Mock Test Paper - Series I: March, 2025

Date of Paper: 17th March, 2025

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

FINAL COURSE: GROUP – II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

Division A – Multiple Choice Questions

Answer Keys

MCQ No.	Answer	
1.	**(c)**	₹ 10,000 and ₹ 1,56,000, respectively
2.	**(b)**	Kishor and Bablu
3.	**(d)**	₹ 1,02,000
4.	**(c)**	₹ 8,61,507
5.	**(c)**	(i) and (iii)
6.	**(a)**	₹ 1,16,25,000
7.	**(d)**	Either (b) or (c)
8.	**(c)**	Interest of ₹ 15,40,313 has to be added to its total income for P.Y.2026-27
9.	**(d)**	Since X has not reported the transaction as an international transaction, X will be considered to have misreported its income and penalty will be 200% of the amount of tax payable on the misreported income
10.	**(d)**	Equalization levy of ₹ 33,000 is deductible by Smile Ltd. and penalty of ₹ 33,000 is attracted for non-deduction
11.	**(b)**	₹ 42,000. However, the said amount would not be subject to any tax.
12.	**(c)**	Either (a) or (b)
13.	**(b)**	No, deduction would not be allowed as such expenditure is of capital nature
14.	**(d)**	No; registration cannot be cancelled, and the value of benefit provided to Mr. Ranbir would be deemed as income of the trust.
15.	**(c)**	₹ 1,14,33,010

Division B – Descriptive Choice Questions

1. Computation of Total Income of Narmada Ltd. for the A.Y.2025-26

Particulars	Amount (₹)	
Profits and Gains from Business and Profession		
Net profit as per profit and loss account		3,50,00,000
Add: **Items debited but to be considered separately or to be disallowed**		
Fees paid to directors without deducting tax at source [Disallowance@30% would be attracted under section 40(a)(ia) for non-deduction of tax at source from director's remuneration on which tax is deductible under section 194J]	30,000	
Depreciation provided on straight line basis [Depreciation provided in the accounts on straight line basis (i.e., ₹ 50 lakhs) has to be added back]	50,00,000	
Contribution to a National Laboratory [Contribution to a National Laboratory under section 35(2AA) qualifies for deduction@100%].	Nil	
GST liability [GST liability of ₹ 2.10 lakhs would attract disallowance under section 43B, since it was paid only on 27.12.2025 (i.e., after the due date of filing return of income of A.Y.2025-26). It would be allowed in the year of payment (i.e., P.Y.2025-26). Hence, it has to be added back for computing business income]	2,10,000	
Disallowance under section 40A(2) for excess payment to related person [Saraswati Ltd. is a related person under section 40A(2), since the directors of Narmada Ltd. have substantial interest in Saraswati Ltd. Therefore, excess payment of ₹ 5 lakh to Saraswati Ltd. for purchase of goods would attract disallowance under section 40A(2).]	5,00,000	
Disallowance under section 40A(3) for payment exceeding ₹ 10,000 made in cash for purchases and expenditure [Cash payments exceeding ₹ 10,000 a day attracts disallowance under section 40A(3). Accordingly, cash payment of ₹ 5 lakhs made on 17-8-2024 would attract	5,00,000	

disallowance under section 40A(3), even if such payment is made due to demand of supplier]			
Disallowance under section 40A(3) for cash payment exceeding ₹35,000 in a day to transport operators for hiring of lorry [In respect of cash payments to transport operators, a higher limit of ₹ 35,000 per day is permissible. Therefore, cash payment of ₹ 35,000 on 03-07-2024 would not attract disallowance under section 40A(3). However, cash payments of ₹ 40,000 and ₹ 52,000 on 06-06-2024 and 15-01-2025, respectively, would attract disallowance under section 40A(3) since the same exceeds ₹ 35,000 per day]	92,000		
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 ₹ 5 lakhs in connection with issue of bonus shares is revenue expenditure and is hence, allowable as deduction. It has been so held by Apex Court in case *of CIT vs. General Insurance Corpn. (2006) 286 ITR 232.*	-		
Legal expenses for issue of right shares ₹ 4 lakhs, being legal expenses in relation to issue of rights shares results in expansion of the capital base of the company and is, hence, a capital expenditure. Therefore, the same is not allowable as deduction. It has been so held in *Brooke Bond India Ltd. v. CIT (1997) 225 ITR 798 (SC)]*	4,00,000		
Donation to a registered political party [Donation paid to a political party is not an allowable expenditure under section 37 since it is not laid out wholly or exclusively for the purposes of business or profession. Hence, the same has to be added back while computing business income.	17,00,000		

