

CA Final

Direct Tax & International Taxation

MCQS & Case Scenario

CA Divyesh Vaghela

- Chapterwise ICAI BOS MCQs
- Included RTP May 24 MCQs
- All MCQs categorized by difficulty



PREFACE

Dear student,

This book covers all Chapterwise MCQs & Case Scenarios from ICAI BOS and Latest RTP May 24. All MCQs are categorized by difficulty level, using the same format as on the BOS portal.

Here: S for Simple, M for Medium, and D for Difficult.

Important: ICAI may add more MCQs on the BOS portal. If there are any additions, I'll update them on my Telegram channel.

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DT MCQS

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MCQs Based Questions

Basic Concepts

- S** 1. Music Academy, as per its rules, pays a fixed honorarium per concert to each musician performing in the concerts organised by it. Hari, a violinist, however, refuses to accept this sum. If he requests Music Academy to pay such sum directly to Aid Us, an unregistered institution providing relief to the poor and needy in rural India, what would be the tax consequence?
- (a) No amount would be chargeable to tax in the hands of Mr. Hari, since this is a case of diversion of income at source by overriding title
 - (b) The amount payable to Aid Us would be chargeable to tax only in the hands of Mr. Hari, since it is a case of application of income
 - (c) The amount payable to Aid Us would be chargeable to tax only in the hands of the institution which has received the amount
 - (d) The amount payable to Aid Us would be chargeable to tax both in the hands of Mr. Hari and in the hands of the institution
- M** 2. X Ltd., a domestic company not opting for the provisions of section 115BAA, has a total income of Rs. 10,01,00,000 for A.Y.2024-25. The gross receipts of X Ltd. for P.Y.2021-22 is Rs. 260 crore. The tax liability of X Ltd. for A.Y.2024-25 is -
- (a) Rs. 2,68,50,000
 - (b) Rs. 2,68,50,000
 - (c) Rs. 2,91,49,120
 - (d) Rs. 3,34,88,000
- M** 3. During the P.Y.2023-24, Mr. Aakash has Rs. 80 lakhs of short-term capital gains taxable u/s 111A, Rs. 70 lakhs of long-term capital gains taxable u/s 112A and business income of Rs. 90 lakhs. Which of the following statements is correct assuming that Mr. Akash pays tax under default tax regime under section 115BAC?

- (a) Surcharge@25% is leviable on income-tax computed on total income of Rs. 2.40 crore, since the total income exceeds Rs. 2 crore
- (b) Surcharge@15% is leviable on income-tax computed on total income of Rs. 2.40 crore
- (c) Surcharge@15% is leviable in respect of income-tax computed on capital gains of Rs. 1.50 crore, since such income exceeds Rs. 1 crore but is less than Rs. 2 crore; in respect of business income of Rs. 90 lakhs, surcharge is leviable@25% on income-tax, since the total income exceeds Rs. 2 crore
- (d) Surcharge@15% is leviable in respect of income-tax computed on capital gains of Rs. 1.50 crore, since such income exceeds Rs. 1 crore but is less than Rs. 2 crore; in respect of business income of Rs. 90 lakhs, surcharge is leviable@10% on income-tax, since such income exceeds Rs. 50 lakhs but is less than Rs. 1 crore

Q.	Ans.	Description
1	D	Refer application and diversion of income discussed in Chapter 1
2	B	Rs. 2,68,50,000
3	B	Refer surcharge table in Chapter 1

Profits and Gains of Business or Profession

- S** 1. Mr. Arvind, engaged in the business of wholesale trade, has a turnover of Rs. 90 lakhs for P.Y.2022-23 and Rs. 210 lakhs for P.Y.2023-24. In the P.Y.2023-24, he paid salary of Rs. 3 lakhs to Mr. Hari, a resident, without deduction of tax at source and commission of Rs. 51 lakhs to Mr. Rajesh, a resident, without deduction of tax at source. The disallowance under section 40(a)(ia) while computing business income of A.Y.2024-25 would be -
- (a) Rs. 54,00,000
 - (b) Rs. 16,20,000
 - (c) Rs. 15,30,000
 - (d) Nil
- S** 2. Y Ltd. purchased computers for Rs. 10 lakhs on 5th October, 2023, installed the same in its office and put the said computers to use on the same date. The depreciation allowable under section 32 for A.Y.2024-25 in respect of the said computers is -
- (a) Rs. 1.5 lakhs
 - (b) Rs. 3 lakhs
 - (c) Rs. 4 lakhs
 - (d) Rs. 2 lakhs
- M** 3. X Ltd. is engaged in the business of letting out of properties. As per the memorandum of association of X Ltd., letting out of properties is its main objective. The total income of X Ltd. comprises only of rental income from the business of letting out of properties. Y Ltd. is engaged in the construction and sale of properties, which is also its main objective as per its memorandum of association. Incidentally, it lets out some properties which are held as stock-in-trade and earns rental income therefrom.
- Which of the following statements is correct?
- (a) Rental income from letting out of properties by X Ltd. and Y Ltd. is taxable under the head "Income from house property"
 - (b) Rental income from letting out of properties by X Ltd. and Y Ltd. is taxable under the head "Profits and gains of business or profession"
 - (c) Rental income from letting out of properties by X Ltd. is taxable under the head "Income from house property" and by Y Ltd. is taxable under the head "Profits and gains of business or profession"

(d) Rental income from letting out of properties by Y Ltd. is taxable under the head "Income from house property" and X Ltd. is taxable under the head "Profits and gains of business or profession"

M

4. The turnover of Mr. Aarav, engaged in wholesale trading business, for the P.Y.2023-24 is Rs. 2 crore and the gross receipts of Mr. Vishal, engaged in legal profession is Rs. 50 lakhs. Mr. Aarav has been regularly following mercantile system of accounting and Mr. Vishal regularly follows cash basis of accounting. Out of the turnover of Mr. Aarav, he receives Rs. 1.20 crores through ECS through bank account during the P.Y.2023-24. He receives another Rs. 60 lakhs through ECS through bank account on or before 31.7.2024. Mr. Vishal receives Rs. 30 lakhs by account payee bank draft and Rs. 20 lakhs by crossed cheque during the P.Y.2023-24.

What would be the income chargeable to tax under the head "Profits and Gains of Business and Profession", if they want to minimize their tax liability? Both of them maintain books of account as per section 44AA. Income computed as per the regular provisions of Income-tax Act, 1961 is Rs. 11,50,000 and Rs. 24,75,000 in the hands of Aarav and Vishal, respectively. However, they have not got the books of account audited and do not intend to do so in future.

- (a) Rs. 16,00,000 and Rs. 25,00,000, respectively
- (b) Rs. 13,60,000 and Rs. 25,00,000, respectively
- (c) Rs. 11,50,000 and Rs. 24,75,000, respectively
- (d) Rs. 12,40,000 and Rs. 25,00,000, respectively

5. Blossom Tea Garden, a tea estate in Dibrugarh, Assam received ₹ 23,00,000 as compensation from an insurance company for severe damage to the green leaves due to a hailstorm in July 2023. Blossom tea estate is of the view that the entire receipt under the insurance policy for damage caused by the hailstorm to tea leaves will be agricultural income, hence, would not be chargeable to tax. Examine the contention of Blossom Tea Garden.

(RTP May 2024 MCQ)

- (a) Blossom Tea Garden's contention is incorrect; entire compensation is assessable as income from other sources.
- (b) Blossom Tea Garden's contention is incorrect; entire compensation is assessable as manufacturing income.
- (c) Blossom Tea Garden's contention is incorrect; it's deemed to be profit on sale of standing crop or the produce, therefore the same is taxable as profits and gains from business or profession.
- (d) Blossom Tea Garden's contention is correct; no part of the compensation consists of manufacturing income, and it cannot be apportioned under rule 8 between manufacturing income and agricultural income. Therefore, the income will be agricultural income.

Q. 6 to 10 - Case Scenario :

BMT Shipping Co. is an Indian company having its place of effective management in India. It owns three vessels out of which two are "Qualifying Ships". The registered tonnage of the two qualifying vessels is 33,840 tonnes and 230 kgs and 24,952 tonnes and 370 kgs respectively. In the F.Y. 2023-24, the first vessel was operated for 212 days and the second for 347 days.

The WDV of the block of assets for tax purposes, being ships, as on 01.04.2023 was Rs. 1200 lakhs

Ships forming part of Block of Assets	WDV as per books as on 01-04-2023 (Rs. in lakhs)
Qualifying Ship 1	580
Qualifying Ship 2	270
Non-qualifying Ship 3	230

Other Information:

- (i) Profit from core activity referred to in section 115-VI(1) read with 115-VI(2) is Rs. 70 lakhs.
- (ii) Profit from incidental activity computed as per section 115-VI(1) read with 115-VI(5) is Rs. 14 lakhs.
- (iii) Book profits calculated as per the Explanation to section 115JB(2) [in so far as it relates to income derived from core and incidental activity] are Rs. 100 lakhs.

