the branch has shown net profit of ₹ 28 lakhs after charge of the following expenses:

(i) Depreciation for the current financial year of ₹ 15 lakhs.

(ii) Unabsorbed depreciation for the previous financial year of ₹ 17 lakhs.

(iii) Capital Expenditure incurred for promoting family planning amongst its employees of ₹ 7 lakhs. ₹ 7 Lakhs is one fifth of the total expenditure incurred on promoting family planning.

(iv) Expenditure incurred for Scientific research ₹ 11 lakhs.

(v) Business loss brought forward for A.Y. 2024-25 of ₹ 25 lakhs.

(vi) Deductions under Chapter VI-A of ₹ 20 lakhs.

(vii) Head Office expenses of ₹ 120 lakhs allocated to the branch.

Compute income to be declared by the branch in its return for the Assessment Year 2025-26. **(6 Marks)**

4. (a) (i) Mr. Mukesh, an individual carrying on retail business with turnover of ₹ 3.2 crores in the P.Y.2023-24. He made contract payment for repair of residential house of ₹ 3 lakhs and ₹ 75,000 towards commission on 01.08.2024 to Mr. Varun for business purposes. Examine whether TDS provisions would be attracted, if yes, specify the rate and amount of TDS applicable. **(2 Marks)**

(ii) Mr. Rajesh, who gets his accounts audited under section 44AB filed his original return of income under section 139 for A.Y.2022-23 on 28.12.2022 declaring income of ₹ 12 lakhs and for A.Y.2023-24 on 31.10.2023 declaring loss of ₹ 5 lakhs.

He wants to file an updated return of income under section 139(8A) for A.Y.2023-24 on 30.11.2024 declaring total income of ₹ 7 lakhs. Can he do so? Examine. **(2 Marks)**

(b) S Ltd. took on sub-lease a building from Jim, an individual, with effect from 1.9.2024 on a rent of ₹ 20,000 per month. It also took on hire machinery from Jim with effect from 1.10.2024 on hire charges of ₹ 18,000 per month. S Ltd. entered into two separate agreements with Jim for sub-lease of building and hiring of machinery. The rent of building and hire charges of machinery for the financial year 2024-25 were ₹ 1,40,000 and ₹ 1,08,000, respectively, which were credited by S Ltd. to the account of Jim in its books of account on 31.3.2025. Examine the obligation of S Ltd. with regard to deduction of tax at source in respect of the rent and hire charges. **(4 Marks)**

(c) Mr. Sarthak is a resident in India aged 58 years. He had an impressive investment portfolio in various mutual funds. He redeemed his entire mutual fund investment portfolio and bought a villa in Gurugram for ₹ 2.00 crores to spend rest of his life there. The details of mutual funds are as under –

S. No.	Type of mutual fund	Date of investment	Date of redemption	Amount invested (in ₹ lakhs)	Amount redeemed (in ₹ lakhs)
1.	SLR growth fund	03.04.2020	05.06.2024	120	145.98
2.	XYZ Strategic fund	04.05.2023	02.02.2025	46	50
3.	MNO Midcap fund	02.12.2023	05.07.2024	115	118
4.	TBA Growth fund	08.11.2021	12.12.2024	110	120

The funds stated at 1 and 2 have invested 30% of their proceeds in equity shares of domestic companies and balance in debt funds. The funds stated at 3 and 4 have invested 70% of their proceeds in equity shares of domestic companies. The investment pattern of funds remained unchanged over all the years. STT is paid at the time of acquisition and redemption of mutual fund, wherever applicable.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Sarthak for A.Y. 2025-26. CII: 2020-21: 301; 2021-22: 317; 2022-23: 331; 2024-25: 363. **(6 Marks)**

5. (a) Attempt any two out sub-part (i), (ii) or (iii) of the following:

(i) XYZ Ltd. received the draft order from the Assessing Officer as per section 144C of the Income-tax Act, 1961 due to variations determined by the Transfer Pricing Officer in the arm's length price. But XYZ Ltd. did not prefer to file the objection against the draft order before the Dispute Resolution Penal, instead, he prefer to do appeal before the CIT appeals under section 246A against the final order received from the Assessing Officer.

You are required to advise XYZ Ltd., whether his contentions are tenable? Discuss the issue with reference to provisions of section 144C of the Income-tax Act, 1961. **(4 Marks)**

(ii) During search conducted on premises of an assessee, some gold bars were seized by the department from lockers of assessee. Assessee voluntarily disclosed some income during course of search. Assessee moved an application

before Assessing Officer, for adjustment of tax liability on income surrendered during search by sale of seized gold bars. However, said application was turned down by the Assessing Officer. Explain whether action of the AO is justified, in light of relevant case laws? **(4 Marks)**

(iii) T Ltd. filed its return of income for assessment year 2023-24 on 25th October 2024. The return is selected for regular assessment under section 143(3) for which notice under section 143(2) is served on the company on 9th July 2025. The company responded to the notice under section 143(2). Examine whether the service of the notice is within time and if not, whether the assessment order can be challenged by the assessee. **(4 Marks)**

(b) Explain the nexus approach recommended by OECD in BEPS Action Plan 5 which has been adopted in the Income-tax Act, 1961.

(6 Marks)

6. (a) NI Ltd. is an Indian Company involved in manufacturing and trading in cotton garments under the brand name "COTT". In order to expand its exports sale, it launched a massive publicity campaign in overseas market. For the purpose of online advertising, it hired SK Inc., a New York based company which has no permanent establishment in India and paid ₹ 10 lakhs for its services in the previous year 2024-25.

Discuss the tax and TDS implications of such transaction both in the hands of NI Ltd. and SK Inc. **(3 Marks)**

(b) Aryan (25 years) and Aditya (32 years) are two individuals, resident in India, and they earned salary of ₹ 13 lakhs each during the previous year 2024-25. Aditya had paid interest of ₹ 2,20,000 on loan taken in respect of a self-occupied house property. Aryan had paid ₹ 24,000 towards medical insurance of himself and his spouse. Payment was made through net banking. Aditya contributed ₹ 1,50,000 to a political party by cheque.

You, as a consultant, are required to advise them whether they should opt out of default tax regime under section 115BAC or otherwise, showing the tax liability of both individuals. **(5 Marks)**

(c) TI Ltd., the assessee, has sold goods on 12.01.2025 to LMP Ltd., located in notified jurisdictional area (NJA), for ₹ 9.50 crores. During the current financial year, TI Ltd. charged ₹ 10.50 crores from TOP Inc. of Country X and ₹ 11 crores from MON Inc. of Country Y for sale of identical goods and both of which are neither associated enterprise of TI Ltd. nor they are situated in any NJA. While sales to TOP Inc. and MON Inc. were on CIF basis, the sale to LMP Ltd., was on FOB basis, which paid ocean freight and insurance amounting to ₹ 20 lakhs on purchases from TI Ltd. If sales to TOP Inc. and MON Inc. are made on FOB basis, the cost of freight, insurance would amount to ₹ 18 lakhs.

The assessee has a policy of providing after-sales support service to the tune of ₹ 13 lakhs to all customers except LMP Ltd. which procured the same locally at a cost of ₹ 17 lakhs.

Compute the ALP for the sales made to LMP Ltd., and the amount of consequent increase, if any, in the profit of the assessee-company. **(6 Marks)**

MODEL TEST PAPER 5
FINAL COURSE: GROUP - II
PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Time Allowed – 3 Hours **Maximum Marks – 100**

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. A charitable institution, engaged in education of Yoga in India, registered under section 12AB of the Income-tax Act, 1961 for the previous year ended 31 March 2025, received the following amounts of donation:

   (i) Total donations during the year ₹ 40,00,000

   (ii) Anonymous donations received (Included in total donations) ₹10,00,000

   What amount of anonymous donations would be taxable @30% as per section 115BBC of the Income-tax Act, 1961?

   (a) ₹ 1,00,000

   (b) ₹ 8,00,000

   (c) NIL

   (d) ₹ 2,00,000 **(2 Marks)**

2. Mr. Bela Kapoor, furnishes the following particulars for the previous year 2024-25. What would be the amount of deduction allowable under section 35 for A.Y.2025-26, while computing his income under the head "Profits and gains of business or profession", if he is paying tax under default tax regime under section 115BAC?

Particulars	₹
Amount paid to IIT, Delhi for an approved scientific research programme	1,50,000
Amount paid to Ramaya Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	3,00,000
Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business (a) Revenue expenditure on scientific research (b) Capital expenditure (including cost of acquisition of land ₹ 8,00,000) on scientific research	 3,00,000 9,50,000

(a) ₹ Nil

(b) ₹ 4,50,000

(c) ₹ 16,00,000

(d) ₹ 9,00,000 **(2 Marks)**

3. Mr. K, Managing Director of Kairon Metals Private Ltd, holds 70% of its paid up capital of ₹ 20 lakhs. The balance as at 31.03.2024 in General Reserve was ₹ 7 lakhs. The company on 01.04.2024 gave an interest-free loan of ₹ 8.50 lakhs to its Supervisor having salary of ₹ 15,500 p.m., who in turn on 25.04.2024, advanced the said amount of loan so taken from the company to Mr. K. What amount would be treated as deemed dividend u/s 2(22)(e) of the Income-tax Act, 1961?

(a) NIL

(b) ₹ 7,00,000

(c) ₹ 8,50,000

(d) ₹ 4,90,000 **(2 Marks)**

Case Scenario I

M/s Gamma Ltd. is an Indian company engaged in providing consultancy and business advisory services. During the previous year 2024-25, it received the following loans in cash from various vendors due to some business exigency:

₹ 3,00,000 availed from Mr. Arun on 20.04.2024.

₹ 19,500 availed from Mr. Raj on 20.05.2024.

₹ 20,500 availed from Mr. Sunil on 20.06.2024

Further, the company made the following loan repayments during the year:

₹ 18,000 to Mr. Arun on 15.07.2024 in crossed cheque.

₹ 1,25,000 to Mr. Arun on 10.08.2024 through account payee cheque.

₹ 21,000 to Mr. Arun on 08.10.2024 through RTGS.

₹ 3,000 to Mr. Arun on 12.12.2024 through cash.

M/s Gamma Ltd. also furnished the following particulars for assessment year 2025-26:

S. No.	Particulars of total income	Amount (₹)
1	As per the return of income furnished under section 139(1)	(10,00,000)
2	Determined under section 143(1)(a)	(5,00,000)
3	Assessed under section 143(3)	(1,00,000)
4	Reassessed under section 147	5,00,000

The total turnover of Gamma Ltd. for the P.Y. 2022-23 was ₹ 405 crores. Ignore the provisions of section 115BAA/115BAB.

Based on the above information, choose the most appropriate option of the following Multiple Choice Questions (MCQs):-

4. What is the amount of penalty leviable on repayment of loan to Mr. Arun?
   (a) No penalty is leviable since the repayment otherwise than by way of prescribed modes is less than ₹ 20,000
   (b) Penalty of ₹ 21,000 under section 271E
   (c) Penalty of ₹ 3,000 under section 271D
   (d) Penalty of ₹ 24,000 under section 271E

5. Assuming that the underreporting of income is on account of misreporting, penalty leviable on M/s. Gamma Ltd. under section 270A at the time of assessment u/s 143(3) would be?
   (a) ₹ 6,24,000

(b) ₹ 1,87,200

(c) ₹ 1,24,800

(d) ₹ 2,49,600

6. What is the amount of penalty, if any, which would be leviable on M/s Gamma Ltd. for availing loan in cash from various vendors?

   (a) Penalty of ₹ 3,20,500 under section 271D

   (b) Penalty of ₹ 3,40,000 under section 271E

   (c) Penalty of ₹ 3,40,000 under section 271D

   (d) Penalty of ₹ 3,19,500 under section 271E

7. Assuming that the underreporting of income is not on account of misreporting and none of the additions or disallowances made in assessment qualifies under section 270A(6), penalty leviable on M/s Gamma Ltd. under section 270A at the time of reassessment u/s 147 would be?

   (a) ₹ 93,600

   (b) ₹ 62,400

   (c) ₹ 1,56,000

   (d) ₹ 1,40,400 **(2 x 4 = 8 Marks)**

Case Scenario II

Madhav, a non-resident Indian aged 45 years, furnishes following particulars of income earned by him in India during the previous year 2024-25:

(a) Short term capital gain (computed) on sale of equity shares of M/s PQ Ltd., an Indian company ₹ 2,00,000. These shares were purchased in convertible foreign exchange on 01.06.2024 and sold on 31.01.2025. He invested whole of the sale proceeds ₹ 5,00,000 in the shares of M/s RS Ltd., an Indian company on 01.02.2025.

(b) Long term capital gain on sale of equity shares of M/s AB Ltd., an Indian company for ₹ 3,50,000 (computed). These shares were purchased in convertible foreign exchange on 01.10.2020 and sold on 15.10.2024 for ₹ 7,00,000. Out of the sale proceeds, he further purchased the shares of

M/s X Ltd., an Indian company for ₹ 5,00,000 on 31.03.2025.

(c) Dividend received (gross) from M/s PQ Ltd. and M/s AB Ltd. ₹ 80,000.

Assume that he opts out of the default tax regime and STT has been paid on purchase and sale of the above shares. Ignore the effect of foreign currency fluctuation.

Based on the above information, choose the most appropriate option of the following Multiple Choice Questions (MCQs):-

8. What is the tax liability of Madhav for the assessment year 2025-26 under the provisions of Chapter XII-A?

   (a) ₹ 58,240

   (b) ₹16,640

   (c) ₹ 47,840

   (d) ₹ 39,520

9. What is the tax liability of Madhav in respect of these incomes for the assessment year 2025-26 if he opts out of the provisions of Chapter XII-A assuming that his other income exceeds basic exemption limit?

   (a) ₹ 65,520

   (b) ₹ 73,840

   (c) ₹ 57,200

   (d) ₹ 87,490

10. What is the long term capital gains chargeable to tax in the hands of Madhav for the assessment year 2025-26 in respect of sale of shares of M/s AB Ltd. under the provisions of Chapter XII-A?

    (a) ₹ 1,00,000

    (b) ₹ 2,00,000

    (c) ₹ 3,00,000

    (d) NIL

11. What is the tax amount on dividend income in the hands of Madhav for the assessment year 2025-26 if he opts out of the provisions of Chapter

XII-A? Ignore surcharge and cess.

(a) ₹ 12,000 u/s 115E

(b) ₹ 8,000 u/s 115A

(c) ₹16,000 u/s 115A

(d) As per the applicable slab rate **(2 x 4 = 8 Marks)**

Case Scenario III

BCD Realty Trust is a business trust registered under SEBI (Real Estate Investment Trusts) Regulations, 2014. Details of its income for the previous year ended 31 March, 2025 are as follows:

I. Rental income of ₹ 5 crores from directly owned real estate assets.

II. Short term capital gain of ₹ 3.5 crore on sale of listed shares of Rama Ltd., an Indian company in which BCD realty trust holds controlling interest through holding 60% of the shareholding of Rama Ltd. Transfer took place on 15.4.2024.

III. Short term capital gain of ₹1 crore on sale of development properties.

IV. Dividend of ₹ 4.5 crore from Rama Ltd.

Miscellaneous Information:

BCD Realty Trust has distributed ₹ 12 crores to its resident and non-resident unit holders in the previous year 2024-25.

Based on the above information, choose the most appropriate option of the following Multiple Choice Questions (MCQs):-

12. In case of distribution of rental income component to its resident unit holders, BCD Realty Trust is liable to deduct tax at source at the rate of

    (a) 10% under section 194-I

    (b) 10% under section 194LBA

    (c) 30% under section 194LBA

    (d) 5% under section 194LBA

13. Which of the following statements is correct regarding taxability in the hands of BCD Realty Trust for short-term capital gain of ₹ 3.5 crore on sale of listed shares of Rama Ltd. and short-term capital gain of ₹ 1 crore on sale of development properties.

(a) Short-term capital gain on sale of listed shares is taxable @ 15% and short-term capital gain on sale of development properties is taxable at maximum marginal rate

(b) Short-term capital gain on sale of listed shares is taxable at maximum marginal rate and short-term capital gain on sale of development properties is taxable @15%

(c) Both the short-term capital gains are taxable at maximum marginal rate

(d) Both the short-term capital gains are taxable @ 15%

14. Which of the following statements is correct regarding taxability in the hands of BCD Realty Trust and its unit holders in respect of Rental income of ₹ 5 crores from directly owned real estate assets:

(a) Exempt in the hands of BCD Realty Trust and unit holders both u/s 10(23FCA).

(b) Taxable in the hands of BCD Realty Trust and unit holders u/s 115UA(3).

(c) Exempt in the hands of BCD Realty Trust u/s 10(23FCA) and taxable in the hands of unit holders u/s 115UA(3).

(d) Taxable in the hands of BCD Realty Trust u/s 115UA(3) and exempt in the hands of unit holders u/s 10(23FCA).

15. Which of the following statements is correct regarding taxability in the hands of BCD Realty Trust and its unit holders in respect of dividend income if Rama Ltd. has not opted to pay tax as per section 115BAA?

(a) Exempt in the hands of BCD Realty Trust and unit holders both.

(b) Taxable in the hands of BCD Realty Trust but exempt in the hands of its unit holders.

(c) Exempt in the hands of BCD Realty Trust and taxable in the hands of unit holders.

(d) Taxable in the hands of BCD Realty Trust and unit holders.

(2 x 4 = 8 Marks)

Division B – Descriptive Questions

*Question No.**1** is compulsory.*

*Answer any **four** questions out of the remaining **five** questions.*

1. Orient Pharmaceuticals Private Limited is an Indian Company, engaged in the business of manufacturing and providing access to affordable and innovative medicines and healthcare solutions. The company is incorporated in the year 2009. The company shows a Net Profit of ₹ 95 lakhs as per the Statement of Profit and Loss for the year ended March 31, 2025.

   Net Profit has been arrived at after debiting and crediting the following items:

   (1) Depreciation as per the Companies Act, 2013 - ₹ 11.90 lakhs.

   (2) The amount of employee benefits includes a sum of ₹ 13,00,000 in respect of bonus payable to employees. In the previous year 2024-25, the company and its employee's union had a dispute over payment of bonus. In order to avoid late payment of bonus, the company formed a trust and transferred the amount of bonus payable to employees to the said trust. The dispute was settled in the month of August, 2025 and the trust paid the amount of bonus to the employees on 31st August, 2025.

   (3) An amount paid by the company as regularization fee for violating a law (as prescribed by Medical Council of India) of manufacturing medicines, ₹ 9.50 lakhs.

   (4) An amount of ₹ 45,000 was paid as late fees to Government for company's failure in performance of a contract within the stipulated time. There was a delay of 5 months and according to the agreement, the company had to pay late fees of ₹ 9,000 per month to the Government.

   (5) The company earned a profit of ₹ 7.50 lakhs on sale of plot of land on 25.08.2024 to Sudhakar Private Ltd., a domestic Company, the entire shares of which are held by the assessee company. The plot was acquired by Orient Pharmaceuticals Pvt. Ltd. on 20.12.2023. This profit is included in the income of the assessee company.

(6) The company earned a profit of ₹ 4.50 lakhs on sale of 2,500 shares of M/s Stadel Ltd., a listed Indian company. These shares were sold on 08.11.2024 for ₹ 280 per share. The highest trading price of Stadel Ltd. quoted on the stock exchange as on 31.01.2018 was ₹ 175 per share and the Lowest Trading price quoted on the stock exchange was ₹ 165 per share. The said shares were acquired for ₹ 100 per share on 11.07.2016. STT paid both at the time of purchase and sale of shares.

(7) Company debited an interest of ₹ 7.50 lakhs which the company remitted as interest to a company incorporated in USA on a loan taken 3 years ago. Tax under section 195 from such interest has been deducted in March 2025, but deposited by the company on 14th July, 2025.

(8) The company has contributed ₹ 65,000 to an electoral trust by account payee cheque.

Following Additional information is provided by the company for P.Y 2024-25:

The depreciation charged in the Statement of Profit and Loss of ₹ 11.90 lakhs include the depreciation calculated on following assets:

(i) It incudes an amount of depreciation of ₹ 95,000 in respect of fire fighting equipments installed in the office premises and factories of the assesssee. During the year, there was no incidence of fire and hence, the equipments were no used. Amount of depreciation on such equipment as per Income-tax Rules, 1962 is also same.

(ii) A new machinery which was installed and put to use on 14.05.2024 valuing ₹ 75 lakhs.

(iii) A machinery which was sold to a domestic company in 2016 at its WDV for ₹ 35 lakhs was re-acquired on July 5, 2024 for ₹ 65 lakhs.

There is no other fixed asset included by the company's accountant for calculation of depreciation except above these three assets mentioned above.

You are required to compute total income of the company as per Income-tax Act, 1961 for the Assessment Year 2025-26 indicating reasons for treatment of each item, assuming that the company has not opted for special provisions under section 115BAA or 115BAB. **(14 Marks)**

2. (a) (i) Mrs. Seema Aggarwal, aged 56 years, a resident individual acquired a residential house at Ayodhya on 01.04.1993 for ₹ 45,00,000. The Fair market value of the property as on 01.04.2001 was ₹ 1,20,00,000 and the stamp duty value as on 01.04.2001 was ₹ 1,02,00,000.

Mrs. Seema Aggarwal sold her residential house located at Ayodhya to Mr. Shiv Kumar on 15.10.2024 for ₹ 15,50,00,000. The value determined by the Stamp Duty Authority on 15.10.2024 was ₹ 17,00,00,000. Mr. Shiv Kumar was handed over the possession of the property on 15.10.2024 and the registration process was completed on the same date. He paid the sale proceeds in full on the date of registration.

After recovering the sale proceeds from Shiv Kumar, Mrs. Seema Aggarwal purchased one residential plot at Amritsar for ₹ 8 crores on 18.02.2025. She also deposited ₹ 3 crores in a Saving account opened with State Bank of India, Amritsar under Capital gain account scheme on 31.03.2025 for the construction of the residential house on above plot.

You are required to calculate the taxable capital gain in the hands of Mrs. Seema Aggarwal for the A.Y. 2025-26 as per the provisions of Income-tax Act, 1961. Cost Inflation Index for F.Y. 2001-02: 100 and 2024-25: 363. **(4 Marks)**

(ii) Mr. Manjoo Menon, an assessee from Coimbatore has 20% shareholding in a Private Limited company Aurelia Exports (P) Ltd. The assessee has immovable property in Coimbatore. It was let out to the said company on monthly rent. The assessee permitted the company to provide the said property as collateral security to ABC Bank in order to enable the said company to obtain loan from the said bank.

Consequently, the property was mortgaged to the bank in 2013. That time Board of Directors passed a resolution authorizing the assessee to obtain from the company interest-

free deposit/ advance upto ₹ 20 lakhs as and when required for making available the said property as collateral security to the bank for the loan facility enjoyed by the company.

In June, 2024 Mr. Menon asked for advance rent and he received a sum of ₹ 15 lakhs from the company as advance rent in June 2024 which was to be adjusted against the rent payable to the assessee by the said company. After such adjustment for the year ended March 31, 2025, the amount of advance rent stood reduced to ₹ 8,00,000. The accumulated profits of the company as on 01.04.2024 amounted to ₹ 10,00,000.

The Assessing Officer in the assessment order for the assessment year 2025-26 sought to treat the said sum of ₹ 8,00,000 as deemed dividend under section 2(22)(e) of the Income-tax Act, 1961.

Can the advance rent given to Mr. Manjoo Menon by the company be deemed as dividend under section 2(22)(e) as per Income-tax Act, 1961? **(4 Marks)**

(b) Miles Inc., a company incorporated in US, is engaged in development of infrastructure and providing consultancy in the same field. During the Financial Year 2024-25, its shareholders met in India for three times. The first two meetings were held to discuss the modification of rights attached to various classes of shares and the third meeting was held to discuss and decide about sale of companies' assets situated in India. The meetings of Board of Directors are held in Chicago, USA where management and commercial decisions necessary for conduct of company's business are taken.

It provides the following additional information pertaining to Financial Year 2024-25:

(i) Dividend received ₹ 5,50,000 (Net of TDS) on Global Depository Receipts of Z Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of shares of the company and purchased by Miles Inc. in foreign currency through an approved intermediary.

(ii) Fees for technical services received from Government of India of ₹ 5,55,000 (Net of TDS). The Government of India utilised such technical services for a development project carried out by it in Nepal.

You are required to determine the residential status of Miles Inc. and compute the total income of Miles Inc. for the assessment year 2025-26 briefly explaining the relevant provisions of the Income-tax Act, 1961. **(6 Marks)**

3. (a) Please answer the following independent questions with regard to provisions applicable to Charitable Trust as per the Income-tax Act, 1961.

(i) Devayani Trust is a registered charitable trust under section 12AB. During the previous year 2024-2025, the trust had applied ₹ 4,50,000 for the benefit of the trustee and ₹ 2,50,000 for the benefit of Mr. Sujan Dave, who has donated ₹ 3,75,000 to the trust up to 31.3.2025. Also, an amount of ₹ 2,50,000 set apart in the P.Y. 2022-2023 by the trust for charitable purposes under section 11(2) has been utilized in the P.Y. 2024-2025 for making donation to another registered charitable trust with similar object as Devayani Trust.

What is the amount of "specified income" liable to tax @30% under section 115BBI for assessment year 2025-2026? Explain with reasons.

(ii) Parivartan, a public charitable trust has been incorporated on 01.06.2023 and immediately commenced its activities of providing "Relief of Poor". During the previous year 2023-24, it failed to file application for Provisional registration under section 12A(1)(ac). However, on 1.11.2024, it applied for the final registration as per section 12AB read with section 12A(1)(ac) in prescribed Form to avail exemption under section 11 for A.Y. 2025-26.

Is the action of the trust justified? Can a trust apply for Final registration before applying for Provisional registration? If yes, what is the time period upto which the Principal Commissioner or Commissioner will have to pass the order granting or rejecting the registration? The registration, if granted will be

applicable from which assessment year? Explain your answer based on the latest Income tax provisions. **(4 x 2 = 8 Marks)**

(b) Following are the particulars of income earned by Mr. Kumar Saurav, a resident Indian aged 56 years in India and from Country P for the assessment year 2025-2026

Particulars	Amount in ₹
Income from India	
Income from Profession in India	10,75,000
Interest on Fixed Deposit with XYZ Bank	95,000
Interest on Savings Bank Account	47,000
Income from Country P	
Rate of Tax is 16%	
Agricultural Income in Country P (Gross)	65,000
Royalty Income from literary book from Country P	4,50,000
Expenses incurred for earning royalty	35,000
Dividend from a company incorporated in Country P	1,59,000
Rent from a house situated in Country P (Gross)	1,92,000
Municipal Tax paid in respect of the above house (not allowed as deduction in Country P)	9,500

You are required to compute the total income and net tax liability of Mr. Kumar Saurav in India for the assessment year 2025-26 assuming that India has not entered into double taxation avoidance agreement with Country P.

Assume that Mr. Kumar Saurav pays tax under the default tax regime under section 115BAC. **(6 Marks)**

4. (a) Examine the applicability of Tax Deducted at source/Tax Collected at source and calculate the amount of TDS/TCS in the following independent cases as per the provisions applicable for A.Y. 2025-26:

(i) Raj Keshri Hotels and Resorts Limited is engaged in business of owning, operating and managing hotels during the previous year 2024-25. The tips are paid by the guests by way of

charge to the Credit Cards, UPI or Net Banking in the bills. The company disburses 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. **(2 Marks)**

(ii) Lalit is an individual whose total sales in business during the year ended 31.3.2024 was ₹ 1.50 crores. He has entered into a contract with Rajesh for construction of his factory building for ₹ 5,00,000 which was credited in his books of account on 1.2.2025. No amount was credited earlier to the account of the contractor in the books of Lalit. The turnover of Mr. Lalit for previous year 2024-25 is ₹ 95 Lakhs.

He also pays a monthly rent starting from 1st April, 2024 to 31st March, 2025 of ₹ 16,000 p.m. for the office premises to Mr. Hemant, the owner of building. Besides, he also pays service charges of ₹ 5,500 per month to Mr. Hemant towards the use of furniture, fixtures and vacant land appurtenant to office. Examine the obligation of the tax deducted at source for A.Y. 2025-26. **(4 Marks)**

(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, 2025, 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-2025.

The company released a payment of ₹ 4,30,000 on 6th March 2025 to XY and Co. out of above sales made during February. Further, Mr. Rai, who purchased products 'R' through the digital facility of ABC Limited on 10th March 2025 made payment of ₹ 60,000 directly to XY and Co. on 15th March, 2025. **(2 Marks)**

(b) Yalin Ltd. is located in Country X, a notified jurisdictional area (NJA). Armo Ltd., a domestic company sold goods to Yalin Ltd. on 15.01.2025 for ₹ 11.75 crore.

During the current financial year, Armo Ltd. sold identical goods to KB Inc., of Edinburgh, U.K. for ₹ 13 crore. KB Inc. is neither situated in any NJA nor associated person of Armo Ltd.

While sales to KB Inc., were on CIF basis, the sale to Yalin Ltd. was on FOB basis, which paid ocean freight and insurance amounting to ₹ 25 lakhs on purchases from Armo Ltd. India has a double taxation avoidance agreement with UK. The assessee has a policy of providing after sales support service to the tune of ₹ 19 lakhs to all customers except Yalin Ltd. which procured the same locally at a cost of ₹ 23 lakhs.

Whether transfer pricing provisions would be applicable on transaction between Yalin Ltd. and Armo Ltd.? If yes, compute the Arm's Length Price for the sales made to Yalin Ltd. and the amount of consequent adjustment, if any, in the profits of Armo Ltd., the assessee company for A.Y. 2025-26. Explain with reasons.

(6 Marks)

5. (a) Answer any **two** out of the following three sub-parts, viz. (i), (ii) and (iii) Your answer should cover:

(1) Issue involved

(2) Provision Applicable

(3) Analysis and conclusion

(i) Assessee had taken an engine on lease under an agreement with a foreign company (lessor), a tax resident of the Germany, having no permanent establishment (PE) in India. The foreign company also does not have PAN in India. The assessee company deducted tax at source @10% on lease rental as per the provisions contained under DTAA between India and Germany.

However, revenue contended that in the absence of furnishing of PAN, the assessee was under an obligation to deduct tax at a higher rate of 20% following the provisions of section 206AA. In the light of the latest Supreme Court rulings, discuss whether the contention of Revenue is correct or not.

(4 Marks)

(ii) Mr. X filed his return of income for A.Y. 2024-25 by declaring a total income of ₹ 10 lakhs. His case was selected for scrutiny assessment and an addition of ₹ 4 lakhs was made by the Assessing Officer on account of disallowances of certain expenses. During the course of the assessment proceedings, Mr. X found that he erroneously failed to claim the set-off of brought forward losses under section 72 amounting to ₹ 3 lakhs, which he was otherwise entitled to. By the time the error was discovered by Mr. X, the time-limit for filling revised return had also expired. Hence, during the course of the proceedings, Mr. X approached the Assessing Officer to allow the set-off of the brought forward losses which was erroneously not claimed in the return of income filed under section 139(1). Whether the Assessing Officer is bound to accept the request of Mr. X? Examine. **(4 Marks)**

(iii) ABC Pvt Ltd, a domestic company is engaged in a software development business at Techno Park, which employed 700 employees, deducted tax at source (TDS) in respect of salaries, contract payments, etc., totalling ₹ 1.10 crores upto 31.03.2025 for the assessment year (A.Y.) 2025-26. In March 2025, the assessee deposited part of the TDS being ₹ 38 lakhs and balance of ₹ 72 lakhs was deposited later in July 2025. However, the Additional Commissioner of Income Tax issued a show cause notice proposing to levy penalty under section 271C of the Income-tax Act 1961 of the amount equal to TDS and also levied penal interest under section 201(1A) of the Income-tax Act, 1961. Feeling aggrieved and dissatisfied with the levy of interest/penalty under the Income-tax Act, 1961 on late deposit of TDS, the company has approached you to seek your advice in the matter. **(4 Marks)**

(b) (i) 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. **(4 Marks)**

(ii) What do you understand by "GloBE Rules"? Which entities are covered under these Rules? **(2 Marks)**

6. (a) (i) Club U Travels Private Limited, engaged in the business of travel agency remitted substantial amount to Australia as per the information collected by the Income-tax department from PTU Bank. The department collected documents from PTU Bank, which include Form 15CB issued by the chartered accountant, list of passengers, copy of their passports, date of travel and invoices raised by the foreign party.

On enquiry from the passengers and verifying their passports, it is found that they did not travel abroad on the dates mentioned in the documents. On the top of it the passengers also denied there was no transaction with Club U Travels Private Limited.

The Income-tax department concluded that the amounts were remitted by the company on the basis of false invoices and for wrong reasons. It led to FEMA violations and Form 15CB issued by the chartered accountant was a vital document in these transactions. During the six-month period in question, the chartered accountant had issued 78 certificates in Form 15CB involving remittances of ₹ 35 crores for Club U Travels Private Limited.

A representation was given by the concerned CA that he had issued Form 15CB based on invoices produced by the company and verifying the KYC documents of the signatory to the invoices. His contention was that since he was not the statutory auditor of the company, he did not examine the books of account before issuing Form 15CB or conduct due diligence of its business activities. He had charged ₹ 2,500 per certificate. Mostly, the fees were collected in cash. Some parts of the fees were credited to his bank account.

Examine the ethical implications in this case? **(6 Marks)**

(ii) Specify with reason, whether the following acts can be considered as:

(A) Tax planning; or (B) Tax management; or (C) Tax evasion.

1. Mr. D has FDR with SBI in his name amounting to ₹ 50 lakhs. He gifted this sum of ₹ 50 lakhs to his son, on

10.04.2024, the date on which he attained 18 years of age. The purpose is to shift interest income from his hands to his son, so that there may be Zero tax implication, since his son has no other income and the total interest would be lower than taxable limits for P.Y. 2024-25.

2. Mr. Ram's Annual income is ₹ 49.50 lakhs for A.Y. 2025-26 excluding commission receivable from ABC Limited. During March 2025, he earned a commission of ₹ 6 lakhs from ABC Limited. He asked ABC Limited to transfer the commission in his wife's account, who is a housewife. He also asked them to deduct TDS in her wife's name. He did it so that his total income may not cross ₹ 50 lakhs and he can save surcharge on taxes applicable on total income exceeding ₹ 50 lakhs. His wife has no other income. **(4 Marks)**

(b) The term 'Advance Ruling' includes within its scope, a determination by the Board for Advance Rulings only in relation to a transaction undertaken by a non-resident applicant. Examine the correctness of this statement, with reference to the provisions of the Income-tax Act 1961. **(4 Marks)**

MODEL TEST PAPER 6

FINAL COURSE: GROUP - II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Time Allowed – 3 Hours **Maximum Marks – 100**

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario I

Mr. Rohan is an interior decorator by profession. He also delivers online lectures on interior decoration via an e-commerce platform – Indeco-Academy. The relevant information from Mr. Rohan's Indeco-Academy account is given hereunder:

Date of Credit of services to account of Mr. Rohan	Date of Payment to Mr. Rohan	Value of Services Provided (₹)
31.05.2024	10.06.2024	2,00,000
31.10.2024	10.10.2024	1,50,000
31.03.2025	10.04.2025	1,40,000

In addition to the above, Mr. Rohan received ₹ 20,000 on 18.02.2025 directly from a student instead of through the Indeco-Academy payment portal. Mr. Rohan has not furnished his PAN or Aadhar number to Indeco-Academy but has furnished his driving license for KYC requirements.

On 05.05.2024, Mr. Rohan provided interior decorating services to Mr. Naresh in Mumbai having business turnover of ₹ 1.2 crores during P.Y. 2023-24 for his office premises as well as residential premises, the consideration for which was ₹ 40,000 and ₹ 60,000, respectively. Mr. Rohan has provided his PAN details to Mr. Naresh for invoicing purpose.

Mr. Rohan's gross receipts from interior decoration profession (excluding fees for online lectures) from clients in India (including Mr. Naresh) in total in the P.Y. 2024-25 is ₹ 40 lakhs.

Further, ₹ 1,10,000 is payable by Mr. Rohan to Tumble LLC – a social networking website having no office in India and ₹ 1,05,000 to Doodle Inc., USA, for giving online advertisements for the purpose of attracting foreign clients. Though Doodle Inc., USA, has an office in India, the said office is involved in providing designing services and nothing in relation to online advertisements. Fortunately, Mr. Rohan got one client based in Country A (with which India does not have a DTAA) from whom he received ₹ 3,50,000 as net income after deduction of ₹ 50,000 as foreign tax.

Profits of Mr. Rohan computed as per books of account maintained under section 44AA is ₹ 24 lakhs. He has, however, not got his books of account audited.

From the information given above, choose the most appropriate answer to the following questions:

1. Is Indeco-Academy required to deduct tax at source on amount received/receivable by Mr. Rohan? If so, what is the amount of tax to be deducted?

   (a) No tax is required to be deducted at source

   (b) Yes; ₹ 5,100

   (c) Yes; ₹ 25,500

   (d) Yes; ₹ 510

2. Is Mr. Naresh required to deduct tax at source under section 194J? If so, what is the amount of tax to be deducted?

   (a) No tax is required to be deducted at source u/s 194J

   (b) Yes; ₹ 1,000

   (c) Yes; ₹ 4,000

   (d) Yes; ₹ 10,000

3. Is Mr. Rohan required to deduct equalisation levy on the amounts payable to Tumble LLC or Doodle Inc.? If so, what is the amount of levy to be deducted?

(a) No; there is no requirement to deduct equalisation levy from the amount payable to either Tumble LLC or Doodle Inc.

(b) Yes; ₹ 6,600 to be deducted on the amount payable to Tumble LLC; No deduction is, however, required on the amount payable to Doodle Inc.

(c) Yes; ₹ 6,300 to be deducted on amount payable to Doodle Inc; No deduction is required on the amount payable to Tumble LLC.

(d) Yes; ₹ 6,600 to deducted on the amount payable to Tumble LLC and ₹ 6,300 to be deducted on the amount payable to Doodle Inc.

4. What is Mr. Rohan's gross income-tax liability for the P.Y.2024-25, assuming that he has opted out of the default tax regime u/s 115BAC?

(a) ₹ 5,70,960

(b) ₹ 4,91,400

(c) ₹ 5,08,560

(d) ₹ 5,53,800 **(2 x 4 = 8 Marks)**

Case Scenario II

DEF Inc., a company incorporated under the laws of Country A, is engaged in management consultancy services. It has set up a branch office in India. India has a DTAA with Country A.

During the F.Y. 2024-25, it earns the following income in India -

(i) Fee for technical services of ₹ 75,00,000 from ABC Ltd., an Indian company, in pursuance of an agreement made with it and approved by the Central Government. The tax rate on such income under India-Country A tax treaty is 20% on gross income. The fee for technical services is not effectively connected with the branch office in India.

(ii) DEF Inc. incurred expenses of ₹ 3,00,000 in earning such income from fee for technical services.

(iii) Sale of shares of Bottle Pvt. Ltd., an Indian company, for ₹ 2,60,00,000 on 15th April 2024.

(iv) Other income ₹ 10,00,000

All the above income has been credited to the statement of profit and loss of the company.

DEF Inc. had made an investment in 100% equity share capital of Bottle Pvt. Ltd., purchased for ₹ 1,75,00,000 on 5th November, 2004. The said shares were purchased out of foreign exchange of USD 3,50,000 brought from outside India.

From the information given above, choose the most appropriate answer to the following questions:

5. In the context of the provisions of section 115JB, state which of the following statements is correct –

   (a) The provisions of section 115JB do not get attracted in the hands of DEF Inc., since it is a foreign company.

   (b) The provisions of section 115JB do not get attracted in the hands of DEF Inc., since its entire income from India is subject to tax at a rate lower than the rate prescribed u/s 115JB.

   (c) The provisions of section 115JB are attracted in the hands of DEF Inc. since it is resident of a country with which India has a DTAA and the branch office of DEF Inc. constitutes permanent establishment in terms of such agreement.

   (d) The provisions of section 115JB are attracted in the hands of DEF Inc., since the provisions of section 115JB are applicable to every company deriving income from India.

6. What is the rate at which fee for technical services received by DEF Inc. is chargeable to tax in India?

   (a) 20.8% on ₹ 75 lakhs

   (b) 10.4% on ₹ 72 lakhs

   (c) 20% on ₹ 75 lakhs

   (d) 41.6% on ₹ 72 lakhs

7. In respect of sale of shares in Bottle Pvt. Ltd., state which of the following statements is correct -

   (a) The transaction of sale of shares in Bottle Pvt. Ltd. is subject to transfer pricing since DEF Inc. holds more than 26% shares in Bottle Pvt. Ltd. Hence, sale price of ₹ 2,60,00,000 shall be subject to arm's length computation.

   (b) Sale of shares in Bottle Pvt. Ltd. shall not be considered as transfer, since DEF Inc. holds whole of the share capital of Bottle Pvt. Ltd.

(c) Capital gains arising on sale of shares shall be taxable @20% with indexation or 10% without indexation, whichever is beneficial to DEF Inc.

(d) Capital gains is taxable@10% without benefit of indexation and foreign currency conversion.

8. Which of the following statements is correct, assuming that the rates specified in the DTAA are the same as provided under the Act?

(a) Only capital gains has to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax.

(b) Only fee for technical services has to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax.

(c) Both capital gains and fee for technical services have to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax

(d) Capital gains, fee for technical services and other income have to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax **(2 x 4 = 8 Marks)**

Case Scenario III

Seva Niketan, a charitable trust registered under section 12AB runs an educational institution, which is engaged solely in education and a hospital for treatment of persons suffering from mental disorder solely for philanthropic purposes. The trust furnished the following information:

(i) The total receipts of the trust for the P.Y. 2024-25 for educational institution is ₹ 3.10 crores and for the hospital it is ₹ 3.40 crores.

(ii) Voluntary contributions [included in (i) above] received for the P.Y. 2024-25 from the public amounted to ₹ 105 lakhs. It includes corpus donations of ₹ 55 lakhs (for purchase of building for the trust) and anonymous donations of ₹ 20 lakhs.

(iii) During the P.Y. 2024-25, computers purchased for ₹ 80 lakhs out of

- Corpus fund mentioned in (ii) above ₹ 30 lakhs.
- Loan – ₹ 25 lakhs
- Voluntary contributions - ₹ 25 lakhs

(iv) Corpus donations received during the current year are invested in -

- Post Office Savings Accounts ₹ 10 lakhs
- Canara Bank as Fixed deposits ₹ 5 lakhs
- Non-banking Financial Corporation (NBFC) ₹ 10 lakhs

(v) Deposited ₹ 15 lakhs towards post office savings account which were utilised for purchase of building during the P.Y. 2020-21 and P.Y. 2021-22 out of corpus fund ₹ 10 lakhs and ₹ 5 lakhs, respectively.

(vi) Amount paid to another trust registered u/s 12AB by way of donation of ₹ 10 lakhs. Out of the said amount ₹ 2 lakhs are given as corpus donations.

(vii) ₹ 6 lakhs, being the amount set apart in the P.Y.2023-24 by the trust for charitable purposes u/s 11(2) utilized in the P.Y. 2024-25 for making donation to another charitable trust, whose object is also education.

From the information given above, choose the most appropriate answer to the following questions:

9. Seva Niketan wants to avail exemption under section 10(23C)(iiiad) and 10(23C)(iiiae) in respect of educational institution and hospital for the P.Y. 2024-25. Can it do so?

   (a) Yes, it can do so since annual receipts for each activity do not exceed ₹ 5 crores.

   (b) No, it cannot do so since the trust is registered under section 12AB.

   (c) No, it cannot do so since aggregate receipts from education and hospital exceed ₹ 5 crores.

   (d) Yes, it can do after seeking the approval from the Commissioner of Income-tax.

10. What amount of corpus donations received by the trust would not form part of the total income of the P.Y. 2024-25?

   (a) ₹ 25 lakhs

   (b) ₹ 40 lakhs

   (c) ₹ 15 lakhs

   (d) ₹ 55 lakhs

11. What would be the amount of "specified income" taxable@30% u/s 115BBI for the P.Y. 2024-25?

(a) ₹ 30 lakhs

(b) ₹ 46 lakhs

(c) ₹ 48 lakhs

(d) ₹ 16 lakhs

12. What amount would be considered as application of the trust for the P.Y.2024-25 (excluding unconditional accumulation of 15%), assuming that it has fulfilled the relevant conditions stipulated under section 12A?

(a) ₹ 36.8 lakhs

(b) ₹ 25 lakhs

(c) ₹ 38 lakhs

(d) ₹ 30 lakhs **(2 x 4 = 8 Marks)**

13. A Ltd., an Indian company, borrowed money from B Inc. in Country B, C Ltd. in Country C, D Inc. in Country D and E Ltd. in Country E, the details of which are given hereunder-

Lender	Amount borrowed by A Ltd.	Interest paid in the P.Y.2024-25	Is it an Associated Enterprise of A Ltd.?
B Inc.	₹ 15 crores	₹ 1.50 crores	Yes
C Ltd.	₹ 25 crores	₹ 2.50 crores	No
D Inc.	₹ 25 crores	₹ 2.50 crores	Yes
E Ltd.	₹ 15 crores	₹ 1.50 crores	No

B Inc. has provided guarantee of loan taken by A Ltd. from C Ltd. D Inc. has deposited ₹ 15 crores with E Ltd. Earnings before Interest, Tax and Depreciation of A Ltd. for A.Y.2025-26 is ₹ 10 crores. What is the interest to be disallowed under section 94B for A.Y.2025-26?

(a) ₹ 1 crore

(b) ₹ 3 crores

(c) ₹ 4 crores

(d) ₹ 5 crores **(2 Marks)**

14. Mr. Anjan, a property dealer, sold a flat in Mumbai, the stamp duty of which is ₹ 2 crores for ₹ 1.80 crores to his friend Mr. Ashwin, a college lecturer. Mr. Anjan had purchased the flat one year back for ₹ 1.50 crores and the stamp duty value on that date was also ₹ 1.50 crores. What are the tax implications of such sale?

(a) ₹ 50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin

(b) ₹ 50 lakhs would be taxable as business income in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin

(c) ₹ 50 lakhs would be taxable as business income in the hands of Mr. Anjan and ₹ 20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin

(d) ₹ 50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan and ₹ 20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin

15. Which of the following individuals would be entitled to opt for presumptive taxation schemes under the Income-tax Act, 1961 for A.Y.2025-26?

(i) A retail trader having turnover of ₹ 2 crore during the previous year 2024-25.

(ii) A practicing chartered accountant having gross receipts of ₹ 92 lakhs during the previous year 2024-25.

(iii) A wholesale trader having turnover of ₹ 1.96 crore during the previous year 2024-25.

(iv) A doctor having gross receipts of ₹ 50 lakhs during the previous year 2024-25.

(v) An individual owning 8 goods carriages as on 1.4.2024. He sold 2 goods carriages on 1.5.2024 and purchased 4 goods carriages on 1.7.2024.

The correct answer is -

(a) Only (iii)

(b) (iii) & (v)

(c) (i), (iii), (iv) & (v)

(d) (i), (ii), (iii), (iv) & (v) **(2 Marks)**

Division B – Descriptive Questions

*Question No.**1** is compulsory.*

*Answer any **four** questions out of the remaining **five** questions.*

1. Kansal Cements Ltd., a resident company set up in the year 2010 is engaged in the manufacture of cement. Its Statement of Profit and Loss (from cement business) for the financial year ended 31st March, 2025 shows a net profit of ₹ 75 Lakhs after debiting/crediting the following items:

   (i) Depreciation as per the Companies Act, 2013 ₹ 6 lakhs.

   (ii) The assessee company received a dividend of ₹ 5,00,000 from Arnold Ltd., a foreign company. It has incurred interest expense of ₹ 1,50,000 towards borrowed funds for the purpose of investing in the shares of Arnold Ltd.

   (iii) It contributed ₹ 5,00,000 to the State Housing Board towards construction of tenements for the company's workers which constituted 25% of the cost of construction and the assessee could use these for 15 years. Ownership of such tenements remains with the State Housing Board.

   (iv) A trade creditor whose amount of ₹ 20 lakhs was outstanding for 10 years, has been settled for ₹ 15 lakhs on 01.03.2025 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.

   (v) Upfront discounted interest paid during the year to the debenture-holders ₹ 5 lakhs. Debentures were issued for a period of 5 years. Apart from half yearly periodical interest, debenture holders were paid one-time upfront discounted interest payment. One fifth of the interest paid has been debited to the statement of profit and loss.

   Additional Information:

   A. During the previous year 2024-25, the assessee company started a business of developing and building rental housing projects eligible under section 80-IBA. Net profit from such business amounted to ₹ 20 lakhs during the year. Assessee also earned an income of ₹ 10 lakhs for constructing a housing project eligible under the above said section which it executed as a work contract, received from X

Constructions Ltd. These projects were approved/ notified during the F.Y. 2021-22.

B. The assessee company has purchased a land on 01.04.2010 for ₹ 5 lakhs which was compulsorily acquired by the Government on 31.03.2018. Original compensation awarded ₹ 10 lakhs was received on 30.06.2018. The assessee company has filed a suit for the additional compensation in the High Court and was awarded an additional compensation of ₹ 8 lakhs on 31.05.2024.

C. Depreciation as per the Income-tax Act, 1961 ₹ 4.5 lakhs

D. The assessee company has purchased machinery worth ₹ 20 lakhs on May 1, 2021 and insured it against fire, flood, earthquake etc. The insurance policy contained a reinstatement clause requiring the insurance company to pay the value of machinery, as on the date of loss due to fire, flood, earthquake etc. A fire broke out in September, 2024 causing total damage to the machinery. The company received a sum of ₹ 22 lakhs from the insurance company on 01.03.2025 (Rate of depreciation is 15% and assume that the machinery was the only asset in the block)

E. The company declares and distributes a dividend of ₹ 6,00,000 to its shareholders on 31.08.2025

Compute the total income and tax liability of Kansal Cements Ltd for the assessment year 2025-26 under the regular provision by analyzing and applying the relevant provisions of Income-tax Law, assuming that the assessee has not opted for any concessional rates under special provisions of the Income-tax Act, 1961. Briefly explain the reasons for treatment of each item. Total turnover of the company for the previous year 2022-23 was ₹ 450 crores. **(14 Marks)**

2. (a) Salsy Limited has two units one engaged in manufacture of textile goods and the other involved in manufacturing of chemicals. As a restructuring drive, the company sold its chemical unit as a going concern by way of slump sale for ₹ 242 lakhs on 01.10.2024.

The balance sheet of Salsy limited as on 01 October 2024, being the date on which chemical unit has been transferred, is given here under –

Liabilities	₹	Assets	₹
Paid up Share Capital	2,50,00,000	**Land**	
General Reserve	1,35,00,000	Textile Unit	60,00,000
Share Premium	60,00,000	Chemical Unit	70,00,000
Revaluation reserve	20,00,000	**Building**	
Trade Creditors		Textile Unit	90,00,000
Textile Unit	90,00,000	Chemical Unit	70,00,000
Chemical unit	47,00,000	**Machinery**	
		Textile Unit	40,00,000
		Chemical unit	52,00,000
		Investment in Equity Share (1,00,000) shares of ABC Ltd, a listed company at ₹ 35 per share	
		Chemical Unit	35,00,000
		Inventories	
		Textile Unit	82,00,000
		Chemical unit	60,00,000
		Licenses and Franchises	
		Textile Unit	20,00,000
		Chemical unit	23,00,000
	6,02,00,000		**6,02,00,000**

The following information have been furnished by the management:

(i) The Chemical unit was established in July, 2020 during the COVID period.

(ii) Land of Chemical unit includes revaluation reserve of ₹ 20 lakhs. The Land was purchased at ₹ 50 lakhs in May 2020 and revalued at ₹ 70 lakhs as on October 1, 2024. The stamp duty value on 01.10.2024 is ₹ 62 lakhs.

(iii) The Building and Machinery have been shown in the balance sheet at its written down value as per section 43(6)(c) of the

Income-tax Act,1961. The stamp duty value of building of Chemical unit on 01.10.2024 is ₹ 72 lakhs.

(iv) License and Franchises were acquired on 01.06.2023 and shown in the balance sheet at its original purchase price.

(v) Equity shares were acquired by the company through National stock exchange on 01.04.2022 and value recorded for shares of ABC Limited as on 01.10.2024 at NSE is ₹ 42 per share.

You are required to Compute the Taxable capital gain to Salsy Limited for A.Y.2025-26. **(8 Marks)**

(b) The net result of the business carried on to a branch of US based foreign company in India for the year ended 31.03.2025 was a loss of ₹ 28 lakhs after charge of the following expenses -

(i) Depreciative for the current financial year of ₹ 35 lakhs.

(ii) Unabsorbed depreciation for previous financial year of ₹ 18 lakhs.

(iii) Short term capital loss of ₹ 1.5 lakhs on sale of shares of an Indian company received in US.

(iv) Expenditure incurred for payment in respect of voluntary retirement scheme ₹ 12 lakhs.

(v) Speculative Business loss brought forward for A.Y. 2023-24 of ₹ 17 lakhs.

(vi) Deductions under Chapter VI-A of 29 ₹ lakhs.

(vii) Head Office expenses of ₹ 165 lakhs allocated to the branch.

The assessable adjusted total income of the assessee for the three immediately preceding assessment years was:

Assessment year	₹ (in lakhs)
2024-25	600
2023-24	450
2022-23	500

You are required to compute income to be declared by the branch in its return for the assessment year 2025-26. **(6 Marks)**

3. (a) Examine each of the following independent cases of charitable trust/ institutions based on the relevant provisions of the Income-tax Act and judicial pronouncements for the assessment year 2025-26:

(i) M/s MPL, an electoral trust incorporated on 1st April 2024, provides following information for the previous year 2024-25.

Total voluntary contributions received ₹ 600 lakhs. It spends ₹ 5 lakhs on management of its affairs.

In light of the provisions of section 13B of the Income-tax Act and rule 17CA notified by the Central Government in this context, give answer to the following questions.

What is the amount of surplus that can be distributed by the electoral trust to a registered political party assuming all other conditions as provided under the Act are satisfied?

What will be your answer if out of the total voluntary contributions of ₹ 600 lakhs, ₹ 100 lakhs received from individuals who are not citizen of India? **(4 Marks)**

(ii) Astha Foundation is a not for profit trust that runs a secondary school and a hospital. The trust had total receipts of ₹ 1.2 crores from school and ₹ 4.2 crores from hospital for the assessment year 2025-26. Con the trust claim exemption under section 10(23C)(iiiad) and section 10(23c)(iiiae) for assessment year 2025-26? **(2 Marks)**

(iii) Care for All Foundation is claiming exemption under section 10(23C)(vi). On 15.11.2024 it gets notified under section 10(46). The foundation intends to know whether it can enjoy the benefits of both sections in section 10(46) and section 10(23C)(vi) simultaneously. **(2 Marks)**

(b) Mr. Ashok, aged 66 years, a resident individual furnishes the following particulars of income earned by him in India and Country N for the assessment year 2025-26:

(i) Taxable income from a sole proprietary concern in Mumbai ₹ 8,00,000.

(ii) Income from Country N with which India does not have any Double Taxation Avoidance Agreement:

(A) Business income ₹ 9,50,000.

(B) Gift in foreign currency from a friend ₹ 65,000.

(C) Dividend (gross) (taxed in country N) ₹ 1,40,000.

(D) Brought forward business loss of assessment year 2021-22 in Country N ₹ 50,000. The domestic tax laws of Country N do not permit set off of business loss against any income.

(E) Country N taxed dividend income at the rate of 10% and all other income at the rate of 20%.

(iii) Mr. Ashok has deposited ₹ 1,50,000 in Public Provident fund and paid contribution to approved Pension fund of LIC ₹ 22,000.

Compute taxable income and net tax liability of Mr. Ashok in India for assessment year 2025-26. Assume that Mr. Ashok pays tax under default tax regime provided under section 115BAC(IA). **(6 Marks)**

4. (a) Discuss the relevant provisions of the Income-tax Act, 1961, with respect to collection/deduction of tax in the following situations:

(i) Mr. Bhavan, an individual purchased urban land on 12.07.2015 which was compulsory acquired by Maharashtra State Government on 10.04.2023. The compensation for acquisition was fixed at ₹ 2,40,000, which was paid to Mr. Bhuvan on 10.04.2024. Against the order of court, the compensation was enhanced by ₹ 50,000 and paid to Mr. Bhuvan on 10.12.2024. **(2 Marks)**

(ii) On 1st October, 2024. Mr. Aman makes payment of ₹ 9,00,000 towards cost of overseas tour programme package to Mr. Robert, a seller of an overseas tour programme package and an authorized dealer under the Liberalised Remittance Scheme of the RBI.

Mr. Aman has not filed his return of income the last two assessment years i.e., 2024-25 and 2023-24. Mr. Aman has total TCS of ₹ 51,000 in A.Y. 2024-25 and ₹ 60,000 in A.Y. 2023-24 to his credit. Tax is collected and deposited before due date of filing return of income for both the assessment years. **(3 Marks)**

(iii) Dream 44 is an online gaming portal. Mr. Z is a user of this portal and he has a credit balance of ₹ 10,000 in his user account with Dream 44 as on 31.03.2024. He deposited ₹ 1,00,000 from his accumulated savings on 02.04.2024 to play online games. He earned ₹ 30,00,000 from online games during IPL season which started on April 4, 2024 and ended on May 31, 2024. During the previous year 2024-25, Mr. Z also earned Referral bonus of ₹ 50,000 from Dream 44 for referring new users on 31.03.2025.

Out of the above sum Mr. Z withdrew ₹ 25,00,000 on 01.02.2025 and kept the balance of ₹ 6,60,000 in user account on 31.03.2025 to utilise it in next year online games.

(3 Marks)

(b) Surya Ltd., an Indian Company, is engaged in manufacturing activities by importing raw material from Sun Inc. of UK. Sun Inc. has a total loan of 1 million pounds from XYZ Bank of UK. Out of that, Surya Ltd. guarantees 20% of total borrowings in case of any default made by Sun Inc.

During the financial year 2024-25, Surya Ltd. imported goods for ₹ 60 crores from Sun Inc. Sun Inc. supplied similar raw materials to unrelated parties with a mark-up of 20%, whereas, for Surya Ltd. it provided a mark-up of 25%. Surya Ltd. was allowed to use the brand name of Sun Inc., without any payment and whereas the unrelated parties cannot use such brand name in India. The annual cost of brand value is ₹ 100 Lakhs. Surya Ltd. was allowed credit period of 2 months, whereas for the unrelated parties, Sun Inc. allowed only 1 month as credit period. The interest cost may be taken as 12% per annum and the purchases were uniform throughout the year.

The Assessing Officer referred the matter to Transfer Pricing Officer (TPO) for determination of Arm Length Price (ALP).

You are required to (i) Compute the ALP and the adjustments to be made to the income of Surya Ltd. (ii) What is the due date for Surya Ltd. for furnishing audit report u/s 92E? (iii) What amount of penalty is leviable on Surya Ltd., if it fails to furnish audit report u/s 92E?

(6 Marks)

5. (a) Answer any two out of the following three sub-parts viz (i), (ii) and (iii)

(i) Mr. Balram Kumar, a jeweller was intercepted by Police personnel with 1 kg of gold ornaments at New Delhi on 17.01.2024. The case was referred to Income Tax Investigation wing by the Police and the gold ornaments were seized by the Income Tax Department. The registered valuer made the valuation of the gold ornaments amounting to ₹ 65.30 lakhs, to which the assessee did not raise any objection

During the assessment proceedings, the AO was not satisfied with the explanation given by the assessee and the AO made the additions of ₹ 65.30 lakhs as unexplained jewellery u/s 69A in the hands of Mr. Balram Kumar and applied section 115BBE for applicability of tax alongwith Interest. As a result, a demand of tax of ₹ 50.934 lakhs and interest of ₹ 12.35 lakhs were created against the assessee,

The assessee filed an appeal before the Commissioner of Income Tax (Appeals), as per Law. The CIT(Appeals) allowed the appeal and the addition of ₹ 65.30 lakhs was deleted by the CIT being satisfied with the nature and source of the ornaments found from the assessee.

The jurisdictional CIT contemplates to file an appeal in December 2024 before the ITAT against the order of CIT(Appeals). Can Jurisdictional CIT do so? Discuss while explaining the provisions of Income-tax Act and Rules.

(ii) Due to the nature, complexity and volume of the accounts of M/s ABC Private Limited, during the assessment proceedings, the Assessing Officer issued the direction for inventory valuation under section 142(2A) of the Income-tax Act. The relevant approval has been taken by the AO and the company was given an opportunity of being heard as per law. The AO wants to appoint a Chartered Accountant in practice for the purpose. The AO fixed the fees for inventory valuation at ₹ 1,00,000 and asked the CA to raise the bill for valuation report directly to the company after completion of the valuation.

Is AO justified in doing so? What are the relevant provisions for Inventory valuation under section 142(2A)? Discuss in detail.

(iii) M/s SBE Cellular Limited, a domestic company, had entered into franchisee agreement with various distributors for sale of its prepaid connections. Under these agreements, they sold startup kits and recharge vouchers at discounted prices to distributors, who in turn sold them to customers. The Assessing Officer while going through the TDS return fled by the company found that the company had paid commission on startup kits and recharge vouchers to 10 parties herein called "Franchisees" and though the company had deducted TDS on commission and deposited the same during the period from April 2024 to July 2024, such deduction of tax at source however wan discontinued by the company treating such payment to the franchisee not as commission but discount which was outside the ambit of TDS under section 194H. The revenue contended that the company should deduct tax under section 194H on the amounts which, as per Revenue, is a commission payable to an agent by the company under the franchise agreement between the company and the franchisees.

However, as per M/s SBL Cellular Limited, neither are they paying a commission or brokerage to the franchisees/distributors, nor the franchisees/distributors are their agents. In the light of the latest Supreme Court rulings, discuss whether the contention of Revenue is correct or not?

(2 x 4 = 8 Marks)

(b) (i) What do you understand by Automated Digital Services as per UN model? List out the services (at least 4) mentioned in paragraph 6?

(ii) What is meant by Hybrid Mismatch Arrangement? What are the ways in which hybrid mismatch arrangements are used to achieve unintended double non-taxation or long-term tax deferral? **(3 + 3 = 6 Marks)**

6. (a) (i) M/s. PQR Waste Management Pvt. Ltd., a domestic company, engaged in developing, operating and maintaining a solid waste management system filed its return of income for A.Y. 2024-25 on 30th September, 2025 claiming deduction under section 80-IA, on the basis of Form 10CCB issued by the chartered accountant. However, in November 2025, it came to the notice of the chartered accountant that the ten years period for which the company had been eligible to claim deduction had expired in A.Y.2023-24. The chartered accountant withdrew the audit report in Form 10CCB and advised the company to file a revised return u/s 139(5). The company, accordingly, filed a revised return withdrawing the claim under section 80-IA. The Assessing Officer completed the assessment on the basis of the revised return and issued the assessment order.

However, the department concluded that the concerned chartered accountant had issued Form 100CB without ensuring that the ten years period had expired or not.

The chartered accountant contended that as soon as he came to know about the error, he withdrew his report in Form 10CCB and informed the assesseee accordingly. Further, according to him, his report in Form 10CCB was neither the subject matter at the time of assessment nor at the time of penalty proceedings.