Bad debt written off earlier, recovered now	2,00,000	86,32,000
[The amount of bad debt written off earlier when recovered subsequently, such recovery is taxable under section 41(4)]		
		4,36,32,000
Less: **Items credited but to be considered separately or to be allowed/ Expenditure to be allowed**		
Depreciation allowable under the Income-tax Act, 1961	62,00,000	
[Depreciation calculated as per Income-tax Rules, 1962 (i.e. ₹ 62 lakhs) is allowable as deduction under section 32]		
Over-valuation of stock [₹ 55 lakhs x 10/110]	5,00,000	
[The amount by which stock is over-valued has to be reduced for computing business income. ₹ 50 lakhs, being the difference between closing and opening stock, has to be adjusted to remove the effect of over-valuation]		
		67,00,000
Gross Total Income		**3,69,32,000**
Less: **Deduction under Chapter VI-A**		
Donation to registered political party [under section 80GGB		17,00,000
[Donation made by a company to a political party is allowable deduction under section 80GGB from gross total income, subject to the condition that payment is made otherwise than by way of cash. Since the donation is made by cheque the same is allowed as deduction under section 80GGB]		
Total Income		**3,52,32,000**

Computation of tax liability of Narmada Ltd. for A.Y.2025-26

Particulars	₹
Tax@25% on total income of ₹ 3,52,32,000	88,08,000
[Since the total turnover or gross receipt in P.Y. 2022-23 ≤ 400 crore]	
Add: Surcharge@7% (since total income exceeds ₹ 1 crore but does not exceed ₹ 10 crores)	6,16,560
Tax payable including surcharge	94,24,560
Add: Health and Education cess@4%	3,76,982
Total tax payable	**98,01,542**
Tax payable (Rounded off)	**98,01,540**

2 (a) Computation of total income of PNG LLP

Particulars	₹ (in lacs)
Profit from Unit A [₹ 502 lakhs + ₹ 24 lakhs, being disallowance u/s 43B]	526
Profit from Unit B [₹ 753 lacs + ₹ 47 lacs, being disallowance u/s 40A(3)]	800
	1326
Less: Deduction under section 10AA [**See Working Note below**]	174
Total Income	**1152**
Tax on total income@30%	345.60
Add: Surcharge@12%, since total income > ₹1 crore	41.47
	387.07
Add: Health and Education cess @4%	15.48
Tax liability (as per normal provisions)	402.55

Computation of Adjusted total income and Alternate Minimum tax of PNG LLP as per the provisions of section 115JC for A.Y. 2025-26

Particulars	₹ (in lakh)
Total income as per the normal provisions	1152
Add: Exemption under section 10AA	174
Adjusted Total Income	1326
Tax@18.5% of Adjusted Total Income	254.31
Add: Surcharge @12% as the adjusted total income is > ₹1 crore	29.44
	274.75
Add: Health and Education cess @4%	10.99
Alternate Minimum Tax as per section 115JC	**285.74**

Since the tax payable as per the normal provisions of the Act is more than the alternate minimum tax payable, the total income as per normal provisions shall be liable to tax and the tax payable for A.Y. 2025-26 shall be ₹402.55 lakhs.

Working Note:

Computation of deduction under section 10AA in respect of Unit A located in a SEZ

Particulars	₹ (in lacs)
Total turnover of Unit A = (₹ 1200 lacs + ₹ 200 lacs) – ₹ 200 lacs, being freight and insurance included therein. Since freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also	**1200**
Export Turnover of Unit A	
Export sale proceeds received in India	1040
Less: Insurance and freight not includible in export turnover	140
	900
Profit "derived from" Unit A	
Net profit for the year	502
Add: Disallowance under section 43B	24
	526
Less: **Items of business income which are in the nature of ancillary profits and hence, do not constitute profit 'derived from' business for the purpose of exemption under section 10AA**	
Duty drawback 38	
Profit on sale of import entitlement 24	
	62
	464
Deduction under section 10AA (6th year of operations)	
Profit derived from Unit A x Export turnover of Unit A / Total turnover of Unit A x 50%	
= 50% of 464 x 900/1200 =	**174**

(b) Computation of total income of Lokesh for A.Y. 2025-26 as per section 115BAC

Since Mr. Lokesh is a 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 A would be taxable in India.