LMN Shipping Co. is a foreign company whose place of effective management is outside India in the P.Y.2023-24. Its gross receipts for P.Y.2023-24 is Rs. 630 lakhs, the break up of which is given here under -

	Place where goods are shipped	Place where amount is paid to/received by LMN Shipping Co.	Amount paid (Rs. in lakhs)
(i)	Goods shipped at ports in India	In India	200
		Outside India	150
(ii)	Goods shipped at ports outside India	In India	180
		Outside India	<u>100</u>
			630

From the information given above, choose the most appropriate answer to MCQs 6 to 10 -

6. What would be the tonnage income of BMT Shipping Co. computed under section 115VG for A.Y. 2024-25?

(a) Rs. 71,05,880

- (b) Rs. 71,12,028
- (c) Rs. 71,20,454
- (d) Rs. 71,26,602

7. What would be the written down value as on 01.04.2023 of "Qualifying Ships" of BMT Shipping Co. for tax purpose as per section 115VK?

- (a) Rs. 850 lakhs
- (b) Rs. 944.44 lakhs
- (c) Rs. 1200 lakhs
- (d) Rs. 970 lakhs

8. The minimum reserve requirement as per section 115VT in case of BMT Shipping Co. for P.Y.2023-24 is -

- (a) Rs. 16.8 lakhs
- (b) Rs. 20 lakhs
- (c) Rs. 14 lakhs
- (d) Rs. 15 lakhs

9. Would any amount be taxable under the other provisions of the Income-tax Act, 1961 as per section 115VT(5), if BMT Shipping Co. had transferred Rs. 15 lakhs to Tonnage Tax Reserve Account during P.Y. 2023-24? If yes, what is the amount so taxable?

- (a) Yes; Rs. 1.80 lakhs
- (b) No amount is taxable as per section 115VT(5), since the amount transferred is more than the minimum reserve requirement
- (c) Yes; Rs. 5 lakhs
- (d) Yes; Rs. 21 lakhs

10. What shall be the income computed under section 44B of LMN Shipping Co. for A.Y.2024-25?

- (a) Rs. 39.75 lakhs
- (b) Rs. 53 lakhs
- (c) Rs. 26.50 lakhs
- (d) Rs. 47.25 lakhs

Q.	Ans.	Description
1	C	Refer sections 192, 194M and 40(a)(ia)
2	D	Rs. 10 lakhs x 40% x 50%
3	D	Rental income from letting out of properties by Y Ltd. is taxable under the head "Income from house property" and X Ltd. is taxable under the head "Profits and gains of business or profession"
4	D	Refer sections 44AD and 44ADA
5	D	Compensation received from an insurance company for damage caused by hailstorm to the green leaf is fully agricultural income and no part of such compensation consists of manufacturing income. Therefore, cannot be apportioned under rule 8 between manufacturing income and agricultural income.
6	C	Ship 1 = $(11770 + 29 \times 88) \times 212 = 30,36,264$ Ship 2 = $(5,470 + 42 \times 150) \times 347 = 40,84,190$ Total = 71,20,454
7	B	$850 \text{ lakhs} / 1080 \text{ lakhs} \times 1200 \text{ lakhs} = 944.44 \text{ lakhs}$
8	B	Book profit of Rs. 100 lakhs x 20% = 20 lakhs
9	D	$84 \text{ lakhs} \times 5 \text{ lakhs} / 20 \text{ lakhs} = 21 \text{ lakhs}$
10	A	$7.5\% \text{ of } (200 \text{ lakhs} + 150 \text{ lakhs} + 180 \text{ lakhs}) = 39.75 \text{ lakhs}$

Capital Gains

- S** 1. A Ltd., an Indian company, bought back its listed shares from its shareholders and B (P) Ltd., an Indian company, bought back its unlisted shares from its shareholders in the month of March, 2024. What are the tax consequences of such buyback in the hands of A Ltd., B (P) Ltd. and the shareholders?
- (a) Additional income-tax@23.296% of the distributed income is leviable in the hands of A Ltd. and B (P) Ltd.; income arising to shareholders is exempt
- (b) Income arising to shareholders from buyback is taxable in their individual hands; No distribution tax is leviable in the hands of A Ltd. and B (P) Ltd.
- (c) Additional income-tax@23.296% of the distributed income is leviable in the hands of A Ltd.; income arising to shareholders of B (P) Ltd. is taxable in their individual hands
- (d) Additional income-tax@23.296% of the distributed income is leviable in the hands of B (P) Ltd.; income arising to shareholders of A Ltd. is taxable in their individual hands
- M** 2. Ms. Aparna and Ms. Dimple, Indian citizens residing in California since the year 2010, visit India for 60 days every year. On 1.3.2024, Ms. Aparna transferred to Ms. Dimple in California, for consideration of dollar equivalent to Rs. 15 lakhs, rupee denominated bonds (issued outside India) of X Ltd., a company incorporated in India, which were acquired by her on 1.3.2022 for a price of dollar equivalent to Rs. 10 lakhs. What are the capital gains tax implications of such transfer in the hands of Ms. Aparna?
- (a) Ms. Aparna is liable to capital gains tax on long-term capital gains arising on transfer of rupee denominated bonds; indexation benefit is not available
- (b) Ms. Aparna is liable to capital gains tax on long-term capital gains arising on transfer of rupee denominated bonds; indexation benefit is available
- (c) Ms. Aparna is liable to capital gains tax on short-term capital gains arising on transfer of rupee denominated bonds
- (d) There is no capital gains tax implication in the hands of Ms. Aparna in respect of this transaction
- M** 3. Mr. Rajan purchased 300 shares in Vaigai Ltd. on 12.1.2017 at a cost of Rs. 2,500 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is Rs. 1,800. Mr. Rajan sold all the shares of Vaigai Ltd. on 15.7.2023 for Rs. 3,200. Mr. Rajan's brother Mr. Ravi purchased 600 shares in Tapti Ltd. on 25.1.2017 at a cost of Rs. 1,900 per share. The FMV of the share as on 31.1.2018 is Rs. 2,400. Mr. Ravi sold all the shares of Tapti Ltd. on 31.1.2024 for Rs. 1,700 per share. What is the chargeable

capital gains on sale of shares of Vaigai Ltd. and Tapti Ltd. in the hands of Mr. Rajan and Mr. Ravi, respectively, for A.Y.2024-25, assuming that STT was paid at the time of acquisition and sale?

- (a) Long-term capital gains of Mr. Rajan Rs. 2,10,000; Long-term capital loss of Mr. Ravi Rs. 4,20,000
- (b) Long-term capital gains of Mr. Rajan Rs. 4,20,000; Long-term capital loss of Mr. Ravi Rs. 4,20,000
- (c) Long-term capital gains of Mr. Rajan Rs. 4,20,000; Long-term capital loss of Mr. Ravi Rs. 1,20,000
- (d) Long-term capital gains of Mr. Rajan Rs. 2,10,000; Long-term capital loss of Mr. Ravi Rs. 1,20,000

- D** 4. Mr. Vishal and Mr. Guha sold their residential house property in Pune for Rs. 3 crore and Rs. 4 crore, respectively, in January, 2024. The house property was purchased by them 25 months back. The indexed cost of acquisition is Rs. 1 crore and Rs. 1.75 crore, respectively. Mr. Vishal purchased two residential flats, one in Delhi and one in Agra for Rs. 70 lakhs and Rs. 80 lakhs, respectively, in April, 2024. On the same date, Mr. Guha also purchased two residential flats, one in Mumbai and the other in Pune, for Rs. 80 lakhs and Rs. 75 lakhs, respectively. Both of them invested Rs. 30 lakhs in bonds of NHAI in March, 2024 and Rs. 30 lakhs in bonds of RECL in April, 2024. What is the income taxable under the head "Capital Gains" for A.Y.2024-25 in the hands of Mr. Vishal and Mr. Guha?
- (a) Rs. 70 lakhs and Rs. 95 lakhs, respectively
 - (b) Rs. 60 lakhs and Rs. 85 lakhs, respectively
 - (c) Nil and Rs. 95 lakhs, respectively
 - (d) Nil and Rs. 20 lakhs, respectively

Q.	Ans.	Description
1	A	Refer sections 10(34A) and 115QA
2	D	Refer section 47
3	D	Refer section 55(2)(ac)
4	C	Refer sections 54 and 54EC

Income from Other Sources

- S** 1. Mr. Anjan, a property dealer, sold a flat in Mumbai, the stamp duty of which is Rs. 2 crores for Rs. 1.80 crores to his friend Mr. Ashwin, a college lecturer. Mr. Anjan had purchased the flat one year back for Rs. 1.50 crores and the stamp duty value on that date was also Rs. 1.50 crores. What are the tax implications of such sale?
- (a) Rs. 50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin
- (b) Rs. 50 lakhs would be taxable as business income in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin
- (c) Rs. 50 lakhs would be taxable as business income in the hands of Mr. Anjan and Rs. 20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin
- (d) Rs. 50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan and Rs. 20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin
- S** 2. P is a salaried employee. On 1.6.2023, he gets a gift of house property situated in Mumbai (stamp duty value Rs. 80,00,000) from Q. On 2.8.2023, P gets a gift of house property in a small town near Pune (stamp duty value Rs. 50,000) from R. On 3.9.2023, P also gets a gift of house property in a small town near Kanpur in Uttar Pradesh from R, the stamp duty value of which is Rs. 1,00,000. What will be the tax implications in the hands of P, Q and R, assuming that they are not related to each other?
- (a) Rs. 81,00,000 shall be chargeable to tax in the hands of P as income from other sources and capital gains shall arise in the hands of Q and R respectively on account of transfer of capital asset in Mumbai and Kanpur, respectively
- (b) Rs. 80,00,000 shall be chargeable to tax in the hands of P as income from other sources and capital gains shall arise in the hands of Q on account of transfer of capital asset in Mumbai
- (c) Rs. 81,00,000 shall be chargeable to tax in the hands of P as income from other sources and no capital gains shall arise in the hands of Q and R respectively as gift does not constitute "transfer"
- (d) Rs. 81,50,000 shall be chargeable to tax in the hands of P as income from other sources and no capital gains shall arise in the hands of Q and R respectively as gift does not constitute "transfer"