Is his contention correct? Examine the ethical implications in this case. **(6 Marks)**

(ii) A. The management of M/s. KKT Private limited, Chennai planned to acquire 5 JCB machines for business purposes. The total depreciation on such machines is around ₹ 30 lakhs for one year. However, a choice is made by the management of the company by acquiring the machines on lease over outright purchase. The lease rentals are ₹ 36 lakhs per annum. The company claims deduction for lease rentals. Would the lease rent payment, being higher than the depreciation, be disallowed as expense under GAAR provisions?

B. Mr. Dhaval, aged 45 years, is making investment in Equity shares at recognised stock exchange through registered broker. During previous year 2024-25, he made a short term capital gain in Equity shares of ₹ 10,00,000 till 20.03.2025.

He was holding 1000 Equity shares of SPR Limited (purchased on 01.01.2025 at ₹ 500 per share). The market price of it was ₹ 200 per share on 31.03.2025. Mr. Dhaval sold all the shares of SPR Limited on 31.03.2025 and purchased the same quantity of these shares back on 01.04.2025. He did it so that his short-term capital gain may reduce by ₹ 3,00,000 for P.Y. 2024-25.

Is it a tax planning or tax evasion? **(4 Marks)**

(b) M/s ABC Limited, an Indian company makes an application to Board of Advance rulings in relation to the tax liability of M/s. Pinicer Inc, a non-resident arising out of a transaction which is proposed to be undertaken by ABC Limited with M/s. Pinicer Inc. The value of transactions entered into between both the parties is ₹ 250 crores.

What would be the amount of fees to be accompanied with the application for advance ruling.

What is the remedy available to M/s ABC Limited if it is aggrieved by the ruling of Board for Advance Rulings? Also, state the time limit within which it should exercise this remedy. **(4 Marks)**

MODEL TEST PAPER 1

FINAL COURSE: GROUP - II

PAPER – 5: INDIRECT TAX LAWS

1. *Question paper comprises of two parts – Division A and Division B.*
2. *Division A comprises of Case Scenario based Multiple-Choice Questions (MCQs).*
3. *Division B comprises of questions which require descriptive type answers.*
4. *Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.*
5. *All questions should be answered on the basis of the position of (i) GST law as amended by significant notifications/circulars issued and by the amendments made by the Finance (No. 2) Act, 2024 which have become effective, till 31.10.2024 and (ii) Customs law as amended by the Finance (No. 2) Act, 2024 and significant notifications/circulars and other legislative amendments made upto 31.10.2024.*

Division A – Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario-I

'Galgotia Travels Ltd.' (GTL) is established on 3rd April in the city of Bangalore (Karnataka) and the primary objective of the company is to provide air-conditioned contract-based passenger transportation services at affordable fares. The company obtains the voluntary registration under GST from 1st May. On 1st July, the company purchased motor vehicles (omnibus) of various seating capacities as follows:

Seating capacity (including driver)	No. of vehicles	Purchase price (per vehicle-exclusive of taxes)	Rate of GST
8 persons	4	10,00,000	CGST- 9%; SGST - 9%
9 persons	3	12,00,000	CGST - 9%; SGST - 9%

11 persons	2	14,00,000	CGST - 9%; SGST - 9%
13 persons	1	15,00,000	IGST - 18%

From the month of July, GTL associated with POKO Ltd. to enhance the business operations. POKO Ltd. owns/operates an electronic platform for supply of passenger transportation services in Bangalore. The company developed an application called 'POKO' through which the customers can access the nearest available motor vehicles (cabs) and avail the services. POKO Ltd. collects the consideration for the services from the customers and remits the same to the service provider (GTL) after retaining the commission charged by it for using its electronic platform.

The details of few bookings of GTL in the month of July are as follows:

(These bookings are obtained by GTL on its own account and not through POKO Ltd.)

Order No.	Date of travel	Starting city	Ending city	Residence of the customer	Date of payment/ booking	Status of customer
CA-234	5th July	Bangalore	Chennai	Bangalore	3rd July	Registered*
CA-435	11th July	Bangalore	Chennai	Chennai	9th July	Unregistered
PH-534	16th July	Chennai	Bangalore	Hyderabad	14th July	Registered*
GK-987	19th July	Hyderabad	Bangalore	Delhi	17th July	Unregistered
UV-777	22nd July	Bangalore	Hyderabad	Mumbai	20th July	Registered*
XE-001	25th July	Chennai	Bangalore	Kolkata	23rd July	Unregistered

*Registered in the State in which they reside

In all the above cases, journey is a single-day journey and invoice is issued electronically on the date of travel immediately after the completion of journey.

The details of the passenger transportation services supplied by GTL through POKO Ltd. & GST liability on the supply is as follows:-

Particulars	July (₹)	August (₹)	September (₹)
Value of services	1,30,00,000	1,25,00,000	1,40,00,000
CGST	9,00,000	8,00,000	8,50,000
SGST	9,00,000	8,00,000	8,50,000
IGST	4,00,000	3,50,000	4,50,000

Note:

1. All amounts are exclusive of CGST/SGST or IGST, as the case may be.
2. Booking is confirmed only after paying total fare for the journey.
3. There is no other inward or outward supply transaction for GTL in the relevant period apart from the aforementioned transactions.
4. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

Based on the case scenario given above, choose the most appropriate answer to Q. nos. 1 to 5, below, carrying 2 marks each:

1. Amount of blocked credit in respect of motor vehicles purchased by GTL on 1st July is_____.

   (a) CGST= ₹ 9,36,000; SGST=₹ 9,36,000 & IGST = ₹ 2,70,000

   (b) CGST=₹ 3,24,000; SGST=₹ 3,24,000 & IGST=₹ 2,70,000

   (c) CGST = Nil; SGST = Nil & IGST = ₹ 2,70,000

   (d) CGST = Nil; SGST = Nil & IGST = Nil

2. Amount of GST payable through electronic cash ledger by GTL on the services supplied by it through POKO Ltd. during the month of July, ignoring the provisions of rule 86B of the CGST Rules, 2017, is_____.

   (a) CGST=₹ 9,00,000; SGST=₹ 9,00,000 & IGST=₹ 4,00,000

   (b) CGST = Nil; SGST = Nil & IGST = ₹ 58,000

   (c) CGST = Nil; SGST = Nil & IGST = ₹ 1,30,000

   (d) CGST = Nil; SGST = Nil & IGST = Nil

3. Amount of tax to be collected at source (together under the CGST, SGST and IGST) by POKO Ltd. on the taxable supplies made through it during the months of A) July, B) August and C) September, is_____.

   (a) A) ₹ 65,000; B) ₹ 62,500 and C) ₹ 70,000

   (b) A) ₹ 1,30,000; B) ₹ 1,25,000 and C) ₹ 1,40,000

   (c) A) ₹ 1,30,000; B) Nil and C) ₹ 70,000

(d) A) Nil; B) Nil and C) Nil

4. Place of supply for order numbers 1) CA-435, 2) PH-534 & 3) GK-987 is_____.

   (a) 1) Bangalore, 2) Hyderabad & 3) Hyderabad

   (b) 1) Chennai, 2) Hyderabad & 3) Hyderabad

   (c) 1) Chennai, 2) Chennai & 3) Delhi

   (d) 1) Bangalore, 2) Chennai & 3) Hyderabad

5. Time of supply for order numbers 1) CA-234, 2) UV-777 & 3) XE-001 is_____.

   (a) 1) 5th July, 2) 20th July & 3) 23rd July

   (b) 1) 5th July, 2) 22nd July & 3) 23rd July

   (c) 1) 3rd July, 2) 20th July & 3) 23rd July

   (d) 1) 5th July, 2) 20th July & 3) 23rd July

Case scenario-II

Dhairya Ltd., a supplier registered under GST in Gujarat, is exclusively engaged in manufacturing textile products. It. has opted to pay tax under composition scheme under sub-sections (1) and (2) of section 10 of the CGST Act, 2017.

The following information is available in relation to Dhairya Ltd. for the current financial year:

1. Total turnover during the quarter April-June is ₹ 1,50,00,000.

2. The option to pay tax under composition scheme lapses from 1st July and it switches to regular scheme as a monthly return filer.

3. Tax paid on inputs lying in stock as on 30th June (Invoice dated 4th May) - CGST ₹ 10,000 and SGST ₹ 10,000.

4. Tax paid on inputs contained in semi-finished goods held in stock as on 30th June- CGST ₹ 5,000 and SGST ₹ 5,000 (Invoice was dated 31st December of preceding financial year).

5. A machinery was purchased on 15th March of preceding financial year for ₹ 10,00,000 (taxable value). Applicable GST rate was 12%.

6. On 10th August, Dhairya Ltd. sold goods worth ₹ 2,40,000 to Ahmedabad Municipal Corporation (AMC). The contract with AMC was to supply only goods and not any services.

7. On 15th August, Dhairya Ltd. sold goods worth ₹ 10,00,000 to Fishing Department of Gujarat Government.

8. Apart from the information provided above, sales and purchases worth ₹ 15,00,000 and ₹ 12,00,000 respectively were also reported during the period of July to February.

9. During the month of March of the current financial year, Dhairya Ltd. manufactured 2,500 meters of fabric (Sales value of the fabric is ₹ 200 per meter). ITC pertaining to such output was CGST - ₹ 27,500 and SGST - ₹ 27,500. Dhairya Ltd. exported 1,500 meters of fabric under bond and sold the balance 1,000 meters of fabric in Gujarat, India.

Notes:

1. There is no other outward or inward supply transaction apart from the aforesaid transactions, in the relevant period.

2. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

2. It is also assumed that due date for any return required to be filed by the taxpayer has not been extended by the Government.

3. Rate of GST applicable on goods manufactured by Dhairya Ltd. under regular scheme is 12%. GST rate applicable on inward supplies is also 12% unless otherwise specified.

4. All the purchases and sales are made within the State except the export sales.

5. All the amounts given above are exclusive of taxes, wherever applicable.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 6 to 9 below, carrying 2 marks each:-

6. The net GST payable in cash (after setting off TCS credit if any) by Dhairya Ltd. during the period from April to February is_____.

   (a) ₹ 1,76,800

(b) ₹ 3,46,800

(c) ₹ 18,26,800

(d) ₹ 18,46,800

7. Input Tax Credit (ITC) available to Dhairya Ltd. during the period from April to February is_____.

(a) ₹ 2,72,000

(b) ₹ 2,82,000

(c) ₹ 2,88,000

(d) ₹ 3,02,000

8. The amount of GST refund available to Dhairya Ltd. for the month of March in the current financial year is _____.

(a) ₹ 24,000

(b) ₹ 33,000

(c) ₹ 31,000

(d) ₹ 22,000

9. Assuming that goods have been sold by Dhairya Ltd. to Fishing Department of Gujarat Government for a value of ₹ 1,00,000 instead of ₹ 10,00,000, net GST payable by Dhairya Ltd. in cash during the period from July to February will be _____.

(a) ₹ 15,88,800

(b) ₹ 83,800

(c) ₹ 82,800

(d) nil

Case Scenario-III

Mr. Bindusaar, a practicing Chartered Accountant, based in Hyderabad, is registered under GST in the State of Telangana.

He undertook following transactions/activities during the current financial year:

(1) He provided consultancy services to Edward Tours, a UK based entity engaged in the business of e-commerce in the field of tour and travels, having its office at UK. Edward Tours paid a sum of Euro 95,000 to Mr. Bindusaar billed @ 75 per Euro. Mr. Bindusaar made travel to UK several times during the year and incurred Euro 5,000 @ ₹ 75 as incidental expenses (including VAT paid ₹ 10,000) which was ultimately charged from Edward Tours. Edward Tours also paid a sum of EURO 5,000 @ ₹ 75 to Mr. Bindusaar as interest on account of delay in payment of agreed consideration.

Mr. Bindusaar also hired the services of a professional firm based in UK to complete the assignment of providing services to Edward Tours and paid Euro 10,000 @ ₹ 75. This was not recovered from Edward Tours.

(2) Mr. Bindusaar's taxable earnings for services provided in India for the financial year are ₹ 85,00,000. In addition to this, Mr. Bindusaar also provided return filing services free of charge in the month of July to Indian residents who were economically weaker. Open market value of such services was ₹ 1,40,000.

Further, in July, Mr. Bindusaar also provided financial services to his real brother Mr. Shiv who is working at an IT company and earning handsomely, for ₹ 75,000 (invoice value). However, Mr. Bindusaar offered him 90% discount on the invoice raised to him. Therefore, Mr. Shiv paid ₹ 7,500 only.

Notes: The rates of tax are 9% (CGST), 9% (SGST) and 18% (IGST) on all inward/ outward supplies. All the amounts given above are exclusive of taxes, wherever applicable.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos 10 to 12 below, carrying 2 marks each:-

10. Compute the value of supply made by Mr. Bindusaar to Edward Tour (in Euros).

    (a) 120,000

    (b) 105,000

    (c) 115,000

    (d) 125,000

11. Compute aggregate turnover of Mr. Bindusaar for the current financial year.

(a) ₹ 1,78,75,000

(b) ₹ 1,86,25,000

(c) ₹ 1,63,82,500

(d) ₹ 1,80,90,000

12. What is value of supply made by Mr. Bindusaar to Mr. Shiv if Mr. Shiv is the son of Mr. Bindusaar and not his brother and supply is made free of cost, other facts remaining the same?

(a) ₹ 7,500

(b) ₹ 75,000

(c) Not a supply since they are related

(d) Value cannot be determined

13. Vihaan, a registered person under GST, supplied goods amounting to ₹ 1,18,000 (inclusive of GST, taxable @ 18%) to Trihaan, a registered person under GST on 30th September. Trihaan further sold such goods to Eyaan, a consumer who came to his shop on 30th October in cash, for ₹ 2,36,000 (inclusive of GST, taxable @ 18%). Vihaan issued a credit note of ₹ 11,800 (₹ 10,000 + ₹ 1800 - GST) for rate difference on 2nd November to Trihaan. Thereafter, Trihaan entered a credit note in its books for the same amount in the name of Eyaan, without intimating him and providing any refund of the sum paid, on 2nd November and reduced its output tax liability accordingly.

As per the provisions of GST law, which of the above-mentioned suppliers are allowed to reduce their output tax liability?

(a) Vihaan

(b) Trihaan

(c) Both Vihaan and Trihaan

(d) Neither Vihaan nor Trihaan, since incidence of tax has been passed on to another person. **(2 Marks)**

14. ABC Ltd. has imported certain goods by air. Certain goods were imported by air. The free on board value of goods is ₹ 100. The cost of

transport, loading, unloading and handling charges up to place of importation is ₹ 25. The cost of insurance is ₹ 10. For the purposes of rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, which of the following shall be added to the value of imported goods?

(a) Cost of transport, loading, unloading and handling charges – ₹ 25; and Cost of insurance -₹ 10

(b) Cost of transport, loading, unloading and handling charges – ₹ 25; and Cost of insurance - ₹ 1.125

(c) Cost of transport, loading, unloading and handling charges – ₹ 20; and Cost of insurance - ₹ 1.125

(d) Cost of transport, loading, unloading and handling charges – ₹ 20; and Cost of insurance - ₹ 10 **(2 Marks)**

15. Priyanka Enterprises imported some goods through vessel from USA in the month of April. The value of goods imported was ₹ 6,50,000.

The date of entry inwards was 21st April (basic customs duty on said date was 10%). Further, Priyanka Enterprises filed bill of entry for home consumption on 25th April (basic customs duty on said date was 20%). Applicable rate of integrated tax was 12% and social welfare surcharge was 10%. Ignore GST compensation cess and agriculture infrastructure and development cess.

However, before inspection and clearance for home consumption, Priyanka Enterprises found that the goods had been damaged owing to negligence on part of proper officer of customs. The proper officer accepted that due to said damage, the value of the goods has come down to ₹ 4,00,000.

Compute the total customs duty payable in the given case.

(a) ₹ 97,280

(b) ₹ 2,38,160

(c) ₹ 1,58,080

(d) ₹ 1,46,560 **(2 Marks)**

Division-B – Descriptive Questions (70 Marks)

*Question paper comprises of 6 questions. Answer Question No. **1** which is compulsory and any **4** questions out of the remaining **5** questions.*

1. Suyogya Pvt. Ltd., registered under GST, is engaged in the manufacture of 5-seater luxury cars at its factories located in the States of Rajasthan, Uttar Pradesh and Gujarat. The company has obtained registration in each of these States.

   The company reports the following details for a tax period pertaining to its factory located in Gujarat:

Payments	(₹) (in lakh)	Receipts	(₹) (in lakh)
Raw material	4.50	Sales:	
		- Sales in Gujarat	14
		- Sales in States other than Gujarat	6
		- Exports under Letter of Undertaking (LUT)	10
Consumables [Intra-State]	0.75	Income from services provided to Gujarat Government administration	2.50
General insurance of cars manufactured	2.50		
Security services	0.70		
Works contract services	1.60		
Rent paid	1.00		
Membership of Automobile Association [registered in the State of Gujarat]	0.10		
Bank charges	0.10		
Audit fee	0.50		

All the above amounts are exclusive of all kinds of taxes, wherever applicable. However, the applicable taxes have also been paid by the company.

Further, following additional details are furnished by the company in respect of the payments and receipts reported by it:

(i) Raw materials worth ₹ 0.50 lakh, were purchased from a composition dealer located in Gujarat. Remaining raw material has been procured from various registered vendors located in Maharashtra.

(ii) Rent has been paid for the factory building located in Gujarat to its owner registered in Gujarat.

(iii) General insurance services have been received from Deep Insurance Company Ltd., registered in Gujarat.

(iv) Payment for security services (services provided by way of supply of security personnel) for the tax period has been made to ABC Ltd., a company located in Gujarat and not registered under GST.

(v) Works contract services, availed from Nirma Builders, Gujarat, have been used by the company for construction of a foundation on which machinery to be used in the production process is to be mounted permanently.

(vi) Bank charges are towards various services availed by the company during a month with regard to its current account maintained with Best Bank, registered in Gujarat. The bank issued a consolidated tax invoice for all such services at the end of the month containing the details of tax charged, description of services, total value, GSTIN of the bank and Suyogya Pvt. Ltd.

(vii) Audit fee is paid to a firm of Chartered Accountants - M/s Chandiok & Associates (registered in Tamil Nadu with an aggregate turnover of ₹ 6 crores in the preceding financial year) - for conducting the statutory audit of the company in the preceding financial year. The firm raises an e-invoice without IRN (Invoice Reference Number) for said services.

(ix) Services provided to Gujarat Government administration are under a Health Training programme. 51% of the total expenditure for said programme is borne by Gujarat Government.

(x) The opening balance of ITC with the company for the tax period is:

CGST - ₹ 0.50 lakh

SGST - ₹ 0.26 lakh

IGST - ₹ 0.35 lakh

Compute the total ITC available with Suyogya Pvt. Ltd. for the given tax period and net GST payable [CGST, SGST or IGST, as the case may be] from Electronic Cash Ledger by Suyogya Pvt. Ltd. for the given tax period.

Notes-

(A) CGST, SGST & IGST rates on all inward and outward supplies are 9%, 9% and 18% respectively.

(B) The necessary conditions for availing ITC have been complied with by Suyogya Pvt. Ltd., wherever applicable.

You are required to make suitable assumptions, wherever necessary.

(14 Marks)

2. (a) Determine the place of supply for the following independent cases:

(i) ABC Events, an event management company at Kolkata, organises two award functions for Bhushan Jewellers of Chennai (registered in Chennai, Tamil Nadu) at New Delhi and in Singapore.

(ii) Happy Planners (Bengaluru, Karnataka) is hired by Dr. Tripti (unregistered person based in Kochi, Kerala) to plan and organise her daughter's wedding at Mumbai, Maharashtra.

(iii) Dhirubhai Pvt. Ltd. (New Delhi) imports a machine from Japan for being installed in its factory at New Delhi. To install such machine, Dhirubhai Pvt. Ltd. takes the service of an engineer who comes to India from Japan for this specific installation.

(iv) Mr. Gogoi, an architect (New Delhi), provides professional services to Mr. George of New York in relation to his immovable property located in Pune.

(v) Mr. Jigar, an unregistered person based in New Delhi hires a yacht from a company based in London, UK for 20 days.

(5 X 2=10 Marks)

(b) Nilgiri Ltd., located in India, purchased a machine from Peter Inc., USA. The cost of the machine at the factory of Peter Inc. is US$ 10,000. Transport charges from the factory of Peter Inc.to the port for shipment is US $ 500. Handling charges paid for loading the machine in the ship are US $ 50. The freight charges from US port to India are US $ 1,000. The buying commission paid by Nilgiri Ltd.is US $ 50. However, actual insurance charges paid are not ascertainable. You are required to determine the assessable value of the machine provided the exchange rate to be considered is 1$ = ₹ 70. **(4 Marks)**

3. (a) Shell Dune Limited is engaged in manufacture of taxable electronic goods. Its two manufacturing units are located in Mumbai and Nagpur and both the units are registered under GST in the State of Maharashtra. The company has another manufacturing unit in Bangalore, registered under GST in the State of Karnataka and a retail showroom located in Ahmedabad, registered under GST in the State of Gujarat.

The company has provided the following details of the activities/ transactions undertaken in a tax period:

S. No.	Particulars	Mumbai unit (₹)	Nagpur unit (₹)
(i)	Sale of taxable goods	12,50,000	13,50,000
(ii)	Interest received on fixed deposits with a nationalised bank		1,08,000
(iii)	Sale of securities [Such securities were purchased for ₹ 2,75,000]	4,50,000	

(iv)	Sale of agricultural land in the vicinity of the manufacturing plant [Stamp duty was paid on ₹ 1,85,00,000]		1,85,00,000
(v)	Sale of old factory building which was not used anymore [Stamp duty was paid on ₹ 75,00,000]	90,00,000	
(vi)	Transfer of actionable claims (other than casinos, online gaming and horse racing)		2,00,000

With the help of above information, you are required to determine the value of exempt supply under GST law as provided by Nagpur unit and Mumbai unit for the purpose of apportionment of ITC under section 17(3) of the CGST Act, 2017. **(5 Marks)**

(b) Determine whether GST is payable in respect of each of the following independent services provided by the registered persons:

(1) Service provided to a Governmental Authority by way of slum improvement and upgradation.

(2) Fees of ₹ 20,000 charged from office staff for in-house personality development course conducted by Banarsidas College providing education as part of a curriculum for obtaining a qualification recognised by Indian law.

(3) Bus fees of ₹ 2,000 per month collected from students by RPSD College providing education as part of a curriculum for obtaining a qualification recognised by Indian law.

(4) Housekeeping service provided by M/s. Buff Ltd. to Bloom Montessori school, a play school, for cleaning its playground and classrooms for ₹ 30,000 per month.

(5) Grow Buds supplied 'Gratitude Jot', an online educational journal, to students of UKG class of Seeds Montessori School for ₹ 2,000. **(5 Marks)**

(c) Examine the validity of the following statements:

(i) A beneficial owner of imported goods is a person on whose behalf the goods are being imported.

(ii) Customs area does not include a warehouse. **(4 Marks)**

4. (a) Upasana Export House is engaged in manufacturing the taxable goods in the State of Haryana. It participates in Global Trade Fair to be held in United States of America in the month of January. It intends to send 100 units of goods manufactured by it to USA for display in the said exhibition.

Upasana Export House is of the view that the activity of sending the goods out of India for exhibition is a zero-rated supply under GST law. However, its tax advisor does not concur with its view. Examine whether the view of Upasana Export House is correct.

(5 Marks)

(b) A2S Manufacturing unit had moulds delivered directly to a job worker from the supplier for making certain precision parts for use in the factory of A2S Manufacturing unit. As per agreement, the moulds were to remain with the job worker as long as work was being sent to him.

After four years a departmental audit team that visited the job worker noticed the moulds and traced it to A2S Manufacturing unit. GST was demanded from A2S Manufacturing unit for taking ITC without receiving the moulds and furthermore for not bringing the moulds back after 3 years of delivery to the job worker.

How should they respond to this? **(5 Marks)**

(c) Mr. Prashank, an Indian businessman, went to Dubai to explore new business avenues on 5th of May, 2023. Mr. Kishu, his son (22 years' old) also joined him in Australia after 4 months. They returned to India on 15.05.2024 and brought used personal effects worth ₹ 1,20,000, 2 music systems each worth ₹ 50,000. In addition to this, Mr. Prashank also brought the gold chain worth ₹ 45,000 [10 gram].

With reference to Baggage Rules, 2016, determine whether Mr. Prashank and his son will be required to pay any customs duty?

(4 Marks)

5. (a) Robecco Private Limited, registered under GST in the State of Uttar Pradesh, instructed Sambhav Transporters (Uttar Pradesh) to deliver certain taxable goods to ABC Enterprises in Uttar Pradesh on 10th January. The value of the goods is ₹ 6,80,000 which are chargeable to CGST & SGST@ 9% each. While the goods were in transit, proper officer intercepted the goods and the truck in which goods were being transported, under section 68 of the CGST Act, 2017. However, the driver of the truck failed to tender any document in relation to the goods in movement. The proper officer, after conducting the physical verification of the goods and the truck, decided to seize the goods and the truck and issued a notice under section 129(3) of the CGST Act, 2017 specifying the penalty payable (under CGST and SGST each) by Robecco Private Limited after giving it an opportunity of being heard.

You are required to determine the amount of penalty payable (under CGST and SGST each) if Robecco Private Limited does not come forward for the payment of penalty. Further, discuss the suitable course of action for Sambhav Transporters if it intends to get its truck released. **(5 Marks)**

(b) ABC & Associates LLP (ABC), a firm of Chartered Accountants, was empanelled with the Commissioner of GST for appointment as Special Auditor under section 66 of the CGST Act, 2017. X Ltd., a registered person under GST, was selected by the Office of the Commissioner for special audit under section 66 of the CGST Act, 2017 for a financial year on account of irregularities noticed during scrutiny of returns. ABC was nominated by the Office of the Commissioner for special audit of X Ltd.

The input tax credit claim by X Ltd. i.e. the auditee, under Form GST ITC- 01, was certified by one of the associate firms of ABC in favour of X Ltd. Such certificate was based on incorrect facts and against the eligibility criteria for input tax credit as per section 18 of the

CGST Act, 2017. However, if ABC fails to exercise due diligence and the certificate is taken on record by ABC as an audit procedure and is relied upon at the time of finalization of audit report and submission of findings. Discuss briefly, what will be its implications under GST law? **(5 Marks)**

(c) Briefly explain whether interest is paid to the applicant in case of delayed refund by Customs Authorities? If yes, also explain the period for computation of interest? **(4 Marks)**

6. (a) Discuss briefly the relevant provisions of the CGST Act, 2017 regarding questions for which advance ruling can be sought.

(6 Marks)

(b) When shall the particulars relating to any proceedings or prosecution be published under GST laws? Discuss the relevant provisions. **(4 Marks)**

OR

(b) Briefly answer the following questions with reference to the provisions of rectification of mistakes/errors apparent on the face of record by any authority, under section 161 of the CGST Act, 2017?

(i) Who can rectify the errors apparent on the face of record?

(ii) What type of mistakes or errors can be rectified? **(4 Marks)**

(c) State any four benefits available to the status holders under the Foreign Trade Policy 2023. **(4 Marks)**

MODEL TEST PAPER 2

FINAL COURSE: GROUP - II

PAPER – 5: INDIRECT TAX LAWS

1. *Question paper comprises of two parts – Division A and Division B.*
2. *Division A comprises of Case Scenario based Multiple-Choice Questions (MCQs).*
3. *Division B comprises of questions which require descriptive type answers.*
4. *Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.*
5. *All questions should be answered on the basis of the position of (i) GST law as amended by significant notifications/circulars issued and by the amendments made by the Finance (No. 2) Act, 2024 which have become effective, till 31.10.2024 and (ii) Customs law as amended by the Finance (No. 2) Act, 2024 and significant notifications/circulars and other legislative amendments made upto 31.10.2024.*

Division A – Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario-I

Swash Enterprise Pvt Ltd. is a financial service company having its offices in Kolkata, West Bengal and Mumbai, Maharashtra. The company is registered under GST in both the States. The company operates through two segments (a) banking services and (b) advisory & consulting services. The aggregate turnover of the company during the previous year was (i) ₹ 80 lakh in West Bengal & (ii) ₹ 60 lakh in Maharashtra.

The bouquet of services provided under each of the two segments are as follows:

Banking services	Advisory & consulting services
Recovery agent services	Company/LLP/Society formation
	Return filing
Direct Selling Agent (DSA) services (sale of banking products)	Detailed Project Report (DPR) preparation
	Business promotion/ product marketing/ exhibition etc.

The company has carried out following transactions during the month of September:

(Amount in ₹ excluding GST)

Particulars	**Kolkata office**	**Mumbai office**
Sale and purchase of foreign currency in course of business	Refer Note 3	Refer Note 3
Amount received from Devidas Private Limited. It has sponsored the business exhibition organized by Swash Enterprise Pvt Ltd.	90,000	70,000
Commission received as DSA from ICIDI Bank for opening bank account/credit card & loan products	48,000	50,000
Commission received from private banks for acting as recovery agent	1,20,000	1,50,000
Professional fee received for the formation of a company/LLP/society	80,000 [Refer Note 2]	40,000
Professional fee received for GST/ TDS return filing	65,000	75,000
Participation fee received from customers for the business exhibition organised by the company	50,00,000 (held in Russia) [Refer Note 1]	4,00,000 (held at Chennai) [Refer Note 1]
Legal fee paid to Mr. Sundaram - an advocate	10,000	15,000
Payment made for security services (by way of supply of security personnel) received	25,000 (Sky Security Pvt Ltd.)	25,000 (M/s P & Co, a partnership firm, registered under GST)

Notes:

1. The participation fee of ₹ 50,00,000 received by the company is in respect of a business exhibition organized at St. Petersburg, Russia under the theme "Bharat Traditional Fair" in which 10 Indian companies (all registered under GST) had participated. A participation fee of ₹ 5

lakh from each Indian company was collected for providing them a stall, furniture & other amenities at St. Petersburg, Russia.

The participation fee of ₹ 4,00,000 is in respect of a business exhibition organized by the company at Chennai, in which 100 Indian companies had participated.

2. Out of the professional fee of ₹ 80,000 received by Kolkata office for the formation of a company/LLP/society, ₹ 15,000 was towards reimbursement claimed from client. It was separately mentioned in the invoice indicating that it was deposited with registrar of companies (ROC).

3. Following purchase & sale of foreign currency was made by the company during the month of September:

   (a) Kolkata office had purchased USD 10,000 from M/s Moneywise (a FOREX dealer) @ ₹ 73 per USD on 10th September. The RBI reference rate on that day was ₹ 74 per USD.

   (b) Mumbai office had sold USD 5,000 to M/s Money Matters (a FOREX dealer) on 15th September @ ₹ 73.20 per USD. RBI reference rate for USD on that day is not available.

4. In an order dated 14th September issued to Swash Enterprise Pvt Ltd., the Joint Commissioner of CGST, Mumbai has raised a demand of ₹ 600 crore on Mumbai office in respect of an inter-State supply transaction. The company is disputing the entire demand & wants to file an appeal before the Appellate Authority against the order of Joint Commissioner.

All the amounts given above are exclusive of GST wherever applicable (unless otherwise specified). There is no other outward or inward supply transaction apart from the aforesaid transactions in the relevant period. Swash Enterprise Pvt Ltd. is not an authorised FOREX dealer.

Based on the case scenario given above, choose the most appropriate answer to Q. nos. 1 to 4, below, carrying 2 marks each:

1. Determine the value of taxable supply in respect of sale and purchase of foreign currency by Kolkata office and Mumbai office of the company as per rule 32(2)(a) of the CGST Rules, 2017.

   (a) Kolkata office ₹ 7200, Mumbai office ₹ 3,660

   (b) Kolkata office ₹ 10,000, Mumbai office ₹ 3,660

(c) Kolkata office ₹ 7,20,000, Mumbai office ₹ 3,66,000

(d) Kolkata office ₹ 7,30,000, Mumbai office ₹ 3,66,000

2. The value of taxable supply received by Mumbai office in the month of September on which tax is payable under reverse charge is _____.

(a) ₹ 15,000

(b) ₹ 25,000

(c) ₹ 40,000

(d) ₹ 2,70,000

3. The value of taxable outward supply made by Kolkata office in the month of September on which Swash Enterprise Pvt Ltd. is liable to pay tax under forward charge is _____.

(a) ₹ 1,78,000

(b) ₹ 2,78,000

(c) ₹ 2,65,000

(d) ₹ 1,13,000

4. The amount of pre-deposit that Swash Enterprise Pvt. Ltd. is required to deposit under the IGST Act, 2017 for filing of an appeal before the Appellate Authority is _____.

(a) ₹ 30 crores

(b) ₹ 60 crores

(c) ₹ 25 crores

(d) ₹ 50 crores

Case scenario-II

Anthun India Limited is a 100% subsidiary of Anthun LLC, Japan, registered under GST in the State of Gujarat. Anthun Inc., Singapore, is another subsidiary of Anthun LLC, Japan, and is engaged in supply of industrial goods to customers across the world.

In India, Anthun Inc., Singapore, sells the goods to a sub-contractor registered under GST in the name of Prista Limited in the State of Maharashtra. Prista

Limited imports the goods sold by Anthun Inc., Singapore and carries out the required technical process on such goods in the factory located in Maharashtra.

After processing of goods by Prista Limited, the goods are sold by Prista Limited to Anthun India Limited for further sales to end customers.

As a holding company, Anthun LLC, Japan, recovers an amount equivalent to 20% of the sales made by Anthun India Limited as commission on monthly basis.

During the month of January, Prista Limited imported the goods worth ₹ 10,00,000 from Anthun Inc., Singapore. The inter-State purchases of Prista Limited from domestic market amounted to ₹ 2,00,000 during the month of January. The value of processed goods sold by Prista Limited to Anthun India Limited amounted to ₹ 10,00,000. Further, Anthun India Limited paid an additional amount equivalent to ₹ 2,00,000 for transportation and handling of goods to third party (a Goods Transport Operator), which was contractually agreed to be paid by Prista Limited. Prista Limited has also charged an amount equivalent to ₹ 12,000 on such processed goods as miscellaneous municipal levy (other than GST) payable in the State of Maharashtra.

Anthun India Limited sold the goods purchased from Prista Limited in the month of January as per the details provided below:

1. ₹ 6,00,000 worth goods to X Ltd, a customer located in the State of Rajasthan
2. ₹ 8,00,000 worth goods to Y Ltd, a customer located in the State of Gujarat

There is no opening stock and closing stock for the month of January with Anthun India Limited.

Further, an employee of Anthun India Limited had visited the manufacturing unit of Prista Limited in Mumbai, Maharashtra and had stayed in the hotel located in Mumbai, Maharashtra, in the month of February. At the time of checkout from hotel, the invoice was issued for an amount equivalent to ₹ 1,00,000. The hotel had issued invoice in the name of Anthun India Limited and GST was charged at the rate of 14% CGST and 14% SGST on total invoice amount of ₹ 1,00,000. Out of such amount, the amount recoverable from the employee towards non-official stay by Anthun India Limited was ₹ 50,000.

Leisure Events Ltd., an event management company, located and registered at New Delhi, had organized a cultural event in the month of February for Anthun India Limited, in Mauritius.

The opening balance of input tax credit of both Prista Limited as well as Anthun India Limited for the relevant tax periods is nil. Further, there is no other inward or outward supply transaction for Prista Limited in January and February apart from the aforementioned transactions. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

All the above transactions are exclusive of GST, wherever applicable. GST is applicable in the aforesaid case scenario at the following rates unless otherwise specified:

I. Intra-State supply – 9% CGST and 9% SGST

II. Inter-State supply – 18% IGST

The rate of basic customs duty on import of goods is nil. However, IGST is applicable on import of goods. No additional duty or cess is applicable on the import of goods or services.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 5 to 8 below, carrying 2 marks each:

5. The total GST liability net of input tax credit, if any, of Prista Limited for the month of January is:

   (a) ₹ 2,18,160 payable as IGST.

   (b) nil.

   (c) ₹ 2,160 payable as IGST.

   (d) ₹ 1,09,080 payable as CGST and ₹ 1,09,080 payable as SGST.

6. What shall be the gross IGST liability i.e. without any adjustment of input tax credit, if any, of Anthun India Limited for the month of January?

   (a) ₹ 1,08,000

   (b) Nil

   (c) ₹ 1,58,400

   (d) ₹ 33,840

7. Whether input tax credit is available on the GST paid by Anthun India Limited on the invoice amounting to ₹ 1,00,000 to the hotel located in Mumbai, Maharashtra, for stay of the employee? If yes, please specify the amount of input tax credit available.

   (a) Yes, as ₹ 14,000 CGST and ₹ 14,000 SGST

   (b) Yes, as ₹ 28,000 IGST

   (c) Input tax credit is not available

   (d) Yes, as ₹ 7,000 CGST and ₹ 7,000 as SGST

8. Whether GST is applicable on the event organized by Leisure Events Ltd. for Anthun India Limited in Mauritius and what is the place of supply in such case?

   (a) GST is applicable and the place of supply is New Delhi.

   (b) GST is applicable and the place of supply is Gujarat.

   (c) GST is not applicable and the place of supply is Mauritius.

   (d) GST is applicable and the place of supply is Mauritius.

Case Scenario-III

Bansilal Private Limited, registered under GST in the State of Maharashtra, is engaged in manufacturing of goods which are used for further production in automobile industry. The company sends some semi-finished inputs to job workers, M/s Yash Enterprises and M/s Jash Enterprises, for necessary processing. The processed goods are sent back by the job workers to the company where they are used for manufacturing the finished products.

M/s Yash Enterprises has its place of business in Maharashtra. M/s Jash Enterprises has its place of business in the State of Madhya Pradesh viz. 35 km away from the place of business of Bansilal Private Limited.

The company imports some raw material and stores the same for few months in the warehouse operated by M/s Sudhankar Enterprises in the State of Tamil Nadu. Later on, it is transported to the company's factory in Maharashtra. M/s Sudhankar Enterprises is not registered under GST. The aggregate turnover of M/s Sudhankar Enterprises for the current financial year is ₹ 18,25,000.

The company maintains all the records, documents and books of accounts at its place of business in Maharashtra.

Following are the relevant details of Bansilal Private Limited for the month of August.

Particulars	Amount (₹)
Total turnover	36,00,000
Total inputs received during the month	21,12,000
Total input services received during the month	8,99,000
Goods sent to M/s Yash Enterprises during the month for job work purpose by motor vehicle	75,000
Goods sent to M/s Jash Enterprises during the month for job work purpose by motor vehicle	46,800

Note: All aforementioned amounts are exclusive of GST, wherever applicable.

Bansilal Private Limited procures the service of M/s Jaggi Enterprises, a goods transport agency, having its places of business in Maharashtra, Gujarat and Kerela. M/s Jaggi Enterprises is registered in all these States with same PAN. Bansilal Private Limited transports its finished goods to different customers located within Maharashtra through M/s Jaggi Enterprises. M/s Jaggi Enterprises prepares a consignment note containing the details of consignor and consignee, value of consignment, vehicle number, details of party paying the taxes etc.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 9 to 12 below, carrying 2 marks each:

9. M/s Sudhankar Enterprises, owner of warehouse in Tamil Nadu, wishes to know as whether it is required to obtain registration under GST to conduct its business. Which of the following statements is true in this regard?

   (a) Yes, being a warehouse operator, M/s Sudhankar Enterprises has to compulsorily take GST registration to conduct the business irrespective of the quantum of aggregate turnover.

   (b) No, M/s Sudhankar Enterprises is not required to take registration under GST as its aggregate turnover is below the threshold limit for registration. However, it is required to obtain a unique enrolment number under GST.

   (c) M/s Sudhankar Enterprises is neither required to obtain registration nor unique enrolment number under GST to conduct business.

(d) Yes, M/s Sudhankar Enterprises is required to take registration compulsorily under GST. Further, it is also required to obtain a unique enrolment number under GST as its aggregate turnover is more than ₹ 10 lakh.

10. M/s Jaggi Enterprises wishes to obtain a unique common enrolment number (referred hereafter as CEN) for generating e-way bills. Which of the following statements is true in this regard?

    (a) M/s Jaggi Enterprises is not eligible for obtaining CEN as a transporter registered only in a single State is eligible for the same.

    (b) M/s Jaggi Enterprises is eligible for obtaining CEN as a transporter registered in multiple States with same PAN is eligible for the same. After obtaining CEN, it can use either CEN or its GSTIN for generating e-way bills throughout the country.

    (c) M/s Jaggi Enterprises is not eligible obtaining the CEN as only unregistered transporters are eligible for the same.

    (d) M/s Jaggi Enterprises is eligible for obtaining the CEN as it is registered in multiple States with same PAN. After obtaining CEN, it can use it for generating e-way bills and updating Part-B throughout the country.

11. Whether Bansilal Private Limited is required to generate e-way bill in case of transfer of goods to M/s Jash Enterprises?

    (a) No, as the value of the consignment is within the prescribed limit of ₹ 50,000.

    (b) No, as the movement of goods is within the distance limit of 50 kms.

    (c) Yes, e-way bill is required to be generated mandatorily in case of inter-State transfer of goods by principal to job worker irrespective of value of consignment.

    (d) Yes, a registered person has to generate e-way bill mandatorily for every inter-State movement of goods irrespective of the value of the consignment.

12. M/s Jaggi Enterprises wants to transport multiple consignments of Bansilal Private Limited in a single conveyance. These consignments are of different consignees and individual e-way bills (EWBs) with different validity periods have been generated for these consignments.

Can M/s Jaggi Enterprises generate one consolidated e-way bill for such multiple consignments?

(a) No, M/s Jaggi Enterprises cannot generate a consolidated e-way bill containing the details of different EWBs since all the EWBs have different validity periods.

(b) Yes, M/s Jaggi Enterprises can generate a consolidated e-way bill containing the details of different EWBs even if all the EWBs have different validity periods and even if it is transporting consignments of different consignees in a single conveyance.

(c) No, M/s Jaggi Enterprises cannot generate a consolidated e-way bill since it is transporting consignments of different consignees.

(d) There are no provisions to generate a consolidated e-way bill under the GST law.

13. Mr. Noah is registered under GST in the State of Maharashtra. He sells footwear to his customers locally within the same State. He has been appointed as an agent by Lucas Ltd., a company registered under GST in the State of Karnataka. During a financial year, Lucas Ltd., sends taxable goods worth ₹ 5.00 crore from its Bengaluru store to Mr. Noah who sells such goods for ₹ 5.00 crore by raising invoices using the GSTIN of Lucas Ltd. Mr. Noah receives a commission of ₹ 60.00 lakh from Lucas (P) Ltd., during the said financial year.

Compute the value of supply of Lucas (P) Ltd. and Mr. Noah for the financial year assuming that amounts given above are exclusive of GST, wherever applicable.

(a) Lucas (P) Ltd.: Nil and Noah : ₹ 5.6 crore

(b) Lucas (P) Ltd.: ₹ 5 crore and Noah : ₹ 5.6 crore

(c) Lucas (P) Ltd.: ₹ 5 crore and Noah : ₹ 60 lakh

(d) Lucas (P) Ltd.: ₹ 5.6 crore and Noah : Nil **(2 Marks)**

14. For the purposes of rule 7 (Deductive Value) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, determine the unit price in greatest aggregate quantity:

Shiv Ltd. makes two sales to unrelated buyers. In the first sale, 500 units are sold at a price of ₹ 95. In the second sale, 400 units are sold at a price of ₹ 100.

(a) ₹ 95

(b) ₹ 100

(c) Average of ₹ 95 and ₹ 100 i.e. (₹ 95 + ₹ 100)/2 = ₹ 97.5

(d) Data is insufficient to determine the unit price in greatest aggregate quantity **(2 Marks)**

15. Kapil Ltd. exported certain goods last year. The buyer has sent back those goods since the same were under warranty and required repairs. Which of the following conditions are to be satisfied by Kapil Ltd. to avail exemption on goods re-imported for repairs under *Notification No. 158/95 Cus dated 14.11.1995*?

(i) Kapil Ltd., at the time of importation, executes a bond.

(ii) Goods must be re-exported within 6 months or 1 year (if time is extended) of the date of re-importation.

(iii) In case goods are not repaired, new goods are to be sent by Kapil Ltd. within 6 months.

Choose the most appropriate option.

(a) (i) and (iii)

(b) (i), (ii) and (iii)

(c) (ii) and (iii)

(d) (i) and (ii) **(2 Marks)**

Division B – Descriptive Questions (70 Marks)

Question paper comprises of 6 questions.

*Answer Question No. **1** which is compulsory and any **4** questions out of the remaining **5** questions.*

1. Gehna Ltd. of Jodhpur (Rajasthan) is a registered manufacturer of cosmetic products. Gehna Ltd. has furnished following details for a tax period:

Particulars		**(₹)**
Details of Outward supplies		
(i)	Supplies in Rajasthan	8,75,000

(ii)	Supplies in States other than Rajasthan	3,75,000
(iii)	Export under LUT	6,25,000
Details of expenses		
(i)	Raw materials purchased from registered suppliers located in Rajasthan	1,06,250
(ii)	Raw materials purchased from unregistered suppliers located in Rajasthan	37,500
(iii)	Raw materials purchased from Punjab from registered supplier	1,00,000
(iv)	Integrated tax paid on raw materials imported from USA	22,732
(v)	Consumables purchased from registered suppliers located in Rajasthan including high speed diesel (Excise and VAT paid) valuing ₹ 31,250 for running the machinery in the factory	1,56,250
(vi)	Monthly rent for the factory building to the owner in Rajasthan	1,00,000
(vii)	Salary paid to employees on rolls	6,25,000
(viii)	Premium paid on life insurance policies taken for specified employees. Life insurance policies for specified employees have been taken by Gehna Ltd. to fulfill a statutory obligation in this regard. The life insurance service provider is registered in Rajasthan.	2,00,000
All the above amounts are exclusive of all kinds of taxes, wherever applicable. However, the applicable taxes have also been paid by Gehna Ltd.		
The opening balance of ITC with Gehna Ltd. for the given tax period is- CGST ₹ 20,000 SGST ₹ 15,000 IGST ₹ 15,000		

Assume CGST, SGST and IGST rates to be 9%, 9% and 18% respectively, wherever applicable.

Assume that all the other necessary conditions to avail the ITC have been complied with by Gehna Ltd., wherever applicable.

Compute (i) ITC available with Gehna Ltd. for the tax period; and (ii) Net GST payable [CGST, SGST or IGST, as the case may be] from Electronic Cash Ledger by Gehna Ltd. for the tax period. **(14 Marks)**

2. (a) Revive Pvt. Ltd. owned by Amit Malik- a famous classical singer - wishes to organise a 'Amit Malik Music Concert' in Gurugram (Haryana). Revive Pvt. Ltd. (registered in Ludhiana, Punjab) enters into a contract with an event management company, Sajal (P) Ltd. (registered in Delhi) for organising the said music concert at an agreed consideration of ₹ 10,00,000. Sajal (P) Ltd. books the lawns of Hotel OPX, Gurugram (registered in Haryana) for holding the music concert, for a lump sum consideration of ₹ 4,00,000. Revive Pvt. Ltd. fixes the entry fee to the music concert at ₹ 5,000. 400 tickets for 'Amit Malik Music Concert' are sold.

You are required to determine the gross GST liability in respect of the supply(ies) involved in the given scenario.

Will your answer be different if the price per ticket is fixed at ₹ 450?

Note: Rate of CGST and SGST is 9% each and IGST is 18%. All the amounts given above are exclusive of taxes, wherever applicable. **(10 Marks)**

(b) Mr. T imported certain goods from a related person Mr. R of US and transaction value has been rejected. Rules 4 and 5 of the Customs Valuation (Determination of value of Imported Goods) Rules, 2007 are found inapplicable as no similar/ identical goods are imported in India. Mr. T furnishes cost related data of imports and requests customs authorities to determine value accordingly as per rule 8 of the Customs Valuation (Determination of value of Imported Goods) Rules,2007. The relevant data are

1. Cost of materials incurred by Mr. R $ 2000
2. Fabrication charges incurred by Mr. R $ 1000
3. Other chargeable expenses incurred by Mr. R $ 400
4. Other indirect costs incurred by Mr. R $ 250
5. Freight from Mr. R 's factory to US port $ 250
6. Loading charges at US port $ 100

7. Normal net profit margin of Mr. R is 20% of FOB

8. Air freight from US port to Indian port $ 1,500

9. Insurance from US port to Indian port $ 50

10. Exchange rate ₹ 70 per $

The customs authorities are of the opinion that since value as per rule 7 of the Customs Valuation (Determination of value of Imported Goods) Rules,2007 can be determined at ₹ 4,00,000, there is no need to apply rule 8 of the Customs Valuation (Determination of value of Imported Goods) Rules, 2007.

Can the request of Mr. T be legally acceptable? If so, compute the assessable value under the Customs Act, 1962. **(4 Marks)**

3. (a) Moti Weavers, at Pune, Maharashtra is a registered input service distributor and intends to distribute ITC for the month of March. The following are the details available for such distribution:

Branch	**Turnover of the last quarter (₹)**	**ITC specifically attributable to the branch (₹)**
Ganganagar Branch (Rajasthan)	10,00,000	IGST – ₹ 12,000 CGST – ₹ 3,000 SGST –₹ 3,000
Madhugiri Branch (Karnataka)	5,00,000	Nil
Kosala Branch (UP)	15,00,000	Nil
Mumbai Branch (Maharashtra)	20,00,000	IGST – ₹ 1,50,000 CGST– ₹ 15,000 SGST– ₹ 15,000

ITC available on input services used commonly for all branches is as under:

CGST - ₹ 60,000

SGST - ₹ 60,000

IGST - ₹ 1,20,000

ITC (IGST) of ₹ 10,000 pertaining to March (last year) was inadvertently not distributed. Whether the same can be considered for distribution in March this year?

Madhugiri, Karnataka branch uses input services to manufacture exempted products. Turnover excludes duties & taxes payable to Central and State Government.

Determine the manner of input tax distribution. **(5 Marks)**

(b) MNO Ltd., a publishing and printing house registered in Maharashtra, is engaged in supply of books, letter cards, envelopes, guides and reference materials. The following information is provided by the company:

Event	**Printing of books**	**Printing of envelopes**
Date of entering into printing contract	16th March	20th March
Date of receipt of advance	20th March	25th March
Date of completion of printing	10th April	5th April
Date of issue of invoice	15th May	10th April
Date of removal of books and letter heads to buyer	13th May	7th April
Date of receipt of balance payment	31st May	30th April

In respect of printing of books, content was supplied by the author. For printing of envelopes, the design and logo were supplied by the buyer.

Determine the time of suppl(ies) for the purpose of payment of tax.

(5 Marks)

(c) M/s Clear Energy Ltd. is engaged in oil exploration and has imported software containing seismic data. The importer is entitled to exemption from customs duty subject to the condition that an "essentiality certificate" granted by the Director General of Hydrocarbons is produced at the time of importation of the goods.

Though the importer applied for the certificate within the statutory time limit prescribed for the same, the certificate was not made available to the importer within a reasonable time by the Director General of Hydrocarbons. The customs department rejected the importer's claim for exemption.

Examine briefly whether the department's action is sustainable in law. **(4 Marks)**

4. (a) Mr. Goldy, a Chartered Accountant, being a partner in GST registered firm orders a software for his son Mr. Tony from a company located in USA. He makes the payment for the same from his personal bank account.

Examine whether the transaction will be liable to GST. If yes, in whose hands the tax liability will arise? **(5 Marks)**

(b) Anuj Pvt. Ltd., a registered manufacturer, sent steel cabinets worth ₹ 50 lakh under a delivery challan to M/s Siddhi Tools, a registered job worker, for job work on 28th January. The scope of job work included mounting the steel cabinets on a metal frame and sending the mounted panels back to Anuj Pvt. Ltd. The metal frame is to be supplied by M/s Siddhi Tools. M/s Siddhi Tools has agreed to a consideration of ₹ 5 lakh for the entire mounting activity including the supply of metal frame. During the course of mounting activity, metal waste is generated which is sold by M/s. Siddhi Tools for ₹ 45,000. M/s Siddhi Tools sent the steel cabinets mounted on the metal frame to Anuj Pvt. Ltd. on 3rd December in the same financial year.

Assuming GST rate for metal frame as 28%, for metal waste as 12% and standard rate for services as 18%, you are required to compute the GST liability of M/s Siddhi Tools. Also, give reason(s) for inclusion or exclusion of the value of cabinets in the job charges for the purpose of payment of GST by M/s Siddhi Tools. **(5 Marks)**

(c) Mr. Oliver of foreign origin has come on travel visa, to tour in India. He carries with him, as part of baggage, the following:

Particulars	Value in ₹
Travel Souvenir	85,000
Other articles carried on in person	1,50,000
120 sticks of cigarettes of ₹100 each	12,000
Fire arm with 100 cartridges (value includes the value of cartridges at @ ₹ 500 per cartridge).	1,00,000

Determine customs duty payable, if the effective rate of customs duty is 38.50% inclusive of social welfare surcharge, with short explanations where required. Ignore Agriculture infrastructure and development cess. **(4 Marks)**

5. (a) Henry & Co. self-assessed its CGST liability as ₹ 90,000 for the month of April, but failed to make the payment.

Subsequently the Department initiated penal proceedings against Henry & Co. for recovery of penalty under section 73 of the CGST Act, 2017 for failure to pay GST and issued show cause notice on 10th August which was received by Henry & Co. on 14th August.

Henry & Co. deposited the tax along with interest on 25th August and informed the department on the same day.

Department is contending that he is liable to pay a penalty of ₹ 45,000 (i.e. 50% of ₹ 90,000) under the CGST Act, 2017.

Examine the correctness of the stand taken by the Department with reference to the provisions of the CGST Act, 2017. Explain the relevant provisions in brief. **(5 Marks)**

(b) Mr. Raman had filed an appeal before the Appellate Tribunal against an order of the Appellate Authority where the issue involved relates to place of supply. The order of Appellate Tribunal is also in favour of the Department. Mr. Raman now wants to file an appeal against the decision of the Appellate Authority as he feels the stand taken by him is correct.

You are required to advise him suitably with regard to filing of an appeal before the appellate forum higher than the Appellate Tribunal. **(5 Marks)**

(c) Enumerate the circumstances under which goods are considered to have been removed improperly from a warehouse under the Customs Act,1962. **(4 Marks)**

6. (a) Briefly explain whether an appeal could be filed before the Appellate Authority against order of Authority for Advance Ruling (AAR), with reference to sections 100 and 101 of the CGST Act, 2017. **(6 Marks)**

(b) Elaborate the functions of Anti-profiteering Authority under GST laws? Discuss the relevant provisions. **(4 Marks)**

OR

(b) State the various modes of service of a notice, decision, order, summons, or any other communication under the CGST Act, 2017 on the taxable person or any other person to whom it is intended.

(4 Marks)

(c) State salient aspects of Advance authorisation for annual requirements to exporters. **(4 Marks)**

MODEL TEST PAPER 3

FINAL COURSE: GROUP - II

PAPER – 5: INDIRECT TAX LAWS

1. *Question paper comprises of two parts – Division A and Division B.*
2. *Division A comprises of Case Scenario based Multiple-Choice Questions (MCQs).*
3. *Division B comprises of questions which require descriptive type answers.*
4. *Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.*
5. *All questions should be answered on the basis of the position of (i) GST law as amended by significant notifications/circulars issued and by the amendments made by the Finance (No. 2) Act, 2024 which have become effective, till 31.10.2024 and (ii) Customs law as amended by the Finance (No. 2) Act, 2024 and significant notifications/circulars and other legislative amendments made upto 31.10.2024.*

Division A – Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario-I

Nirav Ltd. is registered with the jurisdictional GST authorities in the State of Rajasthan and operates in multiple businesses. The principal business of Nirav Ltd. is works contract service being provided to the customers by way of fabricating and installing the body for large transportation vehicles. The chassis of the vehicles are provided by the customers to Nirav Ltd. Nirav Ltd. procures the material for fabrication and installs the same on the chassis against a lumpsum agreed amount for material as well as services.

In addition to the above business, Nirav Ltd., registered as GTA, is also engaged in providing services of transportation of goods by road through its own fleet of trucks. GST is chargeable on such services @ 5%. Nirav Ltd. has not exercised the option to pay GST on the same.

During the month of January, Nirav Ltd. undertook the following transactions:

(i) Provided services of transportation of goods to Manohar Ltd., a registered person under GST in the State of Gujarat and received an amount of ₹ 10,00,000 as consideration for the same.

(ii) Purchased tyres for its own fleet of trucks used for providing services of transportation of goods by road and paid an amount of ₹ 1,00,000 for such purchases.

(iii) Purchased a machinery with an advance technology for fabrication of body for luxury buses amounting to ₹ 50,00,000. The machinery is installed at Nirav Ltd.'s premises and the same was purchased from BLM Ltd., a registered person in the State of Rajasthan. BLM Ltd. procured such machinery from Saket Ltd., a registered person under GST in the State of Maharashtra. The delivery was made by Saket Ltd. directly at the premises of Nirav Ltd. and installation work was carried out by the engineers of Saket Ltd. The amount charged by Saket Ltd. from BLM Ltd. was ₹ 42,00,000.

(iv) Nirav Ltd. procured certain engineering services for its fabrication business through electronic mode from Basilla Inc., a company located in Italy. The consideration paid to Basilla Inc. was ₹ 15,00,000.

Further, certain goods were sent by Nirav Ltd. for carrying out repair work on the same to Basilla Inc. The consideration paid for such repair work was ₹ 5,00,000.

(v) Provided services of transportation of goods to BPZ Ltd., its related party and received an amount of ₹ 5,00,000. The arm's length amount of such services provided to third party unrelated customers was ₹ 7,00,000.

(vi) Nirav Ltd. sold scrap relating to fabrication business amounting to ₹ 5,00,000.

(vii) Purchased goods relating to fabrication business for ₹ 10,00,000 out of which goods worth ₹ 1,00,000 were stolen from the premises of Nirav Ltd.

(viii) Received an advance of ₹ 10,00,000 for fabrication work on new chassis and ₹ 3,00,000 towards transportation of goods services from Karim Ltd., a registered person under GST in the State of Madhya Pradesh.

The opening balance of input tax credit for the relevant tax period for Nirav Ltd. is nil. All the above amounts are exclusive of GST, wherever applicable.

The applicable GST rate on all inward and outward supplies is 18% unless specified otherwise. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 4 below carrying 2 marks each:

1. Determine the net GST liability, payable in cash, of Nirav Ltd. for the month of January.

   (a) ₹ 5,40,000

   (b) ₹ 2,70,000

   (c) Nil

   (d) ₹ 7,38,000

2. What shall be the total eligible input tax credit available to Nirav Ltd. for the month of January?

   (a) ₹ 10,80,000

   (b) ₹ 10,62,000

   (c) ₹ 13,32,000

   (d) ₹ 9,00,000

3. Whether Basilla Inc. is required to obtain registration in India to discharge GST liability? If yes, compute the amount of GST liability to be discharged by it in the month of January?

   (a) Yes, as online information database access and retrieval service provider. GST payable is ₹ 3,60,000

   (b) Yes, as online information database access and retrieval service provider. GST payable is ₹ 2,70,000

   (c) No, Basilla Inc. is not required to obtain GST registration in India for discharging GST liability. GST liability of Basilla Inc. is nil.

   (d) Yes, as normal taxpayer. GST payable is ₹ 3,60,000

4. Determine the GST liability of Nirav Ltd. on services of transportation of goods provided to BPZ Ltd.

   (a) Nil

   (b) ₹ 90,000

(c) ₹ 1,26,000

(d) ₹ 36,000

Case scenario 2

Espon Inc. is an entity incorporated in USA and is engaged in provision of various information technology related services directly as well as through its subsidiaries located across the world. In India, Espon India, a subsidiary of Espon Inc., is registered under GST in the State of Karnataka under GST and is providing services to various customers in India.

Espon Inc. provides cloud-based storage services to its customers (business entities and non-business entities) in India. The customers can subscribe to the services by making online payment directly to Espon Inc.'s bank account through internet banking and other modes. The terms and conditions for such services are entered between Espon Inc. and the customer directly without involvement of any third party.

In case of any issue, the customers can call and log the issue at the customer help centre which is operated by Espon India on principal to principal basis. For operation of such customer help centre, Espon India is paid on cost plus 10% basis by Espon Inc. on monthly basis.

Further, Espon India is engaged in promotion and marketing of cloud-based storage services on principal to principal basis in India for Espon Inc. The payment for such services is made by Espon Inc. to Espon India on monthly basis at cost plus 20%. The promotional and marketing activities are carried out in the name of Espon Inc., without any reference to operations of Espon India.

Espon Inc. owns online space for advertisement on internet. Espon Inc. has agreed to sell such online advertising space to Espon India for an amount of ₹ 5,00,00,000 per month. Espon India sells such advertising space to its customers in India on its own account. The contractual arrangement for sale of such advertising space is between the customer and Espon India.

Espon Inc. provides technology support to Espon India and charges royalty from Espon India for such technology support at a fixed charge of ₹ 25,00,000 per month. The royalty paid is exclusively related to the business of advertising space of Espon India.

In addition to above information, during the month of January:

(I) Espon India has incurred following expenses:

1. Expenses exclusively related to operation of call centre – ₹ 75,00,000
2. Expenses exclusively related to promotion and marketing services for Espon Inc. – ₹ 50,00,000

(II) Espon India earned an income of ₹ 8,00,00,000 from sale of online advertising space in India.

(III) Espon Inc. earned an income of ₹ 10,00,00,000 from non-taxable online recipient customers, from cloud-based storage services in India.

The opening balance of input tax credit for the relevant tax period for Espon India and Espon Inc. is nil.

Note: In the aforesaid case scenario,

(i) GST is applicable on all inward and outward supplies @ 18% (ignore bifurcation of intra-State and inter-State supply) unless otherwise specified:

(ii) Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

(iii) All the amounts are exclusive of GST, wherever applicable, unless otherwise provided.

(iv) Exports made by Espon India, if any, are through furnishing of LUT without payment of IGST.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 5 to 8 below carrying 2 marks each:

5. What shall be the output tax liability, without any adjustment of input tax credit, if any, by Espon India for the month of January?

   (a) ₹ 1,44,00,000

   (b) ₹ 2,38,50,000

   (c) ₹ 1,69,65,000

   (d) ₹ 1,66,50,000

6. What shall be the net GST liability of Espon Inc. for the month of January?

   (a) Nil

   (b) ₹ 1,80,00,000

(c) ₹ 1,84,50,000

(d) ₹ 2,74,50,000

7. Please select the correct statement specifically in relation to sale of online advertisement space service provided by Espon Inc. to Espon India:

(a) Espon Inc is providing online information and database access or retrieval service and is thus, required to register in India under GST and discharge GST on forward charge basis.

(b) Espon Inc is providing online information and database access or retrieval service electronically and place of supply in such case is the location of supplier which is outside taxable territory in present scenario. Therefore, no GST is payable on such services.

(c) Espon Inc. is providing online information and database access or retrieval service and tax on the same is to be paid by Espon India on reverse charge basis.

(d) Espon Inc. is providing online information and database access or retrieval service and tax on the same is to be paid by Espon India in capacity of an agent of Espon Inc.

8. What shall be the total input tax credit that can be availed by Espon Inc. from the transactions undertaken in the month of January?