Particulars	Amount (₹)	Amount (₹)
Salaries		
Salary from Platinum Ltd.	23,00,000	
Less: Standard deduction u/s 16(ia)	75,000	22,25,000
Income from house property		
Let out property in Country A		
Gross Annual Value[1]	USD 4,500	
Less: Municipal taxes	USD 450	
Net Annual Value	USD 4,050	
Less: Deduction under section 24 – 30% of NAV	USD 1,215	
	USD 2,835	
[$ 2,835 x 71, being the last day of previous year i.e., 31.3.2025 as per Rule 115]	2,01,285	
Self-occupied property in India		
Loss from self-occupied property [Interest u/s 24(b) is not allowable in respect of self-occupied property under section 115BAC]	-	
		2,01,285
Profits and gains from business or profession		
Income from business in Country A [$ 25,000 x 71, being the last day of previous year i.e., 31.3.2025 as per Rule 115]		17,75,000
Capital Gains		
Short term capital gains on sale of shares of companies registered in Country A [$ 5,000 x 70, being the last day of the month immediately preceding the month in which the		3,50,000

[1] *Rental Income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.*

shares are transferred i.e., 28.2.2025 as per Rule 115]		
Income from Other Sources		
Interest on bank fixed deposits	1,60,000	
Dividend from shares held in Country A [$ 10,000 x 70, being the last day of the month immediately preceding the month in which the dividend is declared i.e., 28.2.2025 as per Rule 115]	7,00,000	
		8,60,000
Gross Total Income/Total Income		**54,11,285**
Total Income (Rounded off)		**54,11,290**

Computation of Net tax liability of Lokesh for A.Y.2025-26

Particulars		Amount
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [i.e., ₹ 4,00,000 @5%]	20,000	
₹ 7,00,001– ₹ 10,00,000 [i.e., ₹ 3,00,000 @10%]	30,000	
₹ 10,00,001– ₹ 12,00,000 [i.e., ₹ 2,00,000 @15%]	30,000	
₹ 12,00,001– ₹ 15,00,000 [i.e., ₹ 3,00,000 @ 20%]	60,000	
₹ 15,00,001– ₹ 54,11,290 [i.e., ₹ 39,11,290 @ 30%]	11,73,387	
		13,13,387
Add: Surcharge@10% [Since total income exceed ₹ 50 lakhs but does not exceed ₹ 1 crore)		1,31,339
		14,44,726
Add: Health & Education Cess@4%		57,789
		15,02,515
Less: Foreign tax credit, being lower of -		
- Tax payable in India @27.767% on ₹ 30,26,285, being income from house property of ₹ 2,01,285, business income of ₹ 17,75,000 *plus* capital gains of ₹ 3,50,000 *plus* dividend income of	8,40,309	

₹ 7,00,000 [i.e ₹ 15,02,515/ ₹ 54,11,290 x 100] = 27.767%		
- Tax paid in Country A@20% [$ 44,500 @20% x ₹ 72, being the rate on 30.4.2024, being the last day of the month immediately preceding the month in which tax is paid, i.e., May 2025]	6,40,800	
		6,40,800
Net tax liability		**8,61,715**
Net tax liability (Rounded off)		**8,61,720**

3. (a) As per section 115TD, the accreted income of "Feed the people", a charitable trust, registered under section 12AA which merged with an entity not entitled for registration under section 12AB or approval under section 10(23C), would be chargeable to tax at maximum marginal rate @ 34.944% [30% plus surcharge @12% plus cess@4%].