Q.	Ans.	Description
1	C	43CA and 56(2)(x)
2	C	47 and 56(2)(x)

Income of Other Persons included in Assessee's Total Income

- S 1. Mrs. Kavitha, wife of Mr. Sundar, is a partner in a firm. Her capital contribution of Rs. 5 lakhs to the firm as on 1.4.2023 included Rs. 3 lakhs contributed out of gift received from Sundar. On 2.4.2023, she further invested Rs. 1 lakh out of gift received from Sundar. The firm paid interest on capital of Rs. 60,000 and share of profit of Rs. 50,000 during the F.Y.2023-24. The entire interest has been allowed as deduction in the hands of the firm.
- Which of the following statements is correct?
- (a) Share of profit is exempt but interest on capital is taxable in the hands of Mrs. Kavitha
 - (b) Share of profit is exempt but interest of Rs. 40,000 is includible in the income of Mr. Sundar and interest of Rs. 20,000 is includible in the income of Mrs. Kavitha
 - (c) Share of profit is exempt but interest of Rs. 36,000 is includible in the income of Mr. Sundar and interest of Rs. 24,000 is includible in the income of Mrs. Kavitha
 - (d) Share of profit to the extent of Rs. 30,000 and interest on capital to the extent of Rs. 36,000 is includible in the hands of Mr. Sundar

Q.	Ans.	Description
1	C	Refer section 64(1)(iv)

Deductions from Gross Total Income

- S** 1. Gamma Ltd. has distributed on 30.6.2024, dividend of Rs. 130 lakhs to its shareholders. During the F.Y.2023-24, Gamma Ltd. has received dividend of Rs. 108 lakhs (Net of TDS) from domestic companies and Rs. 30 lakhs (gross) from a foreign company in which it has 5% shareholding. What is the deduction, if any, available to Gamma Ltd. in respect of such dividend?
- (a) Rs. 138 lakhs
 (b) Rs. 120 lakhs
 (c) Rs. 130 lakhs
 (d) Rs. 150 lakhs

- M** 2. Nikhil, an individual aged 35 years, incurs the following expenses for the benefit of his family (i.e., Self, Mrs. Nikhil and dependent children) and parents [father (80 years), mother (76 years)] during the previous year 2023-24:

Particulars	Medical insurance premium (by cheque) (Rs.)	Preventive health check-up expenditure (in cash) (Rs.)	Medical expenditure (by cheque) (Rs.)
For the benefit of his family	20,000	7,000	2,000
For the benefit of his father	Nil	Nil	32,000
For the benefit of his mother	6,000	Nil	Nil

What is the amount of deduction allowable u/s 80D to Nikhil for the A.Y. 2024-25 if he exercises the option to shift out of the default tax regime under section 115BAC?

- (a) Rs. 63,000
 (b) Rs. 55,000
 (c) Rs. 67,000
 (d) Rs. 65,000
- M** 3. In the P.Y.2023-24, Mr. Ganguly, a resident individual aged 60 years, earned income from profession (computed) Rs. 1,45,000, winnings from card games Rs. 1,50,000 (gross). He also has interest of Rs. 40,000 on fixed deposit with banks and Rs. 9,000 on savings account with bank. He deposited Rs.

1,50,000 in PPF. What is the total income of Mr. Ganguly for P.Y.2023-24, assuming that he exercises the option to shift out of the default tax regime under section 115BAC?

- (a) Rs. 1,45,000
- (b) Rs. 1,50,000
- (c) Rs. 1,85,000
- (d) Rs. 1,90,000

Q.	Ans.	Description
1	C	Refer section 80M
2	A	Section 80D
3	B	80TTB and 80C

Assessment of Various Entities

- S 1. Two tonnage tax companies X Ltd. and Y Ltd. are amalgamated to form a new tonnage company Z Ltd., a qualifying company and the option for tonnage tax scheme of X Ltd. has an unexpired period of 8 years and Y Ltd. has an unexpired period of 6 years. For what period the special provisions of Chapter XII-G relating taxation of income shipping companies would apply to the new company Z Ltd.?
- (a) 8 years
(b) 6 years
(c) 7 years
(d) 10 years
- S 2. Mr. Hari has income of Rs. 52 lakhs under the head "Profits and gains of business or profession". One of his businesses is eligible for deduction@100% of profits u/s 80-IA for A.Y.2024-25. The profit from such business included in the business income is Rs. 35 lakhs. What would be the tax liability (rounded off) of Mr. Hari for A.Y.2024-25, assuming that he has no other income during the P.Y.2023-24 and exercises the option to shift out of the default tax regime under section 115BAC?
- (a) Rs. 3,35,400
(b) Rs. 10,00,480
(c) Rs. 11,00,530
(d) Rs. 11,50,550

Q.	Ans.	Description
1	A	Refer section 115VY
2	C	Rs. 11,00,530

Assessment of Trusts & Institutions, Political Parties & Other Special Entities

- S 1. Dividend received by a real estate investment trust (REIT) from special purpose vehicle (SPV) and distributed to its unit holders is -
- (a) exempt in the hands of both the REIT and the unit holders unconditionally
 - (b) exempt in the hands of the REIT only if the SPV is a specified domestic company; taxable in the hands of unit holders only if SPV does not exercise option under section 115BAA
 - (c) exempt in the hands of the REIT; exempt in the hands of unit holders only if SPV does not exercise option under section 115BAA
 - (d) taxable in the hands of the REIT; exempt unconditionally in the hands of unit holders
- S 2. Kamala charitable trust, registered u/s 12AB, having its main object as medical relief, earned income of Rs. 2 lakhs as interest on bonds issued by local authority and agricultural income of Rs. 4 lakhs during the P.Y.2023-24. Which of the following statements is correct?
- (a) The trust has to apply such income for charitable purposes as per the provisions of section 11 to claim exemption in respect of such income.
 - (b) The trust can claim exemption u/s 10(1) and 10(15) in respect of its agricultural income and income from bonds of local authority, respectively, without applying such income for charitable purposes.
 - (c) The trust can claim exemption u/s 10(15) in respect of its interest income from bonds of local authority, without applying such income for charitable purposes. However, it cannot claim exemption u/s 10(1) in respect of agricultural income without applying such income for charitable purposes.
 - (d) The trust can claim exemption u/s 10(1) in respect of its agricultural income. However, exemption u/s 10(15) in respect of its interest income from bonds of local authority is not available if it is claiming the benefit of section 11 and 12.
- M 3. During the P.Y.2023-24, Sarvasewa, a charitable trust, made voluntary contributions, not being corpus donations, to -
- i) another charitable trust registered u/s 12AB out of its current year income derived from property held under trust
 - ii) an educational institution referred to in section 10(23C)(vi) out of its current year income derived from property held under trust

iii) another charitable trust registered u/s 12AB out of the accumulated income of the trust
Which of the above voluntary contributions are permitted as application of income for charitable purposes for A.Y.2024-25 under the provisions of the Income-tax Act, 1961?

- (a) None of the above
- (b) Only (i) above
- (c) (i) and (ii) above
- (d) (i) and (iii) above

- M 4. For the previous year ended 31.3.2024, a public charitable trust, registered under section 12AB, derived income of Rs. 10 lakhs from properties held under trust and Rs. 15 lakhs, being voluntary contributions from public, out of which Rs. 8 lakhs was applied for charitable purposes and Rs. 4 lakhs towards repayment of loan taken for construction of orphanage. The amount of Rs. 4 lakhs was not claimed as application in any earlier previous year. The total income of the trust for A.Y.2024-25 is -
- (a) Rs. 13,00,000
 - (b) Rs. 9,25,000
 - (c) Rs. 13,25,000
 - (d) Rs. 17,00,000

- D 5. Mr. B has been holding 10% units in Real Estate Investment Trust, 7.5% units in Securitisation Trust and 5% units in Investment Fund for more than 15 months. The following incomes were earned by the Trust/Fund during the P.Y. 2024-25:

Particulars	Investment Fund (Rs.)	Real Estate Investment Trust (Rs.)	Securitisation Trust (Rs.)
Rental Income from directly held real estate property	-	10,00,000	-
Interest income from Special Purpose Vehicle	-	8,00,000	-
Profit from Business	5,00,000	-	6,00,000
Other Income (not in the nature of dividend)	2,00,000	1,00,000	-
Long-term capital loss	(12,50,000)	-	-

What would be the total income of Mr. B for P.Y. 2023-24, assuming that apart from share in above income, Mr. B had only long-term capital gains of Rs. 2,70,000?