(a) ₹ 90,00,000

(b) ₹ 1,20,15,000

(c) ₹ 1,17,00,000

(d) ₹ 27,00,000

Case Scenario 3

Vlook Smart Ltd. (hereinafter referred as "company") is a leading retail chain of India. It has retail stores in multiple States with its corporate office located in Mumbai, Maharashtra. The company has GST registrations across all States from where it operates its retail stores. The company undertook following transactions during the month of April:

(a) Supplied goods worth ₹ 100 crore through its retail store in Jaipur, Rajasthan and offered a cash discount of ₹ 2 crore to the customers in the State of Rajasthan during the month.

(b) Ghanshyam Das, a retailer in Gujarat, purchased goods worth ₹ 5 lakh in the month of January of the preceding financial year. Subsequently, the company offered an incentive (discount) on such purchases to Ghanshyam Das by issuing a commercial credit note of ₹ 50,000 in the month of April.

(c) The company received an amount of ₹ 2 crore in April as penalty for delayed receipt of consideration from its customers for sale of goods made in the month of January of the preceding financial year in the retail store of Jaipur, Rajasthan.

(d) The company incurred an expense of ₹ 50 lakh in transportation of empty cargo containers to its centralized warehouse in Mumbai from all the States through a Goods Transport Agency.

The rates of GST, unless otherwise specified, shall be 9% CGST, 9% SGST and 18% IGST. All the divisions of the company are eligible for 100% input tax credit unless otherwise specified.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 9 to 12, carrying 2 marks each, below:-

9. The value of supply on which GST is payable for the month of April for the Rajasthan State is:

   (a) ₹ 96 crore

   (b) ₹ 100 crore

   (c) ₹ 98 crore

   (d) ₹ 102 crore

10. In relation to the incentive paid to Ghanshyam Das in Gujarat,

    (a) the company shall reverse proportionate input tax credit.

    (b) there is no GST implication on the company and Ghanshyam Das.

    (c) Ghanshyam Das shall reverse the input tax credit availed on the purchase.

    (d) the company shall reduce the tax liability and Ghanshyam Das shall increase the tax liability for the month of April.

11. The tax on penalty received on account of delayed payment of consideration of ₹ 2 crore is payable at the time of filing return of _____.

(a) April

(b) January

(c) Either April or January at the option of the company

(d) No tax is payable on the penalty received on account of delayed payment of consideration.

12. For the empty cargo containers transported to Mumbai warehouse,:

(a) e-way bill shall be issued by respective dispatch locations of the company.

(b) e-way bill shall be issued by the warehouse location in Mumbai.

(c) no e-way bill is required to be issued.

(d) e-way bill shall be issued by the Goods Transport Agency.

13. Mr. Vikram, a registered person under GST, was the proprietor of M/s Tikhi Meethi Restaurant. He died and left behind his wife and son, on 15th August. His son, Mr. Venkat wants to continue the business of the deceased father. The GST consultant of M/s Tikhi Meethi Restaurant gives advice to Mr. Venkat as to how he can continue the business of his deceased father.

Which of the following options is correct in accordance with the provisions of GST law?

(a) Mr. Venkat should apply for a new registration under GST in the name M/s Tikhi Meethi Restaurant under his own PAN w.e.f. the date of succession and file Form GST ITC 02 for transfer of ITC to the new entity.

(b) Mr. Venkat can get the authorized signatory changed by approaching to the Proper Officer and can continue the same business.

(c) Mr. Venkat should close the old firm and start new business under different name.

(d) Mr. Venkat should do the business with his mother as the new proprietor of the M/s Tikhi Meethi Restaurant, and Mr. Venkat should act as a Manager. **(2 Marks)**

14. Parth Ltd. sent certain goods abroad for repairs. Parth Ltd. has been advised by their consultants that they will have to pay customs duty (i.e.

basic customs duty, IGST & GST compensation cess) only on fair cost of repairs, cost of materials used in repairs (whether such costs are actually incurred or not), freight and insurance charges, both ways, on re-import of exported goods under Notification No. 45/2017 Cus dated 30.06.2017 provided they fulfill following conditions:

(i) The re-importation is done within 3 years from date of export or, if time is extended, within 5 years.

(ii) The exported and re-imported goods are same.

(iii) The ownership of goods should not have changed.

Which one of the above-mentioned conditions is/are correct? Choose the most appropriate option.

(a) (i), (ii) and (iii)

(b) (ii) and (iii)

(c) (i) and (iii)

(d) Only (ii) **(2 Marks)**

15. After visiting Australia for a month, Mrs. and Mr. Mehta (Indian residents aged 36 and 35 years respectively) brought to India used personal effects valued at ₹ 90,000 and a personal computer for ₹ 52,000. What is the customs duty payable? Ignore Agriculture infrastructure and development cess.

(a) ₹ 20,020

(b) ₹ 770

(c) ₹ 35,420

(d) ₹ 54,670 **(2 Marks)**

Division B – Descriptive Questions (70 Marks)

Question paper comprises of 6 questions.

Answer Question No. 1 which is compulsory and any 4 questions out of the remaining 5 questions.

1. Jigar Infra Ltd., a registered supplier under GST in the State of Kerala, is engaged in the construction business. He availed legal services relating to a business dispute and paid ₹ 7,00,000 as consideration for the same.

He also purchased construction materials amounting to ₹ 15,00,000 from Chirag Steels Ltd., registered in the State of Andhra Pradesh. Further, for transport of materials, it purchased a new truck from a dealer in Cochin, Kerala by making payment of ₹ 12,00,000.

It provides the following information relating to its outward supply for the month of April:

S. No.	Particulars	Amount (₹)
(i)	Purchased goods from a party in Taiwan. Sold the goods to a party in Turkey without bringing the goods to India. Purchase value was ₹ 5,00,000 and the sale price was ₹ 7,00,000. (The figures in rupees have been given after conversion though transaction was in convertible foreign currency).	
(ii)	Transferred one load of tiles to its branch in Cochin, Kerala, from its head office at Trivandrum, Kerala. Both places are under the same GST registration.	7,50,000
(iii)	Provided pure labour services of construction of single commercial unit not forming part of any complex to a customer in Bengaluru (Karnataka).	15,00,000
(iv)	Supplies a consignment of marbles in the territorial waters to Surya Builders LLP. The said territorial waters is located at a distance of 11 nautical miles from the baseline of State of Kerala and 12 nautical miles from the baseline of State of Tamil Nadu.	6,00,000
(v)	Received an advance for future supplies of goods and services from a customer in Kerala. Out of such advance 70% is related to future supplies of services.	7,00,000

The company provided the following additional information:

(i) Paid ₹ 6,00,000 as remuneration to an independent director based at Cochin during the month.

(ii) The company claimed depreciation under the Income-tax Act, 1961 on the new truck purchased including all applicable taxes.

(iii) E-invoice portal shows that Chirag Steels Ltd.'s GST number is liable to issue e-invoice. However, the supplier did not issue e-invoice and issue a manual invoice. The invoice was reflected in GSTR-2B.

(iv) Turnover of Jigar Infra Ltd. for the previous financial year was ₹ 180 lakh.

(v) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively for both inward and outward supply of goods and services.

(vi) All the amounts given above are exclusive of taxes wherever applicable.

From the information given above, you are required to compute the minimum net GST liability payable in cash (CGST, SGST or IGST, as the case may be) for the month of April. Reason for treatment needs to be given. **(14 Marks)**

2. (a) Determine place of supply along with reasons in the following independent cases:

(i) Mr. Rana (New Delhi) boards the New Delhi-Kota train at New Delhi. Mr. Rana sells the goods taken on board by him (at New Delhi), in the train, at Jaipur during the journey.

(ii) Sultan Pvt. Ltd. imports electric food processors from China for its Kitchen Store in Noida, Uttar Pradesh. Sultan Pvt. Ltd. is registered in Uttar Pradesh.

(iii) Mr. Krishnadevaraya, a manager in a Bank, is transferred from Bareilly, Uttar Pradesh to Bhopal, Madhya Pradesh. Mr. Krishnadevaraya's family is stationed in Kanpur, Uttar Pradesh. He hires Nath Carriers of Lucknow, Uttar Pradesh (registered in Uttar Pradesh), to transport his household goods from Kanpur to Bhopal.

(iv) Chintu Sharma, a resident of New Delhi, opens his saving account in New Delhi branch of Sadda Bank after undergoing the KYC process. He goes to Amritsar for some official work and withdraws money from Sadda Bank's ATM in Amritsar thereby crossing his limit of free ATM withdrawals.

(v) Mr. Gappu, an architect (New Delhi), enters into a contract with Mr. Hanry of New York to provide professional services

in respect of immovable properties of Mr. Hanry located in Pune and New York. **(10 Marks)**

(b) A non-resident Indian from USA donated food processing machinery to Balaji Charitable Trust (BCT). BCT, however, paid commission to local agent in India.

Assistant Commissioner of Customs determined the FOB value of machine at US $ 17,500 including design and development charges. Design and development is undertaken in USA and necessary for the production of imported goods. The trust accepted the value determined. Actual air freight paid was US $ 4,000 and insurance cost was US $ 1,500. Other details available are given below:

(i) Commission paid to local agent of the exporter is US$ 2,100 (paid in ₹ 1,57,500).

(ii) Date of Bill of Entry presentation is 25th March, 2024. On this date, rate of BCD is 10%. Rate of exchange notified by CBIC is ₹ 75 per US $; Reserve Bank Rate is ₹ 76 per US $.

(iii) Date of arrival of aircraft at customs station is 5th April, 2024.

On this date, rate of BCD is 15%, rate of exchange notified by CBIC is ₹ 74 per US $; Reserve Bank Rate is ₹ 75 per US $.

(iv) Social welfare surcharge is leviable @ 10% and applicable IGST rate is 18%

Compute the assessable value under the Customs Act and also calculate basic customs duty payable, social welfare surcharge and IGST on import of machine. Assume that no exemption is available on this transaction and make suitable assumptions, if required.

(4 Marks)

3. (a) Rainbow Services Limited, registered under GST, is engaged in providing various services to various educational institutions. The company provides the following information in respect of services provided during the month of April 2024:

S. No.	Description of services provided
(i)	Transportation of students & staff of 'Prudence', a deemed University

(ii)	Catering services provided to 'Grade CBSE School'
(iii)	Security services provided to 'Ladder CBSE School', for its annual sports day held at Health Sports Complex owned by Government of India
(iv)	Supply of online periodical science journal to 'Credit CBSE School' for its higher secondary students
(v)	Services, in relation to placement of students, to 'Standard', a Government recognized vocational training college

Comment on the taxability or otherwise of the above transactions under GST law. Also state the correct legal provisions for the same.

(5 Marks)

(b) Kinjal checked-in at the 'Laze Tourist Lodge' in Madurai on 15th March, 2024. The room rent for the same was ₹ 900 per day for a single room. She checked-out on 17th of March, 2024 and payment in respect to the same was received by the lodge via cheque at the time of checking-out and entered in the books on the same date. The lodge decided to issue her the invoice on the same date when the amount would get credited in its bank account.

The lodging of hotel rooms which was exempted upto ₹ 1,000 earlier became chargeable to tax from 18th March, 2024.

Under the GST law, determine the time of supply and taxability of the service of lodging in the hands of 'Laze Tourist Lodge' if the cheque gets credited into the bank account of 'Laze Tourist Lodge' on 20th of March, 2024.

Note: Assume that all the days covered in the above case are working days. **(5 Marks)**

(c) Elite Car Decors imported car music systems and GPS devices from Germany. The importer submits the following issues for your consideration:

(i) 10 GPS devices were pilfered after unloading and before the proper officer has made an order for clearance for home consumption.

(ii) 30 music systems were damaged after unloading and

examination for assessment by the customs authorities but before actual home clearance. It may be noted that the imported music systems have not been warehoused.

Elite Car Decors seeks your expert advice with reason regarding the impact on customs duty on the said goods. **(4 Marks)**

4. (a) Decide with reason whether the registration is required under CGST Act, 2017 in the following independent cases:

(i) A casual taxable person (CTP) has provided inter-State supply of notified products being textiles hand printing amounting to ₹ 19.25 lakh during the month of January. Those products were made by craftsmen by both hand and machines equally. CTP had obtained PAN and generated e-way bill for supply.

(ii) Mr. Chandu of Delhi doing trading business across India and his intra-state turnover details are as below,

(1) Taxable supplies made from Delhi - ₹ 18 lakh.

(2) Exempt supplies made from Andhra Pradesh - ₹ 10 lakh.

(3) Both taxable and exempt supplies made from Tamilnadu- ₹ 5,00,000 and ₹ 6,00,000 respectively.

It may be noted that Mr. Chandu makes only intra-State supplies across India. **(5 Marks)**

(b) Swathi Corporation is a Public Sector Undertaking registered in Karnataka. For entertainment events in Bengaluru and at Mumbai, Swathi has given contract to Mr. Mast Nath, a renowned artist, registered person in Maharashtra, to perform on contemporary Bollywood songs. Swathi Corporation agreed to pay ₹ 12,39,000 and ₹ 18,29,000, inclusive of GST, for Mumbai and Bengaluru events respectively. Swathi Corporation seeks your advice regarding amount of TDS to be deducted assuming GST rate @ 18% (CGST @ 9%, SGST @ 9%, IGST @l8%). **(5 Marks)**

(c) With reference to the Customs Act, 1962, decide the validity of the following independent cases with proper legal provisions:

(i) Smooth Rubber Limited is a 100% EOU located in a Special Economic Zone. It imported certain items from China for its

production process. Customs officer proposed to impose anti-dumping duty on such imports. The importer contends that no anti-dumping duty can be imposed on imports by a 100% EOU under any circumstances.

(ii) Customs Department proposed to impose anti-dumping duty retrospectively in respect of certain items. Importer's association claimed that anti-dumping duty cannot be levied with retrospective effect under any circumstances. **(4 Marks)**

5. (a) Discuss the validity of the following independent cases under the provisions of CGST Act, 2017:

(i) CGST officer had issued a notice under section 74(1) of the CGST Act, 2017 against which appeal was preferred by the assessee. Appellate Authority concluded that the notice issued under section 74(1) of the CGST Act, 2017 was not sustainable for the reason that charges of fraud had not been established. Now the officer wishes to determine the tax payable by treating the said notice as if it was issued under section 73(1) of the CGST Act, 2017. Is the action of the officer valid?

(ii) CGST officer issued an adjudication order which did not specify payment of interest on the tax short paid by the registered person. So, the assessee contends that interest cannot be demanded as the said order is silent on the same. Is the contention of the assessee correct? **(5 Marks)**

(b) Mr. Pappu is aggrieved by the order of the Revisional Authority (RA) and wants to make an appeal to the First Appellate Authority.

While commenting on the decision of Mr. Pappu, you are also required to state the powers of the Revisional Authority to revise the orders passed by the subordinate officers under section 108 of the CGST Act, 2017.

What is the time period for the Revisional Authority to exercise the power of revision? **(5 Marks)**

(c) What are the exceptions provided under sub-section (2) of section 27 of the Customs Act, 1962 in which refund of duty and interest may be paid to the applicant? **(4 Marks)**

6. (a) Briefly explain the procedure to be followed by the Authority for Advance Ruling on receipt of the application for Advance Ruling under section 98 of the CGST Act, 2017. **(6 Marks)**

(b) Section 158(1) of the CGST Act, 2017 lays down that the information obtained by a public servant from the record of any proceeding under the CGST Act, 2017 is confidential and cannot be disclosed.

Is there any exception to this rule? Discuss in brief. **(4 Marks)**

OR

(b) Who can order for search and seizure under the provisions of the CGST Act, 2017? **(4 Marks)**

(c) State salient aspects of Advance authorisation for annual requirements to exporters. **(4 Marks)**

MODEL TEST PAPER 4

FINAL COURSE: GROUP - II

PAPER – 5: INDIRECT TAX LAWS

1. *Question paper comprises of two parts – Division A and Division B.*
2. *Division A comprises of Case Scenario based Multiple-Choice Questions (MCQs).*
3. *Division B comprises of questions which require descriptive type answers.*
4. *Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.*
5. *All questions should be answered on the basis of the position of (i) GST law as amended by significant notifications/circulars issued and by the amendments made by the Finance (No. 2) Act, 2024 which have become effective, till 31.10.2024 and (ii) Customs law as amended by the Finance (No. 2) Act, 2024 and significant notifications/circulars and other legislative amendments made upto 31.10.2024.*

Division A – Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario-I

Abhivyakti Pvt Ltd. is engaged in the supply of food products under the brand name "Super Foods". It has a plant at Howrah, West Bengal. It is a registered supplier under GST and is a monthly return filer. It has allotted residential quarters to its employees within the plant premises. The aggregate turnover of the company during the preceding financial year was ₹ 7.50 crore.

Following details are provided by the company for the month of September:

Particulars	Amount (₹)
Sale of 'Super Foods' food products (Note 2)	60,00,000
Purchase of raw material from the market	14,00,000
Rent received from its employees for residential quarters allotted to them for residence	10,000
Electricity charges paid to West Bengal State Electricity Board	1,60,000

Security services provided by M/s Suraksha Security, Kolkata (a partnership firm registered under GST)	1,00,000
Interest on delayed payment collected from customers	3,500
Interest on fixed deposit in a bank	8,600
Payment to Kolkata Chamber of Commerce (registered under GST) towards sponsorship for Investor Summit at Kolkata	25,000
Licence fee paid to Food & Safety Standard Authority of India (FSSAI)	25,000
Legal fee paid to advocate, Mr. Dhruv Banerjee	30,000
Transportation charges paid to an unregistered goods transport operator for transportation of raw material from mandi to factory	40,000
Transportation charges paid to a local truck owner (not a GTA) for transportation of finished products from factory to distributors	50,000

Following additional information has also been provided by the company:

(1) Abhivyakti Pvt Ltd. procured the service of transportation of goods from M/s Techno Enterprises, a goods transport agency, having its places of business in Kolkata, Orissa and Assam. M/s Techno Enterprises is registered in all these States with same PAN. Abhivyakti Pvt Ltd. transported its food products to different customers located within Kolkata through M/s Techno Enterprises in the month of October. M/s Techno Enterprises prepared a consignment note containing the details of consignor and consignee, value of consignment, vehicle number, details of party paying the taxes etc.

(2) Out of the total sales, food products worth ₹ 3,50,000 (10,000 kg) were supplied to Department of School Education, Govt. of West Bengal for further supply to affected families during flood in the State. A price-linked subsidy of ₹10 per kg was received from Govt. of West Bengal for the said supply which has not been considered in the total sales of ₹ 60,00,000.

(3) The company had awarded a maintenance contract to Supreme Power Ltd., Delhi on 10th June, for repair of central air conditioner unit installed in the factory, for ₹ 60,000 with a completion period of 30 days. The maintenance work was completed on 8th July. However, due to some dispute regarding quality of work, invoice was issued by Supreme Power Ltd. only on 5th September and payment was released on 15th September.

(4) The proper officer levied on the company a penalty of ₹ 5,000 for wrongful utilization of ITC of ₹ 5,000.

(5) The company had deposited the tax liability for the month of August amounting to ₹ 3,30,730 on 28th September.

Note- All the above amounts are exclusive of GST, wherever applicable, unless specified otherwise.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 6 below, carrying 2 marks each:

1. The value of taxable outward supply made by Abhivyakti Pvt Ltd. in the month of September is -

   (a) ₹ 61,48,100

   (b) ₹ 59,03,500

   (c) ₹ 61,39,500

   (d) ₹ 59,35,500

2. The value of taxable supply received by Abhivyakti Pvt Ltd. in the month of September on which GST is payable under reverse charge is-

   (a) ₹ 1,55,000

   (b) ₹ 1,73,000

   (c) ₹ 1,30,000

   (d) ₹ 2,45,000

3. What is the time of supply of services provided by Supreme Power Ltd?

   (a) 10th June

   (b) 5th September

   (c) 15th September

   (d) 8th July

4. The amount of interest payable by Abhivyakti Pvt Ltd. under section 50 of the CGST Act, 2017 for delay in payment of tax for the month of August?

   (a) ₹ 4,961

   (b) ₹ 1,305

   (c) ₹ 4,567

(d) ₹ 1,142

5. In the context of the imposition of penalty on Abhivyakti Pvt. Ltd. by the proper officer of ₹ 5,000, which of the following statements is correct?

   (a) Penalty is leviable since the offence is not a “minor breach”.

   (b) Penalty is not leviable since the offence is a “minor breach”.

   (c) Penalty is leviable even though the offence is a minor breach.

   (d) No penalty is leviable for such offence; only interest is payable by adding the ITC amount wrongfully utilized to the output liability.

6. M/s Techno Enterprises wishes to obtain a unique common enrolment number (referred hereafter as CEN) for generating e-way bills. Which of the following statements is true in this regard?

   (a) M/s Techno Enterprises is not eligible for obtaining CEN as a transporter registered only in a single State is eligible for the same.

   (b) M/s Techno Enterprises is eligible for obtaining CEN as a transporter registered in multiple States with same PAN is eligible for the same. After obtaining CEN, it can use either CEN or its GSTIN for generating e-way bills throughout the country.

   (c) M/s Techno Enterprises is not eligible obtaining the CEN as only unregistered transporters are eligible for the same.

   (d) M/s Techno Enterprises is eligible for obtaining the CEN as it is registered in multiple States with same PAN. After obtaining CEN, it can use it for generating e-way bills and updating Part-B throughout the country.

Case scenario 2

Bhakti & Sons of Kolkata, a partnership firm registered under GST, deals in supply of electronic goods such as TV, refrigerator, washing machine etc. It also provides services of repair and maintenance of said goods. Its aggregate turnover during the preceding financial year was ₹ 4.2 crore. It furnishes following information for the month of December:

Outward supplies during the month of December are as under:

Particulars	Amount (₹ in lakh)
Supply of goods to unregistered persons residing in & around Kolkata	12
Supply of goods to a unregistered dealer of Bihar	6
Supply of goods to registered dealers in West Bengal	28
Repair & maintenance services provided to unregistered persons	4

Inward supplies during the month of December are as under:

Particulars	Amount (₹ in lakh)
Purchase of TV sets from registered dealers (Inter-State supply) [During unloading of said TV sets, one LED TV costing ₹ 25,000 was damaged, but the dealer refused to replace the same.]	30
Purchase of refrigerators from registered dealers (Intra-State supply)	4
Purchase of washing machine from unregistered dealers (Intra-State supply)	2
Transportation charges paid to Om Logistics (unregistered GTA)	2
Payment made to Star Security Services Pvt Ltd. (not registered under GST) for providing security services	0.50
Loading & unloading charges paid to labourer	0.10
Shop rent paid to Kolkata Municipal Corporation	0.30
Fee paid to Mr. Das, a Senior Advocate of Kolkata High Court for legal service	0.10

Following additional information is also provided:

(a) The Assistant Commissioner of Commercial Tax, Kolkata has issued a show cause notice (SCN), to Bhakti & Sons due to non-display of registration certificate in a prominent location & GSTIN on name board at the entry of its principal place of business. Bhakti & Sons' plea is that the display of GSTIN to general public is not mandatory as it is required for

the knowledge of the customers only & the same is already mentioned in the tax invoice.

(b) Bhakti & Sons paid the sponsorship fee of ₹ 5,00,000 to Finmin Ltd., registered in Kolkata, for an entertainment event organised by Finmin Ltd. in Assam, in the month of October.

(c) GST rate on all inward and outward supplies is 18% (CGST @ 9%, SGST @ 9%, IGST @ 18%), except transportation of goods service which attracts GST @ 5% (CGST @ 2.5%, SGST @ 2.5%, IGST @ 5%).

(d) There is no opening ITC available for the relevant tax period in the electronic credit ledger of Bhakti & Sons.

(e) All the goods purchased by Bhakti & Sons is ex-shop and it arranges its own transportation through GTA.

Note: All the above amounts are exclusive of GST, wherever applicable.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 7 to 12 below, carrying 2 marks each:

7. Which of the following statements is true in respect of the sponsorship fee paid by Bhakti & Sons to Finmin Ltd.?

   (a) Bhakti & Sons is liable to pay IGST of ₹ 90,000.

   (b) Finmin Ltd. is liable to pay IGST of ₹ 90,000.

   (c) Bhakti & Sons is liable to pay CGST and SGST of ₹ 45,000 each.

   (d) Finmin Ltd. is liable to pay CGST and SGST of ₹ 45,000 each.

8. Assuming that Bhakti & Sons has an SEZ unit also located in Uttar Pradesh apart from the regular Domestic Tariff Area (DTA) unit located in Kolkata (both having same PAN). Assume additional turnover of it's SEZ unit is ₹ 2 crore in the preceding financial year. Which of the following statements is correct in respect of e-invoicing requirements?

   (a) E-invoicing is not applicable to both SEZ and DTA units.

   (b) E-invoicing is applicable to both SEZ and DTA units.

   (c) E-invoicing is applicable to SEZ unit and DTA unit is exempt from e -invoicing.

(d) E-invoicing is applicable to DTA unit and SEZ unit is exempt from e -invoicing.

9. The total value of inward supplies on which GST is payable by Bhakti & Sons under reverse charge for December is-

(a) ₹ 2.40 lakh

(b) ₹ 2.10 lakh

(c) ₹ 2.90 lakh

(d) ₹ 3.00 lakh

10. The total input tax credit that can be availed by Bhakti & Sons for December is:

(a) ₹ 6,97,500

(b) ₹ 6,24,700

(c) ₹ 6,86,700

(d) ₹ 6,95,700

11. Total GST payable in cash by Bhakti & Sons for the month of December, assuming that no ITC is claimed/availed by it is:

(a) ₹ 9,17,200

(b) ₹ 9,43,200

(c) ₹ 9,26,200

(d) ₹ 9,20,800

12. The penalty that may be leviable for failure to display registration certificate in a prominent location & GSTIN on name board at the entry of its principal place of business by Bhakti & Sons is:-

(a) ₹ 5000

(b) ₹ 10,000

(c) ₹ 25,000

(d) Nil

13. Mr. Robert is registered under GST in the State of Maharashtra. He sells shoes to his customers locally within the same State. He has been appointed as an agent by Baba Shoes Ltd., a company registered under GST in the State of Karnataka. During a financial year, Baba Shoes Ltd., sends taxable goods worth ₹ 4.80 crore from its Bengaluru store to Mr. Robert who sells such goods for ₹ 5.00 crore by raising invoices using the GSTIN of Baba Shoes Ltd. Mr. Robert receives a commission of ₹ 60.00 lakh from Baba Shoes (P) Ltd., during the said financial year.

Compute the value of supply of Baba Shoes (P) Ltd. and Mr. Robert for the financial year assuming that amounts given above are exclusive of GST, wherever applicable.

(a) Baba Shoes (P) Ltd.: Nil and Mr. Robert : ₹ 5.40 crore

(b) Baba Shoes (P) Ltd.: ₹ 4.80 crore and Mr. Robert : ₹ 5.40 crore

(c) Baba Shoes (P) Ltd.: ₹ 5 crore and Mr. Robert : ₹ 60 lakh

(d) Baba Shoes (P) Ltd.: ₹ 5.40 crore and Mr. Robert : Nil **(2 Marks)**

14. Farhan Khan, an Indian resident who was on a visit to Japan, returned after 1 year for contesting in assembly elections of his State. He carried with him personal effects worth ₹ 68,000 and a laptop worth ₹ 88,000. He brought jewellery of 15 grams from Japan of ₹ 48,000 and a music system of ₹ 50,000. The customs duty payable by Farhan Khan is _____. Ignore Agriculture infrastructure and development cess.

(a) Nil

(b) 90,860

(c) 71,610

(d) 53,130 **(2 Marks)**

15. Determine the total duties payable under the customs law if Mr. Gaurishankar imported rubber from Malaysia at landed price (exclusive of duties) of ₹ 25 lakh. It has been notified by the Central Government that share of imports of rubber from the developing country against total imports to India exceeds 5%. Safeguard duty notified on this product is

30% and basic customs duty is 10%. Ignore integrated tax and agriculture infrastructure and development cess.

(a) ₹ 10,25,000

(b) ₹ 10,00,000

(c) ₹ 11,75,000

(d) ₹ 9,00,000 **(2 Marks)**

Division B – Descriptive Questions (70 Marks)

*Question paper comprises of 6 questions. Answer Question No. **1** which is compulsory and any **4** questions out of the remaining **5** questions.*

1. MS Ltd. is a company registered under GST. Its turnover in the previous financial year was ₹ 2 crores. During the month of October, the company has undertaken the following transactions and wants you to work out the amount of net GST payable in cash.

Applicable rate of IGST is 18%, CGST is 9% and SGST is 9% on all goods and services except transportation of goods services provided by Goods Transport Agency and restaurant service for which applicable CGST and SGST rate is 2.5% each and IGST rate is 5% and old and used vehicles for which applicable CGST and SGST rate is 6% each and IGST rate is 12%. The amounts indicated for all the items are exclusive of GST.

As the manager of the company, it informed you that the GST liability for October for their main product - Product Alpha is ₹ 54 lakh of CGST and SGST each and ₹ 72 lakh IGST and the eligible credit on the inputs and input services for October is ₹ 1.45 crore IGST and ₹ 20 lakh each towards CGST and SGST which can be straightaway taken for calculations.

Company has provided you following additional details:

S. No.	Details of the transaction
i.	During the month of October, the company offered its dealers a special festival offer of discount of 25% on Product Alpha sold during the month of September. Total discount given under said scheme was ₹ 45,00,000. All original supplies were inter-State supplies.

ii.	The company sold a van by auction; van was being used for travel of the director. The van was purchased at ₹ 3,20,000 and depreciation was claimed under section 32 of the Income-Tax Act, 1961. The depreciated value at the time of sale was ₹ 1,40,000. No ITC was taken on the same. The van was sold intra-State for an amount of ₹ 1,50,000 during the month of October.
iii.	The company has a policy of mandatorily charging transportation cost of their products from their dealers at the time of invoicing for the products sold to them. The amount collected during the month of October towards transportation in intra-State supply transactions is ₹ 6 lakh and inter-State supply transactions is ₹ 4 lakh.
iv.	Ball bearings of value ₹ 2.50 lakh bought in July has been stolen during the month of October.
v.	GST of ₹ 3,00,000 paid on cosmetic and plastic surgery of manager of the factory. Assume that it is intra-State supply transaction.
vi.	During the month of October, audit fees of ₹ 60,000 has been paid to Chartered Accountancy firm – Sudhakar Associates. Out of this, ₹ 35,000 is for statutory audit of preceding financial year and ₹ 25,000 as certification fee. Assume that it is intra-State supply transaction.
vii.	The company's registered office is located in a building which belongs to the local Municipality. The monthly rent is ₹ 1.50 lakh.
viii	The whole-time director (located within same State) of the company was paid a salary of ₹ 5 lakh during the month. He was also paid ₹ 20,000 towards sitting fees for his participation in the board meeting.

Give a brief note to support your treatment for the items wherever required. **(14 Marks)**

2. (a) Determine place of supply along with reasons in the following cases:

   (i) Chitranjan, registered in Guwahati, has availed land-line services from BSNL. The telephone is installed in residential

premises in Kolkata and the billing address is office of Chitranjan in Guwahati.

(ii) Digvijay, residing in Mahrashtra, is travelling with 'Heera Airlines' aircraft and is provided with movie-on-demand service for ₹ 500 as on-board entertainment during Delhi-Mahrashtra leg of a Bangkok-Delhi- Mahrashtra flight.

(iii) Kunwar of Delhi purchased online tickets for Chill water park in Mumbai

(iv) Maldeo, an unregistered person of Orissa, sends a courier from New Delhi to his friend in Ahmedabad, Gujarat while he was on trip to New Delhi.

(v) Rajyavardhan, a registered person in Ranchi, Jharkhand, buys shares from a broker in Patna on NSE, Mumbai. Determine the place of supply of brokerage service assuming that the location of the recipient of service is available in the records of the supplier of service. **(10 Marks)**

(b) Product 'X' was imported by Mr. Shardul by air. The details of the import transaction are as follows:

Particulars	**US $**
Price of 'X' at exporter's factory	8,500
Freight from factory of the exporter to load airport (airport in the country of exporter)	250
Loading and handling charges at the load airport	250
Freight from load airport to the airport of importation in India	4,500
Insurance charges	2,000

Though the aircraft arrived on 22nd January, the bill of entry for home consumption was presented by Mr. Shardul on 20th January.

The other details furnished by Mr. Shardul are:

	20th January	**22nd January**
Rate of basic customs duty	20%	10%
Exchange rate notified by CBIC	₹ 70 per US$	₹ 72 per US$

Exchange rate prescribed by RBI	₹ 71 per US$	₹ 72 per US$
Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975	18%	12%

Compute-

(i) value of product 'X' for the purpose of levying customs duty

(ii) customs duty and tax payable **(4 Marks)**

3. (a) Baruna Associates is the supplier of geysers. Baruna Associates supplied geysers to an unrelated party, Gulab Traders for consideration of ₹ 1,47,500 (inclusive of GST @ 18%). Gulab Traders also gave some materials to Baruna Associates [valuing ₹ 15,000 (exclusive of GST)] as an additional consideration for such supply.

At the same time, Baruna Associates has supplied the same goods to another unrelated person at price of ₹ 1,48,680 (inclusive of GST@18%).

You are required to:

(1) Determine the value of goods supplied by Baruna Associates to Gulab Traders.

(2) What would your answer be if price of ₹ 1,48,680 is not available at the time of supply of goods to Gulab Traders? Explain briefly. **(5 Marks)**

(b) Shanti Niwas Charitable Trust, a trust registered under section 12AB of the Income – tax Act, 1961, provides the following information relating to supply of its services for the month of December:

Particulars	**Amount (₹)**
Renting of residential dwelling for use as a residence	18,00,000
Renting of rooms for devotees (Charges per day ₹ 750)	6,00,000
Renting of kalyanamandapam (Charges per day ₹ 15,000)	12,00,000

Renting of community halls and open space (Charges per day ₹ 7,500)	10,75,000
Renting of shops for business (Charges per month ₹ 9,500)	4,75,000
Renting of shops for business (Charges per month ₹ 12,000)	7,50,000

Compute the GST liability of Shanti Niwas Charitable Trust for the month of December assuming that the above amounts are exclusive of GST and rate of GST, wherever applicable, is 18%.

Note: The rooms/ Kalyanamandapam/ halls/ open space/ shops owned by the trust are located within the precincts of a religious place, meant for general public, owned by the trust. **(5 Marks)**

(c) Shine & Star India Ltd. imported a consignment from U.S.A (by sea). The value of consignment was ₹ 7,50,000 and total duty payable was ₹ 1,50,000.

Company filed bill of entry for home consumption but before inspection and clearance for home consumption, it found that the goods were damaged.

On filing a representation to the Customs Department, proper officer refused the claim for abatement because goods were already unloaded. The proper officer is in agreement with the claim that the value of goods has come down to only ₹ 1,50,000.

Examine the issue with reference to the relevant statutory provisions and calculate the amount of total duty payable:

Would your answer be different in the above case, if the goods get deteriorated after unloading and examination but before clearance for home consumption, and value comes down to ₹ 7,00,000?

(4 Marks)

4. (a) Bali Enterprises, registered in Delhi, is engaged in supply of various goods and services exclusively to Government departments, agencies etc. and persons notified under section 51 of the CGST Act, 2017. It has provided the information relating to the supplies made, their contract values and the payment due against each of them in the month of October, respectively as under:

S. No.	Particulars	Total contract value (inclusive of GST) (₹)	Payment due in November (₹)
(i)	Supply of stationery to Fisheries Department, Kolkata	2,60,000	15,000
(ii)	Supply of car rental services to Municipal Corporation of Delhi	2,95,000	20,000
(iii)	Supply of a heavy machinery to Public Sector Undertaking located & registered in Uttarakhand	5,90,000	25,000

You are required to determine amount of tax, if any, to be deducted from each of the receivable given above assuming the rate of CGST, SGST and IGST as 9%, 9% and 18% respectively.

(5 Marks)

(b) Holistic Cosmetics Ltd. has multiple wholesale outlets of cosmetic products in Mumbai, Maharashtra. It receives an order for cosmetics worth ₹ 1,20,000 (inclusive of GST leviable @ 18%) from Raman, owner of a retail cosmetic store in Delhi. While checking the stock, it is found that order worth ₹ 55,000 can be fulfilled from the company's Dadar (Mumbai) store and remaining goods worth ₹ 65,000 can be sent from its Malad (Mumbai) store. Both the stores are instructed to issue separate invoices for the goods sent to Raman. The goods are transported to Raman in Delhi, in a single conveyance owned by Teja Transporters.

You are required to advise Holistic Cosmetics Ltd. with regard to issuance of e-way bill(s). **(5 Marks)**

(c) Mr. Joseph Brown, a resident and citizen of Germany, visits India on a business tour. He made declaration to the proper officer about his baggage under section 77 of the Customs Act, 1962 for the purpose of clearance. During the scrutiny of the declaration, proper officer found that some of the articles declared in baggage brought

with him were prohibited to be entered in India and were detained by the officer.

Although Mr. Brown did not insist to clear those articles, value of those articles was very high and it was a difficult situation for him. You are required to advise any procedure prescribed under customs law to overcome the situation. Give your advice on the basis of relevant statutory provisions. **(4 Marks)**

5. (a) Mr. Shashank intends to start a new manufacturing business in Jaipur. However, he is not able to determine the classification of the goods proposed to be manufactured and supplied by him since the classification of said goods has been contentious. Mr. Shashank read an article about advance ruling in the newspaper and decided to apply for advance ruling so as to avoid litigation later.

Mr. Prashank, who is friend of Mr. Shashank is also engaged in the supply of goods similar to which Mr. Shashank proposes to manufacture in Jaipur and Mr. Prashank advised him to apply the same classification as of his, since he has already taken advance ruling order regarding classification of the said goods.

Mr. Shashank's tax consultant also agreed with the advice given by Mr. Prashank. Mr. Shashank also thought it to be a good decision since he was unregistered and thought that he needed to be registered to apply for advance ruling in his name.

You are required to advise Mr. Shashank with respect to following:

(i) Whether Mr. Shashank and his tax consultant are right and can classify the goods proposed to be supplied by Mr. Shashank on the basis of his friend Mr. Prashank's advance ruling order?

(ii) Whether Shashank needs to get registered to apply for advance ruling? **(5 Marks)**

(b) State the types of offence (cognizable or non-cognizable), prosecution, arrest and bail implications, if any, in respect of the following independent cases pertaining to June:

(i) ‘Bhaskar’ issues invoice without any underlying supply leading to wrongful availment of ITC. ITC availed on such invoice was ₹ 200 lakh.

(ii) 'Raghav' fraudulently obtains the refund of tax of ₹ 550 lakh. The said tax has been recovered from the buyer also.

Note: Assume that in above cases, offence, if any, has been committed for the first time. **(5 Marks)**

(c) Elaborate the provisions relating to the owner's right to deal with warehoused goods under section 64 of the Customs Act, 1962.

(4 Marks)

6. (a) Briefly discuss the modes of recovery of tax available to the proper officer. **(6 Marks)**

(b) Explain the scope of circulars and instructions issued by the Board.

(4 Marks)

OR

(b) Discuss the power of the officer under GST law of access to business premises under section 71 of the CGST Act, 2017.

(4 Marks)

(c) Elaborate the meaning and historical background of "customs". Also elucidate the constitutional entries/provisions which provide the power to make laws relating to customs duty, and who possesses the power to make such laws. **(4 Marks)**

MODEL TEST PAPER 5

FINAL COURSE: GROUP - II

PAPER – 5: INDIRECT TAX LAWS

1. *Question paper comprises of two parts – Division A and Division B.*
2. *Division A comprises of Case Scenario based Multiple-Choice Questions (MCQs).*
3. *Division B comprises of questions which require descriptive type answers.*
4. *Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.*
5. *All questions should be answered on the basis of the position of (i) GST law as amended by significant notifications/circulars issued and by the amendments made by the Finance (No. 2) Act, 2024 which have become effective, till 31.10.2024 and (ii) Customs law as amended by the Finance (No. 2) Act, 2024 and significant notifications/circulars and other legislative amendments made upto 31.10.2024.*

Division A – Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario-I

Sudershan Transport Agency (P) Ltd. (hereinafter referred to as "STAL"), registered under GST in Jaipur, Rajasthan, is providing services by way of transportation of goods by road for which it issues consignment notes, to all the sectors of industries.

It maintains trucks, trollers, advance carriages for heavy loads, lorries and small tractors, for the purpose of transportation and renting purposes. It also maintains special vehicles which has special storage features and other advance facilities for transporting defence equipments and other complex machineries, chemical and food products.

It has provided the following details for the current financial year:

(i) STAL rendered transportation services to farmers in Rajasthan for transportation of agricultural produce to nearby cities for ₹ 2,00,000.

(ii) STAL gave buses on rent to ABC Travels who provided services of transport of students, staff and faculty to a higher secondary school in Rajasthan affiliated to CBSE. STAL charged ₹ 5,00,000 for the same during the year.

(iii) STAL also had entered into a contract with local authority in Rajasthan to provide services by way of transportation of relief material to flood affected victims for which ₹ 2,50,000 is charged.

(iv) Manimani Bank, (registered in Bhubaneshwar, Orissa) sent its branch manager Mr. Champak on one year deputation on a special project to Bhopal, Madhya Pradesh. Mr. Champak's family is stationed in Kanpur (U.P.). Manimani Bank enters into a contract with STAL for transportation of the household goods of Mr. Champak from Kanpur to Bhopal for ₹ 1,50,000.

(v) STAL transported defence equipments to a military camp based in Rajasthan and amount charged for such services is ₹ 5,50,000.

(vi) STAL provided service of transportation of goods to a co-operative society in Rajasthan which was newly constituted and hence was not registered under GST law and the amount charged was ₹ 3,00,000. While transporting the goods of the said co-operative society, STAL generated e-way bill on Monday at 12:04 am. The goods were to be transported for a distance of 220 km.

(vii) STAL owns and maintains its own petrol pump in Rajasthan wherein the revenue from supply of petrol was ₹ 20,00,000.

Notes:

1. Assume that GST is payable on the transportation in the aforesaid case scenario at the following rates unless otherwise specified:

   I. Intra-State supply – 6% CGST and 6% SGST

   II. Inter-State supply – 12% IGST

2. All the above amounts are exclusive of GST, wherever applicable, unless otherwise specified.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 5, carrying 2 marks each, below:

1. Determine the value of outward supplies made by STAL which are exempt from GST as per section 2(47) of the CGST Act, 2017.

(a) ₹ 35,00,000

(b) ₹ 15,00,000

(c) ₹ 16,00,000

(d) ₹ 5,50,000

2. Determine the place of supply of the services of transportation of household goods of Mr. Champak provided by STAL.

   (a) Jaipur, Rajasthan

   (b) Bhubaneshwar, Orissa

   (c) Kanpur, Uttar Pradesh

   (d) Bhopal, Madhya Pradesh

3. Calculate the aggregate turnover of STAL for the current financial year.

   (a) ₹ 35,00,000

   (b) ₹ 39,50,000

   (c) ₹ 19,50,000

   (d) ₹ 38,00,000

4. Determine the period of validity of e-way bill generated by STAL for transporting the goods of the co-operative society.

   (a) Tuesday-Wednesday at 12.00 midnight

   (b) Wednesday-Thursday at 12.00 midnight

   (c) Wednesday at 12.00 noon

   (d) Wednesday at 2.00 pm

5. Whether tax is required to be deducted under section 51 of the CGST Act, 2017 for the service provided by STAL to local authority in Rajasthan?

   (a) No; since the value of contract is not less than ₹ 2,50,000.

   (b) Yes; since the value of contract is more than ₹ 2,50,000.

   (c) Yes; since TDS is mandatorily to be deducted for any supplies made to a local authority irrespective of the value of supply.

   (d) No; since it is an exempt supply.

Case Scenario-II

M/s Gopi Narayan & Company is a partnership firm of advocates, registered under GST in Mumbai, Maharashtra. In the month of April, the firm has supplied services amounting to ₹ 15 lakh. The following information is provided in relation to the some of the services provided:

S. No.	Particulars	Value of service (₹)
1.	Herbal Power (P) Ltd. (Registered in Telangana in the preceding financial year as per the provisions of section 22 of the CGST Act, 2017) Provided consultation for preparation of an affidavit in relation to construction of a hotel building in the State of Maharashtra.	50,000
2.	Veranta India (P) Ltd. (Registered in Gujarat in the preceding financial year as per the provisions of section 22 of the CGST Act, 2017) Filed a suit in the Gujarat High Court on behalf of the company	200,000
3.	Ms. Saloni (Registered under GST as a salon service provider in Maharashtra in the preceding financial year as per the provisions of section 22 of the CGST Act, 2017) Legal service amounting to ₹ 1 lakh was provided in the month of February for which invoice was issued on 15th February. However, payment is made by the client on 5th April. The firm has charged ₹ 10,000 as penalty (exclusive of GST) for delayed payment of consideration. Said penalty is also paid by the client on 5th April. Apart from this, as per the agreement with the client, the firm had paid ₹ 20,000 as attestation charges on behalf of the client, mentioned separately on the invoice, which were reimbursed by the client in the month of February itself.	-

Note: The turnover of M/s Gopi Narayan & Company in the previous financial year was ₹ 50 lakh. The firm is engaged solely in providing legal services and it does not import/export any services from/to outside India.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 6 to 8, carrying 2 marks each, below:

6. Whether the service provided to Veranta India (P) Ltd. is exempt under GST? If not, whether tax is payable under reverse charge?

   (a) Yes, all services provided by an advocate firm are exempt from GST.

   (b) No, since service is provided to a business entity that is registered under GST in the preceding financial year as per the provisions of section 22 of the CGST Act, 2017. Further, tax shall be payable by M/s Gopi Narayan & Company under forward charge.

   (c) Yes, any service provided by an advocate firm to a business entity is exempt under GST.

   (d) No, since service is provided to a business entity that is registered under GST in the preceding financial year as per the provisions of section 22 of the CGST Act, 2017. Further, tax shall be payable by Veranta India (P) Ltd. under reverse charge.

7. What shall be the value of supply provided to Ms. Saloni in terms of section 15 of the CGST Act, 2017?

   (a) ₹ 1,10,000

   (b) ₹ 1,00,000

   (c) ₹ 1,30,000

   (d) ₹ 1,20,000

8. What shall be the time of supply for supplies made to Ms. Saloni in respect of original amount ₹ 1 lakh and penalty amount of ₹ 10,000? Given financial year is not a leap year.

   (a) For whole amount of ₹ 1,10,000: 15th February

   (b) For ₹ 1 lakh: 15th February and for ₹ 10,000: 5th April

   (c) For whole amount of ₹ 1,10,000: 5th April

   (d) For ₹ 1 lakh: 15th April and for ₹ 10,000: 5th April

Case Scenario-III

Zoom Air is an airline company operating domestic as well as international flights. The head office of Zoom Air is in Mumbai and the company has also obtained registration under GST in each of the States from where the flight operations are being conducted.

During the month of January, following transactions were undertaken by it:

(i) Zoom Air sold air tickets worth ₹ 5,00,000 during the month from its head office and the breakup of air fare is as follows:

Basic fare excluding GST – ₹ 4,00,000

Passenger Service Fee (PSF) and User Development Fee[1] (UDF) [inclusive of GST] – ₹ 1,00,000

PSF and UDF are remitted by Zoom Air to the airport authority. Further, the amount of PSF and UDF is separately disclosed in the invoice issued to customers by Zoom Air along with applicable GST. The airport authority pays an amount of 5% of PSF and UDF (inclusive of GST amount) collected as collection charges to Zoom Air on which GST is applicable. There is no levy of PSF and UDF on the tickets booked by Zoom Air for its own crew or other employees.

(ii) Zoom Air (Head Office) has collaborated with Supertrip India, an online travel portal, providing services to the customers by way of booking air tickets through its electronic commerce platform and registered under GST in the State of Maharashtra. During the month, Supertrip India booked tickets for ₹ 2,00,000 (base fare excluding GST, PSF and UDF) for the customers of Zoom Air. The amount was remitted by Supertrip India to Zoom Air after adjusting the amount of tax collected at source under section 52. In addition to the aforesaid amount, Supertrip India charged commission from Zoom Air at the rate of 5% of the base fare of air tickets booked.

(iii) Zoom Air (Head Office) charged 100% cancellation fee from the customers for bookings made in prior months. The amount of cancellation fee charged was ₹ 1,00,000 inclusive of GST. Instead of actually collecting the cancellation fee from the customers, such amount was adjusted against the booking amount and GST discharged at the time of initial bookings. However, the PSF and UDF amounting to ₹ 10,000 (inclusive of GST) charged from the customers against such bookings were refunded.

[1] Both PSF and UDF are statutory fees which are required to be collected by the airlines as per Government directions and authorization given to airlines.

(iv) Zoom Air (Head Office) provided gifts in the form of air tickets to 10 of its employees based at its head office for an amount equivalent to ₹ 60,000 each. No amount was recovered from the employees for such air tickets.

(v) Zoom Air has a corporate tie-up with Welcome Hotel, located in Rajasthan, for stay of its crew members. For January, the hotel issued an invoice of ₹ 5,00,000 in the name of Zoom Air, Head office, Mumbai.

Haryana office of Zoom Air has provided services by way of sale of online advertisement space to Amazing Pvt. Ltd. (a company registered in the State of Haryana) for promotion of Amazing Pvt. Ltd.'s products. The amount charged for such service by Haryana office of Zoom Air is ₹ 5,00,000.

All the amounts given above are exclusive of GST unless otherwise provided. The opening balance of Electronic Credit Ledger of Zoom Air and Supertrip India for the relevant tax period is nil. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled. Assume that there is no other outward or inward supply transaction apart from aforesaid transactions, in the month of January.

GST is applicable on all inward and outward supplies unless otherwise specified @ 18%. (Ignore CGST, SGST and IGST bifurcation for the sake of simplicity.)

In case of cancellation of tickets, the airport authority and Zoom Air had an agreement that PSF and UDF related adjustment shall be finalized at the end of financial year, i.e., during the month of March. Further, separate GST invoice shall be issued to carry out such adjustment in books of accounts.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 9 to 12, carrying 2 marks each, below:

9. The gross GST liability of Mumbai Head Office of Zoom Air for the month of January is:

   (a) ₹ 1,08,000

   (b) ₹ 72,000

   (c) ₹ 1,80,000

   (d) ₹ 2,16,900

10. Determine all kinds of credits available to Mumbai Head Office of Zoom Air for setting off against its GST liability for the month of January is:

    (a) ₹ 2,800

    (b) ₹ 93,800

    (c) ₹ 3,800

    (d) ₹ 96,800

11. Assuming that the customers, in point (i) of the case scenario above, are registered customers and all other conditions for availment of input tax credit are complied with, the amount of input tax credit available to such customers would be:

    (a) ₹ 90,000

    (b) ₹ 72,000

    (c) ₹ 87,254

    (d) ₹ 76,272

12. Choose the most appropriate answer in relation to the transaction between Haryana office of Zoom Air and Amazing Pvt. Ltd.:

    (a) The service is in the nature of online information and database access or retrieval services and Amazing Pvt. Ltd. is liable to pay IGST of ₹ 90,000.

    (b) The sale of advertisement space is deemed sale of services as per Schedule II of CGST Act, 2017 and liable to CGST of ₹ 45,000 and SGST of ₹ 45,000.

    (c) Zoom Air is required to pay IGST of ₹ 90,000 and Amazing Pvt. Ltd. is required to collect tax at source on consideration paid to Zoom Air.

    (d) Zoom Air is required to pay CGST of ₹ 45,000 and SGST of ₹ 45,000 and full credit shall be allowed to Amazing Pvt. Ltd.

13. Safeguard duty cannot be imposed if:

    (a) The article on which it is proposed to be imposed originates from a developed country provided its share of imports is not more than 3% of total imports of that article in India.

(b) The article on which it is proposed to be imposed originates from a developing country provided its share of imports is not more than 5% of total imports of that article in India.

(c) The article on which it is proposed to be imposed originates from more than one developing country and its aggregate share of imports from developing countries each with less than 3% share taken together does not exceed 9% of total imports of that article into India.

(d) The article is imported by a person in special category State.

(2 Marks)

14. In which of the following cases, the refund under section 27 of the Customs Act, 1962 is credited to the consumer welfare fund?

(a) If the importer proves that there is no unjust enrichment.

(b) Where goods are imported for non-personal use of an individual and he could not prove that there is no unjust enrichment.

(c) If the amount of refund relates to drawback of duty under sections 74 and 75 of the Customs Act, 1962.

(d) If the amount relates to the duty paid in excess (as evident from the bill of entry in case of self-assessed bill of entry) by the importer before an order permitting clearance of goods for home consumption is made. **(2 Marks)**

15. Mr. Lal, a registered person under GST, was the proprietor of M/s Spiceton Restaurant.

He died and left behind his wife and son, on 15th August.

His son – Mr. Pal - wants to continue the business of the deceased father.

The GST consultant of M/s Spiceton Restaurant gives advice to Mr. Pal as to how he can continue the business of his deceased father.

Which of the following options is correct in accordance with the provisions of GST law?

(a) Mr. Pal should apply for a new registration under GST in the name M/s Spiceton Restaurant under his own PAN w.e.f. the date of succession and file Form GST ITC 02 for transfer of ITC to the new entity.

(b) Mr. Pal can get the authorized signatory changed by approaching to the Proper Officer and can continue the same business.

(c) Mr. Pal should close the old firm and start new business under different name.

(d) Mr. Pal should do the business with his mother as the new proprietor of the M/s Spiceton Restaurant, and Mr. Pal should act as a Manager. **(2 Marks)**

Division B – Descriptive Questions (70 Marks)

Question paper comprises of 6 questions.

*Answer Question No. **1** which is compulsory and any **4** questions out of the remaining **5** questions.*

1. XYZ Ltd., a registered supplier under GST in the State of Tamil Nadu, is engaged in providing various kinds of supplies of goods and services. It provides the following information for month of October of current financial year:

S. No.	Particulars	Amount (₹)
	OUTWARD SUPPLY:	
(i)	Supplies a consignment of goods in the territorial water to M/s Vikram Industries, registered in Kerala. The said territorial waters is located at a distance of 12 nautical miles from the baseline of State of Kerala and 11 nautical miles from the baseline of State of Tamil Nadu.	5,00,000
(ii)	Provided pure labour services of construction of a single commercial unit located in Delhi not forming part of any residential complex to a customer in Delhi.	12,00,000
(iii)	Supplied 25 televisions over the counter to Mr. Vijay, an unregistered buyer, who took it to his residence in Haryana.	14,00,000 (Value for 25 televisions supplied.)
	INWARD SUPPLY:	
(i)	Received a debit note in respect of inward intra-State taxable supplies received in the financial year for the quantity difference as agreed. Said	3,00,000

	inward supplies were originally received 2 financial years back and were used for all goods manufactured in factory. Date of debit note is 17th October of the current financial year.	
(ii)	Purchased silk yarn (to be used as raw material) from Mr. Ravi, who manufactures silk yarn from raw silk. Mr. Ravi is registered in the State of Rajasthan.	8,00,000
(iii)	Availed services of an arbitral tribunal in Chennai, Tamil Nadu to settle a case relating to the Companies Act.	6,00,000
(iv)	Purchased raw material form ABK Ltd., registered in the State of Andhra Pradesh.	15,00,000
(v)	Purchased a new truck from a dealer in Cochin, Kerala for transport of materials.	14,00,000

Notes:

The company provided the following additional information related to above said transactions or otherwise:

(i) The company claimed depreciation under the Income-tax Act, 1961 on the value of new truck purchased including all applicable taxes.

(ii) The company provided a corporate guarantee of ₹ 2.5 crore to BYH Ltd., its related company, having registered office in the State of Maharashtra, for loan availed by the later form Mangal Bank Ltd., Maharashtra. No consideration has been charged against this corporate guarantee.

(iii) In the month of March of preceding financial year, company had availed services in an inter-State transaction with a taxable value of ₹ 9,00,000 and a tax rate of 18%. This transaction was liable to tax under reverse charge. Payment for the same to the supplier was not made till the current month (overdue for 181 days during October of current financial year). However, tax due under the said transaction was paid to Government and input tax credit availed in the month of transaction itself.

(iv) The accountant of the company did not claim input tax credit in respect of debit note received for the reason that the original

purchase was related to earlier years for which ITC claim eligibility has become time barred.

(v) Invoice issued to Mr. Vijay for televisions mentions only his name and State. However, his complete address of Haryana is missing in the invoice.

(vi) ABK Ltd. is mandatorily required to issue e-invoice. However, it did not issue e-invoice with Invoice Reference Number (IRN) although the invoice was reflected in GSTR-2B.

(vii) Turnover of XYZ Ltd. for the precious financial year was ₹ 190 lakh.

(viii) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively for both inward and outward supply of goods and services involved.

(ix) All the amounts given above are exclusive of the GST, wherever applicable. There is no opening balance of any input tax credit and all the conditions necessary for availing the input tax credit have been fulfilled except if mentioned otherwise and also that details of GST paid on inward supplies are available in GSTR 2B.

(x) Assume that all the inward supplies have been used only for taxable outward supply.

(xi) Company is not covered under any of the exception of rule 86B of the CGST Rules, 2017 regarding restriction on use of available input tax credit.

Compute minimum net GST liability of M/s XYZ Ltd, to be paid in cash if any, after utilizing input tax credit if any, for the month of October of current financial year.

Note: Working notes along with legal reasoning of each item should form part of your answer. **(14 Marks)**

2. (a) A banking company M/s. YVPAY Bank Ltd. is registered under GST laws and provided the following services during the month of October.

S. No.	Particulars	Amount (₹)*
(i)	Discount earned on bills discounted	6,00,000
(ii)	Interest earned on reverse repo transaction	2,00,000

(iii)	Penal interest recovered from the borrower for the delay in payment of loan EMIs/Dues	5,00,000
(iv)	Services to merchants accepting credit /debit card payments using Point of Sale (POS) machine of bank. (In 50% cases, the amount per transaction was up to ₹ 1,500 while in the other cases, the amount was between ₹ 1,500 to ₹ 2,000)	6,50,000
(v)	Commission received for debt collection service	12,00,000
(vi)	Interest charges for last payment of credit card dues	4,00,000

*exclusive of GST

M/s. YVPAY Bank Ltd. had opted for optional method, under section 17(4) of the CGST Act, 2017, for claiming input tax credit in respect of its operations. For the month of October, the relevant details for input tax credit are as follows:

Amount of GST paid on eligible input services - ₹ 8,00,000

Amount of GST paid on eligible capital goods - ₹ 6,00,000

Amount of GST paid on items whose credit is blocked under section 17(5) of the CGST Act, 2017 -₹ 3,00,000

Applicable rate of GST is 18% on services provided.

Based on the information given above, calculate the net GST payable by the bank for the month of October. Ignore bifurcation of CGST and SGST or IGST. **(5 Marks)**

(b) M/s. Win here 2407 is an online money gaming platform operating from Singapore. It provides its users a platform to play and win money in different games etc. that are available on its web portal.

In the month of October, Mr. Anil (player), an unregistered person located in India, deposited an amount of ₹ 15,000 (inclusive of GST) in the master wallet available on the portal of M/s Win here 2407. Subsequently, following transactions were undertaken by Mr. Anil during the month of October.

(i) Mr. Anil utilized the amount of ₹ 2,500 from the master wallet towards playing a virtual racing game on the portal. As a winning amount ₹ 11,000 was credited to the master wallet of Mr. Anil.

(ii) On another portal operated by M/s Win here 2407 in the name of Win 90, Mr. Anil placed a bet of face value of ₹ 12,000 on an international cricket match. The amount of such bet was paid through the master wallet with applicable taxes and accordingly, the bet amount of ₹ 12,000 with applicable taxes was transferred from the master wallet of Mr. Anil to the bank account of Win 90. However, he lost the bet.

(iii) Mr. Anil transferred the balance amount from the master wallet to his bank account after doing the aforesaid transactions.

Based on the information provided above, answer the following questions, providing reasons in brief:

(1) Compute the taxable value under GST law and total GST payable on the aforesaid given transactions in the hands of M/s Win here 2407 in India.

(2) Determine the net amount transferred by Mr. Anil from the master wallet to his bank account after the aforesaid transactions.

Note:

Assume all the above transactions to be exclusive of GST unless otherwise specified. Rate of GST applicable is 28% (ignore the bifurcation of GST amount into CGST and SGST or IGST). Calculate amount of value and tax rounded off to nearest rupee.

(5 Marks)

(c) Calculate the assessable value (rounded off to nearest one rupee) under the Customs Act, 1962 with appropriate working notes form the following particulars related to import of a machine (by sea) by Daksh Industries from USA in the month of October:

S. No.	Particulars	Amount
(i)	Cost of machine at the port of exportation	US $ 8,200
(ii)	Freight from port of export to port of import	US $1,800
(iii)	Daksh Industries had paid to seller the cost for packing (not as condition of sale but included in cost of machine at point (i) above)	US $ 400
(iv)	Actual selling commission paid by Daksh Industries to local agent of exporter.	₹ 20,000
(v)	Actual insurance charges paid are also not ascertainable.	-
(vi)	Ship demurrage charge paid by Daksh Industries at port of importation.	₹ 15,000
(vii)	Engineering charges paid by Daksh Industries to consultancy firm in Mumbai as a condition of sale.	₹ 1,25,000

Note:

(i) Rate of exchange to be considered ₹ 80 for one US $

(ii) Relevant legal reasoning should form part of your answer.

(4 Marks)

3. (a) Determine the 'place of supply' along with justification for the following independent cases:

I. Crystal Clear Water Ltd. (CCWL) is a manufacturer of mineral water and registered under GST in Mumbai, Maharashtra. CCWL enters into a contract with Global Advertising Agency (GAA) registered under GST in Ahmedabad, Gujarat for displaying its advertisement on hoardings at an awards event organized at Convention Centre Gandhinagar, Gujarat on 31st October. The structure on which the hoardings are to be displayed is taken on rent by GAA from Mr. Kapoor (unregistered person based in Delhi.). Determine the 'place of supply' for tax invoice to be raised by GAA to CCWL.

II. Mr. Sunil (unregistered person under GST) is a resident of Delhi and currently posted in Dehradun, Uttarakhand. He went on an official visit to Arunachal Pradesh. He purchased a leather bag on 15th October from Arunachal Pradesh and shop keeper M/s ABC issued a tax invoice in the name of Mr. Sunil only. Mr. Sunil returned back to Dehradun along with leather bag. Determine the 'place of supply' for tax invoice issued by M/s. ABC to Mr. Sunil.

III. Mr. Pintu (unregistered person under GST), resident of Karnal, Haryana went to visit Shimla, Himachal Pradesh along with his family during holidays in the month of October. Due to some medical emergency, he purchased some medicines on
20th October from a medical store at Mall Road, Shimla and the tax invoice was issued in the name of Mr. Pintu mentioning the address as Karnal, Haryana only. The medicines purchased were consumed in Shimla during the period of stay. Determine the 'place of supply' for tax invoice issued by medical store to Mr. Pintu. **(5 Marks)**

(b) Mr. Sharma, director of VEE Ltd., provides personal guarantee on 31st October to a nationalized bank for sanctioning the cash credit facility of ₹ 100 lakh sanctioned in favour of VEE Ltd. Mr. Sharma was not paid any consideration for the same by VEE Ltd.

Whether the said activity undertaken by Mr. Sharma will be considered as supply? If yes, what will be the value of such services? Explain in brief the relevant provisions of GST law.

(5 Marks)

(c) GHN Ltd. imported certain items on 14th October. According to GHN Ltd, these items should be classified under chapter heading no. XXXX.AB of the Customs Tariff schedule whereas the Department's view was that these items should be classified under different chapter heading number XXXX.AC. So, there was a dispute going on between GHN Ltd. and the Department regarding the classification of product.

