

Mock Test Paper - Series II: April, 2024

Date of Paper: 8 April, 2024

Time of Paper: 2 P.M. to 5 P.M.

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 2024-25, 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 2023-24:

- (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 2024, 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, 2024, 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.2023-24 – 348.

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. 2023-24, 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 2023-24, 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 2023-24, 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. Traylor 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 Traylor 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:

6. Is Traylor 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, Traylor Ltd. is required to deduct tax at source of ₹ 1,42,14,720.
 - (b) No, Traylor Ltd. is not required to deduct tax at source.
 - (c) Yes, Traylor Ltd. is required to deduct tax at source of ₹ 2,84,29,440.
 - (d) Yes, Traylor Ltd. is required to deduct tax at source of ₹ 67,00,000
7. Is equalisation levy attracted in respect of the consideration received by Omega Inc., Country F from Traylor Ltd.? If so, in whose hands and at what rate?
 - (a) Omega Inc. has to pay equalisation levy @6% of the consideration
 - (b) Traylor Ltd. is required to deduct equalisation levy @6% of the consideration

- (c) Trailor Ltd. is required to deduct equalisation levy @2% of the consideration
 - (d) Omega Inc. has to pay equalisation levy @2% of the consideration
8. 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
9. Is equalisation levy attracted in respect of the consideration received by Omega Inc. Country F from Trailor Ltd., if there is no DTAA between India and Country F? If so, in whose hands and at what rate?
- (a) Omega Inc. has to pay equalization levy @6% of the consideration
 - (b) Trailor Ltd. is required to pay equalization levy @2% of the consideration
 - (c) Omega Inc. has to pay equalization levy @2% of the consideration
 - (d) No, equalization levy is not attracted **(2 x 4 = 8 Marks)**

Case Scenario III

Sharma Pvt. Ltd. ("S") files its return of income for the P.Y. 2023-24 on 30th September 2024 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.2023-24, 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.2023-24. The tax liability of the trust for A.Y.2024-25 is -
- ₹ 7,51,140
 - ₹ 7,02,000
 - ₹ 6,35,960
 - ₹ 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. 2024-25. 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. 2023-24.
- ₹ 6,52,500
 - ₹ 11,85,600
 - ₹ 9,23,520
 - ₹ 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, 2023-24, 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. 2023-24. 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?
- 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.
 - 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.
 - 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 01-4-2023 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, 2024, 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 12-12-2023.
 - (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 01-07-2023 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 which security transaction tax is charged.

Additional information:

- (a) Depreciation eligible under section 32 is ₹ 36 lakhs.
- (b) During the previous year 2023-24, the company transferred unlisted equity shares for a consideration of ₹ 22,00,000 which were acquired on 1.5.2023. The cost of these shares acquired is ₹ 12,00,000.
- (c) New Plant & Machinery acquired on 01-07-2023 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 2023-24 is ₹ 320 lakhs.

Compute the total income and tax liability of Fun Limited for the Assessment Year 2024-25 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 1.4.2023, of ₹ 36.45 lakhs was sold on 05.11.2023 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 30.9.2024 and net profit for the year ended 31.3.2024 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 2.4.2024 in 5-years specified bonds of the National Highways Authority of India. The bonds were issued on 31.5.2024.
- (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 1.4.2023 - ₹ 6,80,000.
- (f) Cost of mobile phones (purchased and put to use on 11.10.2023) ₹ 20,000

Compute the total income of the firm for the A.Y. 2024-25 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. 2023-24 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 20.8.2023 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 10.10.2023. The relevant information of YoC Inc. as on 31.3.2024 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 from YoC Inc. received in India on 28.06.2023 was - ₹ 1,32,000.

You are required to compute the total income taxable 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
20.8.2023	₹ 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 2023-24, 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 2023-24, 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 2023 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 2020 to settle in Country Y. But owing to some personal unavoidable circumstances, he returned back to India permanently on 1st June 2023.

He has a residential property in Country Y from which he earned an income of \$ 32,000 for the year ended 31st March 2024. 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 2024 from his bank account in India.

His income from business in India is ₹ 6,20,000 for the year ended on 31st March 2024. 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:

01.04.2023 - ₹ 74; 31.03.2024, ₹ 75; 30.04.2024 - ₹ 75.5;

Compute the net tax liability of Mr. Sarthak in India for the assessment year 2024-25 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 2024:

- (i) During the previous year 2023-24, 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 2023-24 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 2022-23.

(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., 1.6.2023. Cloud Ltd. has planned to develop a high-rise apartment complex on such land by 31.3.2026. 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 31.3.2026. **(2 Marks)**

- (iii) State Government of Madhya Pradesh grants a lease of coal mine to M/s Maple Co. Ltd. on 01.09.2023 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 2023-24. The turnover of M/s Maple Co. and M/s DL (P) Ltd. for the financial year 2022-23 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 2023, 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 1.5.2023, 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 1.1.2024 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.2023-24	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 1.10.2023. 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 (BOAR) 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., 12.12.2023. It cannot seek the BOAR ruling till the matter is pending before the ITAT. **(4 Marks)**