

Roll No.

Total No. of Questions : 6

Total No. of Printed Pages : 12

Maximum Marks : 70

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book or on Part I question paper, will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.**
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit descriptive answer book with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having/using mobile phone or smart watch will be expelled from the examination and will also be liable for further punitive action.

PART - II**70 Marks**

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate has not opted for Hindi Medium, his/ her answers in Hindi will not be evaluated.
4. All questions relate to Assessment Year 2024-25 unless stated otherwise in the questions. Significant notifications and circulars issued upto 30th April, 2024 would be relevant.

PART - II

Question No. 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, 2024 shows a net profit of ₹ 75 Lakhs after debiting/crediting the following items :

- (i) Depreciation as per Companies Act ₹ 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 creditor whose amount of ₹ 20 lakhs was outstanding for 10 years, has been settled for ₹ 15 lakhs on 01.03.2024 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 2023-24, the assessee company started a business of developing and building rental housing projects eligible under section 80IBA. 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 31.05.2023.
- C. Depreciation as per Income-tax Act ₹ 4.5 lakhs

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- D. The assessee company has purchased machinery worth ₹ 20 lakhs on May 1, 2020 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, 2023 causing total damage to the machinery. The company received a sum of ₹ 22 lakhs from the insurance company on 01.03.2024. (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 31.08.2024.

Compute the total income and tax liability of Kansal Cements Ltd. for the assessment year 2024-25 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 2021-22 was ₹ 450 crores.

Would it be beneficial for Kansal Cements Ltd. to opt for concessional tax rates in previous year 2023-24 instead of paying tax under regular provisions of Income-tax Act, 1961? Examine. (14 Marks)

Questions No. 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 01.10.2023.

The balance sheet of Salsy limited as on 01 October 2023, being the date on which chemical unit has been transferred, is given here under –

Balance Sheet As On 01.10.2023

Liabilities	₹	Assets	₹
Paid up Share Capital	2,50,00,000	<u>Land</u>	
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	<u>Building</u>	
<u>Trade Creditors</u>		Textile Unit	90,00,000
Textile Unit	90,00,000	Chemical Unit	70,00,000
Chemical unit	47,00,000	<u>Machinery</u>	
		Textile Unit	40,00,000

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Liabilities	₹	Assets	₹
		Chemical unit	52,00,000
		<u>Investment in Equity Shares (1,00,000 shares of ABC Ltd, a listed company at ₹ 35 per share)</u>	
		Chemical Unit	35,00,000
		<u>Inventories</u>	
		Textile Unit	82,00,000
		Chemical unit	60,00,000
		<u>Licenses and Franchises</u>	
		Textile Unit	20,00,000
		Chemical unit	23,00,000
	6,02,00,000		6,02,00,000

The following informations have been furnished by the management :

- The Chemical unit was established in July, 2020 during the COVID period.
- Land of Chemical unit includes revaluation reserve of ₹ 20 lacs. The Land was purchased at ₹ 50 lakhs in May 2020 and revalued at ₹ 70 lakhs as on October 1, 2023. The stamp duty value on 01.10.2023 is ₹ 62 lakhs.
- The Building and Machinery have been shown in the balance sheet at its Written down value as per section 43(6)(c) of Income Tax Act, 1961.
- License and Franchises were acquired on 01.06.2022 and shown in the balance sheet at its original purchase price.
- Equity shares were acquired by the company through National stock exchange on 01.04.2021 and value recorded of shares of ABC Limited as on 01.10.2023 at NSE is ₹ 42 per share.

You are required to Compute the Taxable capital gain to Salsy Limited for A.Y. 2024-25.

(8 Marks)

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Question No. 2 (b)

The net result of the business carried on by a branch of US based foreign company in India for the year ended 31.03.2024 was a loss of ₹ 28 lakhs after charge of the following expenses:-

- (i) Depreciation 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. 2022-23 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)
2023-24	600
2022-23	450
2021-22	500

You are required to compute income to be declared by the branch in its return for the assessment year 2024-25. (6 Marks)

Question No. 3(a)

Examine each of the following independent cases of charitable trust/institutions based on the relevant provisions of Income-tax Act and judicial pronouncements for the assessment year 2024-25:

- (i) M/s MPL, an electoral Trust incorporated on 1st April 2023, provides following information for the previous year 2023-24.