Meanwhile, an exemption notification was issued on 26th October which exempted the disputed goods by classifying it under chapter

heading number XXXX.AB for the future imports from 30th October onwards.

Now, GHN Ltd. claimed that since the Department exempted product under chapter heading XXXX.AB. Hence, its items are also to be classified under the same heading even though it imported goods earlier.

Discuss with the help of decided case law if any, whether the contention of GHN Ltd. is correct as per law?

Note: Chapter headings given above are just an example and not the real one. **(4 Marks)**

4. (a) Rajwada Operators Limited (ROL) is registered under GST in the State of Karnataka as an Electronic Commerce Operator (ECO). It owns and operates a web portal which supplies various goods and services on behalf of various sellers/service providers to its ultimate customers. Details of supplies undertaken through ROL in the month of October are as under:

(i) Sale of goods worth ₹ 1,47,500/- (including GST) by A Ltd., registered supplier of Rajasthan to B Ltd., Gujarat. Also, goods worth taxable value of ₹ 1,40,000 sold by A Ltd., Rajasthan to B Ltd., Gujarat in the month of September were returned back in the month of October.

(ii) Value of services provided from 21st October to 30th October by way of transportation of passengers by motor vehicles by X Ltd., registered under GST in Karnataka to Z Ltd., registered under GST in Karnataka amounting to ₹ 5,50,000/- (it includes ₹ 1,50,000 against transportation services provided by omnibus).

(iii) Miss Zara of Mumbai books a room for 3 days and 2 nights in Raj Niwas Palace, Jodhpur, Rajasthan through Maharaja Resorts Ltd. (MRL), also an ECO registered under GST in Karnataka. MRL is integrated with ROL who has an agreement with Raj Niwas Palace. Raj Niwas Palace is registered under GST in Rajasthan and raises an invoice for ₹ 1,50,000 to Miss Zara and receives ₹ 1,45,000 from ROL for the same.

All the figures given above are exclusive of GST except wherever specified separately. Assume rate of CGST and SGST to be 9% each and IGST to be 18% on all inward and outward supplies of goods and services. Compute the amount of TCS to be collected by ROL for the month of October.

Working notes should form part of your answer. **(5 Marks)**

(b) Bhagwan Manufacturers & Exporters Company (BMEC) is registered under GST in the State of Rajasthan and supplies various goods in domestic as well as in international markets. It is engaged in both manufacturing and trading of goods. It exports goods without payment of tax under bond or letter of undertaking in accordance with the provisions of section 16(3) of the IGST Act, 2017.

BMEC provides the following information in relation to various supplies made by it during October tax period:

S. No	Particulars	(₹)
1.	Taxable value of goods 'Star' supplied within India	14,00,000/-
2.	Taxable value of goods 'Sun' exported without payment of tax under letter of undertaking. (However, taxable value of such goods when supplied domestically by BMEC in similar quantities is ₹ 6,00,000).	10,00,000/-
3.	Taxable value of goods 'Moon' exported without payment of tax under bond. (However, taxable value of such goods when supplied domestically by BMEC in similar quantities is ₹ 1,50,000)	2,00,000/-

The input tax credit (ITC) availed [IGST] for the above tax period is as follows:

S. No.	Particulars	(₹)
1	Input tax credit availed on capital goods	1,00,000/-
2	Input tax credit availed on inputs	3,00,000/-
3	Input tax credit availed on inputs services	1,50,000/-

BMEC also provided following additional information:	
(i)	All the above inputs, input services and capital goods are used in manufacturing process and all the conditions for availing input tax credit have been complied with.
(ii)	The balance in the electronic credit ledger of BMEC at the time of filing the refund application is ₹ 1,50,000/-.
(iii)	The balance in the electronic credit ledger of BMEC at the end of the October tax period for which the refund claim is being filed after GSTR-3B for the said period has been filed is ₹ 3,25,000/-

You are required to compute the amount refundable to Bhagwan Manufacturers & Exporters Company against accumulated unutilized input tax credit for October tax period according to the provisions of GST law by giving necessary explanations for treatment of various items. **(5 Marks)**

(c) Varun Goyal, an IT professional and a person of Indian origin, is residing in USA for the last 14 months. He wishes to bring a used microwave oven (costing approximately ₹ 1,85,500/- and weighing 15 kg) with him during his permanent return to India. He purchased the oven in USA 6 months before and he has been using that oven for his personal use in his kitchen. He is not aware of Indian customs rules.

Analyze and summarize the related legal provision of the Baggage Rules, 2016 and provide him with some advice in this regard. Relevant legal provisions should form part of your answer.

(4 Marks)

5. (a) In an order passed dated 1st April issued to Sita Ram Pvt. Ltd., the Commissioner of Central Tax, being Revisionary Authority has confirmed IGST demand of ₹ 1400 crore, penalty of ₹ 200 crore and interest of ₹ 20 crore.

Sita Ram Pvt. Ltd. admits the tax liability, penalty and interest to the extent of ₹ 200 crore, ₹ 20 crore and ₹ 10 crore respectively but wishes to litigate the balance amount of demand and thus, Sita Ram Pvt. Ltd. deposits the required amount of pre-deposit on 12th April and files an appeal with the GSTAT.

GSTAT decides the appeal in favour of Sita Ram Pvt. Ltd. on 12th June. Sita Ram Pvt. Ltd. submits an application seeking refund of the pre-deposit along with applicable interest on 2nd July and the department acknowledges the application on the same day. The amount of pre-deposit is refunded to Sita Ram Pvt. Ltd. on 15th October.

With reference to provisions of the GST law, compute the amount of pre-deposit required to be deposited before filing an appeal to GSTAT and interest payable by the Department on refund of such pre-deposit, if any, along with necessary explanations. **(5 Marks)**

(b) GST Department initiated prosecution proceedings against Mr. Sahil, a taxable person under GST. Mr. Sahil collected ₹ 8 crore as GST but failed to pay the same to the Government beyond the period of three months from the date on which such payment became due.

He approached the Commissioner on 15th October with a request for compounding of offence. Mr. Sahil made full and true disclosure of facts relating to the case. After considering the request, the Commissioner directed him to pay an amount of ₹ 5.2 crore as compounding amount on 20th October.

As per the provisions of section 138 of the CGST Act, 2017 read with relevant rule of the CGST Rules, 2017, examine the issue and provide the answers with supporting explanatory note to the following:

(1) Determine the minimum and maximum compounding amount which can be determined by the Commissioner.

(2) Is the amount determined by the Commissioner in this case within the limits prescribed under the GST law?

(3) In what time period will Mr. Sahil have to pay the compounding amount ordered by the Commissioner? **(5 Marks)**

(c) Mr. Pandya imported certain raw material from Japan. However, Mr. Pandya was not able to furnish certain supporting documents related to the said raw material imported along with the Bill of Entry for home consumption. Mr. Pandya requested the customs officials to deposit the said imported goods in a public bonded warehouse for a period of 20 days so that he obtains the required documents.

The Customs officer initially denied for allowing warehousing and afterwards insisted Mr. Pandya to execute an indemnity bond for the goods to be deposited in the warehouse.

Examine the correctness of the stand taken by the Customs Officer.

(4 Marks)

6. (a) Under what circumstances, the Revisional Authority (RA) cannot exercise the powers of revision under section 108 of the CGST Act, 2017.

Is there any exception to the above provision? **(6 Marks)**

(b) What is search warrant? Who is the competent authority to issue Search Warrant under the CGST Act, 2017? What details should be contained in a Search Warrant?

OR

(b) Which officers under section 72 of the CGST Act, 2017 are empowered and are required to assist proper officers in the implementation of the CGST Act? **(4 Marks)**

(c) Under Foreign Trade Policy (FTP), what does the National Trade Facilitation Action Plan aim to achieve? Enumerate the trade facilitation measures which are provided under Foreign Trade Policy (FTP).

(4 Marks)

MODEL TEST PAPER 6

FINAL COURSE: GROUP - II

PAPER – 5: INDIRECT TAX LAWS

1. Question paper comprises of two parts – Division A and Division B.
2. Division A comprises of Case Scenario based Multiple-Choice Questions (MCQs).
3. Division B comprises of questions which require descriptive type answers.
4. Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.
5. All questions should be answered on the basis of the position of (i) GST law as amended by significant notifications/circulars issued and by the amendments made by the Finance (No. 2) Act, 2024 which have become effective, till 31.10.2024 and (ii) Customs law as amended by the Finance (No. 2) Act, 2024 and significant notifications/circulars and other legislative amendments made upto 31.10.2024.

Division A – Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

1. Chirag imported a machine from China at ₹ 100 lakh in May of current financial year on payment of all duties of customs. The said machine was exported (sent back) to the supplier for repairs in August of current financial year and re-imported without any re-manufacturing or reprocessing in March of current financial year after repairs as per the terms of warranty, the repairs were carried out free of cost but 50% of the cost of material was to be borne by Chirag. Following details are available in relation to the repairs:

Fair cost of repair (excluding cost of material)	₹4,00,000
Cost of material used in repairs	₹5,00,000
Actual insurance and freight paid towards send back to supplier	₹1,00,000
Actual insurance and freight paid toward re-importation	₹1,20,000

Value for the purpose of levy of customs duty for such repairs under section 20 of the Customs Act, 1962 is:

(a) ₹ 11,20,000

(b) ₹ 8,70,000

(c) ₹ 7,50,000

(d) ₹ 7,70,000 **(2 Marks)**

2. Keshav of Bengaluru imported 2,000 pieces of certain dutiable goods from China during the month of April. The Central Government has imposed
Anti-Dumping Duty from 1st April by way of notification in the Official Gazette under section 9A of the Customs Tariff Act 1975. Details regarding said import are as follows:

Particular	Amount per piece
Normal Value (Comparable price in China)	$ 120
Export Price	$ 60
Landed Value of dumped item	$75
Fair Selling price (Non injurious price)	$ 105

Rate of exchange relevant for conversion is ₹80 per $

Maximum amount of anti- dumping to be payable by Keshav on 2000 pieces of dutiable goods is:

(a) ₹ 48,00,000/-

(b) ₹ 96,00,000/-

(c) ₹ 72,00,000/-

(d) ₹ 24,00,000/- **(2 Marks)**

3. Madhav Associates has taken GST registration on 1st January but failed to furnish GST returns. Owing to this, the proper officer cancelled its registration on 31st July and order of cancellation of registration was served to Madhav associates on the same date.

Up to which date an application for revoke the cancellation of registration can be filed assuming no extension in time-limit has been granted?

(a) 30th August

(b) 31st August

(c) 29th October

(d) 30th October **(2 Marks)**

Case Scenario-I

Shreyans Ltd. (hereinafter referred as "company") is a conglomerate having diversified businesses including hotels, FMCG (Fast-Moving Consumer Goods), information technology etc. It has its corporate office in Delhi and operations across multiple States in India. As an internal policy, the company has obtained single GST registration in each State irrespective of the diversified business operations being undertaken in the State. During the month of April, the company undertook the following transactions:

(a) The FMCG division of the company in Jaipur, Rajasthan agreed to use the vacant godown within the premises of Hotel Division in Udaipur, Rajasthan for storage of its goods. The value of such an arrangement was agreed at ₹ 5 lakh per month. Said amount was agreed to be adjusted by way of intra-division book adjustment on a monthly basis.

(b) The Hotel Division of the company in Maharashtra used the IT platform owned and managed by the IT Division of the company in Delhi. The value of such services was determined as ₹ 12 lakh per month. The IT division treated the same as deemed supply liable to GST as per Schedule I of the CGST Act, 2017 and charged GST on such deemed supply in the invoice issued to Hotel Division on 25th April. The Hotel Division availed the input tax credit of such deemed supplies from its Maharashtra Office in April itself. However, no payment was made for such services by the Hotel Division to the IT Division.

(c) The Executive Director, as part of his salary and perquisites under the employment agreement, was eligible for a voucher worth ₹ 5 lakh, redeemable at any hotel property of the company in India. The voucher was used by the Executive Director for the stay of his family in a company owned hotel in Udaipur, Rajasthan. The total amount charged from the Executive Director was ₹ 25 lakh. The voucher value of ₹ 5 lakh was deducted from such amount at the time of payment.

(d) The Hotel Division provided accommodation services to a US citizen and resident for a wedding ceremony organized at its hotel in Udaipur, Rajasthan. The total amount of ₹ 2 crores for such services was paid by an Indian individual residing in Delhi on behalf of the US resident in Indian

currency. The amount was received by the Mumbai, Maharashtra Office of Hotel Division.

(e) The company received long term lease of an industrial plot from Maharashtra Industrial Development Corporation (MIDC) in auction against payment of an upfront amount as lease premium of ₹ 20 crores for a period of 50 years. The company paid location charges of ₹ 5 crores in addition to the said premium.

(f) The company incurred an expense of ₹ 50 lakh in transportation of empty cargo containers to its warehouse in Mumbai from all the States through a Goods Transport Agency.

The rate of GST in case of intra-State supplies, unless otherwise provided shall be 9% CGST and 9% SGST) and for inter-State supplies shall be 18% IGST. All the divisions of the Company are eligible for 100% input tax credit unless otherwise specified.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 4 to 9, carrying 2 marks each, below:

4. Which of the following statements is correct in respect of the services related to usage of vacant godown?

   (a) The Hotel Division shall charge CGST and SGST amounting to ₹ 45,000 each in the tax invoice issued to FMCG Division.

   (b) No GST is chargeable on usage of vacant godown of Hotel Division.

   (c) The Hotel Division shall charge IGST amounting to ₹ 90,000 in the tax invoice issued to FMCG Division.

   (d) The Hotel Division, Rajasthan shall charge IGST amounting to ₹ 90,000 in the tax invoice issued to Corporate Office in Delhi.

5. Assuming that the payment for utilization of IT platform has not been made by the Hotel Division to the IT Division till the end of October month of the current financial year, the Hotel Division:

   (a) should reverse the input tax credit so availed while filing Form GSTR-3B of the October month.

   (b) need not reverse the input tax credit so availed in Form GSTR-3B of the October month.

(c) should have availed the input tax credit only after the end of the current financial year and not in April.

(d) should not have availed the input tax credit in respect of said transaction as the same is deemed supply under Schedule I of the CGST Act, 2017.

6. In relation to the stay of Executive Director's family in the company owned hotel in Udaipur, Rajasthan, value of supply of accommodation services provided by the Hotel Division is:

(a) ₹ 25 lakh

(b) ₹ 20 lakh

(c) Supply of services by employer to employee is not a taxable supply under GST.

(d) ₹ 5 lakh

7. For the accommodation services provided to the US resident and citizen, the place of supply shall be:

(a) Udaipur

(b) Delhi

(c) Mumbai

(d) USA

8. In respect of the long-term lease of the industrial plot received from Maharashtra Industrial Development Corporation (MIDC),

(a) upfront lease premium of ₹ 20 crore is exempt. However, the location charges of ₹ 5 crore are liable to GST.

(b) GST is payable on the upfront lease premium of ₹ 20 crore. No GST is payable on the location charges.

(c) GST is exempt on the entire premium of ₹ 25 crore including location charges.

(d) GST is payable on the entire upfront premium of ₹ 25 crore including location charges.

9. For the empty cargo containers transported to Mumbai warehouse:

(a) e-way bill shall be issued by respective dispatch locations of the company.

(b) e-way bill shall be issued by the warehouse location in Mumbai.

(c) no e-way bill is required to be issued.

(d) e-way bill shall be issued by the Goods Transport Agency.

Case Scenario-II

Pukhraj Gupta is a registered supplier of goods and services under GST in the State of Karnataka. He provided the following details of outward transactions for FY 1:

Particulars	Amount (₹)
Taxable supply	1,40,00,000
Exempted Supply	3,50,000
Interest received on unsecured loan (not included in above)	2,00,000
Transfer of goods to the residence of his brother, a well-known professional.	Free of cost but the open market value is ₹40,000

During the month of April of FY 2, Pukhraj Gupta provided the following outward supplies:

Particulars	Amount (₹)
Taxable supply of goods	4,00,000
Insurance Agent service to Samta Insurance company, registered under GST	30,000
Interest received for late payment from various customers	10,000
Recovery agent service to Vipul Limited, a trader of goods	40,000
Security and housekeeping service provided to Bachpan School (upto higher secondary), an unregistered person under GST, at its Annual Day function held at Vallabh Convention centre being outside the school campus.	50,000
Renting of Motor Vehicle designed to carry passenger provided to M Sea Limited wherein cost of fuel is included (applicable rate of tax CGST @ 2.50% and SGST 2.50%)	80,000
Received with reference to a contract of ₹ 5,00,000 for taxable supplies of goods, awarded by a public sector undertaking (PSU) registered under section 51 of the CGST Act, 2017 in the state of Tamil Nadu, taxable supplies was made in the State of Karnataka as per instruction of the PSU:	1,50,000

Further, on 20th April of FY 2, he hired Perfect Wedding Planner of Japan to plan and organize his son's wedding under a composite contract of all events of marriage.

Pre-wedding program was organized at Mumbai while the marriage and reception held at Paris (France)

In addition to the above, Proper officer has issued an order under the CGST Act, 2017 dated 10th April of FY 2 and raised a demand of ₹ 33 lakh (Tax -₹ 20 lakh, Interest-₹ 3 lakh and Penalty ₹10 lakh) in respect of an intra-State transaction. The above amounts are related to CGST only.

Pukhraj Gupta admitted the tax demand of ₹5 lakh and interest demand of ₹ 2 lakh and disputed the remaining tax and interest demand and entire penalty demanded.

Pukhraj Gupta wants to file an appeal before the Appellant Authority.

All amounts given above are exclusive of taxes, wherever applicable.

From the information given above, choose the most appropriate answer for the following Q. No. 10 to 15, carrying 2 marks each, with reference to GST law:

10. What is the taxable value of supply for the month of April of FY 2 in the hands of Pukhraj Gupta? **(2 Marks)**

    (a) ₹ 6,50,000

    (b) ₹ 6,10,000

    (c) ₹ 6 00,000

    (d) ₹ 5,60,000

11. Amount of TDS require to be deducted under section 51 by the PSU:

    (a) CGST ₹750 and SGST ₹750

    (b) IGST ₹3,000

    (c) CGST ₹1,500 and SGST ₹1,500

    (d) No TDS required to be deducted under section 51 of the CGST Act, 2017.

12. What is the amount of pre-deposit (of CGST only) to be made for filing the appeal before the Appellant Authority under the GST law?

    (a) ₹8.50 lakh

(b) ₹10 lakh

(c) ₹9.60 lakh

(d) ₹12.20 lakh

13. What is the aggregate turnover of FY 1 under section 2(6) of the CGST ACT 2017?

(a) ₹ 1,45,90,000

(b) ₹ 1,45,50,000

(c) ₹ 1,43,50,000.

(d) ₹ 1,43,90,000

14. What is the place of supply in respect of transaction with Perfect Wedding organization Planner?

(a) Mumbai for both the event

(b) Karnataka for both the event

(c) For Pre-wedding- Mumbai and for marriage and reception- Paris

(d) Japan for both the event

15. Which of following outward supplies provided by Mr. Pukhraj Gupta are NOT subject to payment of tax under reverse charge mechanism?

(i) Insurance Agent service

(ii) Recovery agent service

(iii) Security and Housekeeping service

(iv) Renting of Motor vehicle

Choose the most appropriate answer

(a) Only (ii), (iii) and (iv)

(b) Only (ii) and (iii)

(c) Only (ii) and (iv)

(d) Only (iii)

Division B: DESCRIPTIVE QUESTIONS

1. Sachha and Sudh Limited is a registered supplier of taxable goods and services at Raipur in the State of Chhattisgarh under regular scheme. Head office of the company is at Raipur whereas its branch office situated at Ludhiana, Punjab. It furnished the following information for various activities or transaction made during the month of April, 2024:

S. No.	Particulars	Amount (₹)
	OUTWARD TRANSACTIONS	
(i)	Supplied goods to Matadeen and Sons in the State of Rajasthan on the instruction of Dhananjai Associates, a registered person under GST in the State of Chhattisgarh. The contract for such supply was for the delivery of goods at buyer's premises and included a fixed transportation cost of ₹ 20,000 irrespective of the actual freight paid. It is indicated separately in the invoice issued in this respect of supply of goods.	8,00,000
(ii)	Amount received for sale of the loading tempo, used for transportation of goods, to Mr. Suresh. Loading Tempo was purchased at ₹ 4,80,000 and its depreciated value at the time of sale was ₹ 2,40,000. Depreciation has been claimed under the Income-Tax Act, 1961. No GST credit was taken. Delivery of the loading tempo was given at registered office of the company.	1,80,000
(iii)	Provided intra-State supply of sponsorship service to Vidhi Agency, a proprietary concern of Raipur.	50,000
(iv)	Received as fine from Vipul, a registered person, for delayed supply of goods. Such payment was made as a compensation for margin loss caused due to price reduction between due date and actual date of supply. There was no express contract in this respect.	50,000
	INWARD TRANSACTIONS	
(i)	Intra-State purchase of goods from various registered persons.	7,00,000

	(out of this₹ 7,00,000, goods of ₹ 1,00,000 was received on 1st May, 2024 due to riots in the area but all the invoices were received by 30th April, 2024.)	
(ii)	Rent paid to Indian Railway for office premises situated in the State of Chhattisgarh.	40,000
(iii)	Representational service from Mr. Vikas Gupta, an advocate of Delhi and unregistered person under GST, towards dealing the GST appeal matters with the Commissioner (Appeal)	1,00,000

Additional information: The company paid ₹ 15,000 towards actual freight to Mr. Shailendra of Chhattisgarh, a truck owner and unregistered person in respect of supply of goods to Matadeen & Sons in the State of Rajasthan. Mr. Shailendra had not issued the consignment note.

(i) On 15th April, 2024, the company acquired 1% additional shareholding in one of its subsidiary company for a consideration of ₹ 10,00,000

(ii) The company made inter-State purchase of goods of ₹ 1,00,000 to be used for discharge of corporate social responsibility (CSR) referred to in section 135 of the Companies Act, 2013.

Notes:

Assume rates of CGST, SGST and IGST are 9%, 9% and 18% for both inward and outward supply of goods and services except transportation service which is chargeable at 2.5%, 2.5% and 5% CGST, SGST and IGST respectively.

Both inward and outward supplies given above are exclusive of taxes.

All the conditions necessary for availing the ITC have been fulfilled.

There was no opening balance of any input tax credit.

The aggregate turnover of Sachha and Sudh Limited is ₹ 2 crores in the preceding FY.

Compute the minimum net GST payable in cash by Sachha and Sudh Limited for the month of April, 2024 by considering that company wants to pay minimum amount of SGST as far as possible legally.

Working notes and correct provision of law for each point should form the part of your answer along with applicable provisions of place of supply under GST law. **(14 Marks)**

2. (a) Mr. Ayush is a registered supplier in Ahmedabad (Gujarat) under GST law. He provides the following information pertaining to various outward supplies made by him during the month of March, 2024:

S. No.	Particulars	Amount (₹)
(i)	Vijay Vayapar Chamber of Commerce organized a business summit. Nuba Pvt. Ltd., manufacturer of readymade garments, sponsored the summit and paid sponsorship fee of ₹ 1,80,000 to Vijay Vayapar Chamber of Commerce. Mr. Ayush, an independent director of Nuba Private Ltd., provided the services to the company in relation to this in the capacity of director and Nuba Private Ltd. paid ₹ 40,000 to him as remuneration.	40,000
(ii)	Supply of railway equipments by way of transportation by a vessel from one place in India to another.	1,20,000
(iii)	Services by way of storage/warehousing of processed tea used for beverage as green tea.	70,000
(iv)	Health care services by his clinical establishment of providing rooms having room charges ₹ 3,100 per day to a person receiving health care services.	3,00,000
(v)	Services of a guest house, for lodging purposes, having value of supply of a unit of accommodation ₹ 800 per day	72,000

All above amounts are exclusive of GST. All the supplies are intra-State supply and assume the rate of taxes are IGST @ 18% and CGST & SGST @ 9% each.

From the above information, compute the GST liability of each item separately, on which tax to be paid by Mr. Ayush for the month of March, 2024.

Correct provision of law should form the part of your answer.

(5 Marks)

(b) M/s Ronak Ltd. having a registered head office in Maharashtra, provides a service to its branch office in Kerala in the month of April, 2024 by way of carrying out administrative work with the use of service of the employees working in the head office. However, the head office has not included the salary cost of employees involved in providing the said services while issuing tax invoice to its branch office.

You are required to decide the following:

What will be the value of service and also discuss whether the salary cost of head office employees involved in providing the said services has to be mandatorily included in the computation of value of service provided by head office to branch office (when full ITC is available to the concerned branch office)?

What will be the value of service if head office has not issue invoice to the branch office?

Also discuss in brief the relevant provisions of GST law. **(5 Marks)**

(c) Sneha International Ltd., Bombay imported a drill machine from USA (by air). Machinery reached Delhi airport from where it was transshipped to Mumbai airport. Contracted CIF price of machine was US $ 20,000 which was to be delivered in February 2024. But on request of Sneha International Ltd., supplier agreed to deliver the machine in January 2024 for which US $ 2000 was charged over and above the contracted CIF price.

Other information is given below:-

S. No.	Particulars	Amount
(i)	Air freight	$ 5000
(ii)	Insurance charges paid	$1200

(iii)	Inspection charges of drill machine paid by the supplier (The same was neither mentioned in the terms of contract nor required for making the goods ready for shipment).	$500
(iv)	Transport charges from Delhi airport to Mumbai Airport	₹ 50000

You are required to determine the assessable value of imported machine (rounded off to nearest one rupee) under the Customs Act, 1962 from the particulars given above.

Notes:-

(a) Rate of exchange to be taken as ₹ 83 for one $

(b) Brief reasoning for treatment of each item should form part of your answer. **(4 Marks)**

3. (a) Vijay Pvt. Ltd. of Chennai, Tamil Nadu, exclusively manufactures and sells product 'V2Z' which is exempt from GST vide notifications with certain taxable supplies. The company sells product 'V2Z' only within Tamil Nadu and it is registered under GST under regular scheme. Further, all the inward supplies of the company are taxable under forward charge. The company expects the sales to grow in the current year. Owing to the growing demand for the product, the company decided to increase its production capacity and purchased additional machinery exclusively used for manufacturing 'V2Z' on 1st August. The purchase price of such machinery was ₹ 45 lakh (exclusive of GST@ 18%).

However, with effect from 1st December, exemption available on 'V2Z' was withdrawn by the Central Government and GST @ 12% was imposed thereon. Can Vijay Pvt. Ltd take input tax credit on additional machinery purchased exclusively for manufacturing 'V2Z'? If yes, then when and how much credit can be availed?

Advice Vijay Pvt. Ltd. on the above issues with reference to the provisions of GST law.

Correct provisions of law should form the part of your answer.

(5 Marks)

(b) Decide with reason whether following independent transactions amount to supply or not as per the provision, rules, circulars and notification issued under the GST law:

(i) Satyam has lent securities to Kala Enterprises for a consideration of ₹ 10,000 towards lending of securities under the Securities Lending Scheme, 1997 through an approved intermediary. Ignore the transaction between Satyam and intermediary.

(ii) Patta Limited made supply of goods to its agent, Romi, without consideration. Romi issued invoice for the further supply of goods to the customers in his own name. Romi also disclosed the name of principal in the invoice issued.

(iii) Dilasa Limited recruited Miss Chhaya as senior relationship manager. At the time of joining as senior relationship manager, the company paid ₹ 3,00,000 towards "Not joining" Milan Limited, a stiff competitor of Dilasa Limited. **(5 Marks)**

(c) Rustam imported a sports car from Japan. He paid the applicable customs duty and an order for home consumption was issued. At the time of actual clearance for home consumption, he found that the sports car was destroyed due to a fire occurred at the customs station. The loss of sports car is forever and beyond recovery.

Rustam seeks your advice on how to deal with the situation under the provisions of the Customs Act, 1962.

Whether your answer would differ if Rustam warehoused the sports car due to delay in legal formalities after complying with the relevant provisions of the Customs Act, 1962 and the fire occurred there after the payment of duty but before actual clearance therefrom?

(4 Marks)

4. (a) M/S MN Ltd has a balance of ₹ 30,000 as CGST and ₹ 30,000 SGST in the electronic credit ledger in the beginning of April 2024. During the month of April, 2024, M/S MN Ltd has following liabilities:-

Particulars	CGST (₹)	SGST (₹)
GST Payable on outward supplies	10,000	10,000

GST payable as a consequence of proceeding instituted under the provision of GST law	5,000	5,000
GST payable on reverse charge supplies	6,000	6,000
Interest for default in late filing of GSTR-3B	500	500
Penalty	500	500
TOTAL	22,000	22,000

There is no input tax credit for the month of April 2024.

M/S MN Ltd is of the view that since opening balance in the electronic credit ledger is sufficient to discharge the whole liability for the month of April 2024, it is not required to deposit any tax for the above month.

Explain with reasons whether the contention of M/S MN Ltd is correct in view of the applicable provisions of the CGST Act, 2017.

If not, what would be the amount payable in cash for the month of April, 2024?

Also discuss in brief, the relevant provision of GST law. **(5 Marks)**

(b) Sunita Industries, registered in the State of Gujarat, receives machinery for repair in its workshop located in Surat, Gujarat on 4th April, 2024 from Titen Ltd., an automobile manufacturing company based in China. The machinery is exported without being put to any use in India. Titen Ltd. is not registered in India. The repair work was carried out by Sunita Industries for which it was paid in convertible foreign exchange. The aggregate turnover of Sunita Industries was ₹ 450 crore in the preceding financial year 2023-2024 but for the financial year 2022-2023 the turnover was ₹ 562 crore.

While raising the invoice for the said consideration, the accountant of Sunita Industries approaches you as to whether the Dynamic Quick Response (QR) code is mandatorily required on said invoice?

You are required Lo advise him on the same by explaining the relevant provisions of GST law with reference to Dynamic Quick

Response code along with applicable provisional of place of supply. **(5 Marks)**

(c) Mr. Sahil, an importer, had made provisional payment of customs duty of ₹ 2,00,000 under section 18 of the Customs Act, 1962 on 17th July, 2023, along with a security of ₹ 1,00,000 towards provisional release of goods. Final assessment was completed on 15th October, 2023 with a duty assessed as ₹ 50,000. The refund order of ₹ 50,000 and the order of release of security of ₹ 1,00,000 was issued on the same day (15th October, 2023).

Mr. Sahil had filed a refund application on 20th October, 2023 alongwith necessary documents. On perusal of the refund application, proper officer had found some deficiencies which were communicated to Mr. Sahil.

Mr. Sahil had submitted the required additional documents and proper officer had issued an acknowledgement on 5th November, 2023. Refund was paid to him on 25th March, 2024.

You are required to compute interest receivable by Mr. Sahil under section 18 of the Customs Act, 1962 on amount of duty and on amount of security if any.

Calculation should be nearest to one rupee and assume 366 days in the year. **(4 Marks)**

5. (a) Swastik Tours and Travel is registered taxable person under GST in the State of Punjab. Its gross receipts from the overseas package tours for the month of February 2024 amounted to ₹ 50 crore. Out of this ₹ 50 crore, ₹ 10 crore were received from registered persons. While filing GSTR-1 for the month-of February 2024, it tampered the amount of invoices issued to unregistered persons and reported only ₹ 20 crore on account of B to C transactions (i. e, transaction with unregistered persons), thus, understating the tax liability by ₹ 3.60 crore (i.e. 18% of 20 crore). Moreover, while filing GSTR-3B for the same month, it availed ITC of ₹ 0.40 crore on account of fake invoices received without receipt of goods/services.

GST Department initiated prosecution proceedings against Swastik Tours and Travel for the above offence.

Swastik Tours and Travel deposited the amount of tax due along with the interest and penalty and ₹ 1 crore as compounding amount

being amount equivalent to 25% of tax evaded and requested the commissioner for compounding of offence. Other conditions required for compounding the amount were duly complied with.

Even then commissioner rejected the request of Swastik Tours and Travel on the plea that compounding amount deposited by Swastik Tours and Travel is less than the minimum amount to be deposited for compounding of offence.

You are required to examine the case and comment upon the rejection of request of Swastik Tours and Travel as per the provisions of section 138 of the CGST Act, 2017 read with relevant rule of the CGST Rules, 2017.

Also discuss the relevant legal provision in brief. **(5 Marks)**

(b) Miss Meena is aggrieved by the order passed by the Assistant Commissioner and wants to file an appeal with Commissioner (Appeals). Her accountant, who looked after her GST related matters including filing of GST returns /other compliances online, is on leave for one month. So, she decides to file the appeal manually.

The order against which appeal is to be filed is available on the GST portal. There was no such notification issued by the commissioner that appeal can be filed manually.

With reference to the provisions of GST law, you are required to ascertain:-

(i) Whether Miss Meena can file an appeal to the commissioner (Appeals) in this case?

(ii) Whether decision taken by Miss Meena to manually file an appeal is valid?

Also explain the relevant legal provisions in support of your answer.

(5 Marks)

(c) Mr. Charanjit, an importer, filed a claim for refund of custom duty paid under protest which was assessed on the value of imported machinery.

The assessment order on the basis of which duty was payable by Mr. Charanjit had neither been reviewed nor modified in any appeal. The department rejected the claim for refund filed by Mr. Charanjit.

Discuss with the help of the decided case law, if any, whether the action of Department rejecting the claim is correct in law? Give reason for support of your answer.

What other options are available to Mr. Charanjit?

Note: Name of the case law is not mandatory to be part of your answer. **(4 Marks)**

6. (a) Describe the provision of payment of tax and other amount in installment under section 80 of the CGST Act, 2017.

Also discuss, under what circumstances such payment facility shall not be allowed. **(6 Marks)**

(b) Discuss in brief the precautions to be observed while issuing summons under the GST law. **(4 Marks)**

OR

Under the GST law who can order for carrying out inspection and under what circumstances? **(4 Marks)**

(c) Define Status Holder under Foreign Trade Policy. Which categories of exporter firms are eligible for recognition as a Status Holder and what are the criteria towards recognition as Status Holder?

Also state what would be the minimum threshold limit of export performance of Status holders for various categories of Star Export House. **(4 Marks)**

ANSWERS

ANSWERS OF MODEL TEST PAPER 1

FINAL COURSE: GROUP – II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(b)	9.	(b)
2.	(d)	10.	(c)
3.	(a)	11.	(d)
4.	(b)	12.	(a)
5.	(a)	13.	(a)
6.	(c)	14.	(d)
7.	(d)	15.	(b)
8.	(d)		

Division B – Descriptive Questions

1. (a) Computation of Total Income of SJ Industries Ltd. for the A.Y. 2025-26

	Particulars	Amount (₹)		
I	**Income from house property**			
	Unrealised rent [Taxable under section 25A, even if SJ Industries Ltd. is no longer the owner of commercial property]		3,80,000	
	Less: 30% of above		1,14,000	2,66,000
II	**Profits and gains of business and profession**			
	Net profit as per the statement of profit and loss		72,00,000	

	Add: **Items debited but to be considered separately or to be disallowed**				
	(i) Depreciation as per the Companies Act, 2013	24,00,000			
	(ii) Interest under section 234B for short payment of advance tax [Any interest payable for default committed by assessee for discharging his statutory obligations under the Income-tax Act, 1961 which is calculated with reference to the tax on income is not allowable as deduction under section 40(a)(ii). Since the same has been debited to statement of profit and loss, it has to be added back][1]	60,000			
	(iii) Interest and borrowing cost included in Opening and Closing inventory [As per ICDS II, Interest and borrowing cost which does not meet the criteria for recognition as a component of the cost, cannot be included in the cost of inventory. Since the same have been included in the opening and closing inventory, the difference between ₹ 9,50,000, being interest included in opening inventory – ₹ 7,00,000, being interest included in	2,50,000			

[1]*Bharat Commerce and Industries Ltd. v. CIT [1998] 230 ITR 733 (SC)*

		closing inventory, has to be added back]			
		(iv) Cash payment in excess of ₹ 10,000 [Disallowance u/s 40A(3) is attracted in respect of expenditure, for which payment exceeding ₹ 10,000 in a day has been made in cash. Since expenditure of ₹ 19,000 towards printing and stationery items is debited to the statement of profit and loss, the same has to be added back. However, payment of ₹ 22,000 to producer for dairy farming products is not disallowed since it is covered under the exceptions specified in Rule 6DD]	19,000		
		(v) Repair work paid to contractor without deduction of tax at source [Disallowance of 30% of the amount of ₹ 3,50,000 paid for carrying out repair work to a contractor without deduction of tax at source would be attracted u/s 40(a)(ia)]	1,05,000		
		(vi) Expenditure for transfer of carbon credits [Income by way of transfer of Carbon Credits is chargeable to tax under section 115BBG at a flat rate. No deduction is allowed under any	35,000		

		provision of the Act in respect of any expenditure or allowance in relation thereto. Since such expenditure is debited to the statement of profit and loss, the same has to be added back]			
		(vii) Contribution to electoral trust [Contribution to electoral trust is not allowable as deduction from business profits of the company. Since the expenditure has been debited to statement of profit and loss, the same has to be added back while computing business income]	3,00,000		
		(viii) Advertisement in brochure of a political party [Advertisement charges paid in respect of brochure published by a political party is not allowable as deduction from business profits of the company as per section 37(2B). Since the expenditure has been debited to statement of profit and loss, the same has to be added back while computing business income]	40,000		
		(ix) Interest to co-operative bank not paid on or before the due date [Disallowance under section 43B would be attracted for A.Y.2025-26,	2,60,000		

	since the interest was not paid on or before the due date of filing of return]				
	(x) Contribution towards pension scheme of employees [Contribution towards pension scheme, referred to in section 80CCD, of employees is allowed only to the extent of 14% of salary of the employee in the P.Y. i.e., ₹ 1,40,000 being 14% of ₹ 10,00,000. Therefore, the excess contribution of ₹ 50,000 [i.e., ₹ 1,90,000 – ₹ 1,40,000] is disallowed u/s 36(1)(iva).	50,000	35,19,000		
			1,07,19,000		
	***Add:* Amount taxable but not credited to statement of profit and loss**				
	A(2) Expenditure pertaining to previous financial year [Cash payment in excess of ₹ 10,000 made in the current year in respect of expenditure allowed on mercantile basis in the previous financial year, would be deemed as income in the current year as per section 40A(3A)]		35,000		
			1,07,54,000		
	***Less:* Items credited to statement of profit and loss, but not includible in business income / permissible**				

		expenditure and allowances			
		(i) Unrealised rent [Unrealised rent in respect of commercial property is taxable under the head "Income for house property". Since the said rent has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	3,80,000		
		(ii) Dividend received from specified foreign company [Dividend received from specified foreign company is taxable under the head "Income from other sources". Since the said dividend has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	1,60,000		
		(iii) Profit from hedging contract [Hedging contract is entered into for safeguarding against any loss that may arise due to currency fluctuation. The profit from such contract entered into for meeting loss in foreign currency payments towards imported printing machinery has to be adjusted against the cost of machinery. Since the said	3,00,000		

	profit has been credited to the statement of profit and loss, the same has to be deducted while computing business income]				
	(iv) Interest from bank fixed deposit [Interest on fixed deposit is taxable under "Income from Other Sources". Since the said interest has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	1,35,000			
	A(3) Audit fees of P.Y. 2023-24 [30% of ₹ 75,000, being the audit fees disallowed in the P.Y. 2023-24 for non-remittance of TDS on or before due date of filing return of income for P.Y. 2023-24 would be allowed in the year of payment of TDS i.e., P.Y. 2024-25]	22,500			
	A(4) Transfer of Carbon Credits chargeable to tax under section 115BBG [Income by way of transfer of Carbon Credits chargeable under section 115BBG can be treated as business income or income from other sources, depending upon the facts of the case. In this case, since the question mentions that SJ Industries Ltd. is engaged in production and marketing of diversified	Nil	9,97,500		

	products, it is logical to assume that the same is in the nature of business income. Since the amount of ₹ 4 lakh has already been credited to statement of profit and loss, no further adjustment is necessary]			
			97,56,500	
	Less: **Depreciation as per Income tax Rules**			
	A(1) Depreciation under section 32	28,00,000		
	Add: Depreciation @7.5% on ₹ 92 lakhs [₹ 95 lakhs, being imported printing machinery - ₹ 3 lakhs, being profit from hedging contract] since, machinery is put to use for less than 180 days].	6,90,000		
	Add: Additional depreciation @10% on ₹ 92 lakhs, since machinery is put to use for less than 180 days assuming the conditions for claim of additional depreciation are satisfied[2].	9,20,000		
			44,10,000	
	Profits and gains from business or profession			**53,46,500**
III	**Income from Other Sources**			
	Dividend from specified foreign company		1,60,000	
	Interest from banks on fixed deposits (Gross) [Interest on banks on fixed deposits is taxable as "Income from other sources"] [₹1,35,000 x 100/90]		1,50,000	3,10,000
	Gross Total Income			**59,22,500**

[2]*Balance additional depreciation can be claimed in the A.Y.2026-27*

	***Less:* Deduction under Chapter VI-A**			
	Under section 80GGB [Contribution by a company to an electoral trust or registered political party is allowable as deduction, since payment is made otherwise than by cash. Expenditure incurred by an Indian company on advertisement in brochure published by political party tantamount to contribution to such political party] [₹ 3,00,000 + ₹ 40,000]			3,40,000
	Total income			**55,82,500**

2. (a) Computation of "Book Profit" for levy of MAT under section 115JB for A.Y.2025-26

Particulars	₹	₹
Net Profit as per Statement of Profit and Loss		20,00,000
Add: Net profit to be increased by the following amounts as per *Explanation 1* to section 115JB(2):		
- **Provision for the loss of subsidiary**	1,70,000	
- **Provision for doubtful debts,** being the amount set aside as provision for diminution in the value of any asset	1,75,000	
- **Provision for income-tax** [As per Explanation 2 to section 115JB, income-tax shall include, inter alia, any interest charged under the Act, therefore, whole of the amount of provision for income-tax including ₹ 55,000 towards interest payable has to be added back]	2,05,000	
- **Depreciation**	4,60,000	10,10,000
		30,10,000

Less: Net profit to be decreased by the following amounts as per *Explanation 1* to section 115JB:		
- **Share in income of an AOP as a member** [In a case, where AOP has paid tax on its total income at maximum marginal rate, no income-tax is payable by the company, being a member of AOP, in accordance with the provisions of section 86. Therefore, share in income of an AOP on which no income-tax is payable in accordance with the provisions of section 86, would be reduced while computing book profit, since the same has been credited to profit and loss account]	2,00,000	
- **Income from units in UTI** [Income from units in UTI not to be reduced while computing the book profits, since the same is taxable in the hands of unitholders]	-	
- **Depreciation** other than depreciation on revaluation of assets (₹ 4,60,000 – ₹ 2,50,000)	2,10,000	
- **Unabsorbed depreciation or brought forward business loss**, whichever is less, as per the books of account. Lower of unabsorbed depreciation ₹ 5,00,000 and brought forward business loss ₹ 6,00,000 as per books of accounts has to be reduced while computing the book profit]	5,00,000	9,10,000
Book Profit		**21,00,000**

Computation of MAT liability under section 115JB

Particulars	₹
15% of book profit	3,15,000
Add: Health & education cess@4%	12,600
Minimum Alternate Tax liability	**3,27,600**

Notes:

(1) It is only the specific items mentioned under *Explanation 1* to section 115JB, which can be adjusted from the net profit as per the Statement of Profit and Loss prepared as per the Companies Act for computing book profit for levy of MAT. Since the following items are not specified thereunder, the same cannot be adjusted for computing book profit:

- Interest to financial institution (unpaid before filing of return) and
- Penalty for infraction of law

(2) Provision for gratuity based on actuarial valuation is an ascertained liability *[CIT v. Echjay Forgings (P) Ltd. (2001) 251 ITR 15 (Bom.)]*. Hence, the same should not be added back to compute book profit.

(3) As per proviso to section 115JB(6), the profits from unit established in special economic zone cannot be excluded while computing the book profit, and hence, such income would be liable for MAT.

(b) Computation of total income of Mr. Nitin for A.Y.2025-26

Particulars	₹	₹
Income from House Property		
Rental income from property in Country X[3]	3,60,000	
Less: Municipal taxes paid	12,000	
	3,48,000	

[3] *In the absence of any information relating to fair rent, municipal value and standard rent, rental income assumed to be gross annual value.*

Less: Deduction u/s 24(a) @30%	1,04,400	
		2,43,600
Profits and gains from business or profession		
Royalty[4] from Country X for writing article in journals [only the amount which is received during the previous year is includible, since he maintains cash system of accounting]		13,60,000
Income from Other Sources		
Dividend from M Ltd. an Indian company		5,50,000
Gross Total Income		**21,53,600**
***Less:* Deduction under Chapter VI-A**		
U/s 80E – deduction in respect of interest on educational loan for his son	36,000	
U/s 80QQB – No deduction is allowable since royalty income is for writing articles in journals and newspapers and not for writing books	-	36,000
Total Income		**21,17,600**

Computation of net tax liability of Mr. Nitin for A.Y.2025-26

Particulars		₹
Tax on total income [30% of ₹ 11,17,600 + ₹ 1,12,500]		4,47,780
Add: Health and education cess @4%		17,911
		4,65,691
Less: Relief under section 91 -		
Average rate of tax in India [[i.e., ₹ 4,65,691/21,17,600 x 100]	21.991%	
Average rate of tax in Country X	15%	
Doubly Taxed income [Rental income of	16,03,600	

[4] *Royalty can also be shown under the head "Income from other sources" instead of "Profits and gains from business or profession.*

₹ 2,43,600 + royalty income of ₹ 13,60,000]	
Deduction under section 91 on ₹ 16,03,600 @15%, being lower average Indian tax rate and foreign tax rate.	2,40,540
Net tax liability	**2,25,151**
Net tax liability (rounded off)	**2,25,150**

3. **(a)** As per section 115TD, the accreted income of "M/s SN Charitable Trust", registered under section 12AB would be chargeable to tax at maximum marginal rate @ 34.944% [30% *plus* surcharge @12% *plus* cess@4%] for the reason of cancellation of registration.

Computation of exit tax payable by M/s SN Charitable Trust	
Particulars	**Amount (₹)**
Aggregate FMV of total assets as on 31.1.2025, being the specified date (date of order of cancellation of the registration) **[See Working Note 1]**	12,85,00,000
***Less**:* Total liability computed in accordance with the prescribed method of valuation **[See Working Note 2]**	3,05,00,000
Accreted Income	**9,80,00,000**
Tax Liability @ 34.944% of ₹ 9,80,00,000	**3,42,45,120**
Working Note 1:	
Aggregate fair market value of total assets on the date of cancellation of the registration	
Valuation of Land, being an immovable property purchased in the year 2009	-
[Value of land purchased in the year 2009 not includible in the aggregate fair market value, since the exemption provisions under section 11 and 12 would apply from P.Y.2012-13, being the previous year in which application for registration of trust is made]	
Valuation of Land and building, being an immovable property, purchased in 2015	10,50,00,000
[The fair market value of land and building would be higher of ₹ 1,000 lakhs i.e., price that the land	

and building would ordinarily fetch if sold in the open market as per registered valuer's certificate and ₹ 1,050 lakhs, being stamp duty value as on the specified date i.e., 31.1.2025]	
Valuation of Quoted equity shares in M/s XP Ltd. [2,000 x ₹ 1,075 per share] [The fair market value of quoted shares would be ₹ 1,075 per share, being the average of the lowest (₹ 1,051) and highest price (₹ 1,099) of such shares on the specified date i.e., 31.1.2025]	21,50,000
Balance in current account of a nationalized bank	10,00,000
Balance in fixed deposits with scheduled banks	2,00,00,000
Cash in hand	3,50,000
	12,85,00,000
Working Note 2 - Total liability	
Book value of liabilities in the balance sheet on specified date	11,35,00,000
Less: Capital fund	8,00,00,000
Less: Contingent liability on estimated basis to contractor for which no bills are received	30,00,000
Total liability of M/s SN Charitable Trust	**3,05,00,000**
The latest day on which such tax has to be paid is 14th April, 2025, being 14 days from 31.3.3025, the date on which the order confirming the cancellation is received.	

(b) (1) STP Ltd. and Fix Ltd. of Canada are deemed to be associated enterprises, since Fix Ltd., a Canadian company provides guarantee for loan of ₹ 9 crores taken by STP Ltd., which is 15% of the total borrowings (i.e., not less than 10%) of STP Ltd. i.e., ₹ 60 crores.

As per section 92B, the transactions entered into between STP Ltd. and Fix Ltd., two associate enterprises, for sale of bedsheets falls within the meaning of "international transaction".

As STP Ltd. has sold similar bedsheets to other dealers, being unrelated entity, at ₹ 2,300 per unit, the transactions between

STP Ltd. and such unrelated party can be considered as a comparable uncontrolled transaction for the purpose of determining the arm's length price of the transactions between STP Ltd. and Fix Ltd. However, such figure needs to be adjusted by the functional adjustments.

Computation of ALP of transaction between STP Ltd. and Fix Ltd.

Particulars	Amount (in ₹)
Selling price of each bedsheets to unrelated dealers in Canada	2,300
Add: Adjustment of cost of credit [STP Ltd. provides credit for 1 month to unrelated entity whereas it provided credit period of 3 months to Fix Ltd. Therefore, adjustment for the cost of such credit has to be carried out to arrive at arm's length price. (12% x 2,300 x 2/12)]	46
Arm's length price of 1 unit of bedsheets	**2,346**
Arm's length price of 4 lakh units of bedsheets (A)	93,84,00,000
Sale price of 4 lakh units of bedsheets by STP Ltd. to Fix Ltd. (associated enterprise) (B) [2,200 x 4,00,000]	88,00,00,000
Amount to be added to STP Ltd.'s total income by way of ALP adjustment	**5,84,00,000**

(2) Where the primary adjustment to transfer price has been made *suo moto* by STP Ltd. in its return of income, the time limit for the repatriation of such excess money (i.e., ₹ 584 lakhs) available with the associated enterprise (i.e., STP Ltd.) is within 90 days from 30.11.2025, being the due date of filing of return u/s 139(1) i.e., 28.2.2026.

(3) The excess money (i.e., ₹ 584 lakhs) available with the associated enterprise (i.e., Fix Ltd.) not repatriated to India within 90 days from the due date of filing return of income u/s 139(1) would be deemed as an advance made by the STP Ltd. to its associated enterprise, Fix Ltd.

Interest would be calculated on such advance at the rate of one year marginal cost of fund lending rate of SBI as on 1st April of the relevant previous year i.e., 1.4.2025 + 3.25%, since the international transaction is denominated in Indian rupee.

Option to pay additional income-tax, if the excess money not repatriated

STP Ltd. has the option to pay additional income-tax @20.9664% (tax @18% plus surcharge @12% plus cess@4%) on excess money (i.e., ₹ 584 lakhs), in lieu of repatriation of such excess money.

Where additional income-tax is so paid by STP Ltd., it will not be required to make secondary adjustment and compute interest from the date of payment of such tax.

The additional income-tax so paid by STP Ltd. would be treated as the final payment of tax in respect of excess money not repatriated and no further credit would be allowed to STP Ltd. or to any other person in respect of the amount of additional income-tax so paid.

4. **(a)** (i) Section 194N, provides that every person, including, *inter alia*, a banking company, who is responsible for paying, in cash, any sum or aggregate of sums exceeding ₹ 1 crore during the previous year to any person from one or more accounts maintained by such recipient-person with it, shall deduct tax at source @2% of sum exceeding ₹ 1 crore.

In the present case, M/s Kite & Co. LLP has withdrawn ₹ 1.26 crores in cash in aggregate during the previous year 2024-25. Since aggregate amount of cash withdrawals exceed ₹ 1 crore, bank is required to deduct tax at source on the amount exceeding ₹ 1 crore i.e., ₹ 26 lakhs though he withdraws ₹ 68 lakhs for buying agricultural produce from farmers, agriculturists, being raw material required for manufacturing of finished products by it.

(ii) Any person responsible for paying interest (other than interest referred to in section 194LB or section 194LC or section 194LD) or any other sum chargeable to tax (other than

salaries) to a non-corporate non-resident or to a foreign company is liable to deduct tax at source at the rates in force.

Since interest of ₹ 98,000 on Capital Gains Bond issued by Power Finance Corporation Ltd. is taxable in the hands of Mr. Ajay, being a non-resident, the provisions for tax deduction at source under section 195 are attracted in this case.

(b) When an assessee is in default or is deemed to be in default in making a payment of tax, the TRO may draw up under his signature a statement in the prescribed form specifying the amount of arrears due from the assessee and shall proceed to recover from such assessee the amount specified in the certificate by *inter alia* attachment and sale of the assessee's movable or immovable property.

The assessee's movable or immovable property shall include any property which has been transferred, directly or indirectly by the assessee to his spouse or minor child or son's wife or son's minor child, otherwise than for adequate consideration, and which is held by, or stands in the name of any of the persons aforesaid.

In the present case, Mr. Pramod had transferred his land 5 years ago to his son who was 30 years old at that time. He also gifted a diamond necklace to his son's wife on 5.10.2021. He also has bank fixed deposits, receivables from T & Co. Ltd.

The Tax Recovery Officer can proceed to recover the tax by attaching -

(i) bank fixed deposits,

(ii) receivables from T & Co. Ltd.;

He can also proceed to recover the tax by attaching the diamond necklace gifted to his son's wife.

However, he cannot proceed to recover the tax by attaching the land which he transferred to his son, since at the time of transfer, his son was major.

(c) If an Indian company, being the borrower, incurs any expenditure by way of interest in respect of any debt issued by its non-resident associated enterprise and such interest exceeds ₹ 1 crore, then, the interest paid or payable by such Indian company in excess of 30%

of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is lower, shall not be allowed as deduction as per section 94B.

Further, where the debt is issued by lender which is not associated enterprise but an associated enterprise provides an implicit or explicit guarantee to such lender, such debt shall be deemed to have been issued by an associated enterprise and limitation of interest deduction would be applicable.

In the present case, since SAM Ltd., a Country Y company, holds 36% share in XYZ Ltd., an Indian company, i.e., more than 26% of voting power, SAM Ltd. and XYZ Ltd. are deemed to be associated enterprise.

Since loan of ₹ 120 crores taken by XYZ Ltd., an Indian company from L & T Inc., Country R company, is guaranteed by SAM Ltd., an associated enterprise, such debt shall be deemed to have been issued by an associated enterprise and interest paid or payable to L & T Inc. shall be considered for the purpose of limitation of interest deduction under section 94B.

Computation of income under the head profits and gains of business or profession of XYZ Ltd

Particulars		Amount (in lakhs)
Interest allowable u/s 94B for A.Y. 2024-25		
Gross Profit		2,030
Less: Employee benefits expenses		390
EBITDA		**1,640**
Interest paid or payable to L & T Inc.		562
Lower of the following would be disallowed		
- Total interest paid or payable in excess of 30% of EBITDA [₹ 562 lakhs – ₹ 492 lakhs (i.e., 30% of ₹ 1,640 lakhs)]	₹ 70 lakhs	
- Interest paid or payable to L & T Inc.	₹ 562 lakhs	

Interest to be disallowed as deduction for A.Y. 2024-25, which can be carried forward up to 8 assessment years		70
Interest allowable u/s 94B for A.Y. 2025-26		
Gross Profit		1,780
Less: Employee benefits expenses		402
EBITDA		**1,378**
Interest paid or payable to L & T Inc.		389
Lower of the following would be disallowed		
- Total interest paid or payable in excess of 30% of EBITDA [₹ 389 lakhs – ₹ 413.40 lakhs (30% of ₹ 1378 lakhs)]	Nil	
- Interest paid or payable to L & T Inc.	₹ 389 lakhs	
Interest to be disallowed as deduction for A.Y. 2025-26		Nil
Brought forward interest of A.Y. 2024-25 allowed as deduction against profits and gains of A.Y. 2025-26 to the extent of maximum allowable interest expenditure u/s 94B i.e., ₹ 24.4 lakhs [₹ 413.40 lakhs – ₹ 389 lakhs]		
Total interest allowed in A.Y. 2025-26 [₹ 389 lakhs + ₹ 24.40 lakhs)		413.40
Balance of amount of interest relating to A.Y. 2024-25 is eligible for carried forward i.e., ₹ 45.60 lakhs (₹ 70 lakhs minus ₹ 24.40 lakhs) to 7 more subsequent assessment years.		
Income under the head profit and gains of business or profession of XYZ Ltd. for A.Y. 2025-26		
EBITDA		1,378.00
Less: Interest (maximum interest allowable as deduction u/s 94B)		413.40
Depreciation (As per the Income-tax Act, 1961)		254.00
		710.60

5. (a) (i) **Issue Involved:** The issue under consideration is whether the arm's length price (ALP) determined by the Tribunal, which is the final fact-finding authority, is final and cannot be the subject matter of scrutiny by the High Court as it does not give rise to a substantial question of law.

Relevant provision of law: As per section 260A(1), an appeal shall lie to the High Court from every order passed in appeal by the Appellate Tribunal, if the High Court is satisfied that the case involves a substantial question of law.

Analysis & Conclusion: The High Court have the powers to consider the substantial question of law involving determination of arm's length price (ALP):

- While determining the ALP, the Tribunal has to follow the guidelines stipulated under Chapter X of the Income-tax Act, 1961, namely, sections 92 to 92F of the Act and Rules 10A to 10E of the Income-tax Rules, 1962. Any determination of the ALP under Chapter X not in accordance with the relevant provisions of the Income-tax Act, 1961 and Rules can be considered as perverse and it may be considered as a substantial question of law as perversity itself can be said to be a substantial question of law. Therefore, there cannot be any absolute proposition of law that in all cases where the Tribunal has determined the ALP, the same is final and cannot be the subject matter of scrutiny by the High Court in an appeal under section 260A.

  When the determination of the ALP is challenged before the High Court, it is always open for the High Court to consider and examine whether the ALP has been determined while taking into consideration the relevant guidelines under the Act and the Rules.

- The High Court can examine the question of comparability of two companies or selection of filters and examine whether the same is done judiciously and on the basis of the relevant material/evidence on record. The High Court can also examine whether the comparable transactions have been taken into

consideration properly or not, i.e., to the extent as to whether non-comparable transactions are considered as comparable transactions or not.

Therefore, in an appeal challenging the determination of the arm's length price, it is always open for the High Court to examine in each case, within the parameters of section 260A, whether while determining the ALP, the guidelines laid down under the Income-tax Act, 1961 and the Income-tax Rules, 1962 are followed or not and whether the determination of the ALP and the findings recorded by the Tribunal while determining the ALP are perverse or not.

The statement is, therefore, not correct.

Note *– The facts given in the question are similar to the facts in SAP Labs India Pvt. Ltd. v. ITO [2023] 454 ITR 121 wherein the issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case.*

(ii) **Issue Involved:** The issue under consideration is whether the powers under section 254(2) can be exercised by the Tribunal to recall an order and rehear the entire appeal on merits.

Relevant provision of law: Section 254(1) empowers the Appellate Tribunal to pass such order thereon as it thinks fit, after giving both the parties to the appeal an opportunity of being heard.

Under section 254(2), the Appellate Tribunal, may amend an order passed by it u/s 254(1) with a view to rectifying any mistake apparent from the record.

Analysis & Conclusion: The power u/s 254(2) is limited to rectification of a mistake apparent on record and therefore, the Tribunal must restrict itself within those parameters.

A detailed order was passed by the Tribunal upholding the order passed by the Assessing Officer. While allowing the application u/s 254(2) and recalling its earlier order, the

Tribunal had reheard the entire appeal on the merits as if the Tribunal was deciding the appeal against the order passed by the Commissioner (Appeals). The subsequent order passed by the Tribunal recalling its earlier order was beyond the scope and ambit of the powers u/s 254(2) and is not tenable in law.

Note *– The facts given in the question are similar to the facts in Reliance Telecom Ltd./Reliance Communications Ltd. (2022) 440 ITR 1 wherein the issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case.*

(iii) **Issue Involved:** The issue involved in this case is whether Mr. Yatin's application, for adjustment of tax liability on income surrendered during search by sale of seized gold bars, can be entertained where assessment has not been completed.

Relevant provision of law: The provision contained in section 132B(1) lays down the manner in which the assets seized under section 132 may be dealt with. An assessee is entitled to make an application to the Assessing Officer for adjustment of seized assets towards existing tax liability.

Analysis & Conclusion: Here, the application by the assessee is not for adjustment of any existing liability, but towards the tax liability. In the said provision, the expression used is "the amount of the liability determined". "A liability is determined" only on completion of the assessment. Until the assessment is complete, it cannot be postulated that a liability has been crystallized.

Accordingly, the action of the Assessing Officer rejecting the application on the ground that such action can be taken only after the assessment is completed and a demand has been quantified, is justified.

Note - *The facts given in the question are similar to the facts in Hemant Kumar Sindhi & Another v. CIT (2014) 364 ITR 555 wherein the issue came up before the Allahabad High Court.*

The above answer is based on the rationale of the Allahabad High Court in the said case.

(b) BEPS Action Plan 13 contains a three-tier standardized approach to transfer pricing documentation which consists of:

(i) **Master file**: Master file requires MNEs to provide tax administrations with high-level information regarding their global business operations and transfer pricing policies. The master file is to be delivered by MNEs directly to local tax administrations.

(ii) **Local file**: Local file requires maintaining of transactional information specific to each country in detail covering related-party transactions and the amounts involved in those transactions. In addition, relevant financial information regarding specific transactions, a comparability analysis and analysis of the selection and application of the most appropriate transfer pricing method should also be captured. The local file is to be delivered by MNEs directly to local tax administrations.

(iii) **Country-by-country (CBC) report**: CBC report requires MNEs to provide an annual report of economic indicators viz. the amount of revenue, profit before income tax, income tax paid and accrued in relation to the tax jurisdiction in which they do business. CBC reports are required to be filed in the jurisdiction of tax residence of the ultimate parent entity, being subsequently shared between other jurisdictions through automatic exchange of information mechanism.

A specific reporting regime in respect of CbC reporting and also the master file has been incorporated in the Income-tax Act, 1961. The essential elements have been incorporated in the Income-tax Act, 1961 while remaining aspects would be dealt with in detail in the Income-tax Rules, 1962.

(i) Section 286 of the Income-tax Act, 1961 contains the provisions relating to CbC reporting requirement and related matters.

(ii) Section 92D of the Income-tax Act, 1961 contains the provisions relating to maintenance and furnishing of Master file.

6. **(a)** In clause 34(a) of Form 3CD, the tax auditor is required to report whether the assessee is required to deduct or collect tax as per the provisions of Chapter XVII-B or Chapter XVII-BB, and if yes, to furnish the details mentioned thereunder. While answering the issue of applicability of the provisions of Chapter XVII-B and/or XVII-BB, a number of debatable issues may arise before the assessee as well as the tax auditor. The tax auditor may have a difference of opinion with regard to the applicability of the provisions of TDS/TCS on a particular payment. In such a case, the tax auditor has to report the difference of opinion appropriately as an observation in para 3 of Form 3CA. This requirement is contained in the Guidance Note on Tax Audit.

Also, in clause 21(b)(ii) of Form 3CD, the amount inadmissible under section 40(a)(ia) has to be mentioned.

In case the tax auditor does not comply with the reporting requirements under these clauses and fails to mention the difference of opinion appropriately as an observation in para 3 of Form 3CA, clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for not exercising due diligence may be invoked.