- (a) Rs. 4,42,500

- (b) Rs. 4,67,500
- (c) Rs. 4,52,500
- (d) Rs. 5,05,000

- D 6. A REIT has distributed Rs. 2 crore to its unitholders, which comprises of -
- i) Rental income from real estate property directly held by it Rs. 80 lakhs
 - ii) Interest income from special purpose vehicle Rs. 50 lakhs
 - iii) Dividend income from special purpose vehicle Rs. 40 lakhs
 - iv) Capital gains on disposal of assets Rs. 30 lakhs

In this case, the special purpose vehicle is an Indian company, A Ltd., in which REIT holds 100% of shares. A Ltd. does not exercise option to pay tax u/s 115BAA. Which of the following statements relating to taxability of the above income are correct?

1. All the above income are taxable in the hands of REIT. The said income are exempt in the hands of unit holders.
2. Only income referred to in (i) and (ii) are taxable in the hands of REIT. Income referred to in (iii) and (iv) are taxable in the hands of unit holders.
3. Only income referred to in (i) and (ii) are taxable in the hands of REIT. Income referred to in (iv) is taxable in the hands of unit holders. Income referred to in (iii) is exempt both in the hands of REIT and unitholders.
4. Only income referred to in (iv) is taxable in the hands of REIT. Income referred to in (i) and (ii) is taxable in the hands of unit holders. Income referred to in (iii) is exempt both in the hands of REIT and unitholders.
5. Tax is deductible by REIT from income referred to in (i) and (ii).
6. Tax is deductible by REIT from income referred to in (iii) and (iv).
7. Tax is deductible by REIT only from income referred to in (iv).
8. No tax is deductible by REIT since the entire income is taxable in its hands.

The correct option is -

- (a) (1) and (8) above
- (b) (2) and (6) above
- (c) (3) and (7) above
- (d) (4) and (5) above

Q. 7 to 11 - RTP May 24 Case Scenario :

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

- (i) The total receipts of the trust for the P.Y. 2023-24 for educational institution is ₹ 3.10 crores and for the hospital it is ₹ 3.40 crores.
- (ii) Voluntary contributions [included in (i) above] received for the P.Y. 2023-24 from the public amounted to ₹ 105 lakhs. It includes corpus donations of ₹ 55 lakhs (for purchase of building for the trust) and anonymous donations of ₹ 20 lakhs.
- (iii) During the P.Y. 2023-24, computers purchased for ₹ 80 lakhs out of
- Corpus fund mentioned in (ii) above ₹ 30 lakhs.
 - Loan - ₹ 25 lakhs
 - Voluntary contributions - ₹ 25 lakhs
- (iv) Corpus donations received during the current year are invested in -
- Post Office Savings Accounts ₹ 10 lakhs
 - Canara Bank as Fixed deposits ₹ 5 lakhs
 - Non-banking Financial Corporation (NBFC) ₹ 10 lakhs
- (v) Deposited ₹ 15 lakhs towards post office savings account which were utilised for purchase of building during the P.Y. 2020-21 and P.Y. 2021-22 out of corpus fund ₹ 10 lakhs and ₹ 5 lakhs, respectively.
- (vi) Amount paid to another trust registered u/s 12AB by way of donation of ₹ 10 lakhs. Out of the said amount ₹ 2 lakhs are given as corpus donations.
- (vii) ₹ 6 lakhs, being the amount set apart in the P.Y.2022-23 by the trust for charitable purposes u/s 11(2) utilized in the P.Y. 2023-24 for making donation to another charitable trust, whose object is also education.

From the information given above, choose the most appropriate answer to Q. 7 to Q. 11:

7. Seva Niketan wants to avail exemption under section 10(23C)(iiiad) and 10(23C)(iiiiae) in respect of educational institution and hospital for the P.Y. 2023-24. Can it do so?
- (a) Yes, it can do so since annual receipts for each activity do not exceed ₹ 5 crores.
- (b) No, it cannot do so since the trust is registered under section 12AB.
- (c) No, it cannot do so since aggregate receipts from education and hospital exceed ₹ 5 crores.
- (d) No, it cannot do so due to the reasons mentioned in (b) and (c) above.

8. What amount of corpus donations received by the trust would not form part of the total income of the P.Y. 2023-24?
- (a) ₹ 25 lakhs
 - (b) ₹ 40 lakhs
 - (c) ₹ 15 lakhs
 - (d) ₹ 55 lakhs
9. What would be the amount of "specified income" taxable@30% u/s 115BBI for the P.Y. 2023-24?
- (a) ₹ 30 lakhs
 - (b) ₹ 46 lakhs
 - (c) ₹ 48 lakhs
 - (d) ₹ 16 lakhs
10. What amount would be considered as application of the trust for the P.Y.2023-24 (excluding unconditional accumulation of 15%), assuming that it has fulfilled the relevant conditions stipulated under section 12A?
- (a) ₹ 36.8 lakhs
 - (b) ₹ 25 lakhs
 - (c) ₹ 38 lakhs
 - (d) ₹ 30 lakhs
11. Seva Niketan claims that anonymous donations received during F.Y. 2023-24 are not liable to be taxed under section 115BBC(1)(i). Is the claim of trust valid? If not, determine the tax leviable under section 115BBC.
- (a) No; ₹ 6,00,000
 - (b) No; ₹ 5,70,000
 - (c) Yes; the trust is not liable to pay tax under section 115BBC(1)(i)
 - (d) No; ₹ 4,42,500

Q.	Ans.	Description
1	C	exempt in the hands of the REIT; exempt in the hands of unit holders only if SPV does not exercise option under section 115BAA
2	D	Refer section 11(7)
3	C	Refer section 11
4	B	Refer Chapter 10
5	A	Rs. 4,42,500
6	D	Refer taxability of REIT
7	C	No, it cannot do so since aggregate receipts from education and hospital exceed ₹ 5 crores.
8	C	₹ 15 lakhs
9	B	₹ 46 lakhs
10	A	₹ 36.8 lakhs
11	D	No; ₹ 4,42,500

Taxation of Digital Transactions

- M 1. ABC & Co. and PQR & Co. are two non-resident entities based in Country A and Country P, respectively. Both the entities own and operate an electronic facility through which they effect online sale of organic products manufactured by them. The details of their receipts from such sale during the P.Y.2023-24 are -

	Particulars	ABC & Co., Country A	PQR & Co., Country P
(a)	Receipts from sale of organic products to persons resident in India	Rs. 138 lakhs	Rs. 126 lakhs
(b)	Receipts from sale of organic products to persons resident in other parts of the world	Rs. 285 lakhs	Rs. 377 lakhs
	Out of the sum mentioned in (b), the receipts from persons using internet protocol address located in India	Rs. 63 lakhs	Rs. 73 lakhs

Is equalisation levy attracted in the hands of ABC & Co. and PQR & Co., assuming that both the entities do not have a permanent establishment in India?

- (a) Equalisation levy is attracted in the hands of both ABC & Co. and PQR & Co.
- (b) No equalisation levy is attracted in the hands of either ABC & Co. and PQR & Co.
- (c) Equalisation levy is attracted in the hands of ABC & Co. but not PQR & Co.
- (d) Equalisation levy is attracted in the hands of PQR & Co. but not ABC & Co.

- M 2. Mr. Rajesh, a resident Indian, is an employee of M/s. ABC Ltd., Bangalore. In addition to the salary income from M/s. ABC Ltd., he also earns interest from fixed deposits. M/s. PQR Inc., a foreign company not having permanent establishment in India, whose gross receipts are equivalent to Rs. 1.80 crores, rendered online advertisement services to Mr. Rajesh, for which Mr. Rajesh made a payment of Rs. 2 lakhs in the F.Y.2023-24.

- (i) The transaction is subject to equalisation levy since payment exceeding Rs. 1 lakh has been made for online advertisement services.
- (ii) The transaction is subject to equalisation levy since payment is made by a resident to a non-resident not having permanent establishment in India.
- (iii) Equalisation levy has to be deducted and paid by Mr. Rajesh.

- (iv) Equalisation levy has to be paid by M/s ABC Ltd.
- (v) The rate of equalization levy is 6%.
- (vi) The rate of equalisation levy is 2%.
- (vii) The transaction is not subject to equalization levy.

Which of the statements is correct?