Computation of accreted income and tax liability in the hands of the trust arising as a result of merger with the "not eligible" entity for A.Y. 2025-26

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.2024, being the specified date (date of merger) **[See Working Note 1]**	1,21,00,000
Less: Total liability computed in accordance with the prescribed method of valuation **[See Working Note 2]**	96,00,000
Accreted Income	**25,00,000**
Tax Liability @ 34.944% of ₹ 25,00,000	**8,73,600**
Working Notes:	
(1) Aggregate fair market value of total assets on the date of merger	
- **Land, being an immovable property** [The fair market value of land would be higher of ₹ 17 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 15 lakhs, being stamp duty value as on the specified date]	17,00,000
- **Quoted equity shares in Ink Ltd. [75,000 x ₹ 80 per share]**	60,00,000

	[₹ 80 per share, being the average of the lowest (₹ 75) and highest price (₹ 85) of such shares on the date of merger]	
-	**55,000 preference shares of N Ltd.** [The fair market value which it would fetch if sold in the open market on the date of merger i.e., FMV on 1.4.2024]	44,00,000
		1,21,00,000
(2)	**Total liability**	
-	Outside liabilities	90,00,000
-	Corpus Fund of ₹ 15 lakhs [not includible]	-
-	Provision for taxation ₹ 5 lakhs [not includible]	-
-	Liabilities in respect of payment of various utility bills [since this liability is an ascertained liability]	6,00,000
		96,00,000

(b) Computation of total income of FASHION Inc., a notified FII, for A.Y.2025-26

Particulars	₹	₹
Dividend income	7,15,000	
Interest on securities [No deduction is allowable in respect of expenses incurred in respect thereof]	16,72,000	23,87,000
Long-term capital gains on sale of bonds of January Ltd.		
Sale consideration	58,00,000	
Less: Cost of acquisition [Benefit of indexation is not allowable]	33,00,000	15,00,000
Short-term capital gains on sale of STT paid equity shares of Exe Ltd.		
Sale consideration	14,50,000	
Less: Cost of acquisition	9,90,000	4,60,000
Short-term capital gains on sale of unlisted equity shares of May Ltd.		
Sale consideration	7,90,000	
Less: Cost of acquisition	3,22,000	4,68,000
Total Income		**48,15,000**

Computation of tax liability of FASHION Inc. for A.Y.2025-26

Particulars	₹
Tax@20% on interest on securities and dividend = 20% x ₹ 23,87,000	4,77,400
Tax@10% on long-term capital gains on sale of bonds of January Ltd. = 10% x ₹ 15,00,000	1,50,000
Tax @ 20% on short-term capital gains on sale of listed equity shares of Exe Ltd., in respect of which STT has been paid = 20% of ₹ 4,60,000	92,000
Tax @ 30% on short-term capital gains on sale of unlisted equity shares of May Ltd. = 30% of ₹ 4,68,000	1,40,400
	8,59,800
Add: HEC@4%	34,392
Tax liability	**8,94,192**
Tax liability (rounded off)	**8,94,190**

4. (a) (i) Since the consideration for transfer of house property at Chennai exceeds ₹ 50 lakhs, Mr. Anuj, being the transferee, is required to deduct tax @1% under section 194-IA on ₹ 85 lakhs, being the amount of consideration for transfer of property.

Mr. Anuj is required to deduct tax as source @1% under section 194-IA from the amount of ₹ 54 lakhs, being the higher of the stamp duty value of ₹ 54 lakhs and consideration of ₹ 49,00,000 paid to Mr. Anant for transfer of urban plot, since the stamp duty value exceeds ₹ 50 lakhs.

Mr. Anuj is not required to deduct tax at source under section 194-IA from the consideration of ₹55 lakhs paid to Mr. Digvijay for transfer of rural agricultural land, since the same is specifically excluded from the scope of immovable property for the purpose of tax deduction under section 194-IA.

(ii) As per section 194LB, tax would be deductible @ 5% on gross interest paid/credited by a notified infrastructure debt fund, eligible for exemption under section 10(47), to a non-resident not being a company or to a foreign company.

In the first case, since the payment is to a foreign company, health and education cess @4% has to be added to the applicable rate of TDS. Therefore, the tax deductible under section 194LB would be ₹31,200 (i.e., 5.20% of ₹6 lakhs).

However, in case the notified infrastructure debt fund pays interest to a person who is a resident of a notified jurisdictional area, section 94A will apply. Accordingly, tax would be deductible @30% (*plus* health and education cess@4%) under section 94A, even though section 194LB provides for deduction of tax at a concessional rate of 5%. Therefore, the tax deductible in respect of payment of ₹ 2.5 lakh to Mr. Aman, who is a resident of a notified jurisdictional area, would be ₹ 78,000, being 31.2% of ₹ 2,50,000.