(b) **Computation of tax liability of SD Ltd. for A.Y. 2025-26 under regular provisions of the Act**

Particulars	₹
Total Income before allowing additional depreciation	22,00,000
Less: Additional Depreciation u/s section 32(1)(iia)[₹ 12 lakh x 20%]	2,40,000
Total Income	**19,60,000**
Applicable Tax Rate (since turnover of P.Y. 2022-23 < ₹ 400 crores)	25%
Tax payable	4,90,000

Add: Health & Education cess@4%	19,600
Tax Liability	**5,09,600**

Computation of tax liability of SD Ltd. for A.Y. 2025-26 under section 115BAA

Particulars	₹
Total Income before allowing additional depreciation	22,00,000
Less: Additional Depreciation u/s section 32(1)(iia) [not allowable as deduction while computing income u/s 115BAA]	-
Total Income	**22,00,000**
Applicable Tax Rate	22%
Tax payable	4,84,000
Add: Surcharge@10%	48,400
	5,32,400
Add: Health & Education cess@4%	21,296
Tax Liability	**5,53,696**
Tax Liability (rounded off)	**5,53,700**

Since tax payable as per the regular provisions of the Act is lower than the tax payable under the provisions of section 115BAA, it would be beneficial for SD Ltd. not to opt for section 115BAA.

(c) Computation of total income and tax liability of Strawberry Ltd., a non-resident German company, for the A.Y. 2025-26

Particulars	₹
Profits and gains from business or profession	
Business Income from a unit established at Mumbai	8,00,000
Income from other sources	
- Dividend income from XY Ltd. an Indian company	12,50,000
- Fees for technical services [would be equivalent to the amount of debentures of ₹ 20,00,000 received from an Indian	20,00,000

company, issued in consideration of providing technical knowhow]	
- Interest on Debentures [₹ 20,00,000 x 8% x 6/12]	80,000
- Dividend on Global Depository Receipts (GDRs) of Y Ltd. an Indian company, issued under a scheme of Central Government against the initial issue of Y Ltd. and purchased in foreign currency by Strawberry Ltd.	5,50,000
- Royalty income received from Z Ltd. an Indian company in pursuance of an agreement approved by Central Government	10,00,000
Gross Total Income/ Total income	**56,80,000**
Computation of tax liability	
Dividend income of ₹ 12,50,000, taxable @20% u/s 115A	2,50,000
Dividend on GDRs of ₹ 5,50,000, taxable @10% u/s 115AC	55,000
Royalty income of ₹ 10,00,000, taxable @20% u/s 115A, since it is in pursuance of an agreement approved by the Central Government	2,00,000
FTS of ₹ 20,00,000, taxable @35%, since it is not in pursuance of an agreement approved by the Central Government	7,00,000
Interest on debentures of ₹ 80,000, taxable @35%, since debt is incurred in Indian currency, it is not eligible for concessional rate of 20% u/s 115A	28,000
Business income of ₹8,00,000 [taxable @35%]	2,80,000
	15,13,000
Add: Health and education cess@4%	60,520
Tax liability	**15,73,520**

ANSWERS OF MODEL TEST PAPER 2

FINAL COURSE

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(c)	9.	(c)
2.	(c)	10.	(b)
3.	(a)	11.	(c)
4.	(c)	12.	(b)
5.	(c)	13.	(a)
6.	(d)	14.	(a)
7.	(b)	15.	(b)
8.	(d)		

Division B – Descriptive Questions

1. Computation of total income and tax liability of Sheetal Ltd. for A.Y.2025-26 under the regular provisions of the Act

Particulars	₹	₹
Profits and gains of business or profession		
Net profit from Chemical manufacturing unit, Jaipur	3,00,00,000	
***Add:* Items debited but to be disallowed**		
- **Royalty on which tax is not deducted**	3,00,000	
[30% of ₹ 10 lakhs, being payment of royalty without deduction of tax would be disallowed under section		

40(a)(ia) while computing the business income of A.Y.2025-26. However, since the payee has admitted the income, paid tax and filed his return of income before due date, the same would be allowable in the P.Y. 2025-26 relevant to A.Y.2026-27, being the year in which tax was deducted and paid]		
- **Employer's contribution to notified pension scheme** [As per section 36(1)(iva), employer's contribution to the account of an employee under a Pension Scheme as referred to in section 80CCD would be allowed as deduction while computing business income only to the extent of 14% of salary and DA of the employee in the previous year. Therefore, ₹ 11,20,000 representing the excess 1% (i.e., ₹ 1,68,00,000 x 1%/15%) debited to profit and loss account has to be added back while computing business income]	11,20,000	
		3,14,20,000
Net profit from Furniture manufacturing unit, Pune	90,00,000	
***Add:* Items debited but to be disallowed or to be treated separately**		
- **Trademark** [Trademark is an intangible asset which is eligible for depreciation as per section 32. Since purchase cost of trademark has been debited to profit and loss account, the same has to be added back	25,00,000	

while computing business income]		
- **Interest on loan taken from a non-resident**	NIL	
[No disallowance under section 40(a)(i) is attracted in respect of interest, since tax has been deducted during the P.Y. 2024-25 and remitted on or before the due date of filing of return of income for A.Y. 2025-26]		
- **Income-tax paid on non-monetary perquisites**	7,00,000	
[As per section 40(a)(v), tax paid by employer on non-monetary perquisites is not allowable as deduction. Since the same has been debited to profit and loss account, the same has to be added back while computing business income]		
	1,22,00,000	
Less: Depreciation on trademark u/s 32 [₹ 25 lakhs x 25%]	6,25,000	
		1,15,75,000
Net profit from Fertilizer producing unit, Narmada	2,20,00,000	
***Add:* Items debited but to be disallowed or to be treated separately**		
- Depreciation on building of ₹ 25 lakhs and on plant and machinery of ₹ 45 lakhs	70,00,000	
[As per section 35AD, no deduction would be allowed under any other section in any previous year in respect of capital expenditure referred to in section 35AD. Hence, depreciation on building and plant and machinery is not allowable as		

deduction and the same has to be added back.]			
		2,90,00,000	
***Less*:** Deduction u/s 35AD [Since fertilizer unit commenced operation on or after 1.4.2011, it is a specified business eligible for 100% deduction u/s 35AD in respect of capital expenditure. However, deduction is not available on expenditure incurred on acquisition of land. Deduction u/s 35AD is ₹ 5.50 crores, being ₹ 2.50 crore on building and ₹ 3 crore on plant and machinery. Since it is more beneficial for the company to claim deduction u/s 35AD, it is assumed that the company has opted to claim such deduction.]		5,50,00,000	
As per section 73A, loss from the specified business u/s 35AD can be set-off only against profits from another specified business. Since there is no other specified business, such loss has to be carried forward to A.Y. 2026-27.		(2,60,00,000)	
Net profit from Warehousing facility for storage of edible oils at Delhi		70,00,000	
***Less:* Depreciation u/s 32**			
On building of ₹ 3 crores@10%	30,00,000		
On Plant & machinery of ₹ 5 crores@15%	75,00,000	1,05,00,000	
As per section 70(1), Business loss from one source is allowed to be set off from other source under the same head.			(35,00,000)
Net profit of Sheetal Ltd.			**3,94,95,000**
***Add:* Interest on share application money deposited in bank**			-
[The interest on share application money deposited in a bank is not liable to be taxed**,** as the deposit was not for making additional income but to comply with the statutory			

requirement. The interest accrued on such deposit is merely incidental. The interest is eligible for set-off against share issue expenses.[5]]		3,94,95,000
Income from Other Sources		
Dividend from ABC Inc., a foreign company		56,00,000
Gross Total Income		**4,50,95,000**
Less: Deduction under section 80M [In respect of inter-corporate dividends to the extent of dividend distributed by it one month prior to the date for filing return of income u/s 139(1)]		40,00,000
Total Income		**4,10,95,000**
Computation of tax liability under the regular provisions of the Act		
Tax liability on ₹ 4,10,95,000@25% [Since the turnover of the company for the previous year 2022-23 does not exceed ₹ 400 crore]		1,02,73,750
Add: Surcharge @ 7%, since the total income of the company > ₹ 1 crore but ≤ ₹ 10 crores		7,19,163
		1,09,92,913
Add: Health and education cess @ 4%		4,39,717
Tax liability		**1,14,32,630**

Computation of tax liability of Sheetal Ltd. for the A.Y. 2025-26 under section 115JB

Particulars	₹
Minimum Alternate Tax @15% on book profit of ₹ 5,20,00,000	78,00,000
Add: Surcharge@7%, since the book profit of the company > ₹ 1 crore but ≤ ₹ 10 crores	5,46,000
	83,46,000

[5] *CIT v. Sree Rama Multi Tech Ltd. [2018] 403 ITR 426 (SC)*

Add: Health and Education cess@4%	3,33,840
Tax liability under section 115JB	**86,79,840**

Since the regular income-tax liability is more than the minimum alternate tax liability, Sheetal Ltd. is liable to pay tax under normal provisions of the Act.

Tax liability under the regular provisions of the Income-tax Act, 1961	1,14,32,630
Less: MAT Credit of A.Y. 2016-17	20,00,000
	94,32,630

Note - *Sheetal Ltd. is eligible for concessional rate under section 115BAA @25.168% i.e., tax@22% plus surcharge@10% plus HEC@4% subject to tax at the rates mentioned in the said sections in Chapter XII. In case Sheetal Ltd. opted for concessional rate of tax u/s 115BAA, it would not be eligible for deduction u/s 35AD in respect of fertilizer producing unit, however, it can claim depreciation u/s 32 on building and plant and machinery. In that case, its total income u/s 115BAA would be -*

Particulars	₹
Profit from Chemical manufacturing unit, Jaipur	3,14,20,000
Profit from Furniture manufacturing unit, Pune	1,15,75,000
Profit from Fertilizer producing unit, Narmada	2,20,00,000
Profit from Warehousing facility for storage of edible oils at Delhi	(35,00,000)
	6,14,95,000
Dividend from ABC Inc., a foreign company	56,00,000
Gross Total Income	6,70,95,000
Less: Deduction under section 80M [In respect of inter-corporate dividends to the extent of dividend distributed by it one month prior to the date for filing return of income u/s 139(1)]	40,00,000
Total Income	6,30,95,000

Tax liability under section 115BAA (22% + surcharge 10% + HEC 4%) = 25.168% on ₹ 6,30,95,000	
Tax liability	1,58,79,750
Suggestion to Sheetal Ltd. Sheetal Ltd. should not opt for section 115BAA for assessment year 2025-26, since the tax liability under section 115BAA is higher under the regular provisions of the Act and section 115JB.	

2. (a) Tax treatment in the hands of ABC LLP on conversion of ABC Pvt. Ltd. into ABC LLP

(i) Business loss of ₹ 54 lakhs (relating to P.Y. 2020-21)

As per section 72A(6A), the business loss of ₹ 54 lakhs of ABC Pvt. Ltd. would be deemed to be the loss of ABC 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, ABC 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 ABC Pvt. Ltd. into ABC 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%) = ₹ 14 lakhs x 15% = ₹ 2,10,000

Building (10%) = ₹ 40 lakhs x 10% = ₹ 4,00,000

In the hands of ABC LLP (for 182 days)

Plant and machinery (15%) = ₹ 2,10,000 x 182/365 = ₹ 1,04,712

Building (10%) = ₹ 4,00,000 x 182/365 = ₹ 1,99,452

WDV in the hands of ABC LLP

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

WDV of P & M (15%) = ₹ 14 lakhs – ₹ 1,04,712 ₹ = ₹ 12,95,288

WDV of Building (10%) = ₹ 40 lakhs – ₹ 1,99,452 ₹ = ₹ 38,00,548

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 ABC Pvt. Ltd. and ABC LLP.

(iii) Cost of land acquired in 2012 at ₹ 80 lakhs (Market value ₹ 120 lakhs)

The cost of acquisition of land in the hands of ABC LLP would be the cost for which ABC Pvt. Ltd. acquired it, i.e., ₹ 80 lakhs.

(iv) Expenditure on voluntary retirement benefit of ₹ 28 lakhs

As per section 35DDA, in case of conversion of ABC Pvt. Ltd. into ABC LLP, deduction would be available to ABC LLP for the remaining periods from the previous year in which conversion took place. Since deduction of ₹ 5.6 lakhs each has been claimed by ABC Pvt Ltd. in P.Y. 2022-23 and P.Y. 2023-24, ABC LLP would be eligible for deduction of ₹ 5.6 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 ₹ 8.6 lakhs

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

(vi) Unabsorbed depreciation of ₹ 48 lakhs

As per section 72A(6A), ABC LLP would be able to carry forward and set-off the unabsorbed depreciation of ₹ 48 lakhs of ABC Pvt. Ltd.

However, if subsequent to the conversion, ABC 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.

(b) Since Mr. Mani Prasad is resident in India for the P.Y.2024-25, his global income would be subject to tax in India. Therefore, income earned by him in Country M and Country N would be taxable in India. He would, however, be entitled to deduction under section 91, since India does not have a DTAA with Country M and Country N, and all conditions under section 91 are satisfied.

Computation of total income of Mr. Mani Prasad for A.Y. 2025-26

Particulars	₹	₹
Income under the head "Salaries"		
Pension from State Government	4,80,000	
Less: Standard deduction u/s 16(ia) [Allowable as per section 115BAC]	75,000	
		4,05,000
Income from House Property		
Rental income from property in Country N[6]	3,20,000	
Less: Municipal taxes	21,000	
	2,99,000	
Less: Deduction u/s 24(a)@30%	89,700	
		2,09,300
Profits and Gains of Business or Profession		
Speculative income in India	1,56,000	

[6] *In the absence of any information relating to fair rent, municipal value and standard rent, rental income is assumed to be the gross annual value.*

Less: Set-off of business loss from proprietary business in Country N under section 70	1,16,000	
		40,000
Capital Gains		
Short-term capital gains on sale of plot in India		3,20,000
Income from Other Sources		
Agricultural income from Country M [not exempt u/s 10(1), since it is earned from land situated outside India]	86,000	
Dividend from a company in Country M	68,000	
		1,54,000
Gross Total Income		11,28,300
***Less:* Deduction under Chapter VI-A [No deduction allowable as per section 115BAC]**	-	-
Total Income		11,28,300

Computation of net tax liability of Mr. Mani Prasad for A.Y.2025-26

Particulars		₹
Tax on ₹ 11,28,300		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 to ₹ 7,00,000 @5%	20,000	
₹ 7,00,001 to ₹ 10,00,000 @10%	30,000	
₹ 10,00,001 to ₹ 11,28,300 @15%	19,245	
		69,245
Add: Health and education cess@4%		2,770
		72,015
Less: Rebate under section 91 **(See Working Note below)**		10,154
Net tax liability		**61,861**
Net tax liability (Rounded off)		**61,860**

Calculation of Rebate under section 91:	₹	
Average rate of tax in India [i.e., ₹ 72,015/ ₹ 11,28,300 x 100] = 6.3826%		
Doubly taxed income pertaining to Country M		
Agricultural income	86,000	
Dividend from a company in Country M [Not includible, since exempt in Country M]	-	
	86,000	
Rebate under section 91 on ₹ 86,000 @6.3826% [being the lower of average Indian tax rate (6.3826%) and Country M tax rate (10%)]		5,489
Doubly taxed income pertaining to Country N		
Income from house property *less* business loss set-off against income chargeable to tax in India (₹ 2,09,300 – ₹ 1,16,000)	93,300	
Rebate under section 91 on ₹ 93,300 @5% [being the lower of average Indian tax rate (6.3826%) and Country N tax rate (5%)]		4,665
Total rebate under section 91 (Country M + Country N)		**10,154**

3. (a) (i) As per section 11(1A), where a capital asset held under trust (building, in this case) is transferred and only a part of the net consideration is utilized for acquiring another capital asset, the amount of capital gains deemed to have been utilised for charitable or religious purposes shall be the excess of the proceeds utilised over the cost of the asset transferred.

In the present case, short-term capital gain of ₹ 2,00,000 [₹ 4,20,000 *less* ₹ 2,20,000] would arise on transfer of building held under trust, as building is held for a period of not more

than 24 months. Further, the trust has invested part of the net consideration i.e., ₹ 3,00,000 out of ₹ 4,20,000, in fixed deposits for the tenure of 2 years.

Where the net consideration on sale of a capital asset is invested in fixed deposits, it is regarded as utilised for acquiring another capital asset[7]. Accordingly, capital gains utilised for investing in fixed deposits is deemed to be applied for charitable purpose.

Since only a part of the net consideration of ₹ 3,00,000 out of ₹ 4,20,000 is utilized for investing in fixed deposits, the amount of short-term capital gains to the extent of ₹ 80,000 (being the excess of proceeds utilized i.e., ₹ 3,00,000 over cost of transferred asset i.e., ₹ 2,20,000) would be deemed to be utilised for charitable purpose.

The balance of ₹ 1,20,000 is taxable in the hands of the trust. Applying such income to the objects of the trust would make the transaction, tax neutral.

(ii) As per section 115BBC, anonymous donations received *inter alia* by trust or institution referred u/s 11 would be taxable @ 30% in excess of higher of -

- 5% of the total donations received by the assessee; or
- ₹ 1 lakh

However, the provisions of section 115BBC would not apply to anonymous donation received by trusts/institutions created or established wholly for religious and charitable purposes (i.e. partly charitable and partly religious institutions/trusts) other than anonymous donation made with a specific direction that such donation is for any university or other educational institution or any hospital or other medical institution run by such trust or institution.

In the present case, HelpAge trust is established for religious and charitable purposes and runs a temple and a school. During the P.Y. 2024-25, it received anonymous donation of

[7] *CIT v. Ambalal Sarabhai Trust No. 3 [1988] 173 ITR 683 (Guj)/ CIT v. Hindustan Welfare Trust [1994] 206 ITR 138 (Cal)/ CBDT instruction no. 883, dated 24.09.1975.*

₹ 3 crores for Temple and ₹ 8 crores for School. Since it received anonymous donation separately for temple and school, the provisions of section 115BBC would not be attracted in respect of donations of ₹ 3 crores received for Temple.

However, the provisions of section 115BBC would be attracted in respect of anonymous donation received for school.

(iii) Any voluntary contribution received by an electoral trust would be exempt, if such electoral trust:

(i) distributes to a registered political party during the previous year, 95% of the aggregate donations received by it during the year along with the surplus if any, brought forward from any earlier previous year and

(ii) functions in accordance with the rules made by the Central Government.

The electoral trust may, for the purposes of managing its affairs, spend up to 5% of the total contributions received in a year subject to an aggregate limit of ₹ 5 lakh in the first year of incorporation and ₹ 3 lakh in subsequent years.

The total contributions received in any financial year alongwith the surplus from any earlier financial year, if any, as reduced by the amount spent on managing its affairs, shall be the distributable contributions for the financial year.

In the present case, M/s XYZ, an electoral trust incorporated in the year 2022, received voluntary contributions of ₹ 420 lakhs and has brought forward surplus from earlier previous years is ₹ 18 lakhs. It spent ₹ 8 lakhs for the purpose of managing its affairs. However, it is eligible to spend ₹ 3 lakhs being lower of -

- ₹ 21 lakhs, being 5% of total contributions i.e., ₹ 420 lakhs or
- ₹ 3 lakhs, since P.Y. 2024-25, being the subsequent year

for the purpose of managing its affairs.

Accordingly, M/s XYZ, an electoral trust can distribute its distributable contribution of ₹ 435 lakhs [i.e., ₹ 420 lakhs *plus* ₹ 18 lakhs *less* ₹ 3 lakhs] as the same exceeds ₹ 416.10 lakhs (i.e., 95% of ₹ 438 lakhs).

(b) **(i)** Provision of scientific research services falls within the scope of international transaction under section 92B. Trax & Co. and Olive Inc. are deemed to be associated enterprises as per section 92A(2)(d), since Olive Inc. guarantees not less than 10% of the total borrowings of Trax & Co. Since there is an international transaction between associated enterprises, transfer pricing provisions are attracted in this case.

(ii) Where the Assessing Officer has made a primary adjustment of ₹ 310 lakhs to the transfer price and the same has been accepted by Trax & Co., secondary adjustment has to be made in the books of account as per section 92CE, since the primary adjustment made by the Assessing Officer and accepted by Trax & Co exceeds ₹ 100 lakhs and the primary adjustment is in relation to P.Y.2023-24.

The excess money determined based on the primary adjustment has to be repatriated to India within 90 days from the date of order, failing which the same would be deemed as an advance and interest would be computed at the one-year marginal cost of fund lending rate of State Bank of India as on 1.4.2025 + 3.25%, since the international transaction has been denominated in Indian Rupees.

In this case, since the excess money has not been repatriated within 90 days, the same would be deemed to be an advance made by Trax & Co. to Olive Inc. and interest would be computed @12.25% (9% + 3.25%) from 1.4.2025, being the date of the order of the Assessing Officer. The interest would amount to ₹ 37.975 lakhs (i.e., 12.25% of ₹ 310 lakhs) for the P.Y.2025-26.

Alternatively, Trax & Co. can opt to pay additional income-tax@20.9664% (tax@18% plus surcharge@12% plus cess@4%) on ₹ 310 lakhs, which would amount to ₹ 64,99,584. In such a case, secondary adjustment is not required to be made.

4. **(a)** As per section 269SU, Marigold Ltd. is required to provide facility for accepting payment through the prescribed electronic modes, in addition to the facility for other electronic modes of payment of debit card or credit card provided by Marigold Ltd., since its total turnover in business during the immediately preceding previous year. i.e., P.Y. 2023-24 is ₹ 70 crores, which exceeds the prescribed threshold of ₹ 50 crores.

Prescribed electronic modes are

(1) Debit Card powered by RuPay;

(2) Unified Payments Interface (UPI) (BHIM-UPI); and

(3) Unified Payments Interface Quick Response Code (UPI QR Code) (BHIM-UPI QR Code).

The failure to provide facility for electronic modes of payment prescribed under section 269SU by Marigold Ltd. would attract a penalty under section 271DB of a sum of ₹ 5,000, for every day during which such failure continues.

However, penalty shall not be imposed, if Marigold Ltd. proves that there were good and sufficient reasons for such failure. Further, any such penalty shall be imposed by the Joint Commissioner.

(b)

	₹
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	1,20,000
	8,50,000
Less: Standard deduction under section 16(ia)	75,000
	7,75,000
Tax Liability	28,600
Average rate of tax (₹ 28,600 / ₹ 7,75,000 × 100)	3.69%

The company can deduct ₹ 28,600 at source from the salary of the General Manager at the time of payment.

Alternatively, the company can pay tax on non-monetary perquisites as under –

Tax on non-monetary perquisites = 3.69% of ₹ 1,20,000 = ₹ 4,428

Balance to be deducted from salary = ₹ 24,172

If the company pays a tax of ₹ 4,428 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a)(v). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

(c) Capital gain arising in the hands of Angelo and James from transfer of a capital asset situated in India would be deemed to accrue or arise in India. Shares of Flix Inc., Country M, shall be deemed to be situated in India if those shares derive directly or indirectly, its value substantially from assets located in India.

Shares of Flix Inc. would be deemed to derive its value substantially from the assets located in India, if on the specified date, the fair market value of Indian assets (without reduction of liabilities) i.e., fair market value of assets of XYZ Co. –

- exceeds ₹ 10 crores; and
- represents at least 50% of the value of all the assets owned by the Flix Inc.

Specified date would be the date of transfer i.e., 1.6.2024 since book value of the assets of Flix Inc. on the date of transfer i.e., ₹ 1,300 crores exceed the book value of the assets as on the last balance sheet date preceding the date of transfer i.e., ₹ 1,000 crores by at least 15%.

Shares of Flix Inc. derives its value substantially from assets located in India since the fair market value of assets located in India (without reduction of liabilities) on 1.6.2024, being the specified date i.e., ₹ 600 crores exceed ₹ 10 crores and represents more than 50% i.e., 54.545% of the fair market value of assets of Flix Inc. i.e., ₹ 1,100 crores.

Hence, the shares of Flix Inc. would be deemed to be a capital asset situated in India and the capital gains from the transfer of shares of Flix Inc. by Angelo and James would be deemed to accrue or arise in India. Accordingly, the capital gains arising from transfer of shares of Flix Inc. would be taxable in the hands of Angelo and James in India as per Income-tax Act, 1961.

5. (a) (i) **Issue Involved:** The issue under consideration is whether the stay order can be automatically vacated upon expiry of extended period of stay of 365 days, where the delay in disposing of the appeal is not attributable to the assessee.

Relevant provision of law: The third proviso to section 254(2A) provides that where the appeal filed before the Appellate Tribunal is not disposed of within the period of stay or extended period of stay granted by the Tribunal, the order of stay shall stand vacated after the expiry of 365 days, even if the delay in disposing of the appeal is not attributable to the assessee.

Analysis & Conclusion: This provision would result in the automatic vacation of a stay upon the expiry of 365 days, even if the Appellate Tribunal could not take up the appeal in time for no fault of the assessee. Thus, the vacation of stay in favour of the Department would ensue even if the Department is itself responsible for the delay in hearing the appeal. This will cause undue hardship to the assessee, even where he is not at fault. In this sense, the provision is arbitrary and disproportionate so far as the assessee is concerned.

The contention of the revenue is **not** justified. Any order of stay shall stand vacated after the expiry of the period or periods mentioned in the section, only if the delay in disposing of the appeal is attributable to the assessee.

Note – *The facts given in the question are similar to the facts in DCIT v. Pepsi Foods Ltd (2021) 433 ITR 295, wherein the above issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court ruling in that case.*

(ii) **Issue Involved:** The issue under consideration is whether the participation by the assessee in assessment proceedings would make the omission to issue notice under section 143(2) a curable defect on account of the deeming provision under section 292BB.

Relevant provision of law: As per section 292BB, any notice which is required to be served upon an assessee shall be

deemed to have been duly served and the assessee would be precluded from taking any objection that the notice was -

(a) not served upon him; or

(b) not served upon him in time; or

(c) served upon him in an improper manner,

if he had appeared in any proceedings or co-operated in any enquiry relating to assessment or re-assessment.

Analysis & Conclusion: Issue of notice under section 143(2) is mandatory for making a regular assessment under section 143(3). Section 292BB is a deeming provision that seeks to cure defects in any notice issued under any provision of the Income-tax Act, 1961, if the assessee has participated in the proceedings.

For section 292BB to apply, the notice must have emanated from the Department. It is only the infirmities in the manner of service of notice that the section seeks to cure. The section is not intended to cure the complete absence of notice itself.

Accordingly, non-issuance of notice under section 143(2) is not a curable defect under section 292BB inspite of participation by the assessee in assessment proceedings.

In the present case, since the assessment of Mr. Sharma was completed u/s 143(3) without issuing notice u/s 143(2), the assessment is bad in law and not a curable defect u/s 292BB. Therefore, the contention of Mr. Sharma is valid and the contention of the Assessing Officer is invalid in spite of the fact that Mr. Sharma participated in the assessment proceedings.

***Note** – The facts given in the question are similar to the facts in CIT v. Laxman Das Khandelwal (2019) 417 ITR 325, wherein the issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case.*

(iii) **Issue Involved**: The issue under consideration is whether prosecution proceedings can be initiated where tax deducted has been deposited by the assessee *suo moto*, after the time

prescribed under the Act but before receiving notice from the income-tax department, along with interest under section 201(1A) and the assessee has shown reasonable cause for such delay.

Relevant provisions of law: Prosecution proceedings are attracted under section 276B, if a person fails to pay to the credit of the Central Government, the tax deducted at source by him as required under the provisions of the Act. The punishment is rigorous imprisonment for not less than 3 months but which may extend to 7 years and with fine.

Section 278AA, however, provides that no person would be punishable for such failure if he proves that there was reasonable cause for the same.

Analysis & Conclusion: The CBDT has, *vide Circular No. 24/2019 dated 9.9.2019*, in exercise of the powers under section 119, listed out the offences covered under Chapter XXII of the Income-tax Act, 1961 in respect of which prosecution proceedings shall be launched by Approving Authority being the Sanctioning Authority where the quantum of offences exceed the prescribed monetary threshold. Accordingly, in case of failure to pay TDS under section 276B or failure to pay TCS u/s 276BB, no prosecution will be processed if the TDS/TCS amount does not exceed ₹ 25 lakhs and delay in deposit is less than 60 days.

In this case, the company has reasonable and sufficient cause since it was facing financial hardship on account of large sum of money stuck up with the debtors and also with the income-tax department on account of refunds. Inspite of the financial crisis, the company has *suo moto* deposited the TDS along with interest under section 201(1A) of the Act, before receiving any notice from the income-tax department in this regard.

Since it has deposited the TDS along with interest *suo moto* before receiving any notice from the department and it has also shown reasonable cause for such delay in deposit, the company cannot be punishable for the delay in deposit of TDS. The initiation of prosecution proceedings under section

276B against the company and the directors is, therefore, **not** correct.

Note *- The facts given in the question are similar to the facts in ACIT v. AT-Dev Prabha (JV) and others (2023) 454 ITR 59, wherein the above issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case read along with the CBDT Circular.*

(b) In addition to allocating the taxing rights and elimination of double taxation, there are various other important considerations while entering into a tax treaty, as mentioned below:

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

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

(i) **Equity and fairness:** Same income earned by different taxpayers must be taxed at the same rate regardless of the source of income.

(ii) **Neutrality and efficiency:** Neutrality factor provides that economic processes should not be affected by external factors such as taxation. Neutrality is two-fold.

(a) Capital export neutrality and

(b) Capital import neutrality (CIN).

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

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

6. **(a)** **(i)** In the present case, Shiva Ltd., an Indian company has 2 manufacturing units, unit X in the SEZ and unit Y in non-SEZ. Though unit X only does the packaging of goods manufactured by unit Y, the company, in its books of account, shows the goods manufactured by unit Y as manufacture of goods by unit X to enjoy exemption under section 10AA. This is a case of misrepresentation of facts by showing manufacture of non-SEZ unit as manufacture of SEZ unit. Hence, this is an arrangement of tax evasion and not tax avoidance.

Tax evasion, being unlawful, can be dealt with directly by establishing correct facts. GAAR provisions need not be invoked in such a case.

(ii) In this case, goods manufactured by unit N, a non-SEZ unit, being a non-eligible business, are transferred to unit M, a SEZ unit, being an eligible business, at a price significantly lower than the market value of the goods to claim higher deduction under section 10AA in respect of unit M.

As there is no misrepresentation of facts or false submissions, it is not a case of tax evasion. The company has tried to take advantage of tax provisions by diverting profits from non-SEZ unit to SEZ unit. However, this is not the intention of the legislation.

Such tax avoidance is specifically dealt with through the provisions contained in section 10AA(9), as per which provisions of section 80-IA(8) would get attracted in such a case. Further, if the aggregate of such transactions entered into in the relevant previous year exceed the threshold of ₹ 20 crore, domestic transfer pricing regulations under section 92BA would be attracted. Hence, the Revenue need not invoke GAAR in such a case, though GAAR and SAAR can co-exist as per clarification given in the CBDT Circular.

(b) Deduction under section 80JJAA is allowable to an assessee to whom section 44AB applies and whose gross total income includes any profits and gains derived from business, in respect of employment of new employees. The amount of deduction is 30% of additional employee cost incurred in the course of such business in

the previous year, for three assessment years including the assessment year relevant to the previous year in which such employment is provided.

"Additional employee cost" means the total emoluments paid or payable to additional employees employed during the previous year. However, in the case of an existing business, the additional employee cost shall be nil, if emoluments are paid otherwise than by an account payee cheque or account payee bank draft or use of ECS through bank account or other prescribed electronic mode.

"Emoluments" means any sum paid or payable to an employee in lieu of his employment by whatever name called but does not include, *inter alia*, contribution by employer to provident fund.

"Additional employee" means an employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year, but does not include, inter alia, an employee whose total emoluments are more than ₹ 25,000 p.m.

In this case, the contention of the chartered accountant that the emoluments do not include employer contribution to PF is correct. However, emoluments include ₹ 3,500 paid in cash by way of transport allowance to the employee. Hence, the total emoluments per employee is ₹ 28,000 p.m. Due to this reason, the 30 employees employed on 1.4.2024 will not qualify as "additional employees" for the purpose of deduction under section 80JJAA, since their total emoluments are more than ₹ 25,000 p.m. Hence, Right & Co. is not eligible for any deduction under section 80JJAA due to failure to fulfil the condition for being treated as an "additional employee". In this case, the chartered accountant has failed to ensure compliance with the condition stipulated for claim of deduction under section 80JJAA and has wrongly issued the report in Form 10DA certifying the deduction claimed by the assessee under section 80JJAA.

Also, clause 33 of Form 3CD requires section-wise details of deductions, if any, admissible under Chapter VI-A. Here again, the tax auditor has to ensure that the assessee fulfils all the conditions specified in the section under which the deduction is claimed. However, in this case, the tax auditor has failed to do so.

On account of such failure, clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 may be invoked.

(c) Advance ruling pronounced by Board for Advance Rulings is not binding on LT 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 sixty days from the date of the communication of that ruling or order, in the prescribed form and manner.

Accordingly, if LT 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 LT Co. Ltd. in this behalf, that it was prevented by sufficient cause from presenting the appeal within the 60 days period as specified above.

ANSWERS OF MODEL TEST PAPER 3

FINAL COURSE: GROUP II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(d)	9.	(d)
2.	(b)	10.	(d)
3.	(a)	11.	(b)
4.	(b)	12.	(b)
5.	(a)	13.	(c)
6.	(b)	14.	(c)
7.	(a)	15.	(a)
8.	(a)		

Division B – Descriptive Questions

1. Computation of total income and tax liability of Fun Limited for A.Y. 2025-26 under regular provisions of the Act

Particulars	₹	₹	₹
Profits and gains of business or profession			
Net profit as per statement of profit and loss		1,47,50,000	
Add: **Items debited but to be disallowed**			
- Depreciation as per books of account	34,00,000		
- **Consideration for designs & models** [Consideration for designs & models of Mixer grinder is in the nature capital expenditure and hence, is an intangible asset which is eligible for depreciation as per section 32. Since lumpsum consideration	36,00,000		

	has been debited to statement of profit and loss, the same has to be added back while computing business income]			
	- **Purchased raw material at a price higher than the fair market value** [As per section 40A(2), the difference between the purchase price (₹ 96 lakhs) and the fair market value (₹ 82 lakhs) has to be added back since the purchase is from a related party, i.e., Gold Ltd., a company in which directors of Fun Limited have substantial interest and at a price higher than the fair market value]	14,00,000		
	- **Legal expenses for issue of bonus shares** [There is no fresh inflow of funds or increase in capital employed on account of issue of bonus shares and there is only reallocation of the company's fund. Consequently, since there is no increase in the capital base of the company, legal expenses of ₹ 6 lakhs in connection with issue of bonus shares is a revenue expenditure and is hence, allowable as deduction[8]]	Nil		
	- **Legal expenses for issue of right shares** [Expenses incurred in	8,00,000		

[8] *It was held by Apex Court in case of CIT vs. General Insurance Corpn. (2006) 286 ITR 232*

	relation to rights issue are of capital in nature[9]. Hence, not allowed as deduction from business income. Since, it is already debited in statement of profit and loss, the same has to be added back while computing business income]			
			92,00,000	
			2,39,50,000	
Less:	**Items credited but to be considered separately**			
-	Short term capital gains on equity shares [Not taxable under this head]	15,00,000		
-	Cash Subsidy [Subsidy from State Government on acquisition of asset is reduced from the actual cost of the asset. Hence, such subsidy is not the income of Fun Limited. Since, subsidy is already credited in the statement of profit and loss, the same has to be reduced while computing business income]	15,00,000		
			30,00,000	
			2,09,50,000	
Less:	**Depreciation as per Income-tax Rules**			
-	Depreciation	36,00,000		
-	Depreciation on New Plant and machinery [₹ 50 lakhs x 15%, since it has been put to use for more than	7,50,000		

[9] *It was held by Karnataka High Court in case of CIT Vs Motor Industries Ltd (1998) 229 ITR 137*

180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person in a day, otherwise than by an a/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds ₹ 10,000, such expenditure would not form part of actual cost of such asset. Further, where any part of the cost of asset acquired has been met directly or indirectly, *inter alia*, by State Government, then, so much of the cost as relates to subsidy would not be included in the actual cost. Hence, ₹10 lakhs paid by bearer cheque and ₹ 15 lakhs of cash subsidy received by State Government for acquisition of asset would not be included in the actual cost of plant and machinery.]			
- Additional depreciation on New Plant and machinery [₹ 50 lakhs x 20%, since it has been put to use for more than 180 days during the year]	10,00,000		
- Depreciation on Intangible asset, being designs & models of mixer grinder [₹ 36 lakhs x 25% x 50%, since put to use for less than 180 days during P.Y. 2024-25]	4,50,000		
		58,00,000	
			1,51,50,000
Capital Gains			
- Short term capital gains on transfer of listed equity shares		15,00,000	
- Short term capital gains on transfer of unlisted equity			

shares [Since not held for more than 24 months]			
Full value of consideration	22,00,000		
Less: Cost of acquisition	12,00,000		
		10,00,000	
			25,00,000
Total Income			**1,76,50,000**
Computation of tax liability			
Tax u/s 111A on Short-term capital gains on transfer of listed equity shares on which STT is paid [₹ 15 lakhs x 15%, since transferred before 23.7.2024]		2,25,000	
Tax on other income [₹ 1,61,50,000 x 25%]		40,37,500	
			42,62,500
Add: Surcharge @7% since total income exceeds ₹ 1 crore but does not exceed ₹ 10 crores			2,98,375
			45,60,875
Add: HEC@4%			1,82,435
Tax liability			**47,43,310**

Computation of tax liability of Fun Limited for the A.Y. 2025-26 under section 115JB

Particulars	₹
Minimum Alternate Tax @15% on book profit of ₹ 3,20,00,000	48,00,000
Add: Surcharge@7%, since the book profit of the company > ₹ 1 crore but ≤ ₹ 10 crores	3,36,000
	51,36,000
Add: Health and Education cess@4%	2,05,440
Tax liability under section 115JB	**53,41,440**
Since the regular income-tax payable is less than the minimum alternate tax, book profit of ₹ 3,20,00,000 would be deemed to be the total income of Fun Limited and it has to pay tax of ₹ 53,41,440. It would be eligible for MAT credit of	

MAT liability	53,41,440
Tax liability under the regular provisions of the Income-tax Act, 1961	47,43,310
MAT credit	**5,98,130**

Note –*Fun Limited set up and registered on or after 1.10.2019 but has not commenced operations before 31.3.2024, and engaged in manufacturing business, it is not eligible for concessional tax regime under section 115BAB. However, it can opt for regime under section 115BAA, In case Fun Limited opted for concessional tax regime u/s 115BAA, it would not be eligible to claim additional depreciation u/s 32 on plant and machinery. In that case, its total income and tax liability would be -*

Particulars	₹	₹
Total Income under regular provisions of the Act		1,76,50,000
Add: Additional depreciation [No additional depreciation is allowable under section 32(1)(iia)]		10,00,000
Total Income		**1,86,50,000**
Computation of tax liability under section 115BAB		
Tax u/s 115BAA on business income [₹ 1,61,50,000 x 22%]	35,53,000	
Tax u/s 111A on Short-term capital gains on transfer of listed equity shares on which STT is paid [₹ 15 lakhs x 15%]	2,25,000	
Tax u/s 115BAA on short term capital gains on transfer of unlisted equity shares [₹ 10 lakhs x 22%]	2,20,000	
		39,98,000
Add: Surcharge @10%		3,99,800
		43,97,800
Add: HEC@4%		1,75,912
Tax liability		**45,73,712**

Suggestion to Fun Limited

Fun Limited should opt for section 115BAA, since the tax liability under section 115BAA is lower than the tax liability under the regular provisions of the Act and section 115JB.

2. (a) Computation of Total Income of Heros and Sons, a partnership firm, for the A.Y. 2025-26

	Particulars	Amount (in ₹)	
I	**Profits and gains of business and profession**		
	Net profit as per profit and loss account		80,00,000
	***Add:* Items debited but to be considered separately or to be disallowed**		
	(1) Interest to partners on capital [As per section 40(b), interest to partners authorized by the partnership deed is allowable as deduction subject to a maximum of 12% p.a.] [₹ 7,00,000 x 2%/14%]	1,00,000	
	(2) Interest on loan taken from partner [As per section 40(b), interest to partners authorized by the partnership deed is allowable as deduction subject to a maximum of 12% p.a., whether it is interest on partner's capital or loan] [₹ 90,000 x 3%/15%]	18,000	
	(3) Depreciation as per books of account	1,02,000	
			2,20,000
			82,20,000

	***Less:* Items credited but chargeable to tax under other head/expenses allowed but not debited**		
	1. Interest on bank fixed deposits made out of surplus fund [Interest received from bank on fixed deposits made out of surplus funds is assessable under the head 'Income from other sources'. Since the same has been credited to profit and loss account, it has to be deducted while computing business income]	25,000	
	2. Profit on sale of building [Capital gain on sale of building is taxable under the head "Capital Gains". Since such gains has been credited to profit and loss account, the same has to be deducted while computing business income]	53,55,000	
			53,80,000
			28,40,000
	***Less:* Depreciation as per Income-tax Rules, 1962**		
	- Depreciation other than on motor car and mobile phones	14,000	
	- Depreciation on Motor car [₹ 6,80,000 x 15%]	1,02,000	
	- Mobile phone [₹ 20,000 x 15% x 50%, since purchased and put to use for less than 180 days]	1,500	
			1,17,500
	Book Profit		27,22,500

	Less: Salary to working partners		
	(i) As per limits given under section 40(b)		
	On first ₹ 6,00,000 @90% or ₹ 3,00,000, whichever is higher	5,40,000	
	On the balance of ₹ 21,22,500 @ 60%	12,73,500	
		18,13,500	
	(ii) Salary actually paid to working partners [₹ 20,000 x 12 x 2]	4,80,000	
	Deduction allowed being (i) or (ii) whichever is less		4,80,000
			22,42,500
II	**Capital Gains**		
	Short term capital gain on sale of building forming part of block of asset [Since building was the only asset in the block]		
	Full value of consideration	90,00,000	
	Less: Cost of acquisition [WDV as on 1.4.2024]	36,45,000	
		53,55,000	
	Less: Exemption under section 54EC [Investment in bonds of NHAI, the maximum deduction u/s 54EC would be ₹ 50 lakhs]	50,00,000	3,55,000
	[Available against depreciable asset, being a building held for more than 24 months and the payment for bonds has been made within six months from the date of transfer, exemption u/s 54EC would be available even if the allotment of bonds		

	was made after the expiry of the six months[10]]		
III	**Income from Other Sources**		
	Interest from bank on fixed deposits		25,000
	Gross Total Income		**26,22,500**
	***Less:* Deduction under section 10AA** [₹ 7,50,000 x 40,00,000/ ₹ 1,20,00,000 x 50%]		
	[Unit in SEZ is eligible for deduction @50% u/s 10AA since it obtained the letter of approval on or before 31st March, 2020 and started operations before 31.3.2021 and thus, A.Y. 2025-26, is the sixth year of operation]		1,25,000
	Total Income		**24,97,500**

(b) Computation of Total income of Mr. Albert for the A.Y. 2025-26

Particulars	₹	₹
Salary [Salary deemed to accrue or arise in India, since it is paid for services rendered in India as per section 9(1)(ii). Hence, it is taxable in the hands of Mr. Albert. Exemption u/s 10(6)(vi) would not be available to him, though he stayed in India for a period of not exceeding 90 days during the previous year since he is receiving salary from an American company which is engaged in business and trade in India through a PE in India and such salary is borne by Indian PE]	25,00,000	
Less: Standard deduction u/s 16(ia)	50,000	
		24,50,000

[10] *Hindustan Unilever Ltd. v. DCIT (2010) 325 ITR 102 (Bom.)*

Capital Gains		
Transfer of 1200 equity shares of Shine Pvt. Ltd. [Taxable in India, since shares are situated in India]		
Sale Consideration (1200 x ₹ 63 per share/91, being average of ₹ 90 (TTBR) + ₹ 92 (TTSR)/2 on 20.8.2024)	$ 830.77	
Less: Cost of acquisition (1200 x ₹ 35 per share/69, being average of ₹ 68 (TTBR) + ₹ 70 (TTSR)/2 on 31.12.2018)	$ 608.70	
	$ 222.07	
Long-term capital gain [$ 222.07 x ₹ 90, being TTBR on 20.08.2024]		19,986
Transfer of 2000 Equity shares of YoC Inc.		Nil
[Not taxable in India, since shares of foreign company do not derive its value substantially from assets located in India as value of Indian assets do not exceed ₹ 10 crores]		
Income from Other Sources		
Dividend [Deemed to accrue or arise in India, since dividend received from an Indian Company. Thus, it is taxable in India]		13,200
Gross Total Income/total income		**24,83,186**
Total income (rounded off)		**24,83,190**

3. (a) (i) Voluntary contribution of ₹ 150 lakhs received with a specific direction that it will form part of corpus of the trust would be exempt from tax only if it is invested in any of the modes specified under section 11(5) specifically maintained for such corpus. If the same is not so invested, then, it would not be exempt under section 11(1)(d) for P.Y.2024-25.

Investment in shares of private company is not a specified mode under section 11(5). Hence, ₹ 150 lakhs received by Healthy Wealthy Foundation would not be exempt under section 11.

(ii) Yoga is included in the definition of "charitable purpose" under section 2(15).

Accordingly, voluntary contributions of ₹ 80 lakhs and fees towards providing Yoga classes of ₹ 50 lakhs would be income from property held for charitable purposes and eligible for unconditional exemption of 15% under section 11.

Exemption will be available under section 11 subject to the fulfilment of the necessary conditions.

(b) As per section 13(6), UVX Trust shall not be denied the benefit of exemption under section 11 in respect of its entire income merely due to the reason that the benefit of medical facilities have been provided to Mr. Umesh, son of Mr. Shyam, being the specified person. Accordingly, the registration of UVX Trust cannot be cancelled by the Income-tax authorities on this basis.

As per section 12(2), the value of medical facilities provided to Mr. Umesh, being the specified person, at a concessional rate would be deemed to be the income of the trust and such income would not be eligible for exemption under section 11. Hence, ₹ 1,30,000, being the concessional value of medical services would be deemed to be the income of UVX Trust.

The remaining income would be eligible for benefit of section 11.

(c) Mr. Sarthak is a resident in India for A.Y.2025-26, since his stay in India in the P.Y.2024-25 is for 304 days which exceeds the minimum required stay of 182 days in that previous year. Also, his stay in India must be more than 730 days in the immediately preceding seven years, and he must be resident in 7 years (P.Y.2014-15 to P.Y.2020-21) out of 10 years immediately preceding P.Y.2024-25, since he left India for the first time on 1st April, 2021.

Hence, he is resident and ordinarily resident in India for A.Y. 2025-26. Accordingly, his global income would be subject to tax. He would, however, be entitled for deduction under section 91 in respect of doubly taxed income earned in Country Y.

Computation of total income of Mr. Sarthak for A.Y. 2025-26

Particulars	₹	₹
Income from House Property [Residential property in Country Y]		
Annual Value[11] ($ 32,000 x ₹ 75, exchange rate on 31.3.2025)	24,00,000	
Less: Deduction under section 24 – 30% of NAV	7,20,000	
		16,80,000
Profits and Gains of Business or Profession		
Income from business in India		6,20,000
Income from Other Sources		
Dividend from Indian company [₹2,25,000 x 100/90]	2,50,000	
Interest on savings bank account with SBI	13,500	
		2,63,500
Gross Total Income		**25,63,500**
***Less:* Deduction under Chapter VIA**		
Under section 80TTA – Interest on savings bank account (actual interest of ₹ 13,500 or ₹ 10,000, whichever is lower)		10,000
Total Income		**25,53,500**

Computation of net tax liability of Mr. Sarthak for A.Y.2025-26

Particulars	₹
Tax on total income [30% of ₹ 15,53,500 + ₹ 1,12,500]	5,78,550
Add: Health and Education cess@4%	23,142
	6,01,692

[11] Rental Income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.

Less: Deduction under section 91 **(See Working Note below)**	2,41,500
Net Tax Liability	3,60,192
Net Tax liability (rounded off)	**3,60,200**

Working Note: Calculation of deduction under section 91

Particulars	₹	₹
Average rate of tax in India [i.e., ₹ 6,01,692/₹ 25,53,500x100]	23.56%	
Average rate of tax in country Y [20% of $ 23,000 ($ 32,000 - $ 9,000) = $ 4,600/$ 32,000 x 100 = 14.375%	14.375%	
Doubly taxed income		
Income from house property	16,80,000	
Deduction u/s 91 on ₹16,80,000 @14.375% (being the lower of average Indian tax rate (23.56%) and foreign tax rate (14.375%)]		2,41,500

4. (a) (i) By virtue of section 206C(1A), Mr. Bharat is not required to collect tax at source under section 206C(1), since Mr. Amit has furnished a declaration to Mr. Bharat that the scrap purchased by him is for manufacturing process carried on by him and not for trading purposes.

However, as clarified vide *Circular no. 13/2021 dated 30.6.2021 and Circular No. 20/2021 dated 25.11.2021,* TDS under section 194Q will be attracted in the hands of the buyer in such cases covered under section 206C(1A), if the conditions specified under section 194Q are fulfilled.

In this case, tax is required to be deducted at source under section 194Q by the buyer, Mr. Amit, since his turnover in the immediately preceding financial year i.e., F.Y.2023-24 exceeds ₹ 10 crores and he has purchased goods of the value or aggregate of such value exceeding ₹ 50 lakhs in the F.Y.2024-25. TDS u/s 194Q would be 0.1% of the sum exceeding ₹ 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier.

Therefore, in the present case, Mr. Amit is required to deduct tax at source @ 0.1% of ₹ 15,00,000, being the amount exceeding ₹ 50 lakhs (₹ 49,00,000, being the payment made *plus* ₹ 16 lakhs, being the amount credited to the account of Mr. Bharat).

***Note**: It may be noted that section 206C(1H) would not apply where section 194Q is applicable.*

(ii) Mr. Ashok, a resident, is entering into an agreement with Cloud Ltd., a real estate developer, to develop a high-rise apartment complex on his land for a consideration of ₹ 6.5 crore and 6 flats in the apartment. This is a specified agreement under section 45(5A).

As per section 194-IC, Cloud Ltd. is required to deduct tax at source @ 10% on ₹ 6.5 crores, being the consideration paid other than consideration in kind, under a specified agreement to Mr. Ashok.

Tax is to be deducted at the time of credit of such sum or payment, whichever is earlier.

Tax u/s 194-IC would be = ₹ 6.5 crore x 10% = ₹ 65 lakhs

(iii) State Government is required to collect tax at source@2% u/s 206C(1C) on ₹ 12 crores, being the charges for lease of coal mine.

TCS = 2% x ₹ 12 crores = ₹ 24,00,000

M/s Maple Co. Ltd. is required to collect tax at source @1% u/s 206C(1) on sale of coal to M/s DL (P) Ltd.

TCS = 1% of ₹ 1 crore = ₹ 1,00,000.

(b) Two enterprises are deemed to be associated enterprises where one enterprise, directly or indirectly, holds shares carrying not less than 26% of the voting power in the other enterprise.

In this case, since Aster Ltd., a foreign company, holds 30% equity shares in Bhuvan Ltd., an Indian company, Aster Ltd. and Bhuvan Ltd. are deemed to be associated enterprises. Since the transaction of developing software and providing related support service by Bhuvan Ltd. to Aster Ltd. is an international transaction between

associated enterprises, the provisions of transfer pricing would be attracted in this case.

Computation of Arm's Length Price as per Cost Plus Method

Particulars	%	%
Gross Profit mark-up on cost in case of Gaurav Ltd. Ltd. [an unrelated party]		40%
Less: Adjustments for functional and other differences		
- Value of technology support [Aster Ltd. provides technology support, but Gaurav Ltd. does not provide such support. Therefore, value of technology support shall be adjusted] [15% of 40%, being gross profit]	6%	
- Quantity discount to Aster Ltd. [Quantity discount is allowed to Aster Ltd. as it gives business in large volumes, but the same is not provided to Gaurav Ltd. Therefore, it shall be adjusted] [10% of 40%, being gross profit]	4%	
- Risk and cost associated with marketing [Bhuvan Ltd. has to bear all the risk and costs associated with the marketing function in case of Gaurav Ltd., while there is no such risk in case of services to Aster Ltd. Therefore, market risk and cost shall be adjusted] [20% of 40%, being gross profit]	8%	18%
		22%
Add: Cost of credit to Aster Ltd. [Bhuvan Ltd has provided credit of 1 month to Aster Ltd. but not to the unrelated party. Therefore, adjustment for the cost of such credit has to be carried out to arrive at the ALP] [(5% of 40%, being gross profit]		2%
Arm's length gross profit mark up to cost		**24%**

Cost incurred by Bhuvan Ltd. for executing Aster Ltd.'s work		4,52,000
Add: Adjusted gross profit (₹ 4,52,000 x 24%)		1,08,480
Arm's length billed value		**5,60,480**
Less: Actual Billed Income from Aster Ltd. (₹ 2,700 x 150 man hours)		4,05,000
Total Income of Bhuvan Ltd to be increased by		**1,55,480**

5. (a) (i) **Issue Involved**: The issue under consideration is whether the High Court is justified in not framing any substantial question of law itself and adjudicating merely on the questions put forth by the appellant.

Relevant provision of law: Section 260A(1) provides that an appeal shall lie to the High Court from every order passed in appeal by the Appellate Tribunal, if the High Court is satisfied that the case involves a substantial question of law. As per section 260A(3) and 260A(4), if the High Court is so satisfied, it shall formulate that question and the appeal shall be heard only on the question so formulated.

Analysis & Conclusion: There lies a distinction between the questions proposed by the appellant for admission of the appeal to the High Court and the questions framed by the High Court. The questions, which are proposed by the appellant, fall under section 260A(2)(c) whereas the questions framed by the High Court fall under section 260A(3). Section 260A(4) provides that the appeal is to be heard on merits only on the questions formulated by the High Court under section 260A(3**)** and not on the questions proposed by the appellant.

In case the High Court is of the view that the appeal did not involve any substantial question of law, it should have recorded a categorical finding to that effect that the questions proposed by the appellant either do not arise in the case or/and are not substantial questions of law so as to attract the rigour of section 260A for its admission and accordingly, should have dismissed the appeal at the preliminary stage itself. However, this was not done in this case. Instead, the

appeal was heard only on the questions urged by the appellant u/s 260A(2)(c).

The High Court was, therefore, not justified since it did not decide the appeal in conformity with the mandatory procedure prescribed in section 260A.

Note *– The facts given in the question are similar to the facts in CIT v. A.A. Estate Pvt. Ltd. [2019] 413 ITR 438, wherein the issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case.*

(ii) **Issue Involved:** The issue under consideration is whether the provisions of section 14A can be invoked in disallowing the expenditure incurred in respect of the income for which deduction is claimed under Chapter VI-A.

Provisions applicable: As per section 14A, expenditure incurred in relation to income which does not form part of the total income under the Act, will not be allowed in computing the total income of the assessee.

Analysis: Deduction under section 80P covered in Chapter VIA is different from the exclusions/exemptions provided under Chapter III. Section 14A is applicable only if an income is not included in the total income as per the provisions of Chapter III of the Income-tax Act, 1961

Income which qualifies for deductions under section 80C to 80U has to be first included in the gross total income of the assessee and then allowed as a deduction.

Therefore, no disallowance can be made u/s 14A in respect of income included in total income in respect of which deduction is allowable u/s 80C to 80U.

Conclusion: Accordingly, the action taken by the Assessing Officer in disallowing the expenditure incurred with respect to income for which deduction under Chapter VI-A is claimed, by invoking the provisions of section 14A is, therefore, **not tenable in law**.

***Note** – The facts given in the question are similar to the facts in CIT v. Kribhco (2012) 349 ITR 0618, wherein the issue came up before the Delhi High Court. The above answer is based on the rationale of the Delhi High Court in the said case.*

(iii) **Issue Involved:** The issue under consideration is whether bonus shares received by shareholders would be taxable under the head 'Income from other sources' as per the provisions of section 56(2)(x), as they are received without consideration.

Provision Applicable: Section 56(2)(x) brings to tax any sum of money or value of property received by any person without consideration or for inadequate consideration from any person.

Analysis: The issue of bonus shares by capitalization of reserves is merely a reallocation of the company's funds. There is no inflow of fresh funds or increase in the capital employed, which remains the same. Thus, there is no addition or alteration to the profit-making apparatus and the total funds available with the company remain the same.

On the other hand, when a shareholder gets bonus shares, the value of the original shares held by him goes down and the market value as well as intrinsic value of the two shares put together will be the same or nearly the same as the value of original share before the issue of bonus shares.

Thus, any profit derived by the assessee shareholder on account of receipt of bonus shares is adjusted by depreciation in the value of equity shares originally held by him.

Conclusion: Accordingly, the action of the Assessing Officer in including the fair value of bonus shares as Income from other sources of M Sudarshan is incorrect**.**

Note – The facts given in the question are similar to the facts in *PCIT v. Dr. Ranjan Pai (2021) 431 ITR 250*, wherein the issue came up before the Karnataka High Court. The above answer is based on the rationale of the Karnataka High Court in the said case.

(b) In digital economy transactions like sale, purchase, payment, rendering services are performed through digital or virtual mode. In the digital domain, business does not actually occur in any physical location but instead takes place in "cyberspace."

Taxation issues in e-commerce

The typical taxation issues relating to e-commerce are:

(i) the difficulty in characterizing the nature of payment and establishing a nexus or link between taxable transaction, activity and a taxing jurisdiction,

(ii) the difficulty of locating the transaction, activity and identifying the taxpayer for income tax purposes.

The following are OECD recommendations under Action Plan 1 dealing with digital economy:

(1) **Modifying the existing permanent establishment** rule to provide for whether an enterprise engaged in fully de-materialized digital activities would constitute a PE, if it maintained a significant digital presence in another country's economy.

(2) **a virtual fixed place of business in the concept of permanent establishments** i.e., creation of a PE when the enterprise maintains a website on a server of another enterprise located in a jurisdiction and carries on business through that website.

(3) **Imposition of a final withholding tax on certain payments** for digital goods or services provided by a foreign e-commerce provider **or imposition of equalisation levy** on consideration for certain digital transactions received by a non-resident from a resident or from a non-resident having permanent establishment in other contracting state.

6. (a) Applicability of GAAR

(i) In case of investment made prior to 1.4.2017, income arising from transfer thereof would not be subject to GAAR. Accordingly, income from transfer of shares acquired on 1.4.2016 by Right Inc. would not attract GAAR.

If the original shares are acquired before 1.4.2017, but bonus shares are issued after that date, GAAR provisions would not be attracted on transfer of such bonus shares also.

(ii) An impermissible avoidance arrangement means an arrangement, the main purpose or one of the main purposes of which is to obtain a tax benefit and also, *inter alia*, lacks commercial substance or is deemed to lack commercial substance. An arrangement is deemed to lack commercial substance if it involves*, inter alia,* round tripping of funds.

In this case, the arrangement of routing money through wholly owned subsidiary Company C in Country X, a low tax jurisdiction, to an Indian company (C Ltd.) involves round tripping of funds even though funds emanating from D Ltd. are not traced back to D Ltd. The alternate course available in this case is direct advance to C Ltd. an Indian company, in which case the interest income would have been chargeable to tax in the hands of D Ltd.

Therefore, the agreement is deemed to lack commercial substance as it involves round tripping of funds. Also, its main purpose is to obtain tax benefit and there is no other activity in Company C.

However, if the tax benefit in the relevant assessment year arising, in aggregate, to all the parties to the arrangement does not exceed ₹ 3 crore, then, GAAR provisions would not be invoked.

(b) (i) Form 15CB is a certificate of an accountant wherein he certifies that he has examined the agreement between the remitter and the beneficiary requiring such remittance as well as the relevant documents and books of account required for ascertaining the nature of remittance and for determining the rate of deduction of tax at source. The chartered accountant certifying the form undertakes to have verified the agreement between the remitter and the beneficiary as well as the relevant documents and books of account to ascertain the nature of remittance and determine the rate of TDS. In this case, however, the chartered accountant mentioned that he had only verified KYC of signatory to invoice and the invoices thereof. He had not only failed to justify as to

how verification of invoices was considered as sufficient compliance for certifying the forms but also failed to bring on record the said invoices. Thus, he failed to provide any basis on which he relied for issuing Form 15CB certificates to the company.

On account of such failure, clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for failure to exercise due diligence in discharging his professional responsibilities and failure to obtain sufficient information may be invoked.

(ii) As per section 44AB, every person carrying on business or profession is required to get his accounts audited before the "specified date" by a Chartered Accountant, if the total sales, turnover or gross receipts in business exceeds ₹ 1 crore in any previous year.

However, tax audit is not required in case of such person carrying on business whose total sales, turnover or gross receipts in business ≤ ₹ 10 crore in the relevant previous year (P.Y.), if:-

- aggregate cash receipts including amount received for sales, turnover, gross receipts in the relevant previous year ≤ 5% of such receipts; **and**
- aggregate cash payments including amount incurred for expenditure in the relevant P.Y. ≤ 5% of such payments or

In this case, the turnover of XYZ & Co. exceeds ₹ 1 crore but does not exceed ₹ 10 crore. Accordingly, it has to be seen whether cash receipts exceed 5% of aggregate receipts and cash payments exceed 5% of aggregate payments, to determine whether tax audit is compulsory.

In this case, the percentage of cash receipts of ₹ 19 lakhs to aggregate receipts of ₹ 456 lakhs is 4.16% and the percentage of cash payments to aggregate payments is 1.597%.

Since the cash payments and cash receipts made during the year do not exceed 5% of aggregate payments and aggregate receipts, respectively, the firm is not required to get its

accounts audited under section 44AB and not required to furnish audit report before the specified date.

(c) (i) The statement is **not** correct.

An applicant who is aggrieved by any ruling pronounced by the Board for Advance Rulings may appeal to the High Court against such ruling or order of the Board of Advance Rulings. He has to do so within sixty days from the date of the communication of that ruling, in the prescribed form and manner.

Therefore, Mr. Rakul may appeal to the High Court against such order within sixty days from the date of the communication of that order.

(ii) The statement is **not** correct.

A resident falling within any class or category of persons as notified by the Central Government i.e., a public sector undertaking can seek advance ruling even if question raised is pending before the Appellate Tribunal.

MODEL TEST PAPER 4

FINAL COURSE: GROUP – II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Division A – Multiple Choice Questions

MCQ No.	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(a)	9.	(b)
2.	(b)	10.	(b)
3.	(a)	11.	(c)
4.	(b)	12.	(c)
5.	(c)	13.	(b)
6.	(c)	14.	(b)
7.	(c)	15.	(c)
8.	(a)		

Division B – Descriptive Questions

1. (a) Computation of Total Income of Paras Ltd. for the A.Y. 2025-26

	Particulars	Amount (₹)	
I	**Profits and gains of business and profession**		
	Net profit as per the statement of profit and loss		7,50,00,000
	Add: **Items debited but to be considered separately or items of expenditure to be disallowed**		
	(a) **Depreciation as per Companies Act**	52,00,000	
	(c) **Provision for wages payable to workers**	-	
	[Since the provision is based on a fair estimate of wages payable with reasonable certainty, the provision is allowable as deduction. ICDS X requires a reliable estimate of the amount of obligation and 'reasonable certainty' for recognition of a provision, which is present in this case.		