Total voluntary contributions received ₹ 600 lakhs. It spends ₹ 5 lakhs on management of its affairs.

In light of the provisions of section 13B of Income-Tax Act and rule 17CA notified by Central Government in this context give answer of 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)

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- (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 2024-25. Can the trust claim exemption under section 10(23C)(iiiad) and section 10(23C)(iii ae) for assessment year 2024-25? (2 Marks)
- (iii) Care for All Foundation is claiming exemption under section 10(23C)(vi). On 15.11.2023 it gets notified under section 10(46). The foundation intends to know whether it can enjoy the benefits of both sections i.e. section 10(46) and section 10(23C)(vi) simultaneously. (2 Marks)

Question No. 3(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 2024-25:

- (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) Business loss of assessment year 2020-21 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 2024-25. Assume that Mr. Ashok opts to pay tax under default tax regime provided under section 115BAC(1A). (6 Marks)

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Question No. 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. Bhuvan, an individual purchased urban land on 12.07.2014 which was compulsory acquired by Maharashtra State Government on 10.04.2022. The compensation for acquisition was fixed at ₹ 2,40,000, which was paid to Mr. Bhuvan on 10.04.2023. Against the order of court the compensation was enhanced by ₹ 50,000 and paid to Mr. Bhuvan on 10.12.2023. (2 Marks)
- (ii) On 1st October, 2023, 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 for last two assessment years i.e. 2023-24 and 2022-23. Mr. Aman has total TCS of ₹ 51,000 in A.Y. 2023-24 and ₹ 60,000 in A.Y. 2022-23 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 31.03.2023. He deposited ₹ 1,00,000 from his accumulated savings on 02.04.2023 to play online games. He earned ₹ 30,00,000 from online games during IPL season which started on April 4, 2023 and ended on May 31, 2023. During the previous year 2023-24, Mr. Z also earned Referral bonus of ₹ 50,000 from Dream 44 for referring new users on 31.03.2024.
- Out of the above sum Mr. Z withdrew ₹ 25,00,000 on 01.02.2024 and kept the balance of ₹ 6,60,000 in user account on 31.03.2024 to utilise it in next year online games. (3 Marks)

Question No. 4 (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 2023-24, 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.

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The Assessing Officer referred the matter to Transfer Pricing Officer (TPO) for determination of Arm's 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)

Question No. 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 17.01.2023. 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 ₹ 63.30 Lacs, to which the assessee did not raise any objection.

During Assessment proceedings, the AO was not satisfied with the explanation given by the assessee and the AO made the additions of ₹ 63.30 lacs 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 ₹ 49.37 lacs and interest of ₹ 12.35 Lacs 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 ₹ 63.30 lacs 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 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.

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- (iii) M/s SBL 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 filed 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 2023 to July 2023, such deduction of tax at source however was 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 × 4 = 8 Marks)

Question No. 5 (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)

Question No. 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.2021-22 on 30th September, 2022 claiming deduction under section 80-IA, on the basis of Form 10CCB issued by the chartered accountant. However, in August 2023, it came to the notice of the chartered accountant that the ten year period for which the company had been eligible to claim deduction had expired in A.Y.2020-21. 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.

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However, the department concluded that the concerned chartered accountant had issued Form 10CCB without ensuring that the ten year 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 assessee 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.

Can the chartered accountant be held guilty of professional misconduct for failure to obtain sufficient information and failure to exercise due diligence in discharging the professional responsibilities? Support your answer with relevant provisions of Income-tax Law and Chartered Accountant Act, 1949. (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 lacs 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 lacs 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 2023-24, he made a short term capital gain in Equity shares of ₹ 10,00,000 till 20.03.2024.

He was holding 1000 Equity shares of SPR Limited (purchased on 01.01.2024 at ₹ 500 per share). The market price of it was ₹ 200 per share on 31.03.2024. Mr. Dhaval sold all the shares of SPR Limited on 31.03.2024 and purchased the same quantity of these shares back on 01.04.2024. He did it so that his short term capital gain may reduce by ₹ 3,00,000 for P.Y. 2023-24.

Is it a tax planning or tax evasion? (4 Marks)

Question No. 6 (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.

As per Section 245Q, how many copies of application need to be filed by the applicant with the Board and what would be the amount of fees to be accompanied with the application.

What is the remedy available to an applicant if the Board rejects its application? Also, state the time limit within which the applicant should exercise this remedy.

(4 Marks)

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