(iii) The landing and parking charges which are fixed by the Airports Authority of India are not merely for the "use of the land". These charges are also for services and facilities offered in connection with the aircraft operation at the airport which include providing of air traffic services, ground safety services, aeronautical communication facilities, installation and maintenance of navigational aids and meteorological services at the airport *[Japan Airlines Co. Ltd. v. CIT / CIT v. Singapore Airlines Ltd. (2015) 377 ITR 372 (SC)]*. Thus, tax is not deductible under section 194I which provides deduction of tax for payment in the nature of rent.

Hence, tax is deductible @2% under section 194C by the airline company, Vikasa Ltd., on payment of ₹18 lakhs made towards landing and parking charges to the Airports Authority of India for the previous year 2024-25.

(iv) As per section 192, tax is deductible at source by any person who is responsible for paying any income chargeable under the head 'Salaries'. However, as per sub-section (2A) of said section, the employee will be entitled to relief u/s 89 and consequently, he will be required to furnish to the person responsible for making the payment, such particulars in the prescribed form (i.e., Form No.10E). The person responsible for making the payment shall compute the relief and take into account the same while deducting tax at source from salary.

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

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

In the present case, since ASHA (P) Ltd. has made an application of APA and also opted for rollback provisions, the APA is apparently in respect of international transactions which are of continuing nature. Accordingly, the APA application filed on 15th February 2024 would be in respect of five previous years beginning with P.Y. 2024-25 relevant to the A.Y. 2025-26.

Consequently, APA entered by ASHA (P) Ltd. can provide for determining ALP in relation to international transactions entered during rollback years i.e., from A.Y. 2021-22 to A.Y. 2024-25 subject to satisfaction of certain conditions.

In the present case, since A.Y. 20219-20 and A.Y. 2020-21 fall beyond the said four-year period, ASHA (P) Ltd. cannot avail roll back benefit in respect of these years. From A.Y. 2021-22 to A.Y. 2024-25, the applicability of rollback provisions would be as follows:

Rollback year	Applicability of rollback provisions
A.Y. 2021-22	Yes, rollback provisions are applicable for A.Y. 2021-22.
A.Y. 2022-23	Yes, rollback provisions are applicable for A.Y. 2022-23 even if ALP adjustment was reduced to addition of ₹ 300 lakhs as against addition of ₹ 500 lakhs originally determined by the TPO on account of APA, since such reduction in the amount of ALP adjustment does not result in reducing the total income or increasing the total loss, as declared in the return of income of the said year by ASHA (P) Ltd.
A.Y. 2023-24	Yes, roll back provisions are applicable for A.Y. 2023-24, since ITAT has only set aside the order for fresh consideration and the matter has not reached finality.
A.Y. 2024-25	No, rollback provisions are not applicable for A.Y. 2024-25, since the return was filed belatedly u/s 139(4) on 29.12.2024.

5. (a) (i) Under section 268A(1), the CBDT is empowered to issue orders, instructions or directions to the other income-tax authorities, fixing such monetary limits, as it may deem fit, to regulate filing of appeal or application for reference by any income-tax authority.

Under section 268A(2), where an income-tax authority has not filed any appeal or application for reference on any issue in the case of an assessee for any assessment year, due to above-mentioned order/ instruction/ direction of the CBDT, such authority shall not be precluded from filing an

appeal or application for reference on the same issue in the case of the same assessee for any other assessment year or any other assessee for the same or any other assessment year, if the tax effect exceeds the specified monetary limits. Further, in such a case, it shall not be lawful for an assessee to contend that the income-tax authority has acquiesced in the decision on the disputed issue by not filing an appeal or application for reference in any case.

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

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

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

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

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

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

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

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

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

Mr. Rajiv is non-resident for the P.Y. 2024-25 (the previous year in which notice is issued by the Assessing Officer), since he returned to the Sigapore in April 2020 and visited every year only for 1 month. He was also a non-resident for the P.Y. 2012-13, when he acquired shares of listed companies in Singapore and P.Y. 2020-21, when he established a leather goods manufacturing factory in Malaysia, since he was in India only during the previous years from P.Y. 2013-14 to P.Y. 2019-20. However, he was resident in India in the P.Y. 2015-16, when he acquired one apartment in Canada.