	As the provision of ₹ 18 lakhs has been debited to statement of profit and loss, no adjustment is required while computing business income]		
	(e) **Loss due to destruction of machinery by fire** [Loss of ₹ 17 lakhs due to destruction of machinery caused 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]	17,00,000	
	(f) **Provision for gratuity** [Provision of ₹ 320 lakhs for gratuity based on actuarial valuation is not allowable as deduction. However, actual gratuity of ₹ 160 lakhs paid is allowable as deduction. Hence, the difference has to be added back to income [₹ 320 lakhs (-) ₹ 160 lakhs]	1,60,00,000	
	(g) **Advertisement in souvenir of a political party** [Advertisement charges paid in respect of souvenir published by a political party is not allowable as deduction from business profits of the company. Since the expenditure has been debited to statement of profit and loss, the same has to be added back while computing business income]	2,30,000	2,31,30,000
			9,81,30,000
	***Add:* Income taxable but not credited to statement of profit and loss**		
	AI(ii) **GST not refunded to customers out of GST refund received from State Govt.**		1,00,000

	[The amount of GST refunded to the company by the Government is a revenue receipt chargeable to tax. Out of the refunded amount of ₹ 3 lakhs, the amount of ₹ 2 lakh stands refunded to customers would not be chargeable to tax.[12] The balance amount of ₹ 1,00,000 lying with the company would be chargeable to tax]		
			9,82,30,000
	***Less:* Items credited to statement of profit and loss, but not includible in business income/ permissible expenditure and allowances**		
	(b) **Industrial power tariff concession received from State Government** [Any assistance in the form of, *inter alia*, concession received from the Central or State Government would be treated as income. Since the same has been credited to statement of profit and loss, no adjustment is required]	-	
	(d) **Dividend received from US company** [Dividend received from foreign company is taxable under "Income from other sources". Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income]	12,00,000	
	(e) **Scrap value of machinery** [Scrap value of machinery, being capital in nature, has to be reduced from WDV of machinery. Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income]	3,00,000	
	(h) **Long term capital gains on sale of equity shares**	3,00,000	

[12]*CIT v. Thirumalaiswamy Naidu & Sons (1998) 230 ITR 534 (SC)*

	[The taxability or otherwise of long-term capital gain on sale of equity shares has to be considered while computing income under the head "Capital Gains". Since such capital gains has been credited to statement of profit and loss, the same has to be reduced to arrive at the business income.]		
	AI(i) **Depreciation as per Income-tax Rules, 1961**	71,00,000	89,00,000
	Profits and gains from business and profession		**8,93,30,000**
II	**Capital Gains**		
	Long term capital gain on sale of equity shares		3,00,000
	[Long term capital gains in excess of ₹ 1.25 lakhs (i.e., ₹ 1.75 lakhs, being ₹ 3 lakh – ₹ 1.25 lakhs) on sale of equity shares on which STT is paid at the time of acquisition and sale would be taxable@10% u/s 112A, without indexation benefit.]		
III	**Income from Other Sources**		
	Dividend received from foreign company		12,00,000
	[Dividend received from a foreign company is chargeable to tax under the head" Income from other sources"]		
	Gross Total Income		**9,08,30,000**
	***Less:* Deduction under Chapter VI-A**		
	Under section 80GGB [Contribution by a company to a registered political party is allowable as deduction, since payment is made otherwise than by cash. Expenditure incurred by an Indian company on advertisement in souvenir published by such political party tantamount to contribution to such political party.]		2,30,000
	Total Income		**9,06,00,000**

2. **(a)** As per section 80AC, while computing the total income of an assessee of a previous year ***(P.Y.2024-25, in this case)*** relevant to any assessment year ***(A.Y.2025-26, in this case)***, any deduction is admissible, *inter alia,* under section 80-IA, such deduction shall not be allowed unless it furnishes a return of income for such assessment year on or before the 'due date' specified in section 139(1).

Since the turnover of the partnership firm has exceeded the prescribed threshold limit in the previous year 2024-25, it would be subject to audit under section 44AB, in which case the 'due date' of filing its return of income for A.Y.2025-26 would be 31st October, 2025 as per section 139(1).

Computation of total income and tax liability of M/s. Parth Curators for A.Y. 2025-26

I. Where the firm files its return of income on 31st October 2025:

Particulars	₹ in lakhs
Gross Total Income	300.00
Less: Deduction under section 80-IA	200.00
Total Income	**100.00**
Tax liability@ 30%	30.00
Add: Health and Education cess@4%	1.20
Regular income-tax payable	**31.20**

Computation of Alternate Minimum Tax payable [Section 115JC]

Particulars	₹ in lakhs
Total Income	100.00
Add: Deduction under section 80-IA	200.00
Adjusted Total Income	**300.00**
Alternate Minimum Tax (AMT) @ 18.5% on ₹ 300 lakhs	55.50
Add: Surcharge@12% (Since adjusted total income > ₹ 1 crore)	6.66
	62.16

Add: Health and Education cess@4%	2.49
Total tax payable (AMT)	**64.65**

Since the regular income-tax payable by the firm is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income of the firm for P.Y.2024-25 and it shall be liable to pay income-tax on such total income @ 18.5% **[Section 115JC(1)]**. Therefore, the tax payable for the A.Y. 2025-26 would be ₹ 64.65 lakhs.

Tax credit for Alternate Minimum Tax [Section 115JD]

	₹ in lakhs
Total tax payable for A.Y.2025-26 (Alternate Minimum Tax)	64.65
Less: Regular income-tax payable	31.20
To be carried forward for set-off against regular income-tax payable (upto a maximum of fifteen assessment years).	33.45

II. Where the firm files its return of income on 7th December 2025:

Where the firm files its return on 7-12-2025, it would be a belated return under section 139(4). Consequently, as per section 80AC, deduction under 80-IA would not be available. In such circumstances, the gross total income of ₹ 300 lakhs would be the total income of the firm.

Particulars	₹ in lakhs
Income-tax @ 30% of ₹ 300 lakhs	90.000
Add: Surcharge @12% (since total income exceeds ₹ 1 crore)	10.800
Income-tax (plus surcharge)	100.800
Add: Health and Education cess @ 4%	4.032
Total tax liability	**104.832**

Practical solution regarding obtaining clarifications:

The practical solution regarding obtaining clarifications would be to file the return of income under section 139(1) on or before the 'due

date', i.e., 31.10.2025, and claim deduction under section 80-IA. In such a case, the firm can claim deduction of ₹ 200 lakhs under section 80-IA. Thereafter, consequent to the clarifications obtained, if any change is required, it can file a revised return under section 139(5) by 31.12.2025 which would replace the original return filed under section 139(1). A revised return filed under section 139(5) would replace the original return filed under section 139(1).

If the firm files the return of income under section 139(1) on or before 31.10.2025, its tax liability would stand reduced to ₹ 64.65 lakhs, as against ₹ 104.832 lakhs to be paid if return is furnished after due date. Further, it would also be eligible for tax credit for alternate minimum tax under section 115JD to the extent of ₹ 33.45 lakhs. Therefore, the firm is advised to file its return of income on or before 31.10.2025.

(b) Since Mr. Gaurav is an individual resident in India for the P.Y. 2024-25, his global income would be subject to tax in India. Therefore, income earned by him in Country M and Country N would be taxable in India. He would, however, be entitled to deduction under section 91, since India does not have a DTAA with Country M and Country N, and all conditions under section 91 are satisfied.

Computation of total income of Mr. Gaurav for A.Y. 2025-26

Particulars	₹	₹
Income under the head "Salaries"		
Pension from State Government	3,90,000	
Less: Standard deduction u/s 16(ia)	75,000	
		3,15,000
Income from House Property		
Rental income from property in Country N[13]	3,00,000	
Less: Municipal taxes	20,000	
	2,80,000	
Less: Deduction u/s 24(a)@30%	84,000	
		1,96,000

[13] *In the absence of any information relating to fair rent, municipal value and standard rent, rental income is assumed to be the gross annual value.*

Profits and Gains of Business or Profession		
Speculative income in India	1,16,000	
Less: Set-off of business loss from proprietary business in Country N under section 70	1,06,000	
		10,000
Short-term capital gains on sale of plot in India		2,10,000
Income from Other Sources		
Agricultural income from Country M [not exempt u/s 10(1), since it is earned from land situated outside India]	90,000	
Dividend from a company in Country M	64,000	
		1,54,000
Gross Total Income		8,85,000
***Less:* Deduction under Chapter VI-A [No deduction allowable as per section 115BAC]**	-	-
Total Income		**8,85,000**

Computation of net tax liability of Mr. Gaurav for A.Y.2025-26

Particulars		₹
Tax payable on ₹ 8,85,000		
Upto ₹ 3,00,000	Nil	
₹ 3,00,000 to ₹ 7,00,000 @ 5%	20,000	
₹ 7,00,000 to ₹ 8,85,000 @ 10%	18,500	
		38,500
Add: Health and education cess@4%		1,540
		40,040
Less: Rebate under section 91 **(See Working Note below)**		8,142
Tax Payable		**31,898**
Tax Payable (rounded off)		**31,900**

Calculation of Rebate under section 91:	₹	
Average rate of tax in India [i.e., ₹ 40,040/₹ 8,85,000 x 100] = 4.524%		
Doubly taxed income pertaining to Country M		
Agricultural income	90,000	
Dividend from a company in Country M [Not includible, since exempt in Country M]	-	
	90,000	
Rebate under section 91 on ₹ 90,000 @4.524% [being the lower of average Indian tax rate (4.524%) and Country M tax rate (10%)]		4,071
Doubly taxed income pertaining to Country N		
Income from house property *less* business loss set-off against income chargeable to tax in India (₹ 1,96,000 – ₹ 1,06,000)	90,000	
Rebate under section 91 on ₹ 90,000 @4.524% [being the lower of average Indian tax rate (4.524%) and Country N tax rate (5%)]		4,071
Total rebate under section 91 (Country M + Country N)		**8,142**

3. (a) (i) Computation of taxable income of public charitable trust

Particulars		₹
(i)	Income from property held under trust	10,00,000
(ii)	Income from business (incidental to main objects)	4,00,000
(iii)	Voluntary contributions from public	7,00,000
	Voluntary contribution made with a specific direction towards corpus are alone to be excluded under section	

	11(1)(d). In this case, there is no such direction and hence, included.	
		21,00,000
	Less: 15% of the income eligible for retention / accumulation without any conditions	3,15,000
		17,85,000
	Less: Amount applied for the objects of the trust	
	(i) Amount spent for charitable purposes (₹ 11,60,000 - ₹ 3,60,000)	8,00,000
	(ii) Repayment of loan for construction of orphan home (See note below)	-
	Taxable Income	**9,85,000**

Note - As per *Explanation 4(ii)* to section 11(1), any application for charitable or religious purposes, from any loan or borrowing in the concerned year, shall not be treated as application of income for charitable or religious purposes. However, the amount not so treated as application, shall be treated as application in the year in which the loan is repaid. Therefore, the repayment of loan for construction of orphan home can be treated as application of income only if such expenditure on construction of orphanage was not treated as application in year such expenditure was incurred. However, in this case, the amount spent on construction of orphanage was allowed as deduction in the P.Y. 2020-21. Thus, repayment of loan taken for such purposes will not be allowed as application as it would tantamount to double deduction.

(ii) As per *Explanation* below to section 10(23C)(iiiae), it has been clarified that the limit of annual receipts of ₹ 5 crore is qua 'taxpayer' and not qua 'activity'. Therefore, if the aggregate annual receipts from educational activity and medical activity exceeds ₹ 5 crores, then exemption under sub-clause (iiiad) and (iiiae) cannot be availed.

Since, in the present case, the aggregate annual receipt of ₹ 7 crores (₹ 3 crores of educational institution and ₹ 4 crores from hospital) exceeds the threshold of ₹ 5 crores, exemption under section 10(23C)(iiiad) and (iiiae) cannot be availed, even though the individual receipts have not exceeded ₹ 5 crores.

(b) Computation of income to be declared by the branch in its return of income

Computation of Head Office expenses allowable u/s 44C:		
Particulars	**₹**	**₹**
Net profit of the branch		28,00,000
Add: Head office expenditure debited to profit and loss	1,20,00,000	
Unabsorbed depreciation	17,00,000	
Capital expenditure for promoting family planning	7,00,000	
Brought forward business loss	25,00,000	
Deductions under Chapter VI-A	20,00,000	
		1,89,00,000
Adjusted total income		**2,17,00,000**
Note *– Depreciation for the current financial year and capital expenditure on scientific research are not required to be added back for computing adjusted total income.*		
Head office expenses allowable u/s 44C = ₹ 10,85,000 Being the lower of - (i) 5% of ₹ 2,17,00,000 = ₹ 10,85,000 (ii) Actual Head Office expenses allocated to the branch = ₹ 1,20,00,000		

Income to be declared by the branch for A.Y.2025-26	
Particulars	**₹**
Net profit of the branch	28,00,000
Add: Head office expenditure debited to profit and loss	1,20,00,000
	1,48,00,000

Less: Head office expenses allowable u/s 44C	10,85,000
Income to be declared by the branch	**1,37,15,000**

4. **(a)** **(i)** TDS under section 194C is **not** attracted since the payment of ₹ 3 lakhs for repair of residential house is for personal purpose. TDS under section 194M is also not attracted as aggregate of contract payment to the payee in the P.Y.2024-25 does not exceed ₹ 50 lakhs.

However, on payment of ₹ 75,000 towards commission to Mr. Mukesh for business purposes, tax is required to be deducted at source u/s 194H @5%, since the payment exceeds ₹ 15,000, and Mr. Mukesh's turnover from business exceeds ₹ 1 crore in the P.Y.2023-24. Accordingly, amount of ₹ 3,750 (₹ 75,000 x 5%) is required to be deducted at source.

(ii) Yes, he can do so. If a person has a loss in any previous year and has furnished a return of loss under section 139(3) on or before the due date of filing return of income u/s 139(1), he shall be allowed to furnish an updated return, if such updated return is a return of income. Accordingly, in this case, since the original return of Mr. Rajesh was filed on the due date u/s 139(1) i.e., on 31.10.2023, he can file an updated return within 2 years from the end of A.Y.2023-24, i.e., on or before 31.3.2026.

Accordingly, he can file an updated return of income on 30.11.2024 declaring total income of ₹ 7 lakhs, after paying tax due on such total income along with interest under section 234B and section 234C and additional income-tax at 25% of aggregate of tax and interest payable (since the updated return is filed before 31.3.2025, i.e., before 12 months from the end of A.Y.2023-24).

(b) As per section 194-I dealing with deduction of tax at source from payment of rent, the rate of TDS applicable is 2% for machinery hire charges and 10% for building lease rent. The scope of the section includes within its ambit, rent for machinery, plant and equipment. Tax is required to be deducted at source from payment of rent, by whatever name called, under any lease, sub-lease, tenancy or any

other agreement or arrangement for the use of building and machinery, irrespective of whether such assets are owned or not by the payee.

The limit of ₹ 2,40,000 for tax deduction at source will apply to the aggregate rent of all the assets. Even if two separate agreements are entered into, one for sub-lease of building and another for hiring of machinery, rent and hire charges under the two agreements have to be aggregated for the purpose of application of the threshold limit of ₹ 2,40,000.

In this case, since the payment for rent and hire charges credited to the account of Jim, the payee, aggregates to ₹ 2,48,000 (₹ 1,40,000 + ₹ 1,08,000), tax is deductible at source under section 194-I. Tax is deductible@10% on ₹ 1,40,000 (rent of building) and @2% on ₹ 1,08,000 (hire charges of machinery).

(c) Computation of capital gains of Mr. Sarthak for A.Y. 2025-26

Particulars	₹	₹
Redemption of SLR growth fund		
Full value of consideration [Redemption value]	1,45,98,000	
Less: Indexed cost of acquisition [₹ 1,20,00,000 × 363/301]	1,44,71,761	
Long term capital gains [Since it is debt fund (as not more than 65% of the proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sarthak for more than 36 months immediately preceding the date of its transfer]		1,26,239
Redemption of XYZ Strategic fund		
Full value of consideration [Redemption value]	50,00,000	
Less: Cost of acquisition	46,00,000	
Short term capital gains [Since it is a specified mutual fund (as not more than 35% of its proceeds are invested in equity shares of domestic companies) which is acquired on or		4,00,000

after 1.4.2023, this fund would be considered as short-term capital asset as per section 50AA irrespective of the period of holding]		
Redemption of MNO Midcap fund		
Full value of consideration [Redemption value]	1,18,00,000	
Less: Cost of acquisition	1,15,00,000	
Short term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sarthak for not more than 12 months immediately preceding the date of its transfer]		3,00,000
Redemption of TBA Growth fund		
Full value of consideration [Redemption value]	1,20,00,000	
Less: Cost of acquisition [Indexation benefit would not be available]	1,10,00,000	
Long term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sarthak for more than 12 months immediately preceding the date of its transfer]		10,00,000
		18,26,239
***Less:* Exemption under section 54F**		
Capital gain arising on transfer of a long-term capital asset other than a residential house shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.		
Therefore, in the present case, the exemption would be available only in		

respect of long-term capital gains from redemption of SLR growth fund and TBA Growth fund.		
Exemption from long term capital gains from redemption of TBA Growth fund [10,00,000x1,20,00,000/1,20,00,000]		10,00,000
Exemption from long term capital gains from redemption of SLR short term fund [1,26,239 x 80,00,000 (2 crores – 1.20 crores)/1,45,98,000]		69,181
Capital gains chargeable to tax for A.Y.2025-26		**7,57,058**

5. **(a)** (i) Section 144C requires the eligible assessee, XYZ Ltd., to file his objections within 30 days of the receipt of draft assessment order from the Assessing Officer with the DRP and the Assessing Officer.

If he fails to do so, the Assessing Officer will proceed to complete the assessment on the basis of the draft order.

The CBDT has clarified that the assessee has a choice whether to file an objection before the DRP against the draft assessment order or not to exercise this option and file an appeal later before CIT (Appeals) against the final assessment order passed by the Assessing Officer.

Therefore, XYZ Ltd. can choose to file an appeal before Commissioner (Appeals) against the final assessment order instead of filing objection before the DRP against the draft assessment order passed by the Assessing Officer.

In case XYZ Ltd. files objection before the DRP, then, he has the right to appeal to Appellate Tribunal, if he is aggrieved by the final order passed by the Assessing Officer in pursuance of the directions of the DRP.

(ii) As per section 132B, the amount of existing liability under the Income-tax Act and the amount of liability determined on completion of assessment under section 148 may be recovered out of assets seized under section 132. The words “existing liability” postulates a liability that is crystallized by adjudication.

Likewise, “a liability is determined” only on completion of the assessment. Until the assessment is complete, it cannot be postulated that a liability has been crystallized.

It is only when the liability is determined on the completion of assessment that it would stand crystallized and in pursuance of which a demand can be raised and recovery can be initiated. Accordingly, the assessee may make an application to the Assessing Officer within 30 days from the end of the month in which the asset was seized, for release of the assets seized.

However, in the present case, the assessee moved an application before the Assessing Officer for adjustment of tax liability on income surrendered during search by sale of seized gold bars.

In this case, assessment is not complete and the liability has not been crystallised.

Therefore, the action of the Assessing Officer in turning down the application of the assessee is in order, since the assets seized cannot be adjusted against tax liability on income surrendered during search[14].

(iii) The time limit for service of notice under section 143(2) is three months from the end of the financial year in which the return of income was furnished by the assessee. The return of income for assessment year 2024-25 was filed by the assessee on 25th October, 2024. Therefore, the notice under section 143(2) has to be served by 30th June, 2025. However, the notice was served on the assessee only on 9th July, 2025. Hence, the notice issued under section 143(2) is time-barred.

However, as per section 292BB, where an assessee had appeared in any proceedings or co-operated in any enquiry relating to an assessment or reassessment, it shall be deemed that any notice required to be served upon him, has been duly served upon him in time in accordance with the provisions of the Act and such assessee shall be precluded from raising any objection in any proceeding or enquiry that

[14] *It was so held in Hemant Kumar Sindhi & Another v. CIT (2014) 364 ITR 555 (All)*

the notice was (a) not served upon him or (b) not served upon him in time or (c) served upon him in an improper manner.

The above provision shall not be applicable where the assessee has raised such objection before the completion of such assessment or reassessment. Therefore, in the instant case, if the assessee, T Ltd., had raised an objection to the proceeding, on the ground of non-service of the notice under section 143(2) on time, then, the validity of the assessment order can be challenged. In absence of such objection, the assessment order cannot be challenged.

(b) In India, the Finance Act, 2016 has introduced a concessional taxation regime for royalty income from patents for the purpose of promoting indigenous research and development and making India a global hub for research and development. The purpose of the concessional taxation regime is to encourage entities to retain and commercialise existing patents and for developing new innovative patented products. Further, this beneficial taxation regime will incentivise entities to locate the high-value jobs associated with the development, manufacture and exploitation of patents in India.

The nexus approach has been recommended by the OECD under BEPS Action Plan 5. This approach requires attribution and taxation of income arising from exploitation of Intellectual property (IP) in the jurisdiction where substantial research and development (R & D) activities are undertaken instead of the jurisdiction of legal ownership. Accordingly, section 115BBF has been inserted in the Income-tax Act, 1961 to provide that where the total income of the eligible assessee (being a person resident in India who is the true and first inventor of the invention and whose name is entered in the patent register as the patentee in accordance with the Patents Act, 1970 and includes every such person, being the true and the first inventor of the invention, where more than one person is registered as patentee under Patents Act, 1970 in respect of that patent) includes any income by way of royalty in respect of a patent developed and registered in India, then such royalty shall be taxable at the rate of 10% (plus applicable surcharge and cess). For this purpose, developed means atleast 75% of the expenditure should be incurred in India by the eligible assessee for any invention in respect of which patent is granted under the Patents Act, 1970.

6. **(a)** Equalisation levy of 6% is attracted in respect of the amount of consideration exceeding ₹ 1 lakh for, *inter alia,* online advertisement, received or receivable by a non-resident not having permanent establishment in India, from, *inter alia,* a resident in India who carries on business or profession.

In this case, the payment of ₹ 10 lakhs by NI Ltd., a resident in India (since it is an Indian company) to SK Inc., New York, a non-resident not having PE in India, for online advertisement services would be subject to Equalisation Levy@6%. Such income is, however, exempt under the Income-tax Act, 1961 by virtue of section 10(50) thereof.

NI Ltd. is required to deduct equalisation levy of ₹ 60,000 i.e., @6% of ₹ 10 lakhs from such payment.

(b) **Computation of Tax Liability of Mr. Aryan & Mr. Aditya for the A.Y. 2025-26 as per section 115BAC**

Particulars	Mr. Aryan	Mr. Aditya
Income under the head "Salaries"		
Salary	13,00,000	13,00,000
Less: Standard deduction u/s 16(ia)	75,000	75,000
	12,25,000	12,25,000
Less: Set-off loss from house property in respect interest on loan for self-occupied property [not allowable as deduction u/s 115BAC]	-	-
Gross Total Income	12,25,000	12,25,000
Less: Deduction under section 80D & 80GGC [Not allowable as deduction u/s 115BAC]	-	-
Total income as per section 115BAC	12,25,000	12,25,000
Tax Liability		
Upto ₹ 3,00,000	Nil	Nil
₹ 3,00,001 to ₹ 7,00,000 @ 5%	20,000	20,000
₹ 7,00,001 to ₹ 10,00,000 @ 10%	30,000	30,000

₹ 10,00,001 to ₹ 12,00,000 @ 15%	30,000	30,000
₹ 12,00,001 to ₹ 12,25000 @ 20%	5,000	5,000
	85,000	85,000
Add: Health and education cess @4%	3,400	3,400
Tax Liability	**88,400**	**88,400**

Computation of Tax Liability of Mr. Aryan & Mr. Aditya for the A.Y. 2025-26 as per regular provisions of Income-tax Act

Particulars	Mr. Aryan	Mr. Aditya
Income under the head "Salaries"		
Salary	13,00,000	13,00,000
Less: Standard deduction u/s 16(ia)	50,000	50,000
	12,50,000	12,50,000
Less: Set-off of loss from house property in respect of interest on loan borrowed for self-occupied property, restricted to ₹ 2,00,000, as per section 71(3A)	-	2,00,000
Gross Total Income	**12,50,000**	**10,50,000**
***Less:* Deduction u/s VI-A**		
Section 80D – Medical insurance premium	24,000	-
Section 80GGC – Contribution to political party by cheque	-	1,50,000
Tax Liability	12,26,000	9,00,000
Upto ₹ 2,50,000	Nil	Nil
₹ 2,50,001 to ₹ 5,00,000 @ 5%	12,500	12,500
₹ 5,00,001 to ₹ 10,00,000 @ 20%	1,00,000	80,000
Above ₹ 10,00,000 @30%	67,800	-
	1,80,300	92,500
Add: Health and Education cess @4%	7,212	3,700
Tax liability	**1,87,512**	**96,200**
Tax liability (rounded off)	**1,87,510**	**96,200**

Since tax liability of Mr. Aryan and Mr. Aditya as per section 115BAC is lower than the tax liability computed as per the regular provisions of the Act, it is advisable to them not to opt out of section 115BAC.

(c) A transaction where one of the parties thereto is a person located in a NJA would be deemed to be an international transaction and all parties to the transaction would be deemed as associated enterprises. Accordingly, all the provisions of transfer pricing would be attracted in case of such a transaction.

Hence, the transactions between TI Ltd, an Indian company and LMP Ltd., located in NJA, would be deemed to be international transactions between associated enterprises.

The transactions of TI Ltd. with TOP Inc. of Country X and MON Inc. of Country Y for sale of identical goods are comparable uncontrolled international transactions, since they are neither associated enterprises of TI Ltd. nor are they situated in NJA. Hence, Comparable Uncontrolled Price (CUP) method can be used to determine ALP.

Where more than one price is determined by the most appropriate method, CUP method in this case, then, the arithmetic mean has to be taken in cases where the number of entries in the dataset is less than 6 (in this case it is only 2). Moreover, the benefit of permissible variation between the ALP and the transfer price based on the rate notified by the Central Government (i.e., maximum of 3% of transaction price) would **not** be available in respect of such transaction.

Computation of ALP using CUP method

Particulars	TOP Inc.	MON Inc.
	₹ in crores	₹ in crores
Price charged by TI Ltd. (on CIF basis)	10.50	11.00
Less: Ocean freight and insurance, has to be reduced since the price charged to LMP Ltd. is on FOB basis	0.18	0.18
	10.32	**10.82**

Less: Cost of after-sales support service (has to be reduced, since such services are being provided to TOP Inc. and MON Inc. but not to LMP Ltd.)	0.13	0.13
Arm's Length Price	**10.19**	**10.69**
Arithmetic mean of the above prices [(₹ 10.19 crores + ₹ 10.69 crores)/2]		**10.44**
Less: Price at which goods were sold to LMP Ltd.		9.50
Arm's length adjustment [increase in profit of TI Ltd.]		**0.94**

ANSWERS OF MODEL TEST PAPER 5

FINAL COURSE: GROUP - II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Division A – Multiple Choice Questions

MCQ No.	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(b)	9.	(d)
2.	(b)	10.	(d)
3.	(b)	11.	(c)
4.	(b)	12.	(b)
5.	(d)	13.	(a)
6.	(a)	14.	(c)
7.	(a)	15.	(a)
8.	(a)		

Division B – Descriptive Questions

1. Computation of Total Income of Orient Pharmaceutical Pvt. Ltd. for the A.Y. 2025-26

	Particulars	Amount (in ₹)	
I	**Profits and gains of business or profession**		
	Net profit as per statement of profit and loss		95,00,000
	Add: **Items debited but to be considered separately or to be disallowed**		
	(1) Depreciation as per Companies Act, 2013	11,90,000	
	(2) Bonus transferred to the trust for making payment to the employees after settlement of the dispute	Nil	
	[The bonus would be allowable as deduction u/s 36(1)(ii), even though the amount of bonus payable was initially remitted to the trust created for		

		the purpose of avoiding late payment of bonus, since the actual payment of bonus made to the employees is 31st August, 2025 i.e., on or before due date of filing return of income. Since the same has been already debited to the statement of profit and loss, no further adjustment is required]		
	(3)	**Regularization fee for violating a law** [Regularization fee paid for violating a law as prescribed by Medical Council of India is a payment to compound an offence. Such expenditure is considered to be the expenses prohibited by the law. Hence, it does not qualify for deduction u/s 37. As the same has been debited to the statement of profit and loss, it has to be added back]	9,50,000	
	(4)	**Late fees to Government for failure in performance of a contract** [Late fees of ₹ 45,000 paid for non-fulfilment of a contract within the stipulated time is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense. Since it is already debited in statement of profit and loss, no further adjustment is required]	Nil	
	(7)	**Payment of Interest to a company incorporated in USA** [Since the tax has been deducted in March, 2025 and deposited by the company on 14.7.2025 i.e., on or before due date of filing return of income, no disallowance would be attracted under section 40(a)(i). Since the interest has been already debited to the statement of profit and loss, no further adjustment is required]	Nil	
	(8)	**Contribution to electoral trust** [Contribution to electoral trust is not allowable as deduction while computing business income of the company. Since	65,000	

	the contribution has been debited to statement of profit and loss, the same has to be added back while computing business income]		
			22,05,000
			1,17,05,000
	***Less:* Items credited but not taxable or chargeable to tax under another head**		
	(5) Profit on sale of plot of land to 100% subsidiary [Capital Gain arising on sale of plot of land is taxable under the head "Capital Gains". Since the profit on sale of plot of land has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	7,50,000	
	(6) Profit on sale of shares of M/s Stadel Ltd. [Capital Gain arising on sale of shares of M/s Stadel Ltd. is taxable under the head "Capital Gains". Since the profit on sale of shares has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	4,50,000	
			12,00,000
			1,05,05,000
	***Less:* Depreciation as per Income-tax Act, 1961**		
	Normal depreciation		
	- On fire-fighting equipments [Eligible for depreciation even though such equipments were not used during the previous year.]	95,000	
	- On new machinery [₹ 75,00,000 x 15% since it is put to use for more than 180 days]	11,25,000	
	- On machinery sold and reacquired [15% of actual cost of ₹ 35,00,000, being lower of WDV at the time of sale (i.e., ₹ 35 lakhs) or price paid for re-acquisition (i.e., ₹ 65 lakhs)	5,25,000	

	Additional depreciation		
	- On new machinery [₹ 75,00,000 x 20%]	15,00,000	
			32,45,000
			72,60,000
II	**Capital Gains**		
	Profit on sale of plot of land to 100% subsidiary	Nil	
	[Short-term capital gains arise on sale of plot of land held for less than 24 months. However, in this case, since the transfer is to a 100% subsidiary company and the subsidiary company is an Indian company, the same would not constitute a transfer for levy of capital gains tax]		
	Long term capital gain on sale of shares of M/s. Stadel Ltd. [Since shares were held for more than 12 months]		
	[Full value of consideration (2,500 x ₹ 280)] 7,00,000		
	Less: Cost of acquisition - Higher of (i) and (ii) 4,37,500		
		2,62,500	2,62,500
	(i) Actual cost of acquisition (2,500 x ₹100) ₹ 2,50,000		
	(ii) ₹ 4,37,500, being lower of fair market value as on 31.1.2018 (i.e., ₹ 4,37,500, being 2,500 x 175) and sale consideration (i.e., ₹ 7,00,000)		
	Gross Total Income		**75,22,500**
	***Less:* Deduction under Chapter VI-A**		65,000
	Under section 80GGB [Contribution by a company to an electoral trust is allowable as deduction, since payment is made otherwise than by cash]		
	Total Income		**74,57,500**

2. (a) (i) Computation of taxable Capital gain in the hands of Mrs. Seema Aggarwal for A.Y.2025-26

Particulars	₹
Full value of consideration 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.	15,50,00,000
***Less:* Cost of acquisition** [₹ 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]	1,02,00,000
	14,48,00,000
***Less:* Exemption under section 54** [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]	**10,00,00,000**
Taxable long term capital gains	**4,48,00,000**

(ii) The words "by way of advance or loan" in section 2(22)(e) must be construed to mean those advances or loans which a shareholder enjoys simply on account of being a person who is the beneficial owner of shares holding not less than 10% of the voting power.

In case such loan or advance is given to such shareholder as a consequence of any further consideration received from such a shareholder which is beneficial to the company, such advance or loan cannot be a deemed dividend within the meaning of the Act.

Gratuitous loan or advance given by a company to a shareholder, who is the beneficial owner of shares holding not less than 10% of the voting power, would come within the purview of section 2(22)(e) to the extent of accumulated profits of the company but not the cases where the loan or advance is given in return for an advantage conferred upon the company by such shareholder.

In the present case, advance of ₹ 15 lakh was given by Aurelia Exports (P) Ltd. to Mr. Manjoo Menon holding 20% shareholding as advance rent for the property let out by him to the company and out of which ₹ 7 lakhs was adjusted against rent payable of F.Y. 2024-25. The advance was given by the company since Mr. Menon mortgaged his personal property thereby enabling the company to obtain the loan from bank in 2013.

Therefore, such advance of ₹ 8 lakhs outstanding as on 31.3.2025 cannot be brought within the purview of section 2(22)(e)[15], since it was not in the nature of gratuitous advance but was given as advance rent and to protect the interest of the company.

(b) Miles Inc., a foreign company, would be resident in India in P.Y. 2024-25 if its POEM, in that year, is in India. Since the meeting of Board of Directors are held outside India i.e., in Chicago, USA where management and commercial decisions necessary for conduct of company's business are taken, its POEM during the A.Y. 2025-26 would be outside India. Hence, Miles Inc. is a non-resident during the P.Y. 2024-25.

The decisions made by shareholders in India on modification of the rights attaching to various classes of shares and sale of company's assets situated in India are not relevant for determination of Miles Inc.'s place of effective management.

[15] *Pradip Kumar Malhotra v. CIT (2011) 338 ITR 538*

Computation of total income of Miles Inc. for the A.Y. 2025-26

Particulars	Amount (₹)
Dividend received on GDR of an Indian company [Taxable, since income is from any asset or source of income is in India. Tax @10.4% would have been deducted on dividend of GDR] [₹ 5,50,000 / 89.6%]	6,13,839
Fees for technical services received from Government of India [Taxable, since it is deemed to accrue or arise in India on account of being received from Government of India even though services are utilised for development project carried out outside India. Tax @20.8% would have been deducted on FTS received from Government] [5,55,000/79.2%]	7,00,758
Total Income	**13,14,597**

3. (a) (i) "Specified income" under section 115BBI includes the following:

- income which has been applied for the benefit of prohibited persons u/s 13(3)
- deemed income under section 11(3) on account of violation of certain conditions stipulated for accumulation of income.

Specified income of Devyani Trust liable to tax@30% under section 115BBI for A.Y. 2025-26

Particulars	Amount (₹)
Amount applied for the benefit of the trustee [Trustee of the trust is one of the persons specified u/s 13(3)]	4,50,000
Amount applied for the benefit of Mr. Sujan Dave [Since Mr. Sujan Dave's total contribution to the trust upto 31.3.2025 is more than ₹ 50,000, he is a person specified u/s 13(3)]	2,50,000
Donation made to another trust out of accumulated income of P.Y. 2022-23 [Donation to another charitable trust out of accumulated income is one of the violations of condition specified for	2,50,000

accumulation of income – Section 11(3)]	
Specified income liable to tax @30% under section 115BBI	**9,50,000**

(ii) Since Parivartan trust has already commenced its activities and has not availed exemption under section 11 for any P.Y. ending on or before 1.11.2024, (being the date of application), it need not first apply for provisional registration.

It can at any time after the commencement of such activities directly apply for final registration under section 12AB[16].

Thus, the action of trust for applying for the final registration as per section 12AB before applying for provisional registration for exemption under section 11 is valid.

The Principal Commissioner or Commissioner has to pass the order granting or rejecting the registration before expiry of 6 months from the end of the quarter in which application is received i.e., by 30.6.2025.

Exemption under section 11 and 12 would be applicable from the assessment year immediately following the financial year in which such application is made i.e., from A.Y. 2025-26 (P.Y. 2024-25).

(b) Computation of total income and net tax liability of Mr. Kumar Saurav for A.Y.2025-26 under the default tax regime

Particulars	₹	₹
Income from house property		
Gross Annual Value[17] of property in Country 'P'	1,92,000	
Less: Municipal taxes paid in Country 'P'	9,500	
Net Annual Value	**1,82,500**	
Less: Deduction under section 24 – 30% of NAV	54,750	
		1,27,750

[16] Read with section 12A(1)(vi)(B), w.e.f. 1.10.2023.
[17] Rental income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.

Profits and Gains of Business or Profession		
Income from profession in India	10,75,000	
Royalty income from literary book from Country 'P' (after deducting expenses of ₹ 35,000)	4,15,000	
		14,90,000
Income from Other Sources		
Interest on Fixed deposit with XYZ Bank	95,000	
Interest on savings bank account	47,000	
Agriculture income in Country 'P'	65,000	
Dividend from a company incorporated in Country 'P'	1,59,000	
		3,66,000
Gross Total Income		**19,83,750**
Less: Deductions under Chapter VI-A [Not available under default tax regime]		Nil
Total Income		**19,83,750**
Tax liability on ₹ 19,83,750		
Tax on total income [30% of ₹ 4,83,750 + ₹ 1,40,000]		2,85,125
Add: Health and Education cess@4%		11,405
		2,96,530
Less: Deduction u/s 91 (See Working Note below)		1,14,614
Net Tax Liability		**1,81,916**
Net Tax Liability (Rounded off)		**1,81,920**

Working Note: Calculation of deduction under section 91

Particulars	₹
Doubly Taxed Income – Country P	
Income from house property	1,27,750
Royalty Income [₹ 4,50,000 – ₹ 35,000 (Expenses)]	4,15,000
Agricultural income	65,000

Dividend	1,59,000
	7,66,750
Rate of tax in Country P = 16%	
Indian rate of tax = 2,96,530/19,83,750 x 100 = 14.948%	
Lower of the above = 14.948%	
Deduction u/s 91 [14.948% x ₹ 7,66,750]	**1,14,614**

4. (a) (i) In respect of tips collected by the company from the guests and distributed to the employees, the person responsible for paying the employee was not the employer at all, but a third person, namely the guest.

The payments of collected tips included and paid by way of a credit cards, UPI or Net Banking in the bills by guest, would not be payments made "by or on behalf of" an employer.

The contract of employment not being the proximate cause for the receipt of tips by the employee from a guest, such payments would be outside the scope of sections 15 and 17.

There is no employer-employee relationship between customers and the employees of Raj Keshri Hotels and Resorts Ltd. and therefore such payments do not fall in the nature of salary.

On account of such tips being received from guests and not from the employer, section 192 would not get attracted at all in the hands of Raj Keshri Hotels and Resorts Ltd.[18] Thus, the company is not responsible for deducting tax at source from disbursement of tips to its employees.

(ii) Lalit is required to deduct TDS under section 194C for contract payments and under section 194-I for rent paid for office premises during the previous year 2024-25 since Lalit's turnover for the previous year 2023-24 exceeded ₹ 1 crore.

[18] *ITC Ltd v. CIT (2016) 384 ITR 14 (SC)*

Thus, tax deduction under section 194C would be ₹ 5,000, being 1% of ₹ 5 lakhs.

Mr. Lalit is also required to deduct tax at source @10% u/s 194-I on the rent paid for office premises and for furniture, fixtures and vacant land appurtenant to office to Mr. Hemant, since aggregate of rent i.e., ₹ 2,58,000 [(16,000 + ₹ 5,500) x 12] paid during the P.Y. 2024-25 exceeds the threshold limit of ₹ 2,40,000.

The tax deduction under section 194-I would be ₹ 25,800, being 10% of ₹ 2,58,000.

(iii) As per section 194-O, ABC Limited, an e-commerce operator is required to deduct tax at source @0.1% on ₹ 4,90,000, being the gross amount of sale of products 'R' of XY and Co., a partnership firm, an e-commerce participant, since such sale of goods is facilitated by ABC Limited through its digital facility.

ABC Ltd. is also required to deduct tax @0.1% on the payment of ₹ 60,000 directly made to XY and Co., since such amount is deemed to be amount credited or paid by ABC Ltd. to XY and Co.

Thus, ABC Ltd. is required to deduct tax of ₹ 550, being 0.1% of ₹ 5,50,000.

(b) Since Armo Ltd. entered into a transaction with Yalin Ltd., in Country X which is located in a notified jurisdictional area (NJA), Armo Ltd. and Yalin Ltd. would be deemed as associated enterprises and the transactions between them would be deemed to be international transactions. Accordingly, all the provisions of transfer pricing would be attracted in case of such a transaction.

The transactions of Armo Ltd. with KB Inc., U.K. for sale of identical goods are comparable uncontrolled international transactions, since it is neither associated enterprises of Armo Ltd. nor situated in NJA.

Hence, Comparable Uncontrolled Price (CUP) method can be used to determine ALP.

Computation of ALP using CUP method

Particulars	₹ in crores
Price charged by KB Inc. (on CIF basis)	13.00
Less: Ocean freight and insurance, has to be reduced since the price charged to Yalin Ltd. is on FOB basis	0.25
Less: Cost of after-sales support service (has to be reduced, since such services are being provided to KB Inc. but not to Yalin Ltd.)	0.19
Arm's Length Price	**12.56**
Less: Price at which goods were sold to Yalin Ltd.	11.75
Arm's length adjustment [Increase in profit of Armo Ltd.]	**0.81**

5. (a) (i) **Issue Involved:** The issue under consideration is whether the provisions of section 206AA, which prescribe a higher rate of tax deduction at source in case of non-furnishing of PAN by a foreign company, override the Double Taxation Avoidance Agreement (DTAA) that specify a lower rate of tax.

Provisions Applicable: As per section 206AA, in case of non-furnishing of PAN by the deductee to the deductor, the tax is required to be deducted at higher of the rate specified in the relevant provision or at the rates in force or at the rate of 20%.

Analysis and Conclusion: Section 90(2) provides that the provisions of the DTAAs would override the provisions of the Act in cases where the provisions of DTAAs are more beneficial to the assessee.

Even the charging sections 4 and 5 of the Act, which deal with the principle of ascertainment of total income under the Act, are also subordinate to the principle enshrined in section 90(2).

Thus, in so far as the applicability of the scope/rate of taxation with respect to the impugned payments made to the non-residents is concerned, no fault can be found with the rate of

taxation invoked by the assessee based on the DTAAs, which prescribed for a beneficial rate of taxation.

The provisions of tax withholding, i.e., section 195 of the Act, would apply only to sums that are otherwise chargeable to tax under the Act. The provisions of DTAAs, along with sections 4, 5, 9, 90 & 91 of the Act, are relevant while applying the provisions of tax deduction at source. Therefore, section 206AA of the Act cannot be understood to override charging sections 4 and 5 of the Act.

Accordingly, the contention of the revenue that in the absence of furnishing of PAN, the assessee was under an obligation to deduct tax at a higher rate of 20% is not correct.

The above answer is based on the rationale of the Supreme Court in *CIT (International Taxation) v. Air India Ltd. [2023] 456 ITR 139*.

(ii) **Issue Involved:** The issue under consideration is whether the Assessing Officer is bound to allow the set-off of brought forward losses under section 72 even if the assessee, Mr. X, in this case, has not claimed the same in the return filed by him and the time limit for filing revised return has expired.

Provisions Applicable: Under section 72, business losses shall be carried forward and shall be set-off against the profits and gains of any business in the next assessment year. It is assumed that the assessee has filed the return of income within the time stipulated u/s 139(1) and hence is eligible for set off of the unabsorbed loss in the subsequent year.

The wording used in section 72 is "shall", indicating that the provisions relating to set off of brought forward business loss are mandatory provided the loss was determined in pursuance of a return filed under section 139(3) in any earlier previous year.

Analysis and Conclusion: As per *CBDT Circular No.14 (XL-35) of 1955 dated 11.04.1955,* it is the duty of the Assessing Officer to assist a taxpayer in every reasonable way, particularly in the matter of claiming and securing reliefs and in this regard, they should take the initiative in guiding a

taxpayer where proceedings or other particulars before them indicate that some refund or relief is due to him.

Thus, it is the duty of the Assessing Officer to apply the relevant provisions of the Act for the purpose of determining the true figure of Mr. X's total income and consequential tax liability. Merely because Mr. X has not claimed the set-off of brought forward losses of ₹ 3 lakh in the original return filed and the time limit for filing revised return has expired, it cannot relieve the Assessing Officer of his duty to apply section 72 in the appropriate case.

The Assessing Officer is bound to accept the request of Mr. X and allow the set-off of brought forward losses of ₹ 3 lakh under section 72, even if Mr. X has not claimed the same in the return filed, and the time limit for filing the revised return has expired.

The above answer is based on the rationale of the Supreme Court in *CIT v. Mahalakshmi Sugar Mills Co. Ltd. (1986) 160 ITR 920, taking note of the CBDT Circular No.14 (XL-35) of 1955 dated 11.04.1955.*

(iii) **Issue Involved:** The issue under consideration is whether penalty u/s 271C and interest u/s 201(1A) both are leviable on late deposit of TDS.

Provisions applicable: Section 271C(1)(a) provides that if any person fails to deduct the whole or any part of the tax as required by or under the provisions of Chapter XVII-B, then, such person is liable to pay, by way of penalty, a sum equal to the amount of tax which such person failed to deduct.

Section 201(1A) provides that in case a tax has been deducted at source but is subsequently remitted belatedly, such a person is liable to pay interest as provided under section 201(1A).

Analysis and Conclusion: On a plain reading of section 271C(1)(a), no penalty would be leviable on belated remittance of TDS after it is deducted by the assessee.

Similarly, section 276B speaks about prosecution for failure to pay the tax deducted at source to the credit of the Central Government within the prescribed time.

The words "fails to deduct" in section 271C(1)(a) cannot be read as "failure to deposit/pay the tax deducted".

Accordingly, no penalty would be leviable under section 271C on delay in remittance of the tax deducted at source after deducting it on time.

However, interest u/s 201(1A) for late deposit of TDS is leviable.

The above answer is based on the rationale of the Supreme Court in *US Technologies International Pvt. Ltd. v. CIT [2023] 453 ITR 644*.

(b) **(i)** In order to complete tax cases, a country may require certain information which may be available with the treaty partner.

Article 26 provides for the information which may be exchanged and the manner in which such a request has to be made.

The OECD and UN Model Conventions are similar with respect to this Article.

Importance of Article 26:

- facilitates effective exchange of information between Contracting States.
- curtails cross-border tax evasion and avoidance,
- curtails the capital flight that is often accomplished through tax evasion & avoidance. This is particularly relevant in the perspective of developing countries.

(ii) Pillar Two consists of GloBE Rules which means Global Anti-Base Erosion rules, through which 15% global minimum tax has been introduced.

The GloBE Rules apply to Constituent Entities that are members of an MNE Group that has annual revenue of EURO 750 million or more in the Consolidated Financial Statements

of the Ultimate Parent Entity (UPE) in at least two of the four Fiscal Years immediately preceding the tested Fiscal Year.

6. (a) (i) Form 15CB is a certificate of an accountant wherein he certifies that he has examined the agreement between the remitter and the beneficiary requiring such remittance. He also has to examine the relevant documents and books of account required for ascertaining the nature of remittance and for determining the rate of deduction of tax at source.

The Chartered Accountant certifying the Form 15CB undertakes to have verified the agreement between the remitter and the beneficiary as well as the relevant documents and books of account to ascertain the nature of remittance and determine the rate of TDS.

In this case, however, the Chartered Accountant mentioned that he had only verified KYC of signatory to invoice and the invoices thereof.

He had not only failed to justify as to how verification of invoices was considered as sufficient compliance for certifying the forms but also failed to bring on record the said invoices.

Thus, he failed to provide any basis on which he relied for issuing Form 15CB certificates to the company.

On account of such failure, clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for failure to exercise due diligence in discharging his professional responsibilities and failure to obtain sufficient information may be invoked.

(ii) 1. **Tax Planning** – Gifting of fixed deposits of ₹ 50 lakhs by Mr. D to his son who attained the age of 18 years for the purpose of shifting interest income from his hands to his son so that there may be zero tax implication, is a permitted **tax planning** measure under the provisions of income-tax law.

2. **Tax Evasion** – Mr. Ram's annual income is ₹ 49.50 lakhs for the A.Y. 2025-26. He also earned commission of ₹ 6 lakhs from ABC Limited. Accordingly, his total income would be ₹ 55.50 lakhs which exceeds ₹ 50 lakhs and hence surcharge is applicable on tax on total income.

However, for the purpose of saving tax, he instructed ABC Ltd. to transfer the commission in his wife's account. This is the case of application of income and not of diversion of income by overriding title, since such transfer of commission is not under any obligation but to evade tax.

This is tax evasion.

(b) The statement is not correct. As per section 245N, advance ruling not only includes a determination by the BAR in relation to a transaction which has been undertaken or is proposed to be undertaken by a non-resident applicant, but also includes, inter alia, determination by the BAR –

(i) in relation to the tax liability of a non-resident arising out of a transaction which has been undertaken or is proposed to be undertaken by a resident applicant with such non-resident and such determination shall include the determination of any question of law or of fact specified in the application

(ii) in relation to the tax liability of a resident applicant, arising out of a transaction which has been undertaken or is proposed to be undertaken by such applicant and such determination shall include the determination of any question of law or of fact specified in the application.

ANSWERS OF MODEL TEST PAPER 6

FINAL COURSE: GROUP - II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Division A – Multiple Choice Questions

MCQ No.	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(c)	9.	(c)
2.	(c)	10.	(c)
3.	(d)	11.	(b)
4.	(a)	12.	(a)
5.	(c)	13.	(d)
6.	(c)	14.	(c)
7.	(d)	15.	(c)
8.	(a)		

Division B – Descriptive Questions

1. Computation of Total Income and tax liability of Kansal Cements Ltd. for the A.Y. 2025-26 under regular provisions of the Act

	Particulars	Amount (in ₹)	
I	**Profits and gains of business or profession**		
	Net profit as per statement of profit and loss from Cement business		75,00,000
	Add: **Items debited but to be considered separately or to be disallowed**		
	(i) Depreciation as per the Companies Act, 2013	6,00,000	
	(ii) Interest expenditure towards borrowed funds for investing in shares	1,50,000	
	[Allowability or otherwise of interest expenditure on earning dividend		

	has to be considered separately under the head "Income from Other Sources". Since the amount has been debited to the statement of profit and loss, it has to be added back.]		
	(iii) Expenditure towards construction of tenements for company's workers [As Kansal Cements Ltd. acquired no ownership rights in the tenements and remained the property of the Housing Board, the expenditure of ₹ 5,00,000 was incurred wholly and exclusively for the welfare of the employees and, therefore, constituted legitimate business expenditure[19]. Since the same has been debited to the statement of profit and loss, no further adjustment is required]	Nil	7,50,000
			82,50,000
	***Less:* Items credited but not taxable or chargeable to tax under another head/ Allowable expenditure**		
	(ii) Dividend received from foreign company [Dividend received from foreign company is taxable under the head "Income from Other Sources". Since the same has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	5,00,000	
	(iv) Waiver of amount by trade creditor [Amount waived by the trade creditor is deemed income under section 41(1) as there is a benefit	Nil	

[19] *CIT v. Bombay Dyeing and Manufacturing Co. Ltd. [1996] 219 ITR 521 (SC)*

	by way of remission or cessation of trading liability. Since the same has been credited to the statement of profit and loss, no further adjustment is required.]			
	(v) Upfront discounted interest to debenture holders		4,00,000	
	[Since the liability of Kansal Cements Ltd. with respect to upfront interest payment had arisen this year, it would be eligible to claim the entire amount of ₹ 5 lakhs of interest paid as deduction[20] under section 36(1)(iii). As only 1/5th of the interest is debited to the statement of profit and loss, remaining 4/5th also has to be reduced]			9,00,000
				73,50,000
	Less: Depreciation as per the Income-tax Act, 1961			4,50,000
				69,00,000
	Profit from business of developing and building rental housing projects			
	Net profit from business of developing and building rental housing projects		20,00,000	
	Income from housing project executed as a work contract		10,00,000	
				30,00,000
				99,00,000
II	**Capital Gains**			
	Long term capital gain on compulsory acquisition of land			
	Full value of consideration [Additional compensation pursuant to order of the High Court]	8,00,000		
	Less: Cost of acquisition	Nil	8,00,000	

[20] *Taparia Tools Ltd. v. JCIT (2015) 372 ITR 605 (SC)*

	Short term capital gain on damage of machinery due to fire			
	Full value of consideration [Insurance compensation]	22,00,000		
	Less: WDV as on 1.4.2024	9,39,250	12,60,750	20,60,750
	Computation of WDV as on 1.4.2024			
	Actual Cost as on 1.5.2021	20,00,000		
	Less: Depreciation for P.Y. 2021-22 [15%]	3,00,000		
	Less: Additional Dep.@ 20%	4,00,000		
	WDV	13,00,000		
	Less: Depreciation for P.Y. 2022-23 [15%]	1,95,000		
	WDV	11,05,000		
	Less: Depreciation for P.Y. 2023-24 [15%]	1,65,750		
	WDV as on 01.04.2024	**9,39,250**		
III	**Income from Other Sources**			
	Dividend received from foreign company		5,00,000	
	Less: Interest expenditure of ₹ 1,50,000 allowed upto 20% of dividend		1,00,000	4,00,000
	Gross Total Income			1,23,60,750
	***Less:* Deduction under Chapter VI-A**			
	Under section 80-IAB		20,00,000	
	[100% of profits from business of developing and building rental housing projects. No deduction is allowed in respect of income from housing project executed as a work contractor]			
	Under section 80M		4,00,000	
	[Deduction in respect of inter-corporate dividend to the extent of dividend			

	distributed by it on or before the due date specified u/s 139(1) or dividend received, whichever is lower]		
			24,00,000
	Total Income		**99,60,750**
	Computation of tax liability		
	Tax on long term capital gains of ₹ 8,00,000 @ 20%	1,60,000	
	Tax on other income of ₹ 91,60,750 @ 30%, since the turnover of the company for the previous year 2022-23 exceeds ₹ 400 crores	27,48,225	
			29,08,225
	Add: Health and education cess @4%		1,16,329
	Tax liability		**30,24,554**
	Tax liability (Rounded off)		**30,24,550**

2. (a) Computation of Taxable Capital gain in the hands of Salsy Limited for A.Y.2025-26

Particulars	₹
Full value of consideration **[See Note 1 below]**	2,64,00,000
Less: Net worth **[See Note 2 below]**	2,37,25,000
Long-term capital gain [Since the Unit is held for more than 36 months]	**26,75,000**
No indexation benefit is allowed in slump sale.	

Note 1: Computation of Full value of consideration

Particulars	₹
Fair market value of the capital assets transferred by way of slump sale [FMV1]	
Land, being an immovable property [Stamp duty value on 1.10.2024, being the date of slump sale]	62,00,000
Building, being an immovable property [Stamp duty value on 1.10.2024, being the date of slump sale]	72,00,000
Machinery [Book value as appearing in the books of accounts]	52,00,000

Investment in listed equity shares of ABC Limited [Fair market value as on 1.10.24] [1,00,000 x 42]	42,00,000
Inventories [Book value as appearing in the books of accounts]	60,00,000
Licenses and Franchises [Book value as appearing in the books of accounts]	23,00,000
	3,11,00,000
Less: Liabilities of Chemical Unit – Trade Creditors	47,00,000
Fair market value of the capital assets transferred by way of slump sale **[FMV1]**	**2,64,00,000**
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]**	2,42,00,000
Full value of consideration [Higher of FMV1 or FMV2]	2,64,00,000

Note 2 – Computation of Net worth

Particulars	₹	₹
Land (Excluding ₹ 20 lakhs on account of revaluation)		50,00,000
Building		70,00,000
Machinery		52,00,000
Investment in Equity Shares of ABC Ltd.		35,00,000
Inventories		60,00,000
Licenses and Franchises		17,25,000
Cost as on 1.6.2023	23,00,000	
Less: Depreciation @ 25% for Financial Year 2023-24	5,75,000	
WDV as on 1.4.2024	17,25,000	
Total assets		2,84,25,000
Less: Trade Creditors		47,00,000
Net worth		**2,37,25,000**

(b) Computation of income to be declared by the branch in its return of income for A.Y.2025-26

Particulars		₹	₹
Loss of the branch			(28,00,000)
Add:	Short-term capital loss [Allowed to be set-off only against capital gains]	1,50,000	
	Expenditure on Voluntary Retirement Scheme [Only 1/5 is allowable as deduction. Thus, 4/5th will be added back]	9,60,000	
	Brought forward speculative business loss [Allowed to be set-off only against speculative business]	17,00,000	
	Head office expenditure debited to profit and loss	1,65,00,000	1,93,10,000
			1,65,10,000
Less:	Head office expenses allowable u/s 44C **[Refer note below]**		10,60,500
Income to be declared by the branch			**1,54,49,500**
Note - Computation of Head Office expenses allowable u/s 44C			
Head office expenses allowable u/s 44C = ₹ 10,60,500			
Being the lower of -			
(i)	5% of ₹ 2,12,10,000 (adjusted total income) = ₹10,60,500		
(ii)	Actual Head Office expenses allocated to the branch= ₹ 1,65,00,000		

Computation of Adjusted Total Income

Particulars		₹	₹
Loss of the branch			(28,00,000)
Add:	Current year depreciation	NIL	
	Unabsorbed depreciation	18,00,000	
	Short-term capital loss	1,50,000	
	Expenditure on Voluntary Retirement Scheme [Only 1/5 is allowable as deduction. Thus, 4/5th will be added back]	9,60,000	
	Brought forward speculative business loss	17,00,000	
	Deductions under Chapter VI-A	29,00,000	
	Head office expenditure debited to profit and loss	1,65,00,000	
			2,40,10,000
Adjusted total income			**2,12,10,000**
Note – Depreciation for the current financial year is not required to be added back for computing adjusted total income.			

3. (a) (i) As per section 13B, any voluntary contribution received by an electoral trust would be exempt during the previous year, if such electoral trust –

- distributes to the eligible political parties during the said previous year, 95% of the total contributions received during the financial year along with the surplus, if any, brought forward from earlier previous year; and
- functions in accordance with the rules (Rule 17CA) made by the Central Government.

In the present case, M/s MPL, an electoral trust incorporated in the previous year 2024-25, received voluntary contributions of ₹ 600 lakhs. It spent ₹ 5 lakhs for the purpose of managing its affairs.

As per rule 17CA, since M/s MPL, an electoral trust incorporated in the P.Y. 2024-25, it is eligible to spend ₹ 5 lakhs, being ₹ 30 lakhs i.e., 5% of total contributions of ₹ 600 lakhs subject to the limit of ₹ 5 lakhs.

Accordingly, distributable contribution for the P.Y. 2024-25 would be ₹ 595 lakhs [i.e., ₹ 600 lakhs less ₹ 5 lakhs]. In such a case, M/s MPL can distribute ₹ 595 lakhs to a registered political party as the same exceeds ₹ 570 lakhs, being 95% of total contributions received of ₹ 600 lakhs.

Rule 17CA provides that the electoral trust shall not accept contributions, *inter alia*, from an individual who is not a citizen of India.

If M/s MPL received ₹ 100 Lakhs as contribution from individuals who are not citizen of India, it has violated the conditions mentioned in Rule 17CA. In such case, M/s MPL, an electoral trust, would not be eligible for exemption under section 13B in respect of entire contribution.

Moreover, the CBDT may withdraw the approval after giving an opportunity of being heard and record the reasons in writing for the withdrawal of approval.

(ii) No, Astha Foundation trust cannot claim exemption under section 10(23C)(iiiad) and section 10(23C)(iiiae), since the aggregate annual receipt of ₹ 5.4 crores (₹ 1.2 crores from school and ₹ 4.2 crores from hospital) exceeds the aggregate threshold of ₹ 5 crores tough the individual receipts from school and hospital have not exceeded ₹ 5 crores.

(iii) Where a trust or institution or fund is notified under section 10(46), the approval or provisional approval granted under first regime under section 10(23C)(vi) would become inoperative from the date of such notification issued under section 10(46).

Accordingly, in the present case, since approval granted under section 10(23C)(vi) would become inoperative from 15.11.2024, being the date of notification issued under section 10(46), Care for All Foundation cannot simultaneously enjoy

the benefits of both sections i.e., 10(23C)(vi) and section 10(46).

(b) Computation of taxable total income and net tax liability of Mr. Ashok for A.Y.2025-26 under the default tax regime under section 115BAC

Particulars	₹	₹
Profits and Gains of Business or Profession		
Income from sole-proprietary concern in India	8,00,000	
Business Income in Country 'N'	9,50,000	
	17,50,000	
Less: Business loss of A.Y. 2021-22 in Country 'N'	50,000	17,00,000
Income from Other Sources		
Gift received from a friend in Country 'N'	65,000	
Dividend in Country 'N'	1,40,000	2,05,000
Gross Total Income		19,05,000
Less: Deductions under Chapter VI-A [Not available under default tax regime]		Nil
Total Income		**19,05,000**
Tax liability on ₹ 19,05,000		
Tax on total income [30% of ₹4,05,000 + ₹ 1,40,000]	2,61,500	
Add: Health and Education cess@4%	10,460	
		2,71,960
Less: Deduction u/s 91 (See Working Note below)		1,57,794
Net Tax Liability		**1,14,166**
Net Tax Liability (Rounded off)		**1,14,170**

Working Note: Calculation of deduction under section 91		
Average Rate of tax in Country N		
- Tax @10% on dividend income of ₹ 1,40,000	14,000	
- Tax @20% on other income of ₹ 10,15,000 (Business income of ₹ 9,50,000 and gift of ₹ 65,000)	2,03,000	
Total Tax Liability in Country N		2,17,000
Average Rate of tax in Country N = 2,17,000/11,55,000 x 100		18.79%
Indian Rate of tax = 2,71,960/19,05,000 x 100		14.28%
Doubly taxed income from Country N		
Business income [9,50,000 – ₹ 50,000]	9,00,000	
Gift from a friend of ₹ 65,000	65,000	
Dividend Income	1,40,000	
Doubly taxed income		11,05,000
Deduction u/s 91= Lower of average rate of tax in Country N and Indian rate of tax rate of tax x Doubly taxed income = [14.28% x ₹ 11,05,000]		1,57,794

4. (a) (i) As per section 194LA, Maharashtra State Government is required to deduct tax at source @ 10% on the entire sum of ₹ 2,90,000 on 10.12.2024, being the date on which enhanced compensation of ₹ 50,000 is paid to Mr. Bhuvan on account of compulsory acquisition of urban land since aggregate amount of compensation including enhanced compensation exceeds ₹ 2,50,000 during the F.Y. 2024-25.

(ii) Mr. Robert, being a seller of an overseas tour programme package has to collect tax at source under section 206C(1G) from Mr. Aman on receiving the amount for purchase of package.

Tax has to be collected at source @ 5% on ₹ 7 lakhs received, and @ 20% on ₹ 2 lakhs, being above ₹ 7 lakhs.

Since Mr. Aman has not filed his return of income for A.Y. 2024-25 and A.Y. 2023-24 and the TCS credit exceeds ₹ 50,000 for both A.Y 2024-25 and A.Y. 2023-24, section 206CCA is invoked which provides, tax is required to be collected at source, in his case, at the higher of twice the rate specified under section 206C(1G) and 5%.