- (a) (i), (ii), (iii) and (v)
- (b) (i), (ii), (iv) and (vi)
- (c) (i), (ii), (iv) and (v)
- (d) Only (vii)

Q.	Ans.	Description
1	C	Refer section 165A of the Finance Act, 2016
2	D	Refer sections 165 and 165A of the Finance Act, 2016

Deduction, Collection & Recovery of Tax (TDS, TCS)

- S** 1. Mr. Vallish, employed as Manager with ABC Ltd., pays rent of Rs. 50,000 per month to his landlord. Which of the following statements is correct?
- (a) Mr. Vallish is liable to deduct tax@10% u/s 194-I, since his annual rent exceeds Rs. 2,40,000
 - (b) Mr. Vallish is liable to deduct tax@5% u/s 194-IB every month, since he pays rent of Rs. 50,000 per month
 - (c) Mr. Vallish is liable to deduct tax@5% u/s 194-IB on the annual rent in the month of March, since he pays rent of Rs. 50,000 per month
 - (d) Mr. Vallish is not liable to deduct tax at source
- M** 2. Kunal & Co LLP engaged in manufacturing business withdrew from its bank account Rs. 125 lakhs by cash (each individual withdrawal does not exceed Rs. 2 lakhs) in the P.Y.2023-24. The purpose of withdrawal from bank was for buying agricultural produce, being raw material required for manufacture for finished products by it. Kunal & Co LLP always files its return of income before the due date. Are TDS provisions applicable on such withdrawals? If yes, what is the amount of tax to be deducted?
- (a) No; TDS provisions are not attracted
 - (b) Yes; Tax of Rs. 50,000 is required to be deducted
 - (c) Yes; Tax of Rs. 1,25,000 is required to be deducted
 - (d) Yes; Tax of Rs. 2,10,000 is required to be deducted
- M** 3. ABC Ltd. took on sub-lease a building from Ms. Jhanvi with effect from 1.7.2023 on a rent of Rs. 20,000 per month. It also took on hire machinery from Ms. Jhanvi with effect from 1.10.2023 on hire charges of Rs. 15,000 per month. ABC Ltd. entered into two separate agreements with Ms. Jhanvi for sub-lease of building and hiring of machinery. Which of the following statements is correct with reference to ABC Ltd.'s liability to deduct tax at source, assuming that one-month's rent was received as security deposit, which is refundable at the end of the lease period?
- (a) No tax needs to be deducted at source since rent for building does not exceed Rs. 2,40,000 p.a. and rent for machinery also does not exceed Rs. 2,40,000 p.a. Security deposit refundable at the end of the lease term is not rent for the purpose of TDS
 - (b) Tax has to be deducted@10% on Rs. 2,00,000 and @2% on Rs. 1,05,000 (i.e., rent including security deposit)
 - (c) Tax has to be deducted@10% on Rs. 1,80,000 and @2% on Rs. 90,000 (i.e., rent excluding security deposit)

(d) Tax has to be deducted@10% on Rs. 2,00,000 (i.e., rent including security deposit). However, no tax is to be deducted on rent of Rs. 1,05,000 (i.e., rent including security deposit) for machinery, since the same does not exceed Rs. 1,80,000

- D 4. Mr. Hari is an interior decorator declaring profits under 44ADA in the P.Y.2023-24 and the earlier previous years. Mr. Hari has to pay brokerage of Rs. 10 lakhs to Mr. Lal, a broker, to buy a residential house, and Rs. 50 lakhs to Mr. Shyam, a contractor for reconstruction of the residential house. Are TDS provisions attracted in the hands of Mr. Hari in respect of the above transactions?
- (a) No; TDS provisions are not attracted in the hands of Mr. Hari in respect of payments to Mr. Lal and Mr. Shyam
- (b) Yes; Mr. Hari has to deduct tax from payment to Mr. Lal and Mr. Shyam
- (c) Mr. Hari does not have to deduct tax on payment to Mr. Lal but has to deduct tax from payment to Mr. Shyam
- (d) Mr. Hari does not have to deduct tax on payment to Mr. Shyam but has to deduct tax from payment to Mr. Lal
- D 5. Mr. Sanjay, a salaried individual, pays brokerage of Rs. 40 lakhs to Mr. Harish, a broker, on 5.1.2024 to buy a residential house. His father, Mr. Hari, a retired pensioner, makes contract payments of Rs. 15 lakhs, Rs. 25 lakhs and Rs. 12 lakhs on 28.9.2023, 3.11.2023 and 15.2.2024 to Mr. Rajeev, a contractor, for reconstruction of residential house. With respect to the above payments made by Mr. Sanjay and Mr. Hari, which of the following statements is correct?
- (a) Neither Mr. Sanjay nor Mr. Hari is required to deduct tax at source, since they are not subject to tax audit, on account of being a salaried individual and pensioner, respectively
- (b) Both Mr. Sanjay and Mr. Hari 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. Sanjay is required to deduct tax at source but Mr. Hari is not required to deduct tax at source
- (d) Mr. Hari is required to deduct tax at source but Mr. Sanjay is not required to deduct tax at source

Q. 6 to 10 - Case Scenario :

Mr. Subhash is a retailer of car spare parts. He started his business in May, 2022. His turnover for the P.Y. 2022-23 was Rs. 10.50 crores. He generally purchases goods from Car accessories & Co. only. Car accessories & Co. manufacturers and sells spare parts directly to the customers as well as through an e-

commerce platform - CarParts.com. Car accessories & Co.'s turnover from the business for the P.Y. 2022-23 was Rs. 15 crores.

The relevant information of purchases made by Mr. Subhash in P.Y. 2023-24 is given hereunder:

Date of credit to account of Car accessories & Co.	Date of Payment to Car accessories & Co.	Value of spare parts without GST (Rs.)	GST @18% (Rs.)	Total value of spare parts/ payment (Rs.)
15.05.2023	02.06.2023	45,00,000	8,10,000	53,10,000
18.06.2023	30.06.2023	15,00,000	2,70,000	17,70,000
28.08.2023	17.08.2023	21,50,000	3,87,000	25,37,000
14.02.2024	28.02.2024	10,50,000	1,89,000	12,39,000

In addition to the above, Mr. Subhash also purchased spare parts of Car accessories & Co. for Rs. 12,00,000 inclusive of GST@18% through CarParts.com on 31.12.2023. The payment was made directly to Car accessories & Co. on 15.1.2024. PAN is duly furnished by Mr. Subhash, Car accessories & Co. and CarParts.com. The GST portion is indicated separately in the invoice of Car accessories & Co. but it is not shown separately when the goods are purchased through CarParts.com.

Based on the above facts, choose the most appropriate answer to Q. NO. 6 to 10 -

6. Is Mr. Subhash required to deduct tax at source in respect of the purchase transactions made directly with Car accessories & Co. If yes, when and what is the amount of tax to be deducted?
- (a) Yes; Rs. 1,000 on 18.06.2023, Rs. 2,537 on 17.08.2023 and Rs. 1,050 on 14.02.2024
 (b) Yes; Rs. 2,537 on 17.08.2023 and Rs. 1,050 on 14.02.2024
 (c) Yes; Rs. 1,000 on 18.06.2023, Rs. 2,150 on 17.08.2023 and Rs. 1,050 on 14.02.2024
 (d) No, Mr. Subhash is not liable to deduct tax at source
7. Is Car accessories & Co. required to collect tax at source in respect of the sale transactions with Mr. Subhash. If yes, when and what is the amount of tax to be collected?
- (a) Yes; Rs. 1,000 on 30.06.2023, Rs. 2,150 on 17.08.2023 and Rs. 1,050 on 28.02.2024
 (b) Yes; Rs. 310 on 2.06.2023, Rs. 1,770 on 30.06.2023, Rs. 2,537 on 17.08.2023 and Rs. 1,239 on 28.02.2024
 (c) Yes; Rs. 310 on 2.06.2023
 (d) No, Car accessories & Co. is not liable to collect tax at source

8. Assume that Mr. Subhash has started the retail business of car spare parts in May, 2023. In such case, would the answer of MCQ 6 and 7 be different? If yes, what would be the answer of MCQ 1 and 2?
- (a) No, the answer of MCQ 6 and 7 would be the same
 (b) Yes, the answer of MCQ 6 would change to (d) but the answer of MCQ 7 would be the same
 (c) Yes, the answer of MCQ 6 would change to (d) and the answer of MCQ 7 would change to (b)
 (d) Yes, the answer of MCQ 6 would change to (d) and the answer of MCQ 7 would change to (a)
9. Are the provisions of tax deduction/ collection at source attracted in respect of the transactions with CarParts.com? If yes, who has to deduct/ collect tax at source and at what rate?
- (a) Mr. Subhash is required to deduct tax at source on Rs. 12 lakhs @0.1%.
 (b) Car accessories & Co. is required to collect tax at source on Rs. 12 lakhs @0.1%
 (c) CarParts.com is required to deduct tax at source on Rs. 12 lakhs @0.1%
 (d) CarParts.com is required to deduct tax at source on Rs. 12 lakhs @1%
10. If Mr. Subhash has not furnished his PAN to Car accessories & Co. but has furnished his Aadhar number, what would be the rate of TCS for the purpose of MCQ 2.
- (a) 5%
 (b) 1%
 (c) 0.1%
 (d) Car accessories & Co. is not liable to collect tax at source
11. ABC bank provides the following information relating to cash withdrawals by its two customers during the P.Y.2023-24:

Date of cash withdrawal	Mr. Arjun (Savings Account) (₹)	XYZ Co-operative Society (Current Account) (₹)
12.04.2023	20,00,000	-
9.05.2023	-	68,00,000
15.06.2023	25,00,000	-
19.07.2023	-	85,00,000
18.10.2023	35,00,000	-
5.11.2023	-	88,00,000
22.12.2023	25,00,000	-
03.01.2024	-	57,00,000

Co-operative society regularly files its return of income However, Mr. Arjun has not filed his return of income for the last three years. Would cash withdrawals by Mr. Arjun and XYZ Co-operative society

during the P.Y. 2023-24 attract deduction of tax at source? If yes, how much tax would be deductible by ABC bank. **(RTP May 2024 MCQ)**

- (a) Yes; ₹ 1,85,000 and ₹ 3,96,000, respectively
- (b) Yes; ₹ 1,85,000 and ₹ 5,56,000, respectively
- (c) Yes; ₹ 10,000 and ₹3,96,000, respectively
- (d) ₹ 1,85,000 in respect of cash withdrawals by Mr. Arjun and no tax is required to be deducted from cash withdrawals by the co-operative society.