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

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

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

Branch mismatches arise where the ordinary rules for allocating income and expenditure between the branch and head office result in a portion of the net income of the taxpayer escaping the charge to taxation in both the branch and residence jurisdiction. Unlike hybrid mismatches, which result from conflicts in the

legal treatment of entities or instruments, branch mismatches are the result of differences in the way the branch and head office account for a payment made by or to the branch.

Hybrid mismatch arrangements arise due to -

(i) Creation of two deductions for a single borrowal

(ii) Generation of deductions without corresponding income inclusions

(iii) Misuse of foreign tax credit

(iv) Participation exemption regimes

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

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

6. (a) The Assessing Officer can exercise his power of survey under section 133A only after obtaining the approval of the Principal Director General or the Director General or the Principal Chief Commissioner or the Chief Commissioner.

Assuming that he has obtained such approval in this case, he is empowered under section 133A to enter any place of business of the assessee within his jurisdiction only during the hours at which such place is open for the conduct of business.

In the case given, the "Silver" a popular Gym is open from 5.00 a.m. to 10.00 p.m. for the conduct of business. The Assessing Officer entered the Gym at 9:30 pm in the night which falls within the working hours of the Sports Complex.

Therefore, the claim made by the owner to the effect that the Assessing Officer could not enter the Gym at night is not valid.

Further, as per section 133A(3)(ia), the Assessing Officer may, impound and retain in his custody for such period as he thinks fit, any books of account or other documents inspected by him after recording reasons for doing so. However, the Assessing Officer cannot remove cash kept at the Gym. Moreover, he shall not retain any books of account or other documents in his custody for a period

exceeding 15 days (excluding holidays) without obtaining the approval of the Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General or the Principal Commissioner or Commissioner or Principal Director or Director, as the case may be.

(b) Tax Planning / Tax Management / Tax Evasion

	Answer	Reason
(I)	Tax planning	Depositing money in PPF and claiming deduction under section 80C is as per the provisions of law. Hence, it is a legitimate tax planning measure which enables her to reduce her tax liability by claiming a deduction permissible under the Income-tax Act, 1961.
(II)	Tax evasion	An air conditioner fitted at the residence of a director as per the terms of his appointment would be a furniture qualifying for depreciation@10%, whereas an air conditioner fitted in a factory would be a plant qualifying for a higher depreciation@15%. The wrong treatment unjustifiably increases the amount of depreciation and consequently, reduces profit and consequent tax liability. Treatment of air-conditioner fitted at the residence of a director as a plant fitted at the factory would tantamount to furnishing of false particulars with an attempt to evade tax.

(c) (i) Yes, the above income are subject to deduction of tax at source.

Income referred to in section 115BBA (i.e., Participation in hockey tournaments in India and Contribution of an article relating to the sport of hockey in a sports magazine in India) is subject to deduction of tax at source@20% under section 194E.

Income referred to in section 115BB (i.e., winnings from lotteries) is subject to deduction of tax at source@30% under section 194B.

Since Mr. Mr. Robert Jonson, is a non-resident, the amount of tax to be deducted calculated at the prescribed rates mentioned above, would be increased by health and education cess@4%.

(iii) Section 115BBA provides that if the total income of the non-resident sportsman or non-resident entertainer comprises of only income referred to in that section and tax deductible at source has been fully deducted, it shall not be necessary for him to file his return of income.

In this case, although Mr. Robert Jonson is a non-resident sportsman, he has winnings from lotteries as well. Therefore, he cannot avail the benefit of exemption from filing of return of income as contained in section 115BBA. Hence, he has to file his return of income for A.Y.2025-26.

(d) Section 245Q(3) of the Income-tax Act, 1961 provides that an applicant, who has sought for an advance ruling, may withdraw the application within 30 days from the date of the application. Since more than 30 days have elapsed from the date of application by Mr. Saiyyam to the Authority for Advance Rulings, he cannot withdraw the application.

However, the Authority for Advance Rulings (AAR*),* in *M.K. Jain AAR No.644 of 2004*, has observed that though section 245Q(3) provides that an application may be withdrawn by the applicant within 30 days from the date of the application, this, however, does not preclude the AAR from permitting withdrawal of the application after the said period with its permission, if the circumstances of the case so justify.