However, the higher rate of TCS leviable cannot exceed 20%.

Accordingly, Mr. Robert is required to collect tax @ 10% (twice of 5%) on ₹ 7 lakhs and @ 20% (40% twice of 20% but restricted to 20%) on ₹ 2 lakhs (₹ 9 lakhs – ₹ 7 lakhs).

(iii) As per section 194BA, on any income by way of winnings from any online game during the financial year, tax @ 30% is required to be deducted on the net winnings in the user account.

Since there is a withdrawal on 1.2.2025, Dream 44 is required to deduct tax at source at the time of such withdrawal on the net winnings comprised in such withdrawal, as well as on the remaining amount of net winnings in the user account at the end of the financial year.

Net winnings at the time of first withdrawal during the F.Y. i.e., on 1.2.2025 = ₹ 25,00,000, being amount withdrawn – (₹ 1,00,000, being non-taxable deposit made in the user account + ₹ 10,000, being opening balance) = ₹ 23,90,000.

Net winnings at the end of the financial year i.e., on 31.3.2025 = (₹ 25,00,000, being amount withdrawn + ₹ 6,60,000, being closing balance) – (₹ 1,00,000, being non-taxable deposit made in the user account + ₹ 10,000, being opening balance + ₹ 23,90,000, being net winnings comprised in the earlier withdrawal) = ₹ 6,60,000.

(b) (i) Surya Ltd., an Indian company and Sun Inc. of UK, are deemed to be associated enterprises as per section 92A(2), since Surya Ltd. guarantees 10% or more of total borrowings of Sun Inc.

Further, the transaction of purchasing raw material falls within the meaning of “international transaction” under section 92B. Hence, transfer pricing provisions would be attracted in this case.

Computation of Arm's length price and adjustment to be made as per Comparable Uncontrolled Price Method

Particulars	₹ in crores
Price of imported goods charged by Sun Inc. from Surya Ltd.	60.00
Less: Mark up earned @ 25% [₹ 60 crores x 25/125] from Surya Ltd.	12.00
	48.00
Add: Mark up earned in uncontrolled comparable transaction @ 20%	9.60
Add: Adjustment on account of brand value [Annual cost of brand value]	1.00
Add: Adjustment on account of cost of credit for 1 month [12% x 1/12 x 57.60]	0.576
Arm's length price of raw material purchase	**59.176**
Less: Price at which raw material was imported by Surya Ltd. from Sun Inc.	60.000
Adjustment to be made to the income of Surya Ltd.	**0.824**

(ii) Surya Ltd. is required to furnish the audit report under section 92E on or before 31.10.2025, being the specified date i.e., date one month prior to the due date for furnishing the return of income under section 139(1) for the relevant assessment year.

(iii) If Surya Ltd. fails to furnish the audit report under section 92E, penalty of ₹ 1 lakh would be leviable.

5. (a) (i) As per section 253(2), the Principal Commissioner or Commissioner may, if he objects to any order passed by the Joint Commissioner (Appeals) or the Commissioner (Appeals) under section 250, direct the Assessing Officer to appeal to the Appellate Tribunal against such order.

However, the Departmental appeals are subjected to the monetary limits and other conditions specified by the CBDT

for filing appeals before Income Tax Appellate Tribunal, High Courts and SLPs/ appeals before Supreme Court.

The key points as per CBDT circulars in this regard are as under:

- Departmental Appeals shall not be filed before Appellate Tribunal in cases where the tax effect does not exceed the monetary limit of ₹ 60 lakhs.
- Tax would include surcharge and cess. However, the tax will not include any interest thereon, except where chargeability of interest itself is in dispute.

In the present case, tax of ₹ 50.934 lakhs [78% of ₹ 65.30 lakhs] under section 115BBE and interest of ₹ 12.35 lakhs determined in respect of additions of unexplained jewellery under section 69A.

Since the tax effect excluding interest does not exceed ₹ 50 lakhs, the department cannot file appeal before the ITAT.

(ii) As per section 142(2A), if at any stage of the proceedings, the Assessing Officer, having regard to the nature and complexity of the accounts, volume of the accounts etc. is of the opinion that it is necessary so to do, he may, with the previous approval of the Principal Chief Commissioner (PCC) or Chief Commissioner (CC) or the Principal Commissioner (PC) or Commissioner (C) get the inventory valued by a Cost Accountant and furnish a report of such inventory valuation. Opportunity of being heard is to be given to the assessee before directing to get the inventory valued.

For inventory valuation, Cost Accountant should be nominated by PCC or CC or PC or C of Income-tax. Further, the expenses of inventory valuation including remuneration of Cost Accountant shall be determined by the PCC or CC or PC or C of Income-tax in accordance with the prescribed guidelines, and not by the AO. The expenses so determined shall be paid by the Central Government.

In the present case, though AO has taken the relevant approval and the company was given opportunity of being heard, the Assessing Officer is not justified in appointing a

Chartered Accountant in practice, fixing his fees himself and asking the CA to raise the bill to the company. For inventory valuation, a Cost Accountant nominated by PCC or CC or PC or C can be appointed and expenses of inventory valuation including remuneration are also determined by these authorities. Such expenses shall be paid by the Central Government and not by the company.

(iii) The obligation to deduct tax at source in terms of section 194H arises when the legal relationship of principal and agent is established. Agency is a triangular relationship between the principal, agent and the third party. The legal position of a distributor is generally regarded as different from that of an agent.

Section 194H fixes the liability to deduct tax at source on the 'person responsible to pay' and the liability to deduct tax at source arises when the income is credited or paid by the person responsible for paying. However, deduction of tax at source in terms of section 194H is not to be extended and widened in ambit to apply to true/genuine business transactions, where the assessee is not the person responsible for paying or crediting income.

In the present case, M/s SBL Cellular Limited, being an assessee,

- neither pays nor credits
- any income to the person with whom he has contracted.

M/s SBL Cellular Limited is not privy to the transactions between distributors/franchisees and third parties. It is, therefore, impossible for M/s SBL Cellular Limited to deduct tax at source and comply with section 194H, on the difference between the total/sum consideration received by the distributors/franchisees from third parties and the amount paid by the distributors/franchisees to them.

Thus, in the case on hand, section 194H is not applicable in the hands of M/s SBL Cellular Limited and it would not be under a legal obligation to deduct tax at source on the

income/profit component in the payments received by the distributors/ franchisees from the third parties/customers.

Accordingly, the contention of the Revenue that company should deduct tax under section 194H is not correct.

The above answer is based on the rationale of the Supreme Court ruling in *Bharti Cellular Ltd. vs. ACIT [2024] 462 ITR 247*.

(b) (i) As per UN Model Convention, "Automated digital services" means any service provided on the Internet, or another electronic network, in either case requiring minimal human involvement from the service provider.

The term "Automated digital services" includes specially:

(a) online advertising services;

(b) supply of user data;

(c) online search engines;

(d) online intermediation platform services;

(e) social media platforms;

(f) digital content services;

(g) online gaming;

(h) cloud computing services; and

(i) standardized online teaching services.

(ii) 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.

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

- Creation of two deductions for a single borrowal

- Generation of deductions without corresponding income inclusions
- Misuse of foreign tax credit
- Participation exemption regimes

6. **(a)** (i) Section 80-IA provides for deduction of 100% of the profits and gains derived from the business of, *inter alia*, developing, operating and maintaining a solid waste management system for 10 consecutive assessment years out of 20 years.

Section 80-IA(7) read with Rule 18BBB requires audit of accounts and furnishing of audit report in Form 10CCB on or before the prescribed time for claim of such deduction.

Form 10CCB is a declaration provided by the Chartered Accountant that in his opinion the enterprise satisfies the conditions stipulated in section 80-IA and the amount of deduction claimed thereunder is as per the provisions of the Income-tax Act, 1961 and meets the required conditions.

As per clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

With respect to Form 10CCB, the Chartered Accountant later came to know about the error that the period of ten years had expired in A.Y. 2023-24 and he withdrew his report in Form 10CCB and informed M/s. PQR Waste Management Pvt. Ltd., who also had filed a revised return immediately withdrawing the claim for deduction under section 80-IA.

Accordingly, clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 may not be invoked as the chartered accountant withdrew his report in Form 10CCB as soon as he came to know about the error and informed the company and company filed a revised return accordingly.

(ii) A. GAAR provisions would not apply in this case as the assessee, M/s KKT Private Limited merely makes a selection of acquiring the machine on lease over outright purchase, out of the options available to him under the provisions of the Act for which he is eligible and satisfies the stipulated conditions, if any.

Even if choice of such option results in lower tax liability, the same is a result of **tax planning**.

B. Investment strategy adopted by the assessee to reduce its tax effect for a particular year is not a method of tax evasion.

Selling of shares of an Indian company at loss and setting off such loss against the short-term capital gain arising on sale of other listed shares is as per the provisions of law. It does not make any difference if the shares sold are purchased again in the next year. It would be considered as tax planning.

(b) As per section 245Q(2), the application of advance ruling needs to be made in quadruplicate by the applicant i.e., M/s ABC Ltd.

Since the value of transaction between M/s ABC Ltd and M/s Pinicer Inc., in respect of which ruling is sought, exceeds ₹ 100 crores but does not exceed ₹ 300 crores, fees of ₹ 5 lakhs to be accompanied with the application.

As per section 245W(1), an applicant who is aggrieved by any ruling pronounced by the Board for Advance Rulings may appeal to the High Court against such ruling of the Board of Advance Rulings.

He has to do so within sixty days from the date of the communication of that ruling or order. However, where the High Court is satisfied that the appellant was prevented by sufficient cause from presenting the appeal within the 60 days period, it may grant further period of 30 days for filing such appeal.

ANSWERS OF MODEL TEST PAPER 1

FINAL COURSE: GROUP – II

PAPER – 5: INDIRECT TAX LAWS

Division A – Multiple Choice Questions

Question No.	Answer	
1	(d)	CGST = Nil; SGST = Nil & IGST = Nil
2	(b)	CGST = Nil; SGST = Nil & IGST = ₹ 58,000
3	(a)	A) ₹ 65,000; B) ₹ 62,500 and C) ₹ 70,000
4	(a)	1) Bangalore, 2) Hyderabad & 3) Hyderabad
5	(c)	1) 3rd July, 2) 20th July & 3) 23rd July
6	(a)	₹ 1,76,800
7	(b)	₹ 2,82,000
8	(c)	₹ 31,000
9	(d)	nil
10	(b)	105,000
11	(c)	₹ 1,63,82,500
12	(b)	₹ 75,000
13	(a)	Vihaan
14	(d)	Cost of transport, loading, unloading and handling charges – ₹ 20; and Cost of insurance - ₹ 10
15	(d)	₹ 1,46,560

Division -B: Descriptive Questions

1. Computation of ITC available with Suyogya Pvt. Ltd. for the given tax period

S. No.	Particulars	Value of supply ₹	ITC			
			CGST* ₹	SGST* ₹	IGST* ₹	Total ₹
1.	Opening balance of ITC		50,000	26,000	35,000	1,11,000
2.	Raw Materials	4,00,000	--	--	72,000	72,000

	[₹ 4,50,000 – ₹ 50,000] [Refer Note 1]					
3.	Rent paid for the factory building [Refer Note 2]	1,00,000	9,000	9,000	--	18,000
4.	Consumables [Refer Note 3]	75,000	6,750	6,750	--	13,500
5.	Security services [Refer Note 4]	70,000	Nil	Nil	Nil	Nil
6.	General insurance of cars manufactured [Refer Note 5]	2,50,000	22,500	22,500	--	45,000
7.	Works contract services [Refer Note 6]	1,60,000	14,400	14,400	--	28,800
8.	Audit fee [Refer Note 7]	50,000	Nil	Nil	Nil	Nil
9.	Bank charges [Refer Note 8]	10,000	900	900	--	1,800
10.	Membership of Automobile Association [Refer Note 9]	10,000	900	900	--	1,800
Total ITC available for the tax period			**1,04,450**	**80,450**	**1,07,000**	**2,91,900**

Computation of net GST payable

Particulars	Value of supply	CGST* ₹	SGST* ₹	IGST* ₹	Total ₹
Intra-State sales in Gujarat	14,00,000	1,26,000	1,26,000	--	2,52,000
Inter-State sales other than Gujarat	6,00,000	--	--	1,08,000	1,08,000
Exports under LUT [Note 10]	10,00,000	Nil	Nil	Nil	Nil
Income from services	2,50,000	22,500	22,500	--	45,000

provided to Gujarat Government [Note 11]					
Total output tax liability		**1,48,500**	**1,48,500**	**1,08,000**	**4,05,000**
Less: ITC available for being set off [Note 12, Note 13 and Note 14]		(1,04,450)	(80,450)	(1,07,000)	(2,91,900)
Net GST payable from Electronic Cash Ledger		**44,050**	**68,050**	**1,000**	**1,13,100**

Notes:

1. Credit of input tax paid on raw materials used in the course or furtherance of business is available. However, ITC is not available on raw material purchased from composition dealer in terms of section 17(5) of the CGST Act, 2017.

2. ITC on rent paid is available as the said service is used in the course or furtherance of business.

3. ITC on consumables, being inputs used in the course or furtherance of business, is available.

4. Since in the given case, security services have been provided by a body corporate - Safe and Secure Solutions Pvt. Limited to a registered person - Suyogya Pvt. Ltd., GST on the same is payable under forward charge. However, since Safe and Secure Solutions Pvt. Limited is not registered under GST, it would not have charged GST on the said services and hence, no ITC is available.

5. ITC on motor vehicles for transportation of persons is allowed in terms of section 17(5) of the CGST Act, 2017 provided such vehicles are further supplied by the supplier. ITC is allowed on general insurance services relating to motor vehicles, ITC on which is allowed [Section 17(5) of the CGST Act, 2017].

6. Section 17(5) blocks ITC in respect of works contract services when supplied for construction of an immovable property (other than plant

and machinery) except where it is an input service for further supply of works contract service. Further, the term "plant and machinery" means, *inter alia*, machinery fixed to earth by foundation or structural support that are used for making outward supply and includes such foundation/structural support. Thus, in view of the above-mentioned provisions, ITC is available in respect of works contract service availed by Suyogya Pvt. Ltd. as the same is used for construction of plant and machinery which is not blocked under section 17(5) of the CGST Act, 2017.

7. Audit fee are the services used in the course/ furtherance of business and thus, credit of input tax paid on such service will be available in terms of section 16 of the CGST Act, 2017. M/s Chandiok & Associates is required to issue an e-invoice for audit services as e-invoicing is mandatory for the registered persons whose aggregate turnover in any of the preceding financial years from 2017-18 onwards exceed ₹ 5 crores. However, an e-invoice without IRN is not treated as an invoice and hence, without a valid document, ITC cannot be claimed on such input services.

8. Bank charges are services used in the course/ furtherance of business and thus, credit of input tax paid on such service will be available. However, ITC can be claimed only on the basis of valid documents. In case of a banking company, a consolidated tax invoice issued for supply of services made during a month at the end of the month containing the details of tax charged, description of services, total value, GSTIN of the supplier and the recipient is deemed to be a tax invoice. Thus, ITC pertaining to the banking services received is allowed.

9. As per section 17(5) of the CGST Act, 2017, ITC is blocked on membership of a club, health and fitness centre. The membership fee paid by a automobile company to Automobile Association is not covered under said section as it is distinct from membership of a club. Hence, ITC thereon is available.

10. Export of goods is a zero-rated supply in terms of section 16 of the IGST Act. A zero rated supply under LUT is made without payment of integrated tax.

11. Services provided to the Central Government, State Government, Union territory administration under any training programme for which 75% or more of the total expenditure is borne by the Central Government, State Government, Union territory administration are exempt from GST. However, in the given case, since the total

expenditure borne by the Gujarat Government is less than 75%, services provided to it by Suyogya Pvt. Ltd. are liable to GST.

12. Since export of goods is a zero-rated supply, apportionment of ITC is not required and instead, full credit will be available.

13. ITC of-

    (i) IGST is utilised towards payment of IGST first and then CGST and SGST in any proportion and in any order.

    (ii) CGST is utilised towards payment of CGST and IGST in that order. ITC of CGST shall be utilized only after ITC of IGST has been utilised fully.

    (iii) SGST is utilised towards payment of SGST and IGST in that order. ITC of SGST shall be utilized only after ITC of IGST has been utilised fully.

14. Since the value of taxable supply other than zero-rated supply in the given tax period (₹ 14 lakh + ₹ 6 lakh + ₹ 2.50 lakh) does not exceed
₹ 50 lakh, provisions of rule 86B of the CGST Rules, 2017 are not applicable and Suyogya Ltd. can discharge its entire output tax liability for said period from the electronic credit ledger.

*15 CGST and SGST are chargeable on intra-State inward and outward supplies and IGST is chargeable on inter-State inward and outward supplies. Rate of CGST, SGST and IGST applied is 9%, 9% and 18% except in case of renting of cars wherein the rate of CGST and SGST applied is 2.5% and 2.5% respectively.

2. (a) (i) When service by way of organization of an event is provided to a registered person, place of supply is the location of such person in terms of section 12 of the IGST Act, 2017.

Since, in the given case, the award functions at New Delhi and Singapore are organized for Bhushan Jewellers (registered in Chennai), place of supply in both the cases is the location of Bhushan Jewellers, i.e. Chennai, Tamil Nadu.

(ii) As per section 12 of the IGST Act, 2017, when service by way of organization of an event is provided to an unregistered person, the place of supply is the location where the event is

actually held and if the event is held outside India, the place of supply is the location of recipient.

Since, in the given case, the service recipient [Dr. Tripti] is unregistered and event is held in India, place of supply is the location where the event is actually held, i.e. Mumbai, Maharashtra.

(iii) As per section 13 of the IGST Act, 2017, place of supply of services requiring physical presence of goods on which the services are to be performed is the location where the service is actually performed. Thus, in given case, the place of supply of installation service, which requires the physical presence of machinery, is the location where the service is actually performed, i.e. New Delhi.

(iv) As per section 13 of the IGST Act, 2017, place of supply of services supplied directly in relation to an immovable property is the location of immovable property located or intended to be located. Thus, in given case, the place of supply is the location of immovable property, i.e. Pune.

(v) As per section 13 of the IGST Act, 2017, place of supply of services consisting of hiring of means of transport, including yachts but excluding aircrafts and vessels, up to a period of 1 month is the location of the supplier of services. Thus, in given case, the place of supply is the location of the supplier of services, i.e. London.

(b) Computation of assessable value of the imported goods

	Particulars	US $
(i)	Cost of the machine at the factory of Peter Inc.	10,000.00
(ii)	Transport charges up to port	500.00
(iii)	Handling charges at the port	50.00
	FOB	10,550.00
(iv)	Freight charges up to India	1,000.00

(v)	Insurance charges @ 1.125% of FOB [Note 1]	118.69
	CIF	11,668.69
		₹
	CIF in Indian rupees @ ₹ 70/ per $	₹ 8,16,808.30
	Assessable Value	₹ 8,16,808.30
	Assessable Value (rounded off)	**8,16,808**

Notes:

(1) Insurance charges have been included @ 1.125% of FOB value of goods.

(2) Buying commission is not included in the assessable value.

3. (a) The value of exempt supply by Nagpur unit and Mumbai unit for the purpose of apportionment of ITC under section 17(3) of the CGST Act, 2017 is determined as follows:

As per section 17(3) of the CGST Act, 2017, value of exempt supply includes supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building. As per explanation to section 17(3), the expression "value of exempt supply" shall not include the value of activities or transactions specified in Schedule III, except sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.

Further, as per explanation to Chapter V (Input Tax Credit) of the CGST Rules, 2017, for determining the value of an exempt supply as referred in section 17(3), the value of exempt supply in respect of land and building is the value adopted for paying stamp duty and for security is 1% of the sale value of such security.

Further, as per explanation to rule 43, the aggregate value of exempt supplies for the purpose of rules 42 and 43, *inter alia*, excludes the value of services by way of accepting deposits, extending loans or advances in so far as the consideration is

represented by way of interest or discount, except in case of a banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances.

In view of the aforesaid provisions, value of exempt supply by Nagpur unit and Mumbai unit for the purpose of apportionment under section 17(3) is as follows:

Particulars	Mumbai unit (₹)	Nagpur unit (₹)
Sale of taxable goods	--	--
Interest received on fixed deposits [Excluded from value of exempt supply by virtue of explanation to rule 43]	--	--
Sale of securities [1% of ₹ 4,50,000] [Includible as per section 17(3). Value of exempt supply in respect for security is 1% of the sale value of such security.]	4,500	--
Sale of agricultural land [Includible as per section 17(3). Value of exempt supply in respect of land is the value adopted for paying stamp duty.]	--	1,85,00,000
Sale of old factory building [Includible as per section 17(3). Value of exempt supply in respect of building is the value adopted for paying stamp duty.]	75,00,000	--
Transfer of actionable claims (other than casinos, online gaming and horse racing) [Excluded from value of exempt supply by virtue of explanation to section 17(3).]	--	--
Total value of exempt supply	**75,04,500**	**1,85,00,000**

(b) **(1)** Services provided to a Governmental Authority by way of slum improvement and upgradation is specifically exempt from GST vide exemption notification under GST law.

(2) Services provided by an educational institution to its students, faculty and staff are exempt from GST vide exemption notification. Educational Institution has been defined to mean, *inter alia*, an institution providing services by way of education as a part of a curriculum for obtaining a qualification recognised by any law for the time being in force.

Since Banarsidas College provides education as part of a curriculum for obtaining a qualification recognised by Indian law, the services provided by it to its staff by way of conducting personality development course would be exempt from GST, it being an educational institution.

(3) Since RPSD College provides education as a part of a curriculum for obtaining a qualification recognised by Indian law, the transport services provided by RPSD College to its students are exempt from GST.

(4) Services provided to an educational institution, by way of, *inter alia*, house-keeping services performed are exempt from GST vide exemption notification provided such services are performed in such educational institution. However, such exemption is available only when the said services are provided to an educational institution providing services by way of pre-school education and education up to higher secondary school or equivalent.

In view of the above discussion, house-keeping services provided to Bloom Montessori Play School are exempt from GST since housekeeping services have been performed in such play school itself.

(5) Services provided to an educational institution by way of supply of online educational journals or periodicals is exempt from GST vide exemption notification. However, such exemption is not available to an educational institution

providing services by way of pre-school education and education up to higher secondary school or equivalent.

Therefore, supply of online journal to students of UKG class of Seeds Montessori School is not exempt from GST.

(c) **(i)** **The statement is valid.** Section 2(3A) defines beneficial owner to mean any person on whose behalf the goods are being imported or exported or who exercises effective control over the goods being imported or exported.

(ii) **The statement is not valid.** The definition of customs area includes within its ambit a warehouse too.

The customs area is defined to mean the area of a customs station or a warehouse and includes any area in which imported goods or export goods are ordinarily kept before clearance by customs authorities.

4. **(a)** No, the view of Upasana Export House that the activity of sending the goods out of India for exhibition is a zero-rated supply, is not correct.

As per section 7 read with Schedule I of the CGST Act, 2017, any activity/transaction is considered as supply only when it is made in the course or furtherance of business and made for a consideration, except for activities enumerated in Schedule I of the CGST Act, 2017.

Section 16 of the IGST Act, 2017 defines "zero rated supply" as any of the following supplies of goods or services or both, namely:–

(a) export of goods or services or both; or

(b) supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.

Thus, only such "supplies" which are either "export" or are "supply to SEZ unit/ developer" would qualify as zero-rated supply.

In view of the above provisions, CBIC vide a circular clarified that the activity of sending/ taking the goods out of India for exhibition or on consignment basis for export promotion, except when such activity satisfy the tests laid down in Schedule I of the CGST Act, do not constitute supply as the said activity does not fall within the scope of section 7 of the CGST Act as there is no consideration at that point in time. Since such activity is not a supply, the same cannot be considered as "zero rated supply" as per the provisions contained in section 16 of the IGST Act.

The said circular further clarified that the activity of sending/taking goods out of India for exhibition is in the nature of **"sale on approval basis"** wherein the goods are sent/ taken outside India for the approval of the person located abroad and it is only when the said goods are approved that the actual supply from the exporter located in India to the importer located abroad takes place.

In case of the goods being sent or taken on approval for sale, the invoice shall be issued before/at the time of supply or 6 months from the date of removal, whichever is earlier. The goods which are taken for supply on approval basis can be moved from the place of business of the registered supplier to another place within the same State or to a place outside the State on a delivery challan.

In view of the said provisions, Upasana Export House is not required to issue invoice at the time of taking the goods out of India since the activity of merely sending/ taking the taxable goods out of India is not a supply. However, the goods shall be accompanied with a delivery challan.

(b) A2S Manufacturing unit should reply on the following lines:

The principal may take ITC on capital goods sent to a job worker for job work without being first brought to his place of business.

The capital goods sent for job work should either be returned to the principal or must be supplied from the job worker's premises within 3 years [extendible by another 2 years] from sending them to the

job worker or direct receipt by the job worker from the supplier. If the above time-lines are not met, it is deemed that the capital goods were supplied by the principal to the job worker (in other words, tax will be payable on them) on the day they were sent out to the job worker .

However, the time-limit of three years for bringing back the capital goods from the job worker does not apply to moulds.

Accordingly, A2S Manufacturing unit have correctly availed the ITC in respect of the moulds delivered to their job worker and not brought back even after completion of four years.

(c) As per Baggage Rules, 2016, an Indian resident arriving from any country other than Nepal, Bhutan or Myanmar, shall be allowed clearance free of duty articles in his bona fide baggage, that is to say, used personal effects and travel souvenirs; and articles [other than certain specified articles], upto the value of ₹ 50,000 if these are carried on the person or in the accompanied baggage of the passenger.

Thus, there is no customs duty on used personal effects and travel souvenirs and general duty free baggage allowance is ₹ 50,000 per passenger. Thus, duty liability of Mr. Prashank and his son is nil for the used personal effects worth ₹ 1,20,000 and 2 music systems each worth ₹ 50,000.

As per Baggage Rules, 2016, the jewellery allowance is applicable only to a passenger residing abroad for more than 1 year. For the jewellery brought by a gentleman passenger, the duty free allowance is jewellery upto a weight of 20 grams with a value cap of ₹ 50,000.

Consequently, there is no duty liability on the jewellery brought by Mr. Prashank as he had stayed abroad for period exceeding 1 year and weight of the jewellery brought by him is 10 grams with a value less than ₹50,000.

5. **(a)** As per section 129 of the CGST Act, 2017, when owner of goods does not come forward for the payment of penalty, detained/seized goods and conveyance (used as a means of transport for carrying said goods) and related documents are released on payment of penalty equal to higher of the following:

(i) 50% of value of goods or

(ii) 200% of the tax payable on such goods.

In view of the same, the amount of penalty payable (each under CGST and SGST) if Robecco Limited does not come forward for the payment of penalty is as follows:

(i) 50% of value of goods [₹ 3,40,000 (50% of ₹ 6,80,000)]

or

(ii) 200% of the tax payable on such goods [₹ 1,22,400 (200% of ₹ 6,80,000 × 9%)]

whichever is higher, i.e. ₹ 3,40,000 (each under CGST and SGST).

Conveyance shall be released on payment by the transporter the penalty as mentioned in the order or ₹ 1 lakh, whichever is less.

In the given case, since the owner - Robecco Limited has failed to come forward to make payment of penalty, penalty of ₹ 3,40,000 (each under CGST and SGST) shall be levied.

Further, the transporter of goods can get its truck released upon payment of the lower of the following under the CGST Act, 2017:

(i) penalty as mentioned in the order [₹ 3,40,000] or

(ii) ₹ 1,00,000

Hence, Sambhav Transporters can get its truck released upon payment of ₹ 1,00,000 (each under CGST and SGST).

(b) ABC audit team did not exercise due diligence to ascertain that the input tax credit availed by X Ltd. is not in compliance with the GST provisions. Instead, ABC relied on the certificate issued by its own

associate firm which justified the incorrect input tax credit claim by X Ltd. In such a scenario both ABC and the associate firm, which issued the certificate to justify the input tax credit claim, were aiding and abetting X Ltd. in wrongful availment of credit, which is an offence punishable with penalty under 122 of the CGST Act, 2017. This offence may also be punishable with imprisonment and fine depending on the amount of default involved and subject to specified conditions. Further, ABC as well as its associate firm may be held guilty of professional misconduct.

(c) Yes, interest is to be paid to the applicant in case any duty ordered to be refunded to an applicant is not refunded within 3 months from the date of receipt of application for refund. The government is permitted to fix such interest between 5% and 30%.

Currently, the rate of interest is 6% .

The interest is to be paid for the period beginning from the date immediately after the expiry of 3 months from the date of receipt of such application, till the date of refund of such duty. For the purpose of payment of interest, the application is deemed to have been received on the date on which a complete application, as acknowledged by the proper officer of Customs, has been made.

6. **(a)** Advance ruling can be sought for the following questions:-

(a) classification of any goods or services or both

(b) applicability of a notification issued under the CGST Act

(c) determination of time and value of supply of goods or services or both

(d) admissibility of input tax credit of tax paid or deemed to have been paid

(e) determination of the liability to pay tax on any goods or services or both

(f) whether applicant is required to be registered

(g) whether any particular activity with respect to any goods and/or services, amounts to/results in a supply of goods and/or services, within the meaning of that term.

(b) When the Commissioner/authorised officer is of opinion that it is necessary or expedient in the public interest to publish the name of any person and any other particulars relating to any proceedings or prosecution under the CGST Act in respect of such person, it may cause to be published such name and particulars.

No publication under this section shall be made in relation to any penalty imposed under the CGST Act until the time for presenting an appeal to the Appellate Authority under section 107 has expired without an appeal having been presented or the appeal, if presented, has been disposed off.

OR

Alternative Answer 6(b)

(b) **(i)** Any authority who has passed or issued any decision or order or notice or certificate or any other document may rectify any error which is apparent on the face of record in such documents.

(ii) Errors or mistakes which are apparent on the face of record may be rectified. Rectification can only be of error apparent from record. It is a settled law that a decision on a debatable point of law is not a mistake apparent from the record.

(c) Status holders are eligible the following privileges under FTP:

(1) Authorisation and custom clearances for both imports and exports on self-declaration basis.

(2) Fixation of Input Output Norms on priority i.e., within 60 days by Norms Committee.

(3) Exemption from compulsory negotiation of documents through banks. Exception are remittance/ receipts.

(4) Exemption from furnishing of Bank Guarantee in Schemes under FTP unless otherwise specified.

(5) Two Star Export Houses and above are permitted to establish export warehouses as per the guidelines of Department of Revenue.

(6) Manufacturers who are also status holders (Three Star/Four Star/Five Star) will be enabled to self-certify their manufactured goods (as per their Industrial Entrepreneurs Memorandum (IEM) / Industrial License (IL) /Letter of Intent (LOI)) as originating from India with a view to qualify for preferential treatment under specified agreements.

(7) Status holders shall be entitled to export freely exportable items on free of cost basis for export promotion subject to a specified annual limit.

(8) The status holders would be entitled to preferential treatment and priority in handling of their consignments by the concerned agencies.

Note – Any four points may be mentioned.

ANSWERS OF MODEL TEST PAPER 2

FINAL COURSE: GROUP – II

PAPER – 5: INDIRECT TAX LAWS

SOLUTIONS

Division A – Multiple Choice Questions

Question No.	Answer	
1	**(b)**	Kolkata office ₹ 10,000, Mumbai office ₹ 3,660
2	**(c)**	₹ 40,000
3	**(a)**	₹1,78,000
4	**(d)**	₹ 50 crores
5	**(c)**	₹ 2,160 payable as IGST.
6	**(c)**	₹ 1,58,400
7	**(c)**	Input tax credit is not available
8	**(b)**	GST is applicable and the place of supply is Gujarat.
9	**(b)**	No, M/s Sudhankar Enterprises is not required to take registration under GST as its aggregate turnover is below the threshold limit for registration. However, it is required to obtain a unique enrolment number under GST.
10	**(d)**	M/s Jaggi Enterprises is eligible for obtaining the CEN as it is registered in multiple States with same PAN. After obtaining CEN, it can use it for generating e-way bills and updating Part-B throughout the country.
11	**(c)**	Yes, e-way bill is required to be generated mandatorily in case of inter-State transfer of goods by principal to job worker irrespective of value of consignment.
12	**(b)**	Yes, M/s Jaggi Enterprises can generate a consolidated e-way bill containing the details of different EWBs even if all the EWBs have different validity periods and even if it is

		transporting consignments of different consignees in a single conveyance.
13	**(c)**	Lucas (P) Ltd.: ₹ 5 crore and Noah : ₹ 60 lakh
14	**(a)**	₹ 95
15	**(d)**	(i) and (ii)

Division B-Descriptive Questions

1. Computation of ITC available with Gehna Ltd.

S. No.	Particulars	Eligible input tax credit		
		CGST (₹)	SGST (₹)	IGST (₹)
1.	**Raw Material**			
	Purchased from local registered suppliers [Note 1(i)] (₹ 1,06,250 x 9%)	9,562.50	9,562.50	
	Purchased from local unregistered suppliers [Note 1(ii)]	Nil	Nil	
	Purchased from Punjab from registered supplier [Note 1(i)] (₹ 1,00,000 x 18%)			18,000
	Raw material imported from USA [Note 1(iii)]			22,732
2.	Consumables [Note 2] (₹ 1,56,250- ₹ 31,250) x 9%]	11,250	11,250	
3.	Monthly rent for the factory building to the owner in Rajasthan [Note 3]	9,000	9,000	
4.	Salary paid to employees on rolls [Note 4]	Nil	Nil	Nil
5.	Premium paid on life insurance policies taken for specified employees [Note 5] (₹ 2,00,000 x 9%)	18,000	18,000	-
Total		47,812.50	47,812.50	40,732

Add: Opening balance of ITC	20,000	15,000	15,000
Total ITC [Note 7]	**67,812.50**	**62,812.50**	**55,732**

Computation of net GST payable

Particulars	**CGST (₹)**	**SGST (₹)**	**IGST (₹)**
Intra-State supply	78,750	78,750	
Inter-State supply			67,500
Exports under LUT [Note 6]	Nil	Nil	Nil
Total output tax liability	78,750	78,750	67,500
Less: ITC	67,812.50	62,812.50	55,732
Net GST payable (rounded off)	10,938	15,938	11,768

Notes:

1. (i) Credit of input tax (CGST & SGST/ IGST) paid on raw materials used in the course or furtherance of business is available.

   (ii) Tax on procurements made by a registered person from an unregistered supplier is levied only in case of notified goods and services. Therefore, since no GST is paid on such raw material purchased, there does not arise any question of ITC on such raw material.

   (iii) IGST paid on imported goods qualifies as input tax. Therefore, credit of IGST paid on imported raw materials used in the course or furtherance of business is available.

2. ITC on consumables, being inputs used in the course or furtherance of business, is available. However, since levy of GST on high speed diesel has been deferred till a date to be notified by Government, there cannot be any ITC of the same.

3. ITC on monthly rent is available as the said service is used in the course or furtherance of business.

4. Services by employees to employer in the course of or in relation to his employment is not a supply in terms of section 7 read with Schedule III to the CGST Act, 2017. Therefore, since no GST is paid on such services, there cannot be any ITC on such services.

5. ITC on life insurance service is available if the same is obligatory for an employer to provide to its employees under any law for the time being in force.

6. Export of goods is a zero rated supply. A zero rated supply under LUT/bond is made without payment of IGST.

7. Since export of goods is a zero rated supply, there will be no apportionment of ITC and full credit will be available.

2. **(a)** In the given situation, three supplies are involved:

(i) Services provided by Revive Pvt. Ltd. to audiences by way of admission to music concert.

(ii) Services provided by Sajal (P) Ltd. to Revive Pvt. Ltd. by way of organising the music concert.

(iii) Services provided by Hotel OPX to Sajal (P) Ltd. by way of accommodation in the Hotel lawns for organising the music concert.

The CGST and SGST or IGST liability in respect of each of the above supplies is determined as under:

(i) The place of supply of services provided by way of admission to, *inter alia,* a cultural event shall be the place where the event is actually held.

Therefore, the place of supply of services supplied by Revive Pvt. Ltd. (Ludhiana, Punjab) to audiences by way of admission to the music concert is the location of the Hotel OPX, i.e. Gurugram, Haryana.

Since the location of the supplier (Ludhiana, Punjab) and the place of supply (Gurugram, Haryana) are in different States, IGST will be leviable. Therefore, IGST leviable will be computed as follows:

Consideration for supply (400 tickets @ ₹ 5,000 per ticket) = ₹ 20,00,000

IGST @ 18% on value of supply = ₹ 20,00,000 x 18% = ₹ 3,60,000.

(ii) The place of supply of services provided by way of organization of, *inter alia,* a cultural event to a registered person is the location of such person.

Therefore, the place of supply of services supplied by Sajal (P) Ltd. (Delhi) to Revive Pvt. Ltd. (Ludhiana, Punjab) by way of organising the music concert is the location of the registered person, i.e. Ludhiana (Punjab).

Since the location of the supplier (Delhi) and the place of supply (Ludhiana, Punjab) are in different States, IGST will be leviable. Therefore, IGST leviable will be computed as follows:

Consideration for supply = ₹ 10,00,000

IGST @ 18% on value of supply = ₹ 10,00,000 x 18% = ₹ 1,80,000

(iii) The place of supply of services, by way of accommodation in any immovable property for organizing, *inter alia,* any cultural function shall be the location at which the immovable property is located.

Therefore, the place of supply of services supplied by Hotel OPX (Gurugram, Haryana) to Sajal (P) Ltd. (Delhi) by way of accommodation in Hotel lawns for organising the music concert shall be the location of the Hotel OPX, i.e. Gurugram, Haryana.

Since the location of the supplier (Gurugram, Haryana) and the place of supply (Gurugram, Haryana) are in the same State, CGST and SGST will be leviable. Therefore, CGST and SGST leviable will be computed as follows:

Consideration for supply = ₹ 4,00,000

CGST @ 9% on value of supply = ₹ 4,00,000 x 9% = ₹ 36,000

SGST @ 9% on value of supply = ₹ 4,00,000 x 9% = ₹ 36,000

If the price for the entry ticket is fixed at ₹ 450, answer will change in respect of supply of service provided by way of admission to music concert, as mentioned in point (i) above. There will be no IGST liability if the consideration for the ticket is ₹ 450 as the inter-State services by way of right to admission to, *inter alia,* musical performance are exempt from IGST, if the consideration for right to admission to the event is not more than ₹ 500 per person. However, there will be no change in the answer in respect of supplies mentioned in point (ii) and (iii) above.

(b) The value of the imported goods is determined under rule 8 of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 (hereinafter referred to as Import Valuation Rules) if the same cannot be determined under the earlier rules. However, the order of application of rules 7 and 8 can be reversed at the request of the importer and with the approval of the proper officer.

Thus, request of Mr. T for determination of value under rule 8 is legally acceptable, if the same is also approved by the proper officer.

Assuming that the request of Mr. T has been approved by the proper officer, the assessable value of the imported goods under rule 8 will be the sum of-

(a) the cost of materials and fabrication or other processing;

(b) an amount for profit and general expenses

(c) the cost or value of all other expenses under rule 10(2) of the said rules.

Computation of assessable value

Particulars	Amount ($)
Cost of materials	2,000
Add: Fabrication charges	1,000
Other chargeable expenses	400
Other indirect costs	250

Cost of the goods at Mr. R's factory	3,650
Add: Net profit margin @ 20% of FOB, i.e. 25% of total cost Total cost till US port = Cost of the goods at factory +Freight from factory to US port and loading charges at US port = $ 4,000 [$ 3,650 + $ 250 + $ 100] FOB value = Total cost till port + profit = $ 5,000 ($ 4,000 +$ 1,000)	1,000
Add: Freight & loading/unloading charges [In case of import by air, the cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation are restricted to 20% of FOB value]	1,000
Insurance charges	50
Assessable value	5,700
Assessable value in Indian Rupees (Exchange rate - ₹ 70 per $)	3,99,000

3. **(a)** (i) Total GST credit (CGST+ SGST + IGST) of ₹ 18,000 specifically attributable to Ganganagar Branch, Rajasthan will be distributed as IGST credit of ₹ 18,000 only to Ganganagar Branch, Rajasthan [Since recipient and input service distributor (ISD) are located in different states].

(ii) IGST credit of ₹ 1,50,000, CGST credit of ₹ 15,000 and SGST credit of ₹ 15,000 specifically attributable to Mumbai Branch, Maharashtra will be distributed as IGST credit of ₹ 1,50,000, CGST credit of ₹ 15,000 and SGST credit of ₹ 15,000 respectively, only to Mumbai Branch, Maharashtra [Since recipient is located in the same State in which ISD is located].

(iii) CGST credit of ₹ 60,000, SGST credit of ₹ 60,000 and IGST credit of ₹1,20,000 have to be distributed among the three branches and Mumbai Branch, Maharashtra in proportion of their turnover of the last quarter.

- Ganganagar Branch, Rajasthan will get: ₹ 48,000 [₹ 2,40,000 x (₹ 10,00,000/ ₹ 50,00,000)] as IGST credit.
- Madhugiri Branch, Karnataka will get: ₹ 24,000 [₹ 2,40,000 x (₹ 5,00,000/ ₹ 50,00,000)] as IGST credit.
- The credit attributable to a recipient is distributed even if such recipient is making exempt supplies.
- Kosala Branch, UP will get: ₹ 72,000 [₹ 2,40,000 x (₹ 15,00,000/ ₹ 50,00,000)] as IGST credit.
- Mumbai Branch, Maharashtra will get:

₹ 24,000 [₹ 60,000 x (₹ 20,00,000/ ₹ 50,00,000)] as CGST credit,

₹ 24,000 [₹ 60,000 x (₹ 20,00,000/ ₹ 50,00,000)] as SGST credit and

₹ 48,000 [₹ 1,20,000 x (₹ 20,00,000/ ₹ 50,00,000)] as IGST credit.

(iv) ITC of ₹ 10,000 of March (last year) cannot be distributed in March this year as ITC available for distribution in a month is to be distributed in the same month.

(b) It has been clarified vide a Circular that in case of printing of books where only content is supplied by the person who owns the usage rights to the intangible inputs while the physical inputs including paper used for printing belong to the printer, supply of printing [of the content supplied by the recipient of supply] is the principal supply and therefore, such supplies would constitute supply of service.

In case of supply of printed envelopes by the printer using its physical inputs including paper to print the design, logo etc. supplied by the recipient of goods, predominant supply is supply of goods and the supply of printing of the content [supplied by the recipient of supply] is ancillary to the principal supply of goods and therefore, such supplies would constitute supply of goods.

Accordingly, the time of supply of books and envelopes will be governed by sections 12 and 13 of the CGST Act, 2017 respectively.

The time of supply of goods is the earlier of, the date of issue of invoice/last date on which the invoice is required to be issued or date of receipt of payment. However, *Notification No. 66/2017 CT dated 15.11.2017* specifies that a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) of the CGST Act, 2017, i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31 of the CGST Act, 2017.

The invoice for supply of goods should be issued before or at the time of removal of goods for supply to the recipient, where supply involves movement of goods. Therefore, in the given case, the last date by which invoice ought to have been issued is 7th April. Thus, the time of supply of envelopes for the purpose of payment of tax is 7th April.

The time of supply of services is the earlier of the dates arrived at by methods (A) and (B), as follows:

(A) Date of invoice or date of receipt of payment (to the extent the invoice or payment covers the supply of services), whichever is earlier, if the invoice is issued within the prescribed time.

(B) Date of provision of service or date of receipt of payment (to the extent the payment covers the supply of services), whichever is earlier, if the invoice is not issued within the prescribed time.

Since in the given case, invoice for the services is not issued within 30 days, the time of supply for the advance received is the date of receipt of payment, i.e. 20th March being earlier than the date of provision of service. However, the time of supply for the balance payment is the date of provision of service, i.e. 10th April being earlier than the date of receipt of balance payment.

(c) This issue has been addressed by the Supreme Court in the case of *Commissioner of Customs v. Tullow India Operations Ltd. (2005) 189 ELT 401 (SC)*. The Apex Court has observed that if a condition is not within the power and control of the importer and depends upon the acts of public functionaries, non-compliance of such a condition, subject to just exceptions cannot be held to be a condition precedent which would disable it from obtaining the benefit for all times to come.

In the given case also the certificate has not been granted within a reasonable time. Therefore, in view of the above-mentioned judgement, the importer M/s Clear Energy Ltd. cannot be blamed for the lapse by the authorities. The Directorate General of Hydrocarbons is under the Ministry of Petroleum and Natural Gas and such a public functionary is supposed to grant the essentiality certificate within a reasonable time so as to enable the importer to avail of the benefits under the notification.

4. **(a)** The supply of software is in the nature of OIDAR service.

The transaction is for personal consumption of Mr. Goldy and the payment has also been made from the personal bank account of Mr. Goldy and not from the bank account of his GST registered firm. Therefore, being an unregistered person receiving OIDAR service in taxable territory, Mr. Goldy is a non-taxable online recipient.

Services received from a provider of service located in a non-taxable territory by an individual in relation to any purpose other than commerce, industry or any other business or profession is exempt from IGST. However, such exemption is not available in case of OIDAR services.

Therefore, being an OIDAR service provided by a supplier located outside India and received by a non-taxable online recipient, the same is liable to GST.

Tax on service supplied by any person located in a non-taxable territory to any person other than non-taxable online recipient is

payable by the recipient of such service under reverse charge. Therefore, tax on OIDAR services provided by the company located in USA to Mr Goldy, a non-taxable online recipient, will be payable by such company under forward charge.

(b) As per para 3 of Schedule II to the CGST Act, 2017 any treatment or process which is applied to another person's goods is a supply of services and accordingly is subject to GST rate applicable for services.

In the given case, M/s Siddhi Tools (job worker) undertakes the process of mounting the steel cabinets of Anuj Pvt. Ltd. (principal) on metal frames. In view of para 3 of Schedule II to the CGST Act, 2017 cited above, the mounting activity classifies as a service even though the metal frames are also supplied as a part of the mounting activity. Accordingly, the job charges will be chargeable to GST at a rate of 18%, which is the applicable rate for services.

Further, the value of steel cabinets will not be included in the value of taxable supply made by M/s Siddhi Tools as the supply of cabinets does not fall within the scope of supply to be made by M/s Siddhi Tools. M/s Siddhi Tools is only required to mount the steel cabinets, which are to be supplied by Anuj Pvt. Ltd., on metal frames, which are to be supplied by it.

As regards sale of waste generated during the job work, since M/s Siddhi Tools is registered, the tax leviable on the supply will have to be paid by it Such supply will be treated as supply of goods and subject to GST rate applicable for metal waste.

Accordingly, the GST liability of M/s Siddhi Tools will be computed as under:

Particulars	**Amount (₹)**
Job charges	5,00,000
GST @ 18% (A)	90,000
Sale of metal waste	45,000

GST @ 12% (B)	5,400
Total GST payable (A) + (B)	**95,400**

(c) As per Baggage Rules, 2016, tourist of foreign origin, excluding infant, is allowed duty free clearance of

(i) travel souvenirs; and

(ii) Articles up to the value of ₹ 15,000 (excluding *inter alia* fire arms, cartridges of fire arms exceeding 50 and cigarettes exceeding 100 sticks), if carried on in person.

Computation of customs duty payable	**₹**
Travel souvenir	Nil
Articles carried on in person	1,50,000
Cigarettes [100 sticks can be accommodated in General Free Allowance (GFA)]	10,000
Fire arms cartridge (50 cartridges can be accommodated in GFA)	25,000
Baggage than can be accommodated in GFA	1,85,000
Less: GFA	15,000
Baggage on which duty is payable	1,70,000
Duty payable @ 38.50% (including 10% Social welfare surcharge)	65,450

Note: Fire arms, cartridges of firearms exceeding 50 and cigarettes exceeding 100 sticks are not chargeable to rate applicable to baggage. These items are charged @ 100% applicable to baggage under Heading 9803 of the Customs Tariff.

5. **(a)** Due date for payment of tax for the month of April is 20th May.

Where self-assessed tax is not paid within 30 days from due date of payment of such tax, penalty equivalent to 10% of tax or ₹ 10,000, whichever is higher, is payable. Thus, option to pay tax within 30 days of issuance of SCN to avoid penalty, is not available in case of self-assessed tax.

Since in the given case, Henry & Co. has not paid the self-assessed tax within 30 days of due date [i.e. 20th May], penalty equivalent to:

(i) 10% of tax, viz., ₹ 9,000 (10% of ₹ 90,000) or

(ii) ₹ 10,000,

whichever is higher, is payable by him under the CGST Act, 2017. Equivalent amount of penalty is payable under the SGST/UTGST Act 2017.

Hence, the stand taken by the Department that penalty will be levied on Henry & Co. is correct, but the amount of penalty of ₹ 45,000 under the CGST Act, 2017 is not correct.

(b) An appeal against orders passed by the State Benches of the Tribunal would lie to the High Court if the High Court is satisfied that such an appeal involves a substantial question of law.

However, appeal against orders passed by the Principal Bench of the Tribunal would lie to the Supreme Court and not High Court. Only the Principal Bench of the Tribunal can decide appeals where one of the issues involved relates to the place of supply.

Since the issue involved in Mr. Raman's case relates to place of supply, the appeal in his case would have been decided by the Principal Bench of the Tribunal. Thus, Mr. Raman will have to file an appeal with the Supreme Court and not with the High Court.

(c) In any of the following circumstances the goods shall be considered to have been removed improperly from a warehouse–

(a) where any warehoused goods are removed from a warehouse in contravention of section 71 of the Customs Act, 1962;

(b) where any warehoused goods have not been removed from a warehouse at the expiration of the period during which such goods are permitted to remain in a warehouse;

(c) where any goods in respect of which a bond has been executed and which have not been cleared for home

consumption or export are not duly accounted for to the satisfaction of the proper officer.

6. **(a)** Yes, the concerned officer, jurisdictional officer or applicant aggrieved by any advance ruling may appeal to the Appellate Authority for Advance Ruling (AAAR) within 30 days [extendible by another 30 days] from the date on which such ruling is communicated to him in the prescribed form and manner.

The AAAR must pass an order confirming or modifying the ruling appealed against within a period of 90 days of the filing of an appeal, after hearing the parties to the appeal.

If members of AAAR differ on any point referred to in appeal, it shall be deemed that no advance ruling can be issued in respect of the question under appeal. A copy of the advance ruling pronounced by the AAAR is sent to applicant, concerned officer, jurisdictional officer and to the Authority.

(b) The authority shall discharge the following functions, namely:-

(i) to determine whether the reduction in tax rate or the benefit of input tax credit has been passed on by the seller to the buyer (hereinafter collectively referred to as 'benefit') by reducing the prices

(ii) to identify the taxpayer who has not passed on the benefit

(iii) to order

(a) reduction in prices

(b) return to the recipient, an amount equivalent to the amount not passed on by way of commensurate reduction in prices along with interest at the rate of 18% from the date of collection of the higher amount till the date of the return of such amount or recovery of the amount not returned, as the case may be.

If the eligible person does not claim return of the amount or is not identifiable, the amount must be deposited in the Consumer Welfare Fund;

(c) imposition of penalty

(d) cancellation of registration

(iv) to furnish a performance report to the GST Council by the 10th of the month succeeding each quarter [Rule 127 of the CGST Rules, 2017]

OR

Alternative Answer

(b) Any decision, order, summons, notice or other communication under the CGST Act , 2017 and the rules made thereunder can be served by any one of the following methods:

(a) Giving/tendering directly including by a courier to the addressee or authorised representative or to any adult member of family residing with the taxable person; or

(b) By Registered post/speed post/courier with acknowledgement due at the last known place of business or residence; or

(c) By Email to the e-mail address provided at the time of registration or as amended from time to time; or

(d) By making the same available at common portal; or

(e) Publication in newspaper circulating in the locality in which the addressee is last known to have resided, carried on business or personally worked for gain; or

(f) If none of the above modes is practicable then by Affixing at last known place of business or residence and if such mode is not practicable for any reason, then by affixing a copy thereof on the notice board of the office of the concerned officer or authority concerned.

[Note: Any 4 points may be mentioned.]

(c) Annual Advance authorisation would be issued to exporters having past export performance in at least preceding two financial years, to enable them to import the inputs required by them on annual basis.

Advance authorization for annual requirement shall only be issued for items, notified in standard input output norms (SION) and not on basis of *ad hoc* norms under self-declared authorisations where SION does not exist.

Annual Advance Authorisation in terms of CIF value of imports will be granted upto 300% of FOB value of physical exports in preceding financial year and/or FOR value of deemed exports in preceding year or ₹ 1 crore, whichever is higher.

ANSWERS OF MODEL TEST PAPER 3

FINAL COURSE: GROUP – II

PAPER – 5: INDIRECT TAX LAWS

SOLUTIONS

Division A – Multiple Choice Questions

Question No.	Answer	
1.	**(b)**	₹ 2,70,000
2.	**(c)**	₹ 13,32,000
3.	**(c)**	No, Basilla Inc. is not required to obtain GST registration in India for discharging GST liability. GST liability of Basilla Inc. is nil.
4.	**(a)**	Nil
5.	**(a)**	₹ 1,44,00,000
6.	**(b)**	₹ 1,80,00,000
7.	**(c)**	Espon Inc. is providing online information and database access or retrieval service and tax on the same is to be paid by Espon India on reverse charge basis.
8.	**(c)**	₹ 1,17,00,000
9.	**(b)**	₹ 100 crore
10.	**(b)**	there is no GST implication on the company and Ghanshyam Das.
11.	**(a)**	April
12.	**(b)**	no e-way bill is required to be issued.
13.	**(a)**	Mr. Venkat should apply for a new registration under GST in the name M/s Tikhi Meethi Restaurant under his own PAN w.e.f. the date of succession and file Form GST ITC 02 for transfer of ITC to the new entity.
14.	**(a)**	(i), (ii) and (iii)
15.	**(b)**	₹ 770

Division B – Descriptive Questions

1. Computation of minimum net GST payable in cash by Jigar Infra Ltd. for April

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
GST payable under forward charge			
Goods purchased from Taiwan sold in Turkey without bringing into India [Neither treated as supply for goods nor as supply of services.]	-	-	-
Transfer of tiles to branch within Kerala [Such transfer is not a supply as the branch has the same GSTIN as that of the head office and thus, is not a distinct person]	-	-	-
Inter-State supply of pure labour services for construction of single commercial unit in Bengaluru [Services by way of pure labour contracts of construction of original works pertaining to a single **residential unit** otherwise than as a part of a residential complex is exempt. Hence, such services in relation to a commercial unit shall be taxable.]			2,70,000 [15,00,000 x 18%]
Supply of consignment in territorial waters [Where the supply is in the territorial waters, the place of supply is deemed to be in the coastal State where the nearest point of the appropriate baseline is located. Therefore, place of	54,000 [6,00,000 x 9%]	54,000 [6,00,000 x 9%]	

supply will be in Kerala being nearer to base line and hence, supply will be intra-State supply]			
Receipt of advance from customer in Kerala [Tax will be payable only on advance for services. In case of goods, tax is payable at the time of issuance of invoice and not at the time of receipt of advance.]	44,100 [7,00,000 x 70% x 9%]	44,100 [7,00,000 x 70% x 9%]	
Total output GST	98,100	98,100	2,70,000
Less: Input tax credit [Refer working note below] [CGST credit be first utilized for payment of CGST liability and then for payment of IGST liability in that order. Similarly, SGST credit be first utilized for payment of SGST liability and then for payment of IGST liability in that order. ITC of CGST cannot be utilized for payment of SGST and *vice versa*.]	98,100	98,100	18,900 (CGST)
	-	-	18,900 (SGST)
Net output GST payable in cash **[A]**	Nil	Nil	2,32,200

GST payable under reverse charge			
Tax on legal services is payable under reverse charge by the recipient of service.	63,000	63,000	
Tax on remuneration paid to director is payable under reverse charge by the recipient of the service.	54,000	54,000	
GST payable in cash under reverse charge **[B]** [Tax payable under reverse charge, being not an output tax,	1,17,000	1,17,000	

cannot be set off against ITC and thus, will have to be paid in cash.]			
Minimum net GST payable in cash [A] + [B]	**1,17,000**	**1,17,000**	**2,32,200**

Working Note:

Computation of ITC available with Jigar Infra Ltd. for April

Particulars	**CGST (₹)**	**SGST (₹)**	**IGST (₹)**
Goods purchased from Taiwan [No ITC since tax is not payable as goods do not become part of the landmass of the country.]	-	-	-
Services of an arbitral tribunal [Services provided by an arbitral tribunal to a business entity with an aggregate turnover up to threshold limit of registration in the previous financial year are exempt from GST. Thus, services provided by the arbitral tribunal to Jigar Infra Ltd., a business entity whose aggregate turnover in the previous financial year exceeds the applicable threshold limit for registration [viz. ₹ 20 lakh, being a supplier of goods and services in the State of Kerala] shall be liable to tax. Further, being services used in the course of furtherance of business, ITC shall be available thereon.]	63,000 [7,00,000 x 9%]	63,000 [7,00,000 x 9%]	
Purchase of materials from Chirag Steels Ltd. [An e-invoice without IRN is not treated as invoice and hence, without a valid document, ITC cannot be claimed on such inputs]	-	-	

Purchase of truck [Motor vehicle used for transportation of goods is eligible for credit. However, since depreciation has been claimed on applicable taxes as well, ITC of tax paid on purchase of such truck cannot be claimed.]	-	-	
Payment of remuneration to independent director based at Cochin [Services provided by employee to employer in the course of his employment are not a supply. However, independent director is not an employee of the company and hence, remuneration paid to him is taxable. Further, being services used in the course of furtherance of business, ITC shall be available thereon.]	54,000 [6,00,000 x 9%]	54,000 [6,00,000 x 9%]	
Total ITC	**1,17,000**	**1,17,000**	

2. **(a)** (i) Section 10(1)(e) of the IGST Act, 2017 lays down that place of supply of goods supplied on board a conveyance like aircraft, train, vessel, or a motor vehicle, is the location where such goods have been taken on board. Thus, in the given case, the place of supply of the goods sold by Mr. Rana is the location at which the goods are taken on board, i.e. New Delhi and not Jaipur where they have been sold.

(ii) As per section 11(a) of the IGST Act 2017, if the goods have been imported in India, the place of supply of goods is the place where the importer is located. Thus, in the present case, the place of supply of the goods imported by Sultan Pvt. Ltd. is Noida, Uttar Pradesh.

(iii) As per section 12(8) of the IGST Act, 2017, the place of supply of services by way of transportation of goods,

including by mail or courier provided to an unregistered person, is the location at which such goods are handed over for their transportation.

Since in the given case, the recipient – Krishnadevaraya – is an unregistered person, the place of supply is the location where goods are handed to Nath Carriers over for their transportation, i.e. Kanpur.

(iv) As per section 12(12) of the IGST Act, 2017, the place of supply of banking and other financial services, including stock broking services to any person is the location of the recipient of services in the records of the supplier of services. Thus, in the given case, the place of supply is the location of the recipient of services in the records of the supplier bank, i.e. New Delhi.

(v) As per section 13(4) read with section 13(6) of the IGST Act, 2017, where services supplied directly in relation to an immovable property are supplied at more than one location, including a location in the taxable territory, the place of supply is the location in the taxable territory. Since in the given case, the immovable properties are located in more than one location including a location in the taxable territory, the place of supply of architect service is the location in the taxable territory, i.e. Pune.

(b) Computation of assessable value, basic customs duty, social welfare surcharge and IGST

Particulars	Amount ($)
FOB value computed by Customs Officer (including design and development charges)	17,500
Add: Commission paid to local agent in India [Includible since it is not a buying commission]	2,100
FOB value as per customs	19,600
Add: Air freight ($ 19,600× 20%) [Restricted to 20% of FOB value since goods are imported by air.]	3,920

Add: Actual insurance charges	1,500
Assessable value in $	25,020
Assessable value in rupees [$ 25,020 × ₹ 75] [Rate of exchange notified by CBIC on the date of filing of bill of entry is considered.]	**₹ 18,76,500**

Particulars	₹
Add: **Basic custom duty** @ 15% on ₹ 18,76,500 [Rate of BCD is the rate in force on the date of presentation of bill of entry or on the date of arrival of the aircraft, whichever is later]	**2,81,475**
Add: **Social Welfare surcharge** @ 10% on ₹ 2,81,475 (rounded off)	**28,148**
Total	21,86,123
Integrated tax @ 18% on ₹ 21,86,123 [rounded off]	**3,93,502**

3. (a)

S. No.	Particulars	Taxability
(i)	Transportation of students and staff of deemed university [Taxable since transportation services provided to an educational institution are exempt only if such institution provides pre-school education or education up to higher secondary school or equivalent.]	Taxable
(ii)	Catering services provided to "Grade CBSE School" [Catering services provided to an educational institution providing pre-school education or education up to higher secondary school or equivalent are exempt.]	Exempt
(iii)	Security services to "Ladder CBSE School" for its annual sports day held at Health Sports complex	Taxable

	[Security services provided to an educational institution providing pre-school education or education up to higher secondary school are exempt provided such services are performed in the premises of such institution. However, in this case, security services are being provided outside the school campus, and hence the same are taxable.]	
(iv)	Supply of online periodical science journal to school for its higher secondary students [Taxable since educational institutions providing service by way of pre-school education and education upto higher secondary school or equivalent are not eligible for exemption in respect of supply of online educational journals.]	Taxable
(v)	Services in relation to placement of students, to Government recognized vocational training college [Taxable since only services related to admission and conducting exams are exempt for vocational educational institutions.]	Taxable

(b) In the given case,

Date of receipt of payment is:-

(a) Date of entry of payment in books of account [17th March, 2024] or

(b) Date of credit of payment in bank account [20th March, 2024]

whichever is earlier, viz., 17th March, 2024**.**

Date of issue of invoice is 20th March, 2024 (since lodge decided to issue invoice on date of credit of payment in its bank account.)

Since in the given case of change in rate of tax (on 18th March, 2024):

- services have been supplied and payment has been received, before such change in rate

- but invoice is issued after the change in rate,

time of supply is date of receipt of payment, viz. 17th March, 2024.

Since the service of lodging upto a value of ₹ 1,000 was exempted at the time of supply, no GST is payable in the given case.

(c) (i) Elite Car Decors is not liable to pay duty leviable on GPS devices pilfered since an importer is not liable to pay duty leviable on any imported goods pilfered after unloading and before proper officer makes order for clearance for home consumption.

(ii) Abatement of duty on damaged imported goods is available if such imported goods are damaged accidentally after unloading but before examination for assessment by the customs authorities.

In the given case, since imported music systems are damaged after examination for assessment by the customs authorities, abatement of duty on such goods is not available.

4. **(a)** (i) A casual taxable person (CTP) is liable to be registered compulsorily under GST irrespective of the threshold limit.

However, CTPs making inter-State taxable supplies of notified products, when made by the craftsmen predominantly by hand even though some machinery may also be used in the process, have been exempted from obtaining registration if their aggregate turnover does not exceed ₹ 20 lakh [₹ 10 lakh for specified special category States].

Since, in the given case, the notified products were made by craftsmen by both hand and machines equally, they are not eligible for exemption and are required to obtain registration mandatorily.

(ii) For a supplier exclusively engaged in intra-State supply of goods, the threshold limit of turnover to obtain registration in the States of Delhi, Andhra Pradesh and Tamil Nadu is ₹ 40 lakh. Aggregate turnover includes value of all taxable and exempt supplies under same PAN.