Q.	Ans.	Description
1	D	Refer section 194-IB
2	B	Refer section 194N
3	C	Refer section 194-I
4	A	Refer section 194M
5	D	Refer section 194M
6	A	TDS u/s 194Q would be applicable in the hands of Mr. Subhash since his turnover exceeds Rs. 10 crore in P.Y. 2022-23. TDS u/s 194Q would be applicable from 18.6.2023 when purchases exceeds Rs. 50 lakhs. TDS would be deducted at the time of credit or payment whichever is earlier. When TDS is deductible at the time of credit, it will be deducted on amount of purchase excluding GST since shown separately. When TDS is deductible at the time of payment, it will be deducted on the amount of payment.
7	C	TCS under section 206C(1H) would be applicable since Car accessories & Co. turnovers of P.Y. 2022-23 exceeds Rs. 10 crore. TCS would be applicable on first transaction on 2.6.2023 since payment exceeds Rs. 50 lakhs. Regarding other transactions, in case of applicability of both TDS u/s 194Q and TCS u/s 206C(1H), TDS u/s 194Q would be deducted by the buyer.
8	C	Section 194Q would not be applicable in the year of incorporation. Accordingly, TCS under section 206C(1H) would be collectible by the seller at the time of receipt.
9	D	Refer section 194-O
10	C	Section 206CC would not be applicable since Aadhar number is furnished by Mr. Subhash
11	D	₹ 1,85,000 in respect of cash withdrawals by Mr. Arjun and no tax is required to be deducted from cash withdrawals by the co-operative society.

Note: Some MCQs containing Topic of TDS, TCS are covered in Case scenario 1 & 2 and RTP May 24 MCQs (Refer that from page 50-57)

Income tax Authorities

- S** 1. In the course of search operations under section 132 in the month of May, 2023, Mr. Aakash makes a declaration under section 132(4) on the earning of income not disclosed in respect of P.Y. 2022-23. He also explains the manner in which he has derived such income and he pays the tax together with interest on such income and declares such income in the return of income filed by him in the month of July, 2023. Is penalty leviable in this case? If so, how much?
- (a) No penalty is attracted since Mr. Aakash has voluntarily made a declaration under section 132(4)
 - (b) Yes; Penalty@10% of undisclosed income would be attracted even if Mr. Aakash has voluntarily made a declaration under section 132(4)
 - (c) Yes; Penalty@30% of undisclosed income would be attracted even if Mr. Aakash has voluntarily made a declaration under section 132(4)
 - (d) Yes; Penalty@60% of undisclosed income would be attracted even if Mr. Aakash has voluntarily made a declaration under section 132(4)
- S** 2. In the course of search operations under section 132 in May, 2024, Mr. Hari makes a declaration under section 132(4) on the earning of income in respect of P.Y.2023-24 not disclosed in the books of account. Mr. Hari explains the manner in which income was derived and pays the tax, together with interest in respect of such income. However, he does not disclose such income in his return of income filed on 31.7.2024. Is penalty leviable in this case, and if so, what is the quantum of penalty?
- (a) No penalty is leviable since Mr. Hari has made a declaration under section 132(4)
 - (b) Yes; penalty@10% is leviable
 - (c) Yes; penalty@30% is leviable
 - (d) Yes; penalty@60% is leviable
- M** 3. Which of the following statements are correct in relation to the power of an income-tax authority to collect information which may be useful for the purposes of the Income-tax Act, 1961?
- i) The income-tax authority can enter the place of business of the assessee only after sunrise and before sunset.
 - ii) The income-tax authority may enter the place of business only during the hours at which such place is open for conduct of business.
 - iii) The income-tax authority may impound and retain in his custody, for a period not exceeding 15 days, books of account or other documents inspected by him. If he wishes to retain for a period exceeding 15 days, he has to take the prior approval of Principal Chief Commissioner or Chief Commissioner.

iv) The income-tax authority can on no account remove or cause to be removed from the building or place he has entered any books of account or other documents.

The correct answer is -

- (a) (i) and (iii)
- (b) (i) and (iv)
- (c) (ii) and (iii)
- (d) (ii) and (iv)

M

4. The Assessing Officer within his jurisdiction surveyed a popular Cyber Café at 1 a.m. in night for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. The Cyber Café is kept open for business every day between 2 p.m. and 2 a.m. He impounded and retained in his custody, books of account and other documents inspected by him, after recording his reasons for doing so, for 12 days. Which of the following statements is correct?

- (a) The Assessing Officer's action in entering the cybercafé at 1 a.m. and impounding books of account and documents inspected by him is in order
- (b) The Assessing Officer's action in entering the cyber café at 1 a.m. is not in order, since he can enter the cyber café only after sunrise but before sunset
- (c) The Assessing Officer's action in entering the cyber café at 1 a.m. and in impounding books of account and documents inspected by him are not in order, since he can enter the cyber café only after sunrise but before sunset and he does not have the power to impound books of account under section 133B
- (d) The Assessing Officer's action in entering the cyber café at 1 a.m. is in order but impounding books of account and documents inspected by him is not in order, since he does not have the power to impound books of account under section 133B

Q.	Ans.	Description
1	C	Refer section 271AAB
2	D	Refer section 271AAB
3	D	Refer section 133B
4	A	Refer section 133A

Assessment Procedure

- S** 1. Who among the following is not mandated to file the return of income under section 139 for A.Y. 2024-25?
- (a) XYZ Pvt. Ltd., having incurred a loss of Rs. 1,50,000 during the year.
 - (b) Mr. Manohar, aged 66 years, having a total income of Rs. 3,50,000 before deduction under section 80C of Rs. 1,50,000.
 - (c) Mr Jay, who travelled to Dubai during the year, spent Rs. 4,50,000 on his travel and hotel stay.
 - (d) Ms Mona, a non-resident having assets worth Rs. 2 crores in India and Rs. 5 crores outside India. She has not earned or received any income in India.
- S** 2. Which of the following cannot be adjusted in computation of total income while processing the return of income for A.Y. 2024-25 under section 143(1)?
- (a) any arithmetical error in the return
 - (b) an incorrect claim apparent from any information in the return
 - (c) disallowance of expenditure indicated in the audit report but not taken into account in computing total income in the return
 - (d) addition of income appearing in Form 26AS which has not been included in computing total income in the return
- M** 3. Mr. Ram, born on 1.4.1964, has a gross total income of Rs. 2,90,000 for A.Y.2024-25 comprising of his salary income. He does not claim any deduction under Chapter VI-A. He pays electricity bills of Rs. 10,000 per month. He visited to Melbourne along with his wife for a month in February, 2024 for which he incurred to and fro flight charges of Rs. 1.20 lakhs. The remaining expenditure for his visa, stay and sightseeing amounting to Rs. 80,000 was met by his son residing in Melbourne. Is Mr. Ram required to file return of income for A.Y.2024-25, and if so, why?
- (a) No, Ram is not required to file his return of income
 - (b) Yes, Ram is required to file his return of income, since his gross total income/total income exceeds the basic exemption limit
 - (c) Yes, Ram is required to file his return of income since he pays electricity bills of Rs. 10,000 per month, which exceeds the prescribed annual threshold
 - (d) Yes, Ram is required to file his return of income since he has incurred foreign travel expenditure exceeding Rs. 1 lakh

- D** 4. Mayank, aged 50 years, sold his residential house for Rs. 30 lakhs during the previous year 2020-21, whereas the stamp duty value of the same was Rs. 38 lakhs. He computed a long-term capital gain of Rs. 5 lakhs by taking the full value of consideration as Rs. 30 lakhs and paid tax accordingly by filing his return of income under section 139(1). During the previous year 2023-24, he wants to correct the full value of consideration by filing an updated return under section 139(8A) for A.Y. 2021-22. In this case, what would be the additional tax liability (ignore interest) as per section 140B? (Assume that capital gain was the only income of Mayank for A.Y. 2021-22).
- (a) Rs. 57,200
 (b) Rs. 83,200
 (c) Rs. 1,66,400
 (d) Rs. 1,14,400
- D** 5. A survey is conducted u/s 133A in the premises of Mr. Aarav and a search is conducted u/s 132 in the premises of his friend, Mr. Arjun, on 1.5.2023. The Assessing Officer issued notices under section 148 for A.Y. 2021-22, A.Y.2022-23 and A.Y. 2023-24 to Mr. Aarav and Mr. Arjun. However, such notices were not accompanied by the copy of an order passed under section 148A. Is the action of the Assessing Officer in issuing such notices under section 148 to Mr. Aarav and Mr. Arjun valid?
- (a) No; the action of the Assessing Officer in issuing such notices under section 148 is not valid in both cases.
 (b) Yes; the action of the Assessing Officer in issuing such notices under section 148 is valid in both cases.
 (c) Yes, the action of the Assessing Officer in issuing such notice under section 148 is valid in the case of Mr. Arjun, but not in the case of Mr. Aarav.
 (d) Yes, the action of the Assessing Officer in issuing such notice under section 148 is valid in the case of Mr. Aarav, but not in the case of Mr. Arjun.

Q.	Ans.	Description
1	D	Refer section 139(1)
2	D	Refer section 143(1)
3	C	Refer seventh proviso to section 139(1)
4	B	Refer section 140B(3)
5	C	Refer section 148

Appeals & Revision

- S** 1. Mr. Rajesh is aggrieved by an order passed by the Commissioner of Income-tax imposing penalty under section 270A for under-reporting of income.
What is the appellate remedy available to him under the Income-tax Act, 1961 and the specified time limit within which he has to file an appeal?
- (a) He can file an appeal to Commissioner (Appeals) u/s 246A within 30 days from the date on which the order is communicated to him
 - (b) He can file an appeal to Commissioner (Appeals) u/s 246A within 60 days from the date on which the order is communicated to him
 - (c) He can file an appeal to Appellate Tribunal u/s 253 within 30 days from the date on which the order is communicated to him
 - (d) He can file an appeal to Appellate Tribunal u/s 253 within 60 days from the date on which the order is communicated to him
- S** 2. Which of the following orders is not appealable before Commissioner (Appeals)?
- (a) An order of penalty under section 271B for failure to get accounts audited
 - (b) An order made under section 163 treating the assessee as an agent of a non-resident
 - (c) An order of assessment passed by the Assessing Officer in pursuance of directions of Dispute Resolution Panel
 - (d) An order made under section 201 deeming a person to be an assessee-in-default for non-deduction of tax at source
- M** 3. The assessment of M/s. Epsilon Associates for A.Y.2023-24 was made u/s 143(3) on 28th December, 2024. The Assessing Officer added Rs. 3 lakh being 30% of Rs. 10 lakh, for non-deduction of tax at source and Rs. 4 lakh on account of unexplained investments. The assessee contested the addition on account of unexplained investments in appeal before Commissioner (Appeals). The appeal was decided against the assessee in June, 2025.
What is remedy available to the assessee in respect of disallowance under section 40(a)?
- (a) The assessee can file an application for revision to the Commissioner under section 264
 - (b) The assessee can file an application for rectification under section 154, if it is a mistake apparent from the record
 - (c) The assessee can opt for either (a) or (b)
 - (d) The assessee can neither opt for remedy stated in (a) nor for remedy stated in (b)

- M 4. Which of the following orders can be revised by the Principal Commissioner under section 263, where such order is erroneous in so far as it is prejudicial to the interests of the Revenue?
- i) An order passed by the Assessing Officer enhancing or modifying the assessment or cancelling the assessment and directing a fresh assessment
 - ii) An order modifying the order passed by the Transfer Pricing Officer under section 92CA or cancelling the said order and directing a fresh order
- What is the time limit for revision under section 263?

The correct answer is -

- (a) Only (i) above; the time limit for revision is 2 years from the end of the financial year in which such order was passed.
- (b) Only (ii) above; the time limit for revision is 3 years from the end of the financial year in which such order was passed.
- (c) Both (i) and (ii); the time limit for revision is 2 years from the end of the financial year in which such order was passed.
- (d) Both (i) and (ii); the time limit for revision is 3 years from the end of the financial year in which such order was passed.

- M 5. Mr. X is aggrieved by an order passed under section 143(3) by the Assessing Officer. Mr. Y is aggrieved by an order passed under section 272A by the Director General. What is the remedy available to Mr. X and Mr. Y and the time limit within which they should exercise the remedy?
- (a) Both Mr. X and Mr. Y have to file an appeal before Commissioner (Appeals) u/s 246A within 30 days of the date on which the order sought to be appealed against is communicated to them
 - (b) Both Mr. X and Mr. Y have to file an appeal before the Appellate Tribunal u/s 253 within 60 days of the date on which the order sought to be appealed against is communicated to them
 - (c) Mr. X has to file an appeal u/s 246A before Commissioner (Appeals) within 30 days of the date of service of the notice of demand relating to the assessment. Mr. Y has to file an appeal u/s 253 before the Appellate Tribunal within 60 days of the date on which the order sought to be appealed against is communicated to him
 - (d) Mr. Y has to file an appeal before Commissioner (Appeals) u/s 246A within 60 days of the date on which the order sought to be appealed against is communicated to him. Mr. X has to file an appeal u/s 253 before the Appellate Tribunal within 30 days of the date of service of the notice of demand relating to the assessment

Q.	Ans.	Description
1	D	Refer section 253
2	C	Refer section 246A
3	B	The assessee can file an application for rectification under section 154, if it is a mistake apparent from the record
4	C	Refer section 263
5	C	Refer sections 246A and 253

Chapterwise Marks Trend Analysis:

https://t.me/Divyesh_Vaghela/725

ICAI Actual Exam MCQs with solution:

https://t.me/Divyesh_Vaghela/243

Dispute Resolution

- D 1. Which of the following is not a specified order in relation to a dispute under section 245MA?
- i) Assessment order based on search initiated under section 132
 - ii) Assessment order in the case of survey carried out under section 133A
 - iii) Assessment order on the basis of information received under an agreement referred to in section 90 or 90A

The correct answer is -

- (a) Only (i) above
- (b) (i) and (ii) above
- (c) (i) and (iii) above
- (d) (i), (ii) and (iii) above

- D 2. Who amongst the following has not satisfied the specified condition for making an application before the Dispute Resolution Committee?
- i) Mr. X , who is convicted of an offence punishable under the Prohibition of Benami Transactions Act, 1988
 - ii) Mr.Y, who is convicted of any offence punishable under the Income-tax Act, 1961
 - iii) Mr. Z, in respect of whom proceedings under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 have been initiated for the assessment year for which resolution of dispute is sought
 - iv) Mr. A, in respect of whom penalty under section 271D has been levied for failure to comply with the provisions of section 269SS of the Income-tax Act, 1961

The correct answer is -

- (a) Mr. Y and Mr. A
- (b) Mr. X and Mr. Y
- (c) Mr. X, Mr. Y and Mr. A
- (d) Mr. X, Mr. Y and Mr. Z

Q.	Ans.	Description
1	D	Refer section 245MA read with Rule 44DAD
2	D	Refer section 245MA

Miscellaneous Provisions

- S** 1. The Assessing Officer imposed penalty of Rs.50 lakhs under section 271AAD on Mr. Rajesh. Can he provisionally attach the property of Mr. Rajesh to protect the interest of the Revenue?
- (a) No, he cannot do so
 - (b) Yes, he can do so in the manner provided in the Second Schedule
 - (c) Yes, he can do so with the prior approval of the prescribed higher authorities
 - (d) Yes, he can do so in the manner provided in the Second Schedule with the prior approval of the prescribed higher authorities
- S** 2. For raising money from the public ABC Ltd. issued 10 lakh equity shares of Rs.100 each. During the P.Y.2023-24, it received share application money of Rs.2 lakhs from Mr. V, Rs.5 lakhs from Mr. W, Rs.8 lakhs from Mr. X, Rs.10 lakhs from Mr. Y and Rs.12 lakhs from Mr. Z, in addition to amounts of less than Rs.1 lakh from other applicants.
- Which of the above receipts is the company required to report in its statement of financial transaction?
- (a) Only Rs.12 lakhs from Mr. Z
 - (b) Only Rs.10 lakhs from Mr. Y and Rs.12 lakhs from Mr. Z
 - (c) Rs.5 lakhs from Mr. W, Rs.8 lakhs from Mr. X, Rs.10 lakhs from Mr. Y and Rs.12 lakhs from Mr. Z
 - (d) Rs.2 lakhs from Mr. V, Rs.5 lakhs from Mr. W, Rs.8 lakhs from Mr. X, Rs.10 lakhs from Mr. Y and Rs.12 lakhs from Mr. Z
- S** 3. Can the Assessing Officer accept bank guarantee in lieu of provisional attachment of property by an order in writing?
- (a) No, he cannot do so
 - (b) Yes, he can do so with the prior approval of the Principal Chief Commissioner or Chief Commissioner
 - (c) Yes, he can do so where the assessee furnishes a guarantee from a scheduled bank, for an amount not less than the fair market value of such provisionally attached property or for an amount which is sufficient to protect the interests of the revenue.
 - (d) Yes, he can do so where the assessee furnishes a guarantee from a bank, for an amount not less than the stamp duty value of such provisionally attached property or for an amount which is sufficient to protect the interests of the revenue.
- M** 4. Which of the following transactions should a bank report in its statement of financial transaction?

- i) Cash payment in aggregate of Rs. 6 lakh by Mr. X for purchase of bank drafts during the F.Y. 2023-24
- ii) Cash deposits aggregating to Rs. 26 lakhs by Mr. Y in his current account during the F.Y.2023-24
- iii) Cash deposits aggregating to Rs.12 lakhs by Mr. Z in his savings bank account during the F.Y.2023-24
- iv) Withdrawals of Rs. 55 lakhs through bearer cheque by Mr. A from his current account during the F.Y.2023-24
- v) Credit card payment of Rs.12 lakh during F.Y.2023-24 made by Mr. B by account payee cheque
- vi) Credit card payment of Rs. 80,000 made by cash during F.Y.2023-24 by Mr. C

The correct answer is -

- (a) (ii), (iv) and (vi)
- (b) (iii), (iv) and (v)
- (c) (ii), (iii), (iv) and (vi)
- (d) (i), (ii), (iv) and (vi)

D 5. ABC (P) Ltd. engaged in trading goods availed the following interest-free loans from XYZ (P) Ltd. -

- i. Rs.8 lakh by ECS through bank account on 10.4.2023
- ii. Rs.18,000 by cash on 18.8.2023
- iii. Rs.12,000 by cash on 19.9.2023

During the year, ABC (P) Ltd. repaid the following loans to XYZ(P) Ltd. -

- i) Rs.6 lakh by account payee cheque on 15.6.2023
- ii) Rs.50,000 by cash on 3.7.2023
- iii) Rs.1,50,000 by ECS through bank account on 3.8.2023
- iv) Rs.15,000 by cash on 1.9.2023
- v) Rs.15,000 by cash on 1.10.2023

What is the amount of penalty leviable on ABC (P) Ltd. for availing and repaying loan in cash?

- (a) Rs.30,000 under section 271D and Rs.80,000 under section 271E
- (b) Rs.18,000 under section 271D and Rs. 50,000 under section 271E
- (c) Rs.12,000 under section 271D and Rs.80,000 under section 271E
- (d) Rs.50,000 under section 271E

Q.	Ans.	Description
1	A	Refer section 281B
2	B	Refer section 285BA read with Rule 114E
3	C	Refer section 281B
4	B	Refer section 285BA read with Rule 114E
5	D	Refer sections 269, 269T and 271E

Provisions to Counteract Unethical Tax Practices (Penalty, Offences & Prosecution, Black Money Law)

- S** 1. Mr. Mahesh is found to be the owner of two gold chains of 50 gms each (value of which is Rs. 1,45,000 each) during the financial year ending 31.3.2024 which are not recorded in his books of account and he could not offer satisfactory explanation for the amount spent on acquiring these gold chains. As per section 115BBE, Mr. Mahesh would be liable to pay tax of -
- (a) Rs. 1,80,960
 - (b) Rs. 2,26,200
 - (c) Rs. 90,480
 - (d) Rs. 1,23,958
- S** 2. Dinesh, a resident individual of age of 47 years, has not furnished his return of income for the A.Y. 2024-25. However, his total income for such year as assessed u/s 144 is Rs. 18 lakhs. Is penalty under section 270A attracted and if so, what is the quantum of penalty?
- (a) No; penalty under section 270A is not attracted since he has not filed his return of income, hence, this is not a case of underreporting or misreporting of income.
 - (b) Yes; penalty is Rs. 3,66,600
 - (c) Yes; penalty is Rs. 1,24,800
 - (d) Yes; penalty is Rs. 1,83,300
- M** 3. Mr. Ganesh and Mr. Rajesh, resident Indians born on 1.7.1963 and 1.4.1944, respectively, have not furnished their returns of income for the P.Y.2023-24. However, the total income assessed in respect of such year under section 144 is Rs. 8 lakhs and Rs. 5 lakhs, respectively. Is penalty leviable under section 270A, and if so, what is the quantum of penalty?
- (a) No penalty is leviable under section 270A in the hands of either Mr. Ganesh or Mr. Rajesh
 - (b) Penalty of Rs. 37,400 leviable in the hands of Mr. Ganesh; No penalty leviable in the hands of Mr. Rajesh
 - (c) Yes; Rs. 36,400 and Rs. 6,500, respectively
 - (d) Penalty of Rs. 18,200 leviable in the hands of Mr. Ganesh; No penalty leviable in the hands of Mr. Rajesh
- D** 4. Mr. Arvind acquired a flat in Country "P" in the P.Y.2018-19 for Rs. 50 lakhs. Out of the said sum, Rs. 20 lakhs was assessed to tax in total income of the P.Y.2018-19 and earlier years. This asset comes

to the notice of the Assessing Officer in the previous year 2023-24. If the value of the flat on 1.4.2023 is Rs. 90 lakhs, the amount chargeable to tax under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 in the year 2023-24 would be:

- (a) Rs. 90 lakhs
- (b) Rs. 70 lakhs
- (c) Rs. 54 lakhs
- (d) Rs. 30 lakhs

- D 5. Mr. Arvind opened a bank account in Country "P" on 1.7.2020. He has made deposits of foreign currency equivalent to Rs. 5 lakhs on 1.7.2020, Rs. 7 lakhs on 1.10.2020, Rs. 12 lakhs on 1.9.2022 and Rs. 25 lakhs on 1.3.2024, in that bank, out of Indian income which has not been assessed to tax in India. The deposit of Rs. 12 lakhs on 1.9.2022 is made out of the withdrawal of earlier deposits made on 1.7.2020 and 1.10.2020 with the said bank. Further, out of Rs. 25 lakhs deposited by him on 1.3.2024, Mr. Arvind withdrew Rs. 2 lakhs on 31.3.2024. The value of an undisclosed asset in form of bank account under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 will be taken as:

- (a) Rs. 49 lakhs
- (b) Rs. 47 lakhs
- (c) Rs. 37 lakhs
- (d) Rs. 35 lakhs

Q.	Ans.	Description
1	B	Refer section 115BBE
2	C	Yes; penalty is Rs. 1,24,800
3	D	Refer section 270A
4	C	Refer Black Money Act
5	C	Refer Black Money Act

Non-Resident Taxation

- S 1. Mr. Ganesh, a citizen of India, is employed in the Indian embassy in the USA. He is a non-resident for A.Y.2024-25. He received salary and allowances in the USA from the Government of India for the year ended 31.3.2024 for services rendered by him in the USA. In addition, he was allowed perquisites by the Government. Which of the following statements is correct?
- (a) Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ganesh, since he is a non-resident
 - (b) Salary, allowances and perquisites received outside India by Mr. Ganesh is taxable in India since such income is deemed to accrue or arise in India
 - (c) Salary received by Mr. Ganesh is taxable in India but allowances and perquisites are exempt
 - (d) Salary received by Mr. Ganesh is exempt but allowances and perquisites are taxable in India
- S 2. Mr. X, a foreign national and citizen of USA, working with M Inc., a US based company, came to India during the P.Y. 2023-24 for rendering services on behalf of the employer. He wishes to claim his salary income earned during his stay in India as exempt. Which of the following is not a condition to be fulfilled to claim such remuneration as exempt income under the Income-tax Act, 1961?
- (a) M Inc. should not be engaged in any trade or business in India
 - (b) Mr. X should not be engaged in any trade or business in India
 - (c) Mr. Xs stay in India should not exceed 90 days in aggregate during the P.Y. 2023-24
 - (d) Remuneration received by Mr. X should not liable to be deducted from M Inc.s income chargeable to tax under the Income-tax Act, 1961
- S 3. Mr. Ranveer, a non-resident, earned interest income of Rs. 6,20,000 during the P.Y. 2023-24 on bonds, issued by Tilt Ltd., an Indian company, under a scheme notified by the Central Government, which were purchased by him in foreign currency. Such interest is -
- (a) Not taxable
 - (b) Taxable@10.4%
 - (c) Taxable@15.6%
 - (d) Taxable@20.8%
- M 4. M Ltd. and N Ltd. are Indian companies which have to pay interest of Rs. 2 lakhs and Rs. 1 lakh outside India to Mr. P, a non-resident, during the P.Y.2023-24 on rupee denominated bonds listed on a recognized stock exchange located in IFSC, issued in May, 2023 and August, 2023, respectively.

Which of the following statements is correct relating to liability of M Ltd. and N Ltd. to deduct tax at source on such interest payable to Mr. P?

- (a) M Ltd. has to deduct tax at source@4.16% and N Ltd. has to deduct tax at source @9.36%
- (b) Both M Ltd. and N Ltd. have to deduct tax at source @ 5.2%
- (c) M Ltd. does not have to deduct tax at source but N Ltd. has to deduct tax at source@5.2%
- (d) N Ltd. does not have to deduct tax at source but M Ltd. has to deduct tax at source@5.2%

D

5. Shipcargo Inc., a company based in Netherlands operating its ships to and fro Cochin port, collected freight of Rs. 85 lakhs, demurrage of Rs. 5 lakhs and handling charges of Rs. 2 lakhs in respect of goods shipped at Cochin port. It incurred expenses of Rs. 35 lakhs during the year for operating its fleet. In respