FINAL EXAMINATION **SET - 2**

MODEL QUESTION PAPER **TERM – JUNE 2025**

PAPER – 15 **SYLLABUS 2022**

DIRECT TAX LAWS AND INTERNATIONAL TAXATION

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

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

1) Choose the correct option: **[15 x 2 = 30]**

(i) Mr. Chita Ranjan, aged 65 years, is a non-resident individual. His total income for the financial year 2024–25 amounts to ₹1,01,00,000. He has opted out of the default tax regime under section 115BAC. The Tax liability (including Cess) of Chita Ranjan for A.Y.2025-26 is

(a) ₹33,21,500
(b) ₹31,93,750
(c) ₹32,68,875
(d) ₹30,93,750

(ii) Mr. Mithai Lal purchased a residential house property on 28th June 2022 for ₹10,00,000 and incurred additional expenditure of ₹3,00,000 on improvements in July 2022. He sold the house property in March 2024 for ₹25,00,000. Out of the sale proceeds, he invested ₹10,00,000 in purchasing another residential house in August 2024. What is the amount of capital gains taxable in the hands of Mr. Mithai Lal for the A.Y. 2025-26?

(a) ₹2,00,000
(b) ₹12,00,000
(c) ₹5,00,000
(d) ₹15,00,000

(iii) Mr. Jhunjhunwala, a property dealer, sold a flat in Kolkata to his friend Mr. Satyam, a trader, on 15th August 2024 for ₹2.25 crores. The stamp duty value of the property on the date of sale was ₹2.50 crores. Mr. Jhunjhunwala had purchased the flat on 25th October 2023 for ₹2 crores, and the stamp duty value on that date was also ₹2 crores. Based on the above information, what are the correct tax implications under the Income-tax Act, 1961?

(a) ₹50 lakhs would be taxable as short-term capital gains in the hands of Mr. Jhunjhunwala. There would be no tax implication in the hands of Mr. Satyam.
(b) ₹50 lakhs would be taxable as business income in the hands of Mr. Jhunjhunwala. There would be no tax implication in the hands of Mr. Satyam.
(c) ₹50 lakhs would be taxable as business income in the hands of Mr. Jhunjhunwala and ₹25 lakhs would be taxable as income from other sources in the hands of Mr. Satyam.
(d) ₹50 lakhs would be taxable as short-term capital gains in the hands of Mr. Jhunjhunwala and ₹25 lakhs would be taxable as income from other sources in the hands of Mr. Satyam.

(iv) Every company to whom the provisions of MAT apply is required to obtain a report from a chartered accountant in Form No. ______ on or before the due date of filing the return of income.

(a) 29
(b) 29A
(c) 29B
(d) 29C

(v) Under the provisions of the Income-tax Act, 1961, a return of income can be revised under Section 139(5) if it was originally filed under which of the following sections?

(a) 139(1)
(b) 139(4)
(c) 139(5)
(d) All of the above

(vi) Provisions relating to advance ruling are provided in sections ________.

(a) 80C to 80U
(b) 245A to 245L
(c) 237 to 245
(d) 245N to 245V

(vii) If the amount of income in respect of which the penalty is imposed or imposable for the relevant year(s) exceeds ________, then no order reducing or waiving the penalty under section 273A (1) shall be made by the Principal Commissioner or Commissioner, except with the previous approval of the Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General, as the case may be.

(a) ₹1,00,000
(b) ₹2,00,000
(c) ₹5,00,000
(d) ₹10,00,000

(viii) In the year restructuring, depreciation shall be:

(a) available to the successor company fully
(b) apportioned between successor and predecessor on the basis of number of days
(c) available to the predecessor company fully
(d) None of the above

(ix) Mr. Subrata, a salaried individual, paid brokerage of ₹46 lakhs to Mr. Sudip, a broker, on 12th January 2025 for purchasing a residential house. His father, Mr. Bhima, a retired pensioner, made contract payments of ₹18 lakhs, ₹23 lakhs, and ₹15 lakhs on 26th September 2024, 3rd November 2024, and 12th February 2025 respectively, to Mr. Manoj, a contractor, for the reconstruction of his residential house. Based on the provisions of the Income-tax Act, 1961, what is the correct TDS implication for these transactions?

(a) Neither Mr. Subrata nor Mr. Bhima is required to deduct tax at source, since they are not subject to tax audit, being a salaried individual and a pensioner, respectively.

(b) Both Mr. Subrata and Mr. Bhima are required to deduct tax at source under the provisions of the Income-tax Act, even though they are not subject to tax audit.
(c) Mr. Subrata is required to deduct tax at source, but Mr. Bhima is not required to deduct tax at source.
(d) Mr. Bhima is required to deduct tax at source, but Mr. Subrata is not required to deduct tax at source.

(x) As per sec. 94B, interest expenses claimed by an entity to its associated enterprises shall be restricted to _____ of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is less
(a) 30%
(b) 25%
(c) 20%
(d) 10%

(xi) Potato Ltd. filed its return of income with suo moto adjustment of ₹300 lakhs in respect of ALP of its transactions with its associated enterprise. Within how many days the amount secondary adjustment must be repatriated to India in order to avoid interest under section 92CE read with rule 10CB?
(a) Within 90 days from the end of the assessment year
(b) Within 120 days from the date of filing ITR
(c) Within 90 days from the 'due date' specified in section 139(1)
(d) Within 30 days from the end of the assessment year

(xii) In the assessment of Amit (P) Ltd. there was increase in income by way of arm's length price adjustment of ₹200 lakhs. The assessee decided to pay additional income-tax instead of making secondary adjustment. What is the tax rate at which the additional income-tax is payable by the assesse?
(a) 10.92%
(b) 16.692%
(c) 20.9664%
(d) 23.296%

(xiii) For ALP Inc. of Italy which of the following would mean that it has a Permanent Establishment (PE) in India?
(a) Use of facilities solely for the purpose of storage or display goods belonging to the enterprise.
(b) Operating a factory in India
(c) Maintenance of goods belonging to the enterprise solely for the purpose of processing by another enterprise.
(d) Maintenance of fixed place of business solely for the purpose of purchasing goods or merchandise or of collecting information, for the enterprise.

(xiv) Which of the following method of computing arm's length price is not a 'Transaction Based Method'?
(a) Comparable Uncontrolled Price Method
(b) Resale Price method
(c) Cost Plus Method
(d) Profit Split Method

(xv) A sold a machine to B (associated enterprise) and in turn B sold the same machinery to C (an independent party) at sale margin of 30% for ₹4,00,000 but B has incurred ₹4,000 in sending the machine to C. From the above data, what is the arm's length price of the machine?

(a) ₹2,80,000
(b) ₹2,76,000
(c) ₹2,96,000
(d) ₹3,00,000

SECTION – B

Answer any 5 questions out of 7 questions given. Each question carries 14 marks.

[5 × 14 = 70]

2) Following is the profit and loss account of Z Ltd. for the year ended on 31-3-2025

Particulars	₹	Particulars	₹
To Raw material consumed	20,00,000	By Sale:	
To Rent	5,00,000	Export	50,00,000
To Salary & Wages	10,00,000	Domestic	30,00,000
To Depreciation	5,00,000	By Closing Stock	10,00,000
To Provision for contingencies	75,000		
To Wealth Tax of earlier year	50,000		
To Loss of subsidiary co.	50,000		
To Custom Duty	40,000		
To Proposed dividend	1,00,000		
To Provision for Income tax	1,05,000		
To Net Profit	45,80,000		
	90,00,000		90,00,000

Additional Information

1. Interest on bank loan relating to year 2022-23 has been paid during the previous year ₹1,00,000.
2. Whole of Custom duty is unpaid.
3. Company is entitled to get deduction u/s 80G ₹1,00,000
4. For the purpose of Income tax, depreciation is ₹4,00,000.
5. Turnover of the company during the previous year was ₹65 crores and it is life time highest turnover achieved by the company.
6. In past few years, company had suffered losses, following balances are still unabsorbed:

	As per Income Tax Act	As per books of Accounts
Depreciation	-	₹3,50,000
Losses	₹42,50,000	₹4,00,000

Compute tax liability of the company. [14]

3) (a) Mr. A owned two residential house for his own residential purpose, details of which are as follows-

Particulars	House 1	House 2
Gross Annual value	4,00,000	5,00,000
Municipal tax (paid)	2,000	10,000
Interest on loan taken for construction of house	20,000	25,000

On 1/4/2024, Mr. A gifted ₹25,00,000 to her wife. Out of such money, she acquired a house property for her own residential purpose. The new house has a gross municipal value of ₹2,50,000. She paid a corporation tax of ₹2,000. Compute income from house property of Mr. & Mrs. A. (Assume that Mrs. A does not own any other property). Assume that he has opted for the old tax regime. [7]

(b) A business entity requires ₹50 lakhs for expansion of business. The entity has two options.

Particulars	Option 1	Option 2	Option 3
	₹	₹	₹
Equity Share of ₹10 each	40,00,000	30,00,000	30,00,000
12% Debentures	10,00,000	10,00,000	20,00,000
18% Loan from Bank		10,00,000	

Expected rate of return is 15% (before tax). Tax Rate is 31.2% (including cess).

Considering the information provided above, it is advisable to choose the correct option accordingly. [7]

4) (a) Smile Ltd. is a wholly-owned subsidiary company of Happy Ltd., an Indian company. Smile Ltd. owns Plant-A and Plant-B (depreciation rate 40%, depreciated value of the block ₹3,00,000 on 1st April, 2024). Plant-B was purchased and put to use on 10th November, 2022 (cost being ₹70,000). Plant-B is transferred by Smile Ltd. to Happy Ltd. on 14th December, 2024 for ₹20,000. It is put to use by Happy Ltd. on the same day. Happy Ltd. owns Plant-C on 1st April, 2024 (depreciation rate 40%, depreciated value ₹60,000). Calculate the amount of depreciation in the hands of Smile Ltd. and Happy Ltd. for the assessment year 2025-26. [7]

(b) Mr. Mcfon, a non-resident and German citizen, is employed in a German company. The German company has a PE in India and accordingly the income of the PE is chargeable to tax in India. Mcfon has visited India during the FY 2024-25 on official work and stayed for 83 days. His salary for that period was ₹23,00,000 which is borne by the Indian PE.

Mcfon held 1500 shares of Brunda banax Pvt. Ltd. (BB), an Indian company since 29.11.2017 which he acquired for ₹12 per share. For acquiring the shares, he remitted USD 50,000 to India on 1.11.2017. He sold these shares on 25.6.2024 for ₹45 per share.

Mcfon also held 2000 equity shares of Deutschea Telekoma (DT), a German company, which he had acquired for ₹145 per share in 2018. DT follows April to March as its financial year. He sold all these shares for ₹615 per share to Ben, another non-resident, on 26.09.2024. The relevant information of DT 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 from Deutschea Telekoma received in India on 28.06.2024 was - ₹1,15,000.

You are required to compute the total income taxable in India of Mr. Mcfon ignoring the provisions of DTAA between India and Germany, if any. Assume assesse opted out from section 115BAC.

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

Date	Buying Rate (1 US $)	Selling Rate (1 US$)
29.11.2017	₹79	₹81
1.11.2017	₹76	₹78
25.6.2024	₹89	₹91

[7]

5) (a) Discuss the procedure followed on receipt of an application for advance ruling under Section 245R of the Income Tax Act 1961. [7]

(b) A Ltd. made the following payments of advance tax during the financial year 2024-25:

	₹ in lakh		₹ in lakh
June 15, 2024	3.70	September 15, 2024	3.50
December 15, 2024	10.25	March 18, 2025	8.80

The return of income is filed on 31-7-2025 showing –

Business income	₹80 lakhs
Long term capital gains taxable @ 12.50% (as on 1-12-2024)	₹10 lakhs

Compute interest payable u/s 234C. [7]

6) (a) Explain methods of Bilateral relief in Double Taxation Avoidance Agreements (DTAAs) and briefly state how unilateral relief is provided in the Income Tax Act,1961. [7]

(b) Mr. Arun, an Indian resident, aged 49 years, is employed as a Supervisor at ADNOC in the country UAE, earning a monthly salary of AED 7,500. In order to look after his ailing mother residing in Mumbai, India, he shifted with his family on 1 July, 2024 and started his consultancy business in India. Before shifting to India, he let out his house property in UAE @ 4,250 AED from the same month. His stay in India in last 7 years is 780 days and he was residents for 5 PY's in last 10 PY's.

The details of his income in INR for the year ended 31st March, 2025 are as follows:

Profit from the consultancy business	₹8,35,000
Fixed Deposit interest from the bank of Country UAE	₹45,500
Savings bank interest from SBI, Mumbai	₹15,250
Dividend income from PQR Ltd., an Indian company	₹ 7,750

Rate of income tax in Country UAE is 25%

During the previous year, Mr. Arun paid ₹45,000 as medical insurance premium for himself and ₹56,000 as medical insurance premium to insure the health of his father, a non-resident aged 76 years, who is not dependent on him.

You are required to compute the total income and tax liability of Mr Arun for assessment year 2025-26 assuming that India has not entered into double taxation avoidance agreement with Country UAE and he has opted out from provisions of Section 115BAC. You may consider (1 AED = 25 INR). [7]

7. (a) Terabyte Inc. of France and R Ltd. of India are associated enterprises. R Ltd. imports 6,000 compressors for Air Conditioners from Terabyte Inc. at ₹6,700 per unit and these are sold to Refresh Cooling Solutions Ltd at a price of ₹10,000 per unit. R Ltd. had also imported similar products from Gold Inc. Poland and sold outside at a Gross Profit of 20% on Sales. Terabyte Inc. offered a quantity discount of ₹1,000 per unit. Gold Inc. could offer only ₹500 per unit as Quantity Discount. The freight and customs duty paid for imports from Gold Inc. Poland had cost R Ltd. ₹1,200 per piece. In respect of purchase from Terabyte Inc., R Ltd. had to pay ₹200 only as freight charges.
Compute the Arm's Length Price and the subsequent amount of increase in the Total Income of R Ltd, if any. [7]

(b) Discuss the provisions relating to secondary adjustments under the transfer pricing regulations in India. [7]

8. Present your answer for the following situations under the headings:
(i) Issue Involved
(ii) Provision Applicable
(iii) Analysis & Conclusion

(a) Mr. Riyan filed his return of income for A.Y. 2024 -25 declaring a total income of ₹20 lakhs. His case was selected for scrutiny assessment and an addition of ₹8 lakhs was made by the Assessing Officer(AO) due to disallowances of certain expenses. During the assessment proceedings, Mr. Riyan realized that he had inadvertently failed to claim set -off of brought forward losses under section 72 amounting to ₹6 lakhs, which he was otherwise eligible to claim. However, by the time this omission was noticed, the time limit for filing a revised return had already expired. Consequently, Mr. Riyan requested the Assessing Officer during the proceedings to allow the set-off of such brought forward losses, despite the omission in the original return filed under section 139(1).
Whether the Assessing Officer is bound to accept the request of Mr. Riyan? Examine. [7]

(b) EE (P) Ltd. is engaged in distribution of computer software and hardware. It procured copyrighted software from foreign companies and sold the same to its customers. No value addition was made. The software was "ready to use "software. Also, it procured computers in which software was affixed as an integrated unit. In the assessment, the amount paid for purchase of software was subjected to disallowance since no tax was deducted at source on the payments made to foreign companies supplying "ready to use software". The company wants to know the correct legal position. Also, it wants clarity as regards hardware purchased and software affixed therein. You are the tax consultant for EE (P) Ltd. Discuss your opinion in this regard. [7]