Thus, aggregate turnover of Mr. Chandu doing trading business across India

= ₹ (18 lakh +10 lakh + 5 lakh + 6 lakh)

= ₹ 39 lakh.

Therefore, Mr. Chandu is not liable for registration as his turnover does not exceed ₹ 40 lakh.

(b) A Public Sector Undertaking is required to deduct tax @ 2% (on inter-State supplies) from payment made to the supplier of taxable services where the total value of such supply, excluding tax indicated in the invoice, under a contract, exceeds ₹ 2,50,000.

Value of supplies excluding tax are

₹ 10,50,000 (₹ 12,39,000 × 100/118) and

₹ 15,50,000 (₹ 18,29,000 × 100/118)

Further, in the given case, since the location of supplier is Maharashtra and place of supply of services provided by Mr. Mast Nath to Swathi Corporation is the location of recipient, viz. Karnataka, said services provided at both Mumbai and Bengaluru events are inter-State supplies.

Accordingly, in the given case, Swathi Corporation is required to deduct tax as follows:

(i) ₹ 10,50,000 × 2% = ₹ 21,000 (IGST)

(ii) ₹ 15,50,000 × 2% = ₹ 31,000 (IGST)

(c) (i) The contention of the importer is partially correct.

Anti-dumping duty cannot be imposed on imports made by 100% EOU. However, following circumstances are exception to the same:

(i) where it is specifically made applicable in such notifications or such impositions, as the case may be; or

(ii) where such article imported is either cleared as such into the DTA or used in the manufacture of any goods that are cleared into the DTA, and in such cases anti-dumping duty shall be levied on that portion of the article

so cleared or so used as was leviable when it was imported into India.

(ii) The claim of the importer's association is not correct. Anti-dumping duty can be levied with retrospective effect not beyond 90 days from the date of such notification, if Central Government is of the opinion that:

(a) there is a history of dumping which caused injury or that the importer was, or should have been, aware that the exporter practices dumping and that such dumping would cause injury, and

(b) the injury is caused by massive dumping of an article imported in a relatively short time which is likely to seriously undermine the remedial effect of anti-dumping duty liable to be levied owing to timing and volume of imported article dumped and other circumstances.

5. (a) (i) **Valid.** As per section 75 of the CGST Act, 2017, if the Appellate Authority concludes that the notice issued under section 74(1) of the CGST Act, 2017 is not sustainable for the reason that the charges of fraud has not been established, the proper officer can determine the tax payable by deeming as if the notice was issued under section 73(1).

(ii) **Incorrect.** As per section 75 of the CGST Act, 2017, the interest on the tax short paid or not paid shall be payable whether or not the same is specified in the order determining the tax liability.

(b) The decision of Mr. Pappu of making an appeal to the First Appellate Authority against the order of the RA is not valid in law. Any person aggrieved by an order passed against him by RA under CGST Act, 2017 may appeal to the Appellate Tribunal, the second level of appeal

The powers of the RA to revise the orders passed by the subordinate officers under section 108 of the CGST Act, 2017 are as under: -

(i) The RA may, on his own motion, or upon information received by him or on request from the SGST/ UTGST Commissioner, call for and examine the record of any proceedings.

(ii) On examination of the case records, if RA is of the view that the decision/order passed by any officer subordinate to him is erroneous and illegal/improper or has not taken into account material facts, he may stay the operation of such order for such period as he deems fit.

(iii) The RA, after giving the person concerned an opportunity of being heard and after making necessary further inquiry, pass such order, as he thinks just and proper, including enhancing or modifying or annulling the said order.

The RA can revise an order after the expiry of a period of 6 months from the date of communication of the said order but not later than expiry of a period of 3 years from the passing of the said decision/order.

In case of an order subject to an appeal before Appellate Authority (AA)/Tribunal/High Court/ Supreme Court, the RA can pass an order on any point which has not been raised and decided in the appeal, before the expiry of a period of 1 year from the date of the order in such appeal or before the expiry of a period of 3 years from the date of initial order, whichever is later.

(c) The amount of duty and interest found refundable is to be paid to the applicant only in following situations:

(a) if the importer or the exporter, as the case may be, has not passed on the incidence of such duty and interest to any other person.

(b) if imports were made by an individual for his personal use.

(c) if amount found refundable relates to export duty paid on goods which has returned to exporter as specified in section 26 of the Customs Act, 1962.

(d) if amount relates to drawback of duty payable.

(e) if the duty or interest was borne by a notified class of applicants.

(f) if excess duty paid by the importer before order permitting clearance of goods for home consumption is made where

such excess payment of duty is evident from the bill of entry in the case of self-assessed bill of entry.

(g) if excess duty paid by the importer before an order permitting clearance of goods for home consumption is made where the duty actually payable is reflected in the reassessed bill of entry in the case of reassessment.

(h) if the buyer has not passed on the incidence of such duty and interest to any other person.

6. (a) The procedure to be followed by the Authority for Advance Ruling (AAR) on receipt of the application for advance ruling under section 98 of the CGST Act, 2017 is as under:

1. Upon receipt of an application, the AAR shall send a copy of application to the officer in whose jurisdiction the applicant falls and call for all relevant records.

2. The AAR may then examine the application along with the records and may also hear the applicant. Thereafter he will pass an order either admitting or rejecting the application.

3. Application for advance ruling will not be admitted in cases where the question raised in the application is already pending or decided in any proceedings in the case of an applicant under any of the provisions of this Act.

4. If the application is rejected, it should be by way of a speaking order giving the reasons for rejection and only after giving an opportunity of being heard to the applicant.

5. If the application is admitted, the AAR shall pronounce its ruling on the question specified in the application. Before giving its ruling, it shall examine the application and any further material furnished by the applicant or by the concerned departmental officer.

6. Before giving the ruling, AAR must hear the applicant or his authorized representative as well as the jurisdictional officers of CGST/ SGST.

7. If there is a difference of opinion between the two members of AAR, they shall refer the point or points on which they differ to the Appellate Authority for hearing the issue

8. The Authority shall pronounce its advance ruling in writing within 90 days from the date of receipt of application.

9. A copy of the advance ruling duly signed by members and certified in prescribed manner shall be sent to the applicant, the concerned officer and the jurisdictional officer.

(b) Yes, the confidential information can be disclosed by the public servant for certain specific purposes in terms of section 158(3) of the CGST Act, 2017. Such specific purposes are given in brief hereunder:

(i) For prosecution

(ii) For carrying out the objects of the CGST Act

(iii) For service of notice or recovery of demand

(iv) For furnishing information to Court in a proceeding where Government is a party

(v) For audit of tax receipts or refunds

(vi) For inquiry into the conduct of a GST officer

(vii) For enabling levy, realisation of any tax or duty

(viii) In lawful exercise of powers

(ix) For enquiry into a charge of misconduct by any professional

(x) For data entry on automated system

(xi) For fulfilling the requirement under any other law and in public interest.

OR

Alternative Answer

(b) An officer of the rank of Joint Commissioner or above can authorize an officer in writing to carry out search and seize goods, documents, books or things. Such authorization can be given only where the Joint Commissioner/an officer above his rank has reasons to believe that any goods liable to confiscation or any documents or books or things relevant for any proceedings are hidden in any place. The Joint Commissioner/an officer above his rank empowered to authorize any officer to carry out search and seizure can himself also carry out search and seize such goods, documents or books or things.

(c) Annual Advance authorisation would be issued to exporters having past export performance in at least preceding two financial years, to enable them to import the inputs required by them on annual basis.

Advance authorization for annual requirement shall only be issued for items, notified in SION and not on basis of *ad hoc* norms under self-declared authorisations where SION does not exist.

Annual Advance Authorisation in terms of CIF value of imports will be granted upto 300% of FOB value of physical exports in preceding financial year and/or FOR value of deemed exports in preceding year or ₹ 1 crore, whichever is higher.

ANSWERS OF MODEL TEST PAPER 4

FINAL COURSE: GROUP – II

PAPER – 5: INDIRECT TAX LAWS

SOLUTIONS

Division A – Multiple Choice Questions

Question No.	Answer	
1.	**(b)**	₹ 59,03,500
2.	**(a)**	₹ 1,55,000
3.	**(d)**	8th July
4.	**(b)**	₹ 1,305
5.	**(a)**	Penalty is leviable since the offence is not a "minor breach".
6.	**(d)**	M/s Techno Enterprises is eligible for obtaining the CEN as it is registered in multiple States with same PAN. After obtaining CEN, it can use it for generating e-way bills and updating Part-B throughout the country.
7.	**(c)**	Bhakti & Sons is liable to pay CGST and SGST of ₹ 45,000 each.
8.	**(d)**	E-invoicing is applicable to DTA unit and SEZ unit is exempt from e -invoicing.
9.	**(a)**	₹ 2.40 lakh
10.	**(b)**	₹ 6,24,700
11.	**(a)**	₹ 9,17,200
12.	**(c)**	₹ 25,000
13.	**(c)**	Baba Shoes (P) Ltd.: ₹ 5 crore and Mr. Robert: ₹ 60 lakh
14.	(a)	Nil
15.	(a)	₹ 10,25,000

Division B – Descriptive Questions

1. Computation of net GST payable in cash of MS Ltd. for October

Particulars	CGST (₹ in lakh)	SGST (₹ in lakh)	IGST (₹ in lakh)
GST liability for Product Alpha	54	54	72
Post-supply discount on Product Alpha [In the given case, discount given after effecting the supply is not in terms of an agreement that existed at the time of supply. Therefore, discount is not allowed as deduction from value of supply.]	Nil	Nil	
Sale of van by auction used for travel of director [In case of a registered person who has claimed depreciation under section 32 of the Income-Tax Act, 1961 on the said goods, value = Consideration received - Depreciated value on the date of supply.	0.006 [0.1 × 6%]	0.006 [0.1 × 6%]	
Transportation cost charged on the product [Supply of goods and transport service is a composite supply as the transportation cost is charged at a flat rate from all customers irrespective of the distance involved. Therefore, rate of principal supply (product) viz. 9% CGST and SGST each is charged on intra-State supply and 18% IGST is charged on inter-State supply.]	0.54 [6 × 9%]	0.54 [6 × 9%]	0.72 [4 × 18%]
Total output tax liability	**54.546**	**54.546**	**72.72**

Less: ITC set off[1] [Refer working note (1) below] [IGST credit is first utilized for payment of IGST liability and then for payment SGST and CGST liability in equal proportion]	(35.915)	(35.915)	(72.72)
After exhausting IGST credit, CGST and SGST credit is to be utilized. ITC of CGST cannot be utilized for payment of SGST and vice versa.	(18.631)	(18.631)	
GST payable in cash [A]	Nil	Nil	Nil
GST under reverse charge payable in cash [Refer working note (2) below] [B] [Tax payable under reverse charge, being not an output tax, cannot be set off against ITC and thus, will have to be paid in cash.]	0.153	0.153	
Total GST payable in cash = [A]+ [B]	0.153	0.153	

Working notes:

(1) Computation of ITC available with MS Ltd. for October

Particulars	**CGST (₹ in lakh)**	**SGST (₹ in lakh)**	**IGST (₹ in lakh)**
Eligible credit on inputs and input services for the month	20	20	145
Ball bearings stolen [ITC on stolen goods is blocked. Hence, ITC taken on stolen ball bearings needs to be reversed.]			(0.45)
Input tax on cosmetic and plastic surgery of CEO of company	Nil	Nil	Nil

[1] Since ITC of IGST can be utilized for payment of CGST and SGST liability in any proportion and in any order, there can be multiple ways of utilizing IGST credit for payment of CGST and SGST.

[ITC on cosmetic and plastic surgery is blocked if the same are not used for making the same category of outward supply or as an element of a taxable composite/ mixed supply. Hence, the same is not credited to the Electronic Credit Ledger]			
Audit fee [Audit fee is a service used in the course or furtherance of business and thus, credit of input tax paid on such service will be available.]	0.054 [0.6 × 9%]	0.054 [0.6 × 9%]	
Rent paid to Municipality	0.135 [1.5 × 9%]	0.135 [1.5 × 9%]	
Sitting fee paid to whole time director	0.018 [0.20 × 9%]	0.018 [0.20 × 9%]	
Total	**20.207**	**20.207**	**144.55**

(2) Tax payable under reverse charge

Particulars	CGST (₹ in lakh)	SGST (₹ in lakh)	IGST (₹ in lakh)
Rent paid to Municipality [Tax on renting of immovable property services supplied by local authority to a registered person is payable under reverse charge.]	0.135	0.135	
Sitting fee paid to whole time director [Services provided by employee to employer in the course of his employment are not a supply. Hence, salary paid to director is not taxable. However, sitting fee is a consideration for the services provided beyond course of	0.018	0.018	

employment and hence, is taxable. Further, tax on sitting fee paid to director is payable under reverse charge.]			
Total tax payable under reverse charge	**0.153**	**0.153**	

2. **(a)** **(i)** The place of supply of services by way of fixed telecommunication line is the location where the telecommunication line is installed for receipt of services. Thus, the place of supply in the given case is Kolkata.

(ii) The place of supply of services on board an aircraft is the location of the first scheduled point of departure of that aircraft or flight for the journey. Thus, the place of supply in the given case is Bangkok.

(iii) The place of supply of services provided by way of admission to an amusement park is the place where the park is located. Thus, the place of supply in the given case is Mumbai.

(iv) The place of supply of services by way of transportation of goods by courier to a person other than a registered person is the location at which such goods are handed over for their transportation. Thus, the place of supply in the given case is New Delhi.

(v) The place of supply of stock broking services to any person shall be the location of the recipient of services on the records of the supplier of services. Thus, the place of supply in the given case is Ranchi, (Jharkhand).

(b) **Computation of assessable value of product 'X'**

Particulars		Amount
Ex-factory price of the goods		8,500 US $
Freight from factory of the exporter to load airport (airport in the country of exporter)	250 US $	
Loading and handling charges at the load airport	250 US $	

Freight from load airport to the airport of importation in India	4,500 US $	
Total cost of transport, loading and handling charges associated with the delivery of the imported goods to the place of importation	5,000 US $	
Add: Cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation (restricted to 20% of FOB value) [Note 1]		1,800 US $
Insurance (actual)		2,000 US $
CIF for customs purpose		12,300 US $
Value for customs purpose		12,300 US $
Exchange rate as per CBIC [Note 2]		₹ 70 per US $
		Amount (₹)
Assessable value (₹ 70 x 12,300 US $)		**8,61,000**
Add: Basic customs duty @ 10% [Note 3]		86,100
Add: Social Welfare Surcharge (SWS) @ 10%		8,610
Value for the purpose of levying integrated tax [Note 4]		9,55,710
Add: Integrated tax @ 12%		1,14,685.2
Total duty & tax payable (rounded off)		**2,09,395**

Notes:

(1) In the case of goods imported by air, the cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation shall not exceed 20% of the FOB value of the goods.

FOB value in this case is the ex-factory price of the goods (8,500 US $) plus the cost of transport from factory to load airport (250 US $) plus loading and handling charges at the load airport (250 US $) which is 9,000 US $.

(2) Rate of exchange determined by CBIC is to be considered

(3) Section 15 of the Customs Act, 1962 provides that rate of duty shall be the rate in force on the date of presentation of bill of entry or the rate in force on the date of arrival of aircraft, whichever is later.

(4) Integrated tax is levied on the sum total of the assessable value of the imported goods and customs duties. SWS leviable on integrated tax have been exempted.

3. (a) (1) In the given case, price is not the sole consideration for the supply. Apart from monetary consideration, the buyer has given some material to the supplier as consideration for such supply. Hence, the value of the supply cannot be determined on the basis of the transaction value in terms of section 15 of the CGST Act, 2017.

Here, the value will be determined with the help of rule 27 of the CGST Rules, 2017 which specifies that where the consideration for a supply is not wholly in money, the value will be the open market value.

Open market value of a supply means the full value in money, excluding the applicable GST, where the supplier and the recipient of the supply are not related and the price is the sole consideration, to obtain such supply at the same time when the supply being valued is made.

Therefore, in the given case, the open market value of the goods supplied is ₹ 1,26,000 (₹ 1,48,680 x 100/118) and is therefore, the value of such goods.

(2) Rule 27 of the CGST Rules, 2017 further provides that if open market value of the supply is not known, the value of the supply will be the consideration in money plus the money equivalent to the non-monetary consideration, if such amount is known at the time of supply.

Therefore, the value in the given case will be (₹ 1,47,500 x 100/118) + ₹ 15,000, which is ₹ 1,40,000.

(b) Renting of precincts of a religious place meant for general public, owned/managed by, *inter alia*, an entity registered as a charitable trust under section 12AA/12AB of the Income-tax Act are exempt from GST vide exemption notification. However, said exemption is not available if:

(i) charges for rented rooms are ₹ 1,000 per day or more;

(ii) charges for rented community halls, Kalyan mandapam, open area are ₹ 10,000 per day or more;

(iii) charges for rented shops are ₹ 10,000 per month or more.

Further, services by way of renting of residential dwelling for use as residence are also exempt vide exemption notification.

Computation of GST liability of Shanti Niwas Charitable Trust for December

Particulars	**Value (₹)**	**GST @ 18% (₹)**
Renting of residential dwelling for use as residence [Exempt vide exemption notification]	18,00,000	Nil
Renting of rooms for devotees [Exempt since charges per day are below ₹1,000]	6,00,000	Nil
Renting of Kalyanamandapam [Taxable since charges per day exceed ₹10,000]	12,00,000	2,16,000
Renting of community halls and open spaces [Exempt since charges per day are below ₹ 10,000]	10,75,000	Nil
Renting of shops for business [Exempt since charges per month are below ₹10,000]	4,75,000	Nil
Renting of shops for business [Taxable since charges per month exceed ₹ 10,000]	7,50,000	1,35,000
Total		3,51,000

(c) The abatement of duty is allowed where it is shown to the satisfaction of the Assistant/Deputy Commissioner of Customs that, *inter alia,* any imported goods, other than warehoused goods, had been damaged at any time after the unloading thereof in India but before their examination, on account of any accident not due to any wilful act, negligence or default of the importer.

Thus, in view of the above-mentioned provisions, the stand taken by the proper officer of refusing the claim for abatement is not valid in law.

The duty to be charged on the damaged goods shall be reduced in proportion to the reduction in the value of goods on account of damage.

Thus, in the given case, the amount of total duty payable

= [₹ 1,50,000/₹ 7,50,000] x ₹ 1,50,000 = ₹ 30,000

The abatement of duty is allowed in case of deterioration only if such deterioration occurs before or during the unloading of goods. Since in this case, imported goods have deteriorated before clearance for home consumption but after unloading, abatement of duty will not be allowed and full duty will have to be paid.

4. **(a)** Following persons are required to deduct CGST @ 1% [Effective tax 2% (1% CGST + 1% SGST/UTGST)] or IGST @ 2% from the payment made/credited to the supplier (deductee) of taxable goods or services or both, where the total value of such supply, under a contract, exceeds ₹ 2,50,000:

(a) a department or establishment of the Central Government or State Government; or

(b) local authority; or

(c) Governmental agencies; or

(d) an authority or a board or any other body, -

(i) set up by an Act of Parliament or a State Legislature; or

(ii) established by any Government,

with 51% or more participation by way of equity or control, to carry out any function; or

(e) Society established by the Central Government or the State Government or a Local Authority under the Societies Registration Act, 1860, or

(f) Public sector undertakings.

Further, for the purpose of deduction of tax, the value of supply shall be taken as the amount excluding CGST, SGST/UTGST, IGST and GST Compensation Cess indicated in the invoice.

Since in the given case, Bali Enterprises is supplying goods and services exclusively to Government departments, agencies etc. and persons notified under section 51, applicability of TDS provisions on its various receivables is examined in accordance with the above-mentioned provisions as under:

S. No.	Particulars	Total contract value (₹)	Payment due (₹)	Tax to be deducted		
				CGST (₹)	SGST (₹)	IGST (₹)
(i)	Supply of stationery to Fisheries Department, Kolkata (Note-1)	2,60,000	15,000	--		
(ii)	Supply of car rental services to Municipal Corporation of Delhi (Note-2)	2,95,000	20,000	--		
(iii)	Supply of a heavy machinery to Public Sector Undertaking located in Uttarakhand (Note-3)	5,90,000	25,000			500

Notes:

1. Being an inter-State supply of goods, supply of stationery to Fisheries Department, Kolkata is subject to IGST @ 18%.

Therefore, total value of taxable supply [excluding IGST] under the contract is as follows:

= ₹ 2,60,000 × 100 / 118

= ₹ 2,20,339 (rounded off)

Since the total value of supply under the contract does not exceed ₹ 2,50,000, tax is not required to be deducted.

2. Being an intra-State supply of services, supply of car rental services to Municipal Corporation of Delhi is subject to CGST and SGST @ 9% each. Therefore, total value of taxable supply [excluding CGST and SGST] under the contract is as follows:

   = ₹ 2,95,000 × 100 / 118

   = ₹ 2,50,000

   Since the total value of supply under the contract does not exceed ₹ 2,50,000, tax is not required to be deducted.

3. Being an inter-State supply of goods, supply of heavy machinery to PSU in Uttarakhand is subject to IGST @ 18%. Therefore, total value of taxable supply [excluding IGST] under the contract is as follows:

   = ₹ 5,90,000× 100 / 118

   = ₹ 5,00,000

   Since the total value of supply under the contract exceeds ₹ 2,50,000, PSU in Uttarakhand is required to deduct tax @ 2% of ₹ 25,000, i.e. ₹ 500.

(b) Holistic Cosmetics Ltd. would be required to prepare two separate e-way bills since each invoice value exceeds ₹ 50,000 and each invoice is considered as one consignment for the purpose of generating e-way bills.

The *FAQs on E-way Bill* issued by CBIC clarify that if multiple invoices are issued by the supplier to one recipient, that is, for movement of goods of more than one invoice of same consignor and consignee, multiple e-way bills have to be generated. In other

words, for each invoice, one e-way bill has to be generated, irrespective of the fact whether same or different consignors or consignees are involved. Multiple invoices cannot be clubbed to generate one e-way bill. However, after generating all these e-way bills, one consolidated e-way bill can be prepared for transportation purpose, if goods are going in one vehicle.

(c) Where the baggage of a passenger contains any prohibited article which has been declared by him under section 77 of the Customs Act, 1962, the proper officer may, at the request of the passenger, detain such article for the purpose of being returned to him on his leaving India.

In the given case, proper officer has detained the prohibited article declared and brought by Mr. Joseph Brown. Such articles shall be returned to him on his leaving India.

Further, if for any reason, he is not able to collect it at the time of his leaving India, the said article may be returned to him through any other passenger authorized by him and leaving India or as cargo consigned in his name.

5. **(a)** (i) No, Mr. Shashank and his tax consultant are not correct.

An advance ruling is binding only on the applicant who had sought it and on the concerned officer. An advance ruling is not applicable to similarly placed other taxable persons in the State.

Thus, Mr. Shashank cannot classify the goods to be supplied by him on the basis of his friend Mr. Prashank's advance ruling order.

(ii) No, Mr. Shashank need not register to apply for advance ruling since advance ruling can be sought by a registered person or person desirous of obtaining registration. It is not mandatory for a person seeking advance ruling to be registered.

(b)

Person	Offence	Prosecution	Arrest	Bail
'Bhaskar'	Non-cognizable offence	Upto 1 year and with fine	No arrest	Bailable Offence
'Raghav'	Non-cognizable offence	Upto 5 years and with fine	No arrest	Bailable Offence

(c) When the imported goods are warehoused, the temporary possession and the custody of the goods are passed on to the warehouse keeper. However, the remaining titular rights of the goods vest with the owner.

Thus, the owner has every access to the goods.

In the course of his dealings with the goods, he may:

(a) inspect the goods;

(b) ensure that the goods do not deteriorate or get damaged during storage in the warehouse;

(c) sort the goods; or

(d) show the goods for sale.

6. **(a)** The proper officer may recover the dues in following manner:

(i) Deduction of dues from the amount owned by the tax authorities payable to such person.

(ii) Recovery by way of detaining and selling any goods belonging to such person;

(iii) Recovery from other person, from whom money is due or may become due to such person or who holds or may subsequently hold money for or on account of such person, to pay to the credit of the Central or a State Government;

(iv) Distrain any movable or immovable property belonging to such person, until the amount payable is paid. If the dues not paid within 30 days, the said property is to be sold and with the proceeds of such sale the amount payable and cost of sale shall be recovered.

(v) Through the Collector of the district in which such person owns any property or resides or carries on his business, as if it was an arrear of land revenue.

(vi) By way of an application to the appropriate Magistrate who in turn shall proceed to recover the amount as if it were a fine imposed by him.

(vii) By enforcing the bond/instrument executed under this Act or any rules or regulations made thereunder.

(viii) CGST arrears can be recovered as an arrear of SGST and vice versa.

(b) Section 168 empowers the Board (CBIC) to issue orders, instructions or directions to the CGST officers for the purpose of uniformity in the implementation of the CGST Act. All officers and all other persons employed in the implementation of the Act observe and follow such orders, instructions or directions.

The binding nature of such orders, instructions and directions has been a matter of debate and scrutiny. The general understanding that prevails now is that a circular is binding on the officers, but not on the assessee. However, in case such circular states something contrary to the law, the law shall prevail over the circular.

OR

Alternative Answer

(b) Any officer under this Act, authorised by the proper officer not below the rank of Joint Commissioner, shall have access to any place of business of a registered person to inspect books of account, documents, computers, computer programs, computer software whether installed in a computer or otherwise and such other things as he may require and which may be available at such place, for the purposes of carrying out any audit, scrutiny, verification and checks as may be necessary to safeguard the interest of revenue.

Every person in charge of place referred above shall, on demand, make available to the officer so authorised or the audit party deputed by the proper officer or a cost accountant or chartered accountant nominated under section 66 of the CGST Act, 2017-

(i) such records as prepared or maintained by the registered person and declared to the proper officer in such manner as may be prescribed;

(ii) trial balance or its equivalent;

(iii) statements of annual financial accounts, duly audited, wherever required;

(iv) cost audit report, if any, under section 148 of the Companies Act, 2013 (18 of 2013);

(v) the income-tax audit report, if any, under section 44AB of the Income-tax Act, 1961 (43 of 1961); and

(vi) any other relevant record,

for the scrutiny by the officer or audit party or the chartered accountant or cost accountant within a period not exceeding fifteen working days from the day when such demand is made, or such further period as may be allowed by the said officer or the audit party or the chartered accountant or cost accountant.

(c) The term 'customs' derives its colour and essence from the term 'custom', which means a habitual practice or course of action that characteristically is repeated in like circumstances.

Duties on import and export of goods were levied through legislations during the British period before which, during monarchical governance, said duty was collected at the city gates at the time of goods coming in and going out. The legislations of the British period were replaced by the enactment and promulgation of the Customs Act, 1962 and the Customs Tariff Act, 1975.

The power to make laws is conferred on the Parliament and the legislature of a State by Article 245 of the Constitution of India.

Further, entry 83 of the List I [Union List] of the Seventh Schedule to Article 246 of the Constitution of India grants the power to frame laws relating to customs duty.

The power to make laws relating to customs duty vests exclusively with the Parliament.

ANSWERS OF MODEL TEST PAPER 5

FINAL COURSE: GROUP – II

PAPER – 5: INDIRECT TAX LAWS

SOLUTIONS

Division A – Multiple Choice Questions

Question No.	Answer	
1	(a)	₹ 35,00,000
2	(b)	Bhubaneshwar, Orissa
3	(b)	₹ 39,50,000
4	(b)	Wednesday-Thursday at 12.00 midnight
5	(d)	No; since it is an exempt supply.
6	(d)	No, since service is provided to a business entity that is registered under GST in the preceding financial year as per the provisions of section 22 of the CGST Act, 2017. Further, tax shall be payable by Veranta India (P) Ltd. under reverse charge.
7	(a)	₹ 1,10,000
8	(c)	For whole amount of ₹ 1,10,000: 5th April
9	(d)	₹ 2,16,900
10	(a)	₹ 2,800
11	(c)	₹ 87,254
12	(d)	Zoom Air is required to pay CGST of ₹ 45,000 and SGST of ₹ 45,000 and full credit shall be allowed to Amazing Pvt. Ltd.
13	(c)	The article on which it is proposed to be imposed originates from more than one developing country and its aggregate share of imports from developing countries each with less than 3% share taken together does not exceed 9% of total imports of that article into India.

14	**(b)**	Where goods are imported for non-personal use of an individual and he could not prove that there is no unjust enrichment.
15	**(a)**	Mr. Pal should apply for a new registration under GST in the name M/s Spiceton Restaurant under his own PAN w.e.f. the date of succession and file Form GST ITC 02 for transfer of ITC to the new entity.

Division B- Descriptive Questions

1. Computation of minimum net GST liability of XYZ Ltd. to be paid in cash for the month of October:

S. No.	Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
	Output tax payable under forward charge				
(i)	Supply of consignment in territorial waters [Where supply is in territorial waters, place of supply is deemed to be in coastal State where nearest point of the appropriate baseline is located. Therefore, place of supply will be in Tamil Nadu and hence, supply will be intra-State supply]	5,00,000	45,000 [5,00,000 x 9%]	45,000 [5,00,000 x 9%]	
(ii)	Pure labour services [Since pure labour services provided for construction of only residential unit are exempt,	12,00,000			2,16,000 [12,00,000 x 18%]

	such services provided for construction of commercial unit are taxable. Further, it is an inter-State supply since place of supply is location of immoveable property, viz. Delhi.]				
(iii)	Supply of 25 Televisions [Inter-State supply since place of supply is location as per the address of the unregistered recipient (name of the State) recorded in the invoice issued in respect of the supply, viz. Haryana.]	14,00,000			2,52,000 [14,00,000 x 18%]
(iv)	Corporate guarantee provided. [Deemed supply under Schedule-I of the CGST Act, 2017 even though made without any consideration. Inter-State supply since place of supply is Maharashtra (location of recipient). Further, value of supply is higher of: (i) 1% of the amount of such guarantee offered,	2,50,000			45,000 [2,50,000 x 18%]

	or (ii) actual consideration [Thus, value of supply is 1% of ₹ 2.5 crores, i.e. ₹ 2,50,000]				
	Total output tax		45,000	45,000	5,13,000
	Less: ITC available for set off [Refer note below.] [IGST credit is utilized for payment of IGST. CGST and SGST credit is first utilized for payment of CGST and SGST liability respectively and thereafter, for payment of IGST liability.]		(45,000) -CGST	(45,000) -SGST	(1,44,000) -IGST (36000) -CGST (36000) -SGST
	Net output tax payable in cash		Nil	Nil	2,97,000
	GST payable under reverse charge				
	Tax on services provided by the arbitral tribunal is payable under reverse charge by the recipient of service. [Arbitral tribunal services to XYZ Ltd., a business entity with aggregate turnover exceeding the applicable threshold limit for registration [viz. ₹ 20 lakh] in the previous financial		54,000	54,000	

	year are liable to tax under reverse charge mechanism.]				
	Tax on silk yarn supplied by a person who manufactures it from raw silk to a registered person is payable under reverse charge.				1,44,000
	Minimum net GST payable for set off		54,000	54,000	4,41,000

Working note - Computation of eligible ITC available for set off

S. No.	Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
(i)	Debit note received. [ITC on debit notes issued in a financial year (FY) can be availed, any time till 30th November of the succeeding FY or the date of filing of the relevant annual return, whichever is earlier, based on date of issue of debit note, irrespective of the date of original invoice/ supply.]	3,00,000	27,000 [3,00,000 × 9%]	27,000 [3,00,000 × 9%]	
(ii)	Silk yarn purchased. [Inter-State supply since place of supply is location where movement of goods terminates, viz. Tamil Nadu. Further,	8,00,000			1,44,000 [8,00,000 × 18%]

	ITC on goods to be used in course or furtherance of business is available.]				
(iii)	Services of the Arbitral Tribunal availed. Such services are intra-State supply since place of supply is Tamil Nadu (location of recipient). Further, ITC on services used in course or furtherance of business is available.]	6,00,000	54,000 [6,00,000 × 9%]	54,000 [6,00,000 × 9%]	
(iv)	Raw Material purchased from ABK Ltd. [ITC cannot be claimed on the e-invoices without IRN since an e-invoice without IRN is not treated as valid document for claiming ITC.]	15,00,000			
(v)	Truck purchased. [ITC is not available since depreciation has been claimed on the GST component.]	14,00,000			

(vi)	Condition of payment of value of supply plus tax within 180 days does not apply to supplies on which tax is payable under reverse charge mechanism.				
	Total ITC available		81,000	81,000	1,44,000

2. (a) Computation of net GST payable by YVPAY Bank Ltd.

	Particulars	**GST @ 18% (₹)**
(i)	Discount earned on bills discounted [Exempt since consideration is represented by way of discount.]	-
(ii)	Interest on reverse repo transaction [Exempt since consideration is represented by way of interest paid to bank.]	-
(iii)	Penal interest on delayed payment of EMIs [Penal interest paid to bank is exempt]	-
(iv)	Services to merchants accepting credit/debit card payments [Exempt since such services are provided to merchants in relation to settlement of an amount upto ₹ 2,000 per transaction through credit/debit card.]	-
(v)	Commission for debt collection services [Not exempt, since it is not a service of extending deposits, loans or advances.]	2,16,000
(vi)	Interest charges for late payment of credit card dues [Not exempt, since specifically excluded.]	72,000
	Output tax payable	2,88,000
	Less: 50% of eligible ITC on input services and capital goods availed in October [(₹ 8,00,000 + ₹ 6,00,000) × 50%]	(7,00,000)

	[Blocked credit cannot be availed.]	
	Net GST payable	**Nil**

(b) (1) Computation of taxable value of supply and total GST payable

(i) **Value of supply** of online money gaming = Total amount deposited with the supplier by the player

= Initial deposit of ₹ 15,000 (inclusive of GST) by Mr. Anil with M/s Winhere 2407 after excluding GST = ₹ **11,719** (₹ 15,000 × 100/128) [rounded off]

GST payable = ₹ 11,719× 28%

= ₹ **3,281** (rounded off) **– [A]**

(ii) **Value of supply** of online bet = 100% of the face value of the bet = ₹ **12,000**

GST payable = ₹ 12,000 × 28%

= ₹ **3,360 – [B]**

Total amount payable = [A] + [B] = ₹ 6,641

(2) Computation of net amount transferred by Mr. Anil from the master wallet to his bank account

Particulars	**Amount (₹)**
Initial Deposit	15,000
Less – GST on deposit	(3,281)
Less – Payment for virtual racing game	(2,500)
Add – Winning from virtual racing game	11,000
Less – Payment for bet placed on Win 90	(12,000)
Less – GST on the bet placed on Win 90	(3,360)
Net balance transferred	**4,859**

(c) Computation of assessable value

Particulars	**Amount in $**	**Amount in ₹**
Cost of machine at port of importation	8,200	6,56,000

Add: Local agent's commission [Includible as not a buying commission.]	250 (₹ 20,000/₹ 80)	20,000
FOB as per customs	8,450	6,76,000
Add: Freight [Freight charges till port of importation are includible in assessable value.]	1,800	1,44,000
Add: Insurance charges @ 1.125% of FOB	95.0625	7,605
Add: Ship demurrage (₹ 15,000/ ₹ 80) [Includible in cost of transport.]	187.50	15,000
Assessable Value (in $)	10,532.5625	
	Amount (₹)	
Assessable value (in ₹) [$10,532.5625× ₹ 80]	8,42,605	8,42,605

Notes:

1. Packing charges incurred by the buyer are includible in assessable value even though they are not paid as a condition of sale.
2. Engineering charges are not included in the assessable value as engineering work is undertaken in India.

3. (a) (I) In the given case, services provided by GAA to CCWL are advertisement services.

The place of supply of such services made to a registered person is location of such person.

Thus, place of supply for tax invoice to be raised by GAA to CCWL is location of CCWL, i.e. Mumbai, Maharashtra.

(II) In case of supply of goods to an unregistered person over the counter (OTC), where address of such person is not recorded in the invoice, the place of supply is location of the supplier.

Since in the given case, the address of Mr. Sunil is not recorded in the invoice, place of supply is location of M/s ABC i.e. Arunachal Pradesh.

(III) In case of supply of goods to an unregistered person over the counter (OTC), where address of such person is recorded in the invoice (i.e. name of State of said person is recorded in invoice), the place of supply is location as per said address.

Thus, in the given case, since the address of Mr. Pintu is recorded in the invoice, place of supply is Karnal / Haryana.

(b) Since director and company are related persons in terms of Schedule I of the CGST Act, 2017, the activity of providing personal guarantee by a director to the banks/ financial institutions for securing credit facilities for their companies is to be treated as a supply of service, even when made without consideration.

Thus, the activity of providing personal guarantee by Mr. Sharma to the nationalized bank will qualify as supply.

Value of such supply will be the open market value (OMV) in terms of
rule 28 of the CGST Rules, 2017.

However, as per RBI Guidelines, no consideration by way of commission, brokerage fees or any other form, can be paid to the director by the company, directly or indirectly, in lieu of providing personal guarantee to the bank for borrowing credit limits, except in exceptional cases.

Thus, it is clarified that OMV of said supply may be treated as zero / Nil and therefore, no tax is payable on such supply of service by Mr. Sharma to VEE Ltd.

(c) The contention of GHN Limited is correct as per law. As per judicial ruling, if an exemption notification classifies a product under a specified Chapter heading from a specific date, the said classification can be accepted for the period prior to it being beneficial to the applicant.

4. **(a)** **(i)** ROL is liable to collect tax at source under section 52 of the CGST Act, 2017 @ 1% under IGST of the net value of inter-State taxable supplies of goods (Value of taxable supplies

made less value of supplies returned) made through it by the electronic commerce operator (ECO) - A Ltd.

Net value of taxable supplies = ₹ 1,25,000 (₹ 1,47,500× 100/118) – ₹ 1,40,000 = Nil / (Negative Value)

Thus, TCS to be collected is Nil.

(ii) ROL is liable to collect TCS, since the tax on services, by way of transportation of passengers by an omnibus provided by a company through ECO, is not payable by ECO, under section 9(5) of the CGST Act, 2017.

= ₹ 1,50,000 × 0.5%

=₹ 750 each under CGST and SGST

ROL is not required to collect TCS on transportation of passenger services by other motor vehicles supplied through it worth ₹ 4,00,000 as tax on the same is payable by ROL itself under section 9(5) of the CGST Act, 2017.

(iii) ROL, being supplier side ECO is liable to collect TCS @ 0.5% under CGST and 0.5% under SGST of the net value of intra-State taxable supplies of accommodation services made through it by Raj Niwas Palace.

= ₹ 1,50,000 × 0.5%

=₹ 750 each under CGST and SGST

(b) As per rule 89(4) of the CGST Rules, 2017, in the given case, refund of ITC in the case of zero-rated supply of goods without payment of tax under bond/LUT is as follows:

$$\text{Refund Amount} = \frac{\text{Turnover of zero-rated supply of goods}}{\text{Adjusted Total Turnover}} \times \text{Net ITC on inputs and input services}$$

$$= \frac{[9,00,000^{*} + 2,00,000^{**}]}{[9,00,000+2,00,000+14,00,000]} \times [1,50,000+3,00,000]$$

= ₹ 1,98,000

*Turnover of goods 'Sun' = Lower of (i) ₹ 6,00,000 × 1.5 or (ii) ₹ 10,00,000, i.e. ₹ 9,00,000

**Turnover of goods 'Moon' = Lower of (i) ₹ 1,50,000 × 1.5 or (ii) ₹ 2,00,000, i.e. ₹ 2,00,000

Refundable amount is the least of the following:

(a) Refund as per rule 89(4) of the CGST Rules, 2017 [₹ 1,98,000]

(b) Balance in ECL at the time of filing refund application, [₹ 1,50,000] and

(c) Balance in ECL at the end of October for which refund is being filed after the return in Form GSTR-3B for the said period has been filed [₹ 3,25,000]

Thus, the refundable amount is ₹ 1,50,000.

ITC is on capital goods is not eligible for refund.

(c) A person, who is engaged in a profession abroad shall, on return after a minimum stay of 1 year during the preceding 2 years, be allowed clearance free of duty, *inter alia*, personal and household articles, including specified articles upto an aggregate value of ₹ 2,00,000.

One of such specified articles is Microwave oven. However, the Indian passenger should not have availed this concession in the preceding 3 years.

Thus, Varun Goyal can bring Microwave oven duty free provided he had not availed this concession in the preceding 3 years.

5. **(a)** The amount of pre-deposit to be made by Sita Ram Pvt. Ltd. for filing the appeal to the GSTAT is as under-

(i) full amount of tax, interest and penalty as admitted by it, i.e. ₹ 230 (200+20+10) crores and

(ii) 20% of the remaining tax in dispute, i.e. ₹ 240 crore (20% of ₹ 1,200 crore) subject to a maximum of ₹ 100 crores (in case of IGST).

= ₹ 330 crores

If the pre-deposit made by the appellant before the Tribunal is required to be refunded consequent to any order of the Tribunal, interest

@ 9% p.a. shall be payable from the date of payment of the amount till the date of refund of such amount.

Period of delay counted from 12th April is 186 days

Interest (rounded off) = ₹ 100 crore × 9% × 186/366 = ₹ 4,57,37,705

(b) **(1)** Since Mr. Sahil has collected amount exceeding ₹ 5 crores as tax but failed to pay the same to the Government beyond a period of 3 months from the date on which such payment became due:

(i) minimum amount for compounding is 50% of the tax evaded, i.e., ₹ 4 crore (50% of ₹ 8 crore).

(ii) maximum amount for compounding is 75% of the tax evaded i.e., ₹ 6 crore (75% of ₹ 8 crore).

(2) Yes, the amount for compounding determined by the Commissioner i.e. ₹ 5.2 crore is within the above limits prescribed under the GST law.

(3) Mr. Sahil has to pay the compounding amount ordered by the Commissioner within 30 days from the date of the receipt of the order.

(c) Where Assistant/Deputy Commissioner of Customs is satisfied on an application of the importer that the imported goods, entered for home consumption / warehousing cannot be cleared within a reasonable time, such goods may, pending clearance/removal, be permitted to be stored in a public warehouse for a period not exceeding 30 days.

Such goods shall not be deemed to be warehoused goods for the purpose of the Customs Act, 1962 and accordingly warehousing provisions shall not apply to such goods. This is popularly known as warehousing without warehousing.

Thus, goods imported by Mr. Pandya can be stored in the public warehouse for a period of 30 days.

However, the stand taken by the Customs officer to insist him to execute an indemnity bond for goods to be deposited in warehousing is not valid in law since warehousing provisions are not applicable to such goods.

6. **(a)** The RA shall not exercise the power of revision if:

(a) the order sought to be revised has been subject to an appeal before Appellate Authority (AA) or Tribunal or High Court or Supreme Court; or

(b) the period of 6 months (from the date of communication of order) has not yet expired or more than 3 years have expired after the passing of the decision/order sought to be revised; or

(c) the order has already been taken for revision at an earlier stage; or

(d) the order sought to be revised is itself a revisional order.

(e) Non appealable orders and decisions i.e. order covered under section 121.

The RA may still pass an order on any point which has not been raised and decided in an appeal before AA/Tribunal/High Court/Supreme Court, before the expiry of a period of 1 year from the date of the order in such appeal or before the expiry of a period of 3 years from the date of initial order, whichever is later.

(b) A search warrant is a written authority to conduct a search.

The competent authority to issue a search warrant is an officer of the rank of Joint Commissioner or above.

A search warrant must indicate the existence of a reasonable belief leading to the search. Search warrant should contain the following details:

- the violation under the GST law,
- the premise to be searched,
- the name and designation of the person authorized for search,
- the name of the issuing officer with full designation along with his round seal,
- date and place of issue,
- serial number of the search warrant,
- period of validity i.e. a day or 2 days etc.

Note – Any two points may be mentioned.

(b) Alternative Answer

Under section 72 of the CGST Act, 2017, the following officers have been empowered and are required to assist CGST officers in the execution of CGST Act:

(i) Police;

(ii) Railways

(iii) Customs;

(iv) Officers of State/UT/ Central Government engaged in collection of GST;

(v) Officers of State/UT/ Central Government engaged in collection of land revenue;

(vi) All village officers;

(vii) Any other class of officers as may be notified by the Central/State Government.

(c) The National Trade Facilitation Action Plan aims to achieve:

- Improvement in ease of doing business through reduction in transaction cost and time
- Reduction in cargo release time
- A paperless regulatory environment
- A transparent and predictable legal regime
- Improved investment climate through better infrastructure

Note – Any two points may be mentioned.

The following trade facilitation measures are provided under FTP:

- Free passage will be provided to export consignment
- There will not be any seizure of export related stock except in exceptional cases.
- Single window system to facilitate export of perishable agricultural produce.
- DGFT is implementing the Niryat Bandhu Scheme for mentoring new and potential exporter on the intricacies of

foreign trade through counseling, training and outreach programmes including the 'Districts as Export Hubs'.

- DGFT online customer portal provides information relating to export and import including Acts, rules, policy and procedures.
- Online facilities for e-RCMC/RC related processes, e-Certificate of Origin (e-CoO) and Quality Control and Trade Disputes (QCTD) are also available on said common digital platform.
- DGFT has undertaken a number of IT Initiatives to enable a paperless, contactless and transparent environment for availing benefits under the export promotion schemes.
- A dedicated 24 X 7 Helpdesk facility has been put in place to assist the exporters in filing online applications on the DGFT portal and other matters pertaining to FTP.
- A large number of Trade Facilitation measures have been taken by Customs Department.
- Authorised Economic Operator (AEO) Programme
- Towns of Export Excellence (TEE)
- Duty Free Entitlements to Select Sectors
- Special privileges granted to Status Holders
- DGFT is committed to function as a facilitator of exports and imports.
- Continuous efforts are being made for better collection, compilation and wider dissemination of Trade Data and Statistics to help the policy makers, researchers, exporters and importers to formulate their trade strategy.
- DGFT has in place a Citizen's Charter, giving time schedules for providing various services to clients.

Note – Any four points may be mentioned.

ANSWERS OF MODEL TEST PAPER 6

FINAL COURSE: GROUP – II

PAPER – 5: INDIRECT TAX LAWS

SOLUTIONS

Division A – Multiple Choice Questions

Question No.	Answer	
1	**(a)**	₹11,20,000
2	**(a)**	₹48,00,000/-
3	**(c)**	29th October
4	**(b)**	No GST is chargeable on usage of vacant godown of Hotel Division
5	**(b)**	need not reverse the input tax credit so availed in Form GSTR-3B of the October month.
6	**(a)**	₹ 25 lakh
7	**(a)**	Udaipur
8	**(c)**	GST is exempt on the entire premium of ₹ 25 crores including location charges.
9	**(b)**	no e-way bill is required to be issued.
10	**(a)**	₹6,50,000
11	**(b)**	IGST ₹3,000
12	**(a)**	₹ 8.50 lakh
13	**(b)**	₹1,45,50,000
14	**(a)**	Mumbai for both the event
15	**(b)**	Only (ii) and (iii)

Division B: Descriptive Questions

1. Computation of minimum net GST payable in cash by Sachha and Sudh Limited to be paid in cash for the month of April, 2024

S. No.	Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
	Output tax payable under forward charge				
(i)	Supplied goods to Matadeen and Sons [Since the contract is for delivery of goods at buyer's premises and includes transportation cost, it becomes a composite supply; the principal supply being the supply of goods. Thus, GST rate applicable on goods will be charged on the entire value of supply of ₹ 8,00,000 (contract price actually paid by buyer); Further, since goods are delivered on Bill to Ship to Model to Matadeen and Sons on the direction of a third person – Dhananjai	8,00,000[2]	72,000 [8,00,000 x 9%]	72,000 [8,00,000 x 9%]	

[2] It has been logically assumed that the transportation cost of ₹ 20,000 is included in the total contract value of ₹ 8,00,000.

	Associates, said third person is deemed to have received the goods and the place of supply is the principal place of business of such person, i.e. Chhattisgarh. Thus, it is an intra-State supply.]				
(ii)	Sale of used loading tempo to Suresh [Since ITC has not been taken on the tempo and depreciation has been claimed on it under the Income-Tax Act, 1961, value of supply is consideration received less depreciated value on the date of supply of tempo. However, since value of supply is negative [₹ 1,80,000 – ₹ 2,40,000], it is to be ignored.]	Nil			
(iii)	Intra-State supply of sponsorship service [Tax is payable under forward charge since	50,000	4,500 [50,000 x 9%]	4,500 [50,000 x 9%]	

	recipient of said services is a proprietary concern. Tax is not payable under reverse charge since recipient of said services is a not a partnership firm or body corporate.]				
(iv)	Fine for delayed supply of goods [There was no express contract. Fine received from Vipul, being liquidated damages is merely a payment to compensate the loss caused due to delayed supply of goods and is not a consideration for supply.]	-			
	Total output tax		76,500	76,500	
	Less: ITC available for set off [Refer note below.] [IGST credit is utilized for payment of SGST only in order to minimize the SGST liability. CGST and SGST credit are utilized for payment of		- (57,600)-CGST	(18,000) - IGST (57,600) -SGST	

	CGST and SGST liability respectively.]				
	Net output tax payable in cash		18,900	900	
	GST payable in cash under reverse charge				
	Add: Tax on services received from the advocate – Vikas Gupta - is payable under reverse charge by the recipient of service.				18,000
	Minimum net GST payable		18,900	900	18,000

Working note - Computation of eligible ITC available for set off

S. No.	Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
(i)	Intra-State purchase of goods [ITC on goods ₹ 1,00,000 not received in April cannot be availed.]	6,00,000 [7,00,000-1,00,000]	54,000 [6,00,000 × 9%]	54,000 [6,00,000 × 9%]	
(ii)	Freight paid to truck owner [No ITC is available since GST on service of transportation of goods by road received from a person other than a GTA is exempt.]	15,000	-	-	
(iii)	Rent paid to Indian Railway [It is an intra-State supply since the place of supply is location of	40,000	3,600 [40,000 × 9%]	3,600 [40,000 × 9%]	

	immovable property, i.e. Chhattisgarh and supplier – Indian Railways is in Chhattisgarh Tax is payable under forward charge. Further, ITC on services used in course or furtherance of business is allowed.]				
(iv)	Representational services received from Vikas Gupta [Services received by a business entity from advocates are not exempt. It is an inter-State supply since the supplier is in Delhi and place of supply is location of recipient, i.e. Chhattisgarh. Further, ITC on services used in course or furtherance of business is available.]	1,00,000			18,000 [1,00,000 × 18%]
(v)	Additional share holding acquired in subsidiary [It is neither supply of goods nor supply of services, which is covered under schedule III. ITC cannot be claimed since no GST is	-			

	payable on the same.]				
(vi)	Inter-State purchase of goods to be used for corporate social responsibility [ITC on goods to be used for discharge of corporate social responsibility is blocked under section 17(5)]	-			
	Total ITC available		57,600	57,600	18,000

2. (a) Computation of GST liability of Mr. Ayush

	Particulars	**CGST @ 9% (₹)**	**SGST @ 9% (₹)**
(i)	Service provided to Nuba Pvt. Ltd. [Tax on services provided in the capacity of an independent director is payable by the recipient – Nuba Pvt. Ltd. under reverse charge mechanism and not by Mr. Ayush.]	-	
(ii)	Supply of transportation of railway equipment by vessel [Taxable, since it is not specifically exempt. Transportation of specified goods by vessel from one place in India to another are exempt. However, railway equipment is not a specified good. Exemption earlier available to transportation of railway equipment by vessel from one place in India to another was withdrawn.]	10,800	10,800
(iii)	Storage/warehousing of processed tea [Taxable, since storage/warehousing of only agricultural produce is exempt	6,300	6,300

	but processed tea is not an agricultural produce.]		
(iv)	Health care services of providing rooms by his clinical establishment [Exempt, since room charges do not exceed ₹ 5,000 per day.]	-	-
(v)	Services of a guest house for lodging purposes [Taxable, since exemption with respect to services provided by guest house for lodging purposes with value of supply up to ₹ 1,000 per day, was withdrawn.]	6,480	6,480

(b) **(i)** The value of supply of services by Head Office (HO) to its Branch Office (BO) [HO and BO being the distinct persons], shall be the open market value (OMV) of such supply.

Further, where the recipient - BO - is eligible for full input tax credit (ITC), the value declared in the invoice by HO shall be deemed to be OMV of such services.

Moreover, the cost of any particular component of said services including the salary cost of the HO employees involved in providing the said services is not required to be mandatorily included in the value of the services in the invoice.

(ii) If HO has not issued a tax invoice to the BO and the recipient - BO - is eligible for full ITC, the value of service by HO to BO may be deemed to be declared as Nil and may be deemed as OMV of such services.

(c) **Computation of the assessable value of imported machine**

Particulars	**Amount (₹)**
CIF value (re-negotiated price) [Since the contract price was re-negotiated owing to early delivery of the machine, transaction value, being price actually paid or payable for the goods, will be re-negotiated price, i.e. [$ 22,000 (20,000 + $ 2,000) x ₹ 83]	18,26,000
Less: Air freight [$ 5,000 x ₹ 83]	4,15,000
Less: Insurance [$ 12,000 x ₹ 83]	99,600

FOB value (in rupees)	**13,11,400**
Add: Inspection charges [Not includible in value since only the payments actually made as a condition of sale of imported goods by buyer to seller are includible and inspection charges are not required for making the goods ready for shipment.]	Nil
FOB value as per Customs	13,11,400
Add: Air Freight (20% of ₹ 13,11,400) [Air freight cannot exceed 20% of FOB value.]	2,62,280
Add: Insurance [Actual insurance charges paid are includible.]	99,600
Transport charges from Delhi airport to Mumbai airport [Cost of transport charges associated with transshipment of imported goods to another customs station in India are not includible.]	Nil
Assessable value (in ₹)	**16,73,280**

3. **(a)** Where an exempt supply of goods by a registered person becomes a taxable supply, such person shall be entitled to take ITC, *inter alia*, in respect of capital goods exclusively used for such exempt supply on the day immediately preceding the date from which such supply becomes taxable i.e. Nov 30.

ITC on capital goods can be claimed after reducing the tax paid on such capital goods by 5% per quarter of a year or part thereof from the date of the invoice.

Thus, Vijay Pvt. Ltd. can take following amount of ITC on additional machinery purchased exclusively for manufacturing "V2Z" by making an electronic declaration in prescribed form specifying the details of capital goods on the day immediately preceding the date from which such supply becomes taxable within 30 days of becoming eligible to avail ITC:

= (₹ 45 lakh × 18%) - (₹ 45 lakh × 18% × 5% × 2 quarters)

= ₹ 8,10,000 – ₹ 81,000

= ₹ 7,29,000

(b) **(i)** Lending of securities under the Securities Lending Scheme is not a transaction in securities as it does not involve disposal of securities. It is not excluded from the definition of services and amounts to supply.

Consequently, lending of securities for consideration to Kala Enterprise amounts to supply.

(ii) Since the invoice for further supply of goods is being issued by the agent – Romi. in his own name, the provision of goods from the principal – Patta Limited. - to the agent – Romi - would fall within the purview of Schedule I of the CGST Act, 2017 and would amount to supply even though made without consideration.

Further, supply of goods by Romi to the customer for consideration amounts to supply.

(iii) Since any amount paid by employer to employee for not joining a competing business is paid for providing the service of forbearance to act to refrain cannot be considered for providing services in the course of employment, amount received by Miss Chhaya from Dilasa Limited amounts to supply under the GST law.

(c) Where it is shown to the satisfaction of Assistant or Deputy Commissioner that any imported goods have been destroyed, otherwise than as a result of pilferage at any time before clearance for home consumption, the duty shall be remitted on such goods.

In the given case, since loss of sports car is forever and beyond recovery due to fire, Rustam can claim remission of customs duty upon proving the loss to the satisfaction of the Assistant Commissioner or Deputy Commissioner.

Further, since duty has already been paid in the given case, he can claim refund after getting the remission orders.

Further, Rustam can claim remission or refund of duty even if he warehoused the sports car and fire occurred there after the payment of duty but before actual clearance therefrom.

4. **(a)** The electronic credit ledger can be used for making payment of only output tax which is the tax chargeable on taxable outward supply, but excludes tax payable on reverse charge mechanism. It cannot be used for making payment of any interest, penalty, fees or any other amount payable under the GST law.

Accordingly, electronic credit ledger can be used for any payment towards output tax, whether self-assessed in the return or payable as a consequence of any proceeding instituted under the GST law.

Thus, in view of the above-mentioned provisions, the contention of MN Ltd. is not correct.

Computation of amount payable in cash is as under: -

Particulars	CGST (₹)	SGST (₹)
GST payable on outward supplies	10,000	10,000
GST payable as consequence of proceeding instituted under GST law	5,000	5,000
Total	15,000	15,000
Less: ITC in Electronic Credit ledger	(15,000)	(15,000)
Balance	Nil	Nil
Add: GST payable on reverse charge supplies	6,000	6,000
Add: Interest for default in late filing of GSTR-3B	500	500
Add: Penalty	500	500
Total amount payable in cash	7,000	7,000

(b) The place of supply of the services supplied in respect of goods which are temporarily imported into India for repairs and are exported after such repairs without being put to any use in India where supplier is in India and recipient is located outside India, is the location of the recipient of services, location outside India i.e. China.

Thus, place of supply of repair services provided to Titen Ltd. in the given case is China.

Further, said repair services shall qualify as "export of services" since:

- supplier is in India,
- both recipient and place of supply are outside India,
- the payment for service is received in convertible foreign exchange, and
- supplier and recipient are not merely establishments of a distinct person.

All B2C invoices issued by a registered person whose aggregate turnover in any preceding financial year from 2017-18 onwards exceeds ₹ 500 crores will have a Dynamic QR code.

However, no Dynamic QR code is required in case of exports.

In the given case, although the aggregate turnover of Sunita Industries exceeds ₹ 500 crore in preceding FY 2022-23, it is still not mandatorily required to have a Dynamic QR code requirement on the invoice for said services as Dynamic QR code requirement is not applicable to exports.

(c) In case of provisional assessment of duty, if any amount refundable upon finalization of assessment to the importer is not refunded within 3 months from the date of final assessment of duty, interest @ 6% per annum shall be paid on such unrefunded amount till the date of refund of such amount.

No interest is payable on security deposits for provisional release of goods, etc.

Thus, in the given case, the amount of interest receivable by Mr. Sahil is as under:-

16th January, 2024 to 25th March, 2024 (Both inclusive)

Period of delay = 70 days

Thus, interest = ₹ 50,000×6% × 70/366

= ₹ 574 (rounded off)

5. **(a)** In the given case, Swastik Tours and Travel has committed the following offences:

- Availing of ITC using the fake invoices received without receipt of goods/services
- Falsification or substitution of financial records with an intention to evade payment of tax due or evasion of tax

Here, the amount of tax evaded/ITC wrongly availed is Rs. 4 crore (₹ 3.60 crore + ₹ 0.4 crore), i.e. it exceeds ₹ 2 crore but does not exceed ₹ 5 crore.

Further, where the offence committed by the person falls under more than one category, the compounding amount shall be the amount determined for the offence for which higher compounding amount has been prescribed.

Thus, the compounding amount will be as follows:

- For the offence of availing of ITC using the fake invoices received without receipt of goods/services, compounding amount is 40% of the amount of ITC wrongly availed.
- For the offence of falsification or substitution of financial records with an intention to evade payment of tax due or evasion of tax, compounding amount is 40% [higher of 25% or 40%] of the amount of tax evaded].

Thus, Swastik Tours and Travel should have deposited the following amount of tax evaded/ITC wrongly availed as the compounding amount:

= 40% of ₹ 4 crore

= ₹ 1.60 crore

Since Swastik Tours and Travel has deposited lesser compounding amount than required, the rejection of its request for compounding by the Commissioner is justified.

(b) **(i)** An appeal may be filed to the Commissioner (Appeals) against an adjudicating order if such an order is passed by the Additional or Joint Commissioner.

However, where the order is passed by the Assistant Commissioner, the appeal is to be filed to any officer not below the rank of Joint Commissioner (Appeals).

Thus, in the given case, appeal cannot be filed to the Commissioner (Appeals), but to any officer not below the rank of Joint Commissioner (Appeals).

(ii) An appeal to the Appellate Authority may be filed manually only if-

(i) the Commissioner has so notified, or

(ii) the decision or order to be appealed against is not available on the common portal.

Therefore, in light of the facts of the given case, the appeal cannot be filed manually.

(c) The action of the Department of rejecting the refund claim is correct.

The facts of the given case are similar to a Supreme Court judgment[3] wherein the Court held that unless an assessment order has been reviewed and/or modified in an appeal, that assessment order stands, and the duty is payable only as per that assessment order.

A refund claim is not an appeal proceeding.

Further, the officer considering the refund claim, cannot not review the assessment order.

Thus, refund claims based on challenge to an order of assessment are liable to be rejected.

6. **(a)** On an application filed by a taxable person, the Commissioner may, for reasons to be recorded in writing, allow payment of tax and other amounts due by such person in maximum 24 monthly instalments, on payment of interest and subject to prescribed conditions and limitations.

If there is default in payment of any one instalment on due date, then the whole outstanding balance shall become due and payable immediately.

[3] *Priya Blue Industries Limited vs Commissioner of Customs 2004 (172) ELT 145 (SC)*

The facility of payment in instalments shall not be allowed where –

(a) the taxable person has already defaulted on the payment of any amount under the GST law, for which the recovery process is on.

(b) the taxable person has not been allowed to make payment in instalments in the preceding financial year.

(c) the amount for which instalment facility is sought is less than ₹ 25,000.

(d) the amount payable is self-assessed tax.

(b) The following precautions should generally be observed when summoning a person: -

(i) A summon should not be issued for appearance where it is not justified. The power to summon can be exercised only when there is an inquiry being undertaken and the attendance of the person is considered necessary.

(ii) Repeated summons should be avoided.As far as practicable, the statement of the accused/ witness should be recorded in minimum number of appearances.

(iii) The time of appearance given in the summons should be respected. No person should be made to wait for long hours before his statement is recorded unless decided as a matter of strategy.

(iv) Statements should preferably be recorded during office hours; however, an exception could be made regarding the time and place of recording statement having regard to the facts in the case.

(b) Alternative Answer

Inspection can be carried out upon a written authorization given by an officer of the rank of Joint Commissioner or above.

A Joint Commissioner or an officer higher in rank can give such authorization only if he has reasons to believe that the person concerned has done one of the following to evade tax:

i. suppressed any transaction of supply;

ii. suppressed stock of goods in hand;

iii. claimed excess input tax credit;

iv. contravened any provision of the CGST Act to evade tax;

v. a transporter or an owner/operator of a warehouse/godown/any other place has kept goods which have escaped payment of tax or has kept his accounts or goods in a manner that is likely to cause evasion of tax.

(c) Status Holder is an exporter recognized for export performance by a Regional Authority. Status Holders are exporter firms recognised on the basis of their export performance as business leaders who have excelled in international trade and have successfully contributed to country's foreign trade.

All exporters of goods, services and technology having an import-export code (IEC) number, on the date of application, shall be eligible for recognition as a status holder based on export performance.

An applicant may be categorized as status holder on achieving the threshold export performance in the current and preceding three financial years as indicated below:

Status category	Export Performance (Threshold In USD Million)
One Star Export House	3
Three Star Export House	50
Four Star Export House	200
Five Star Export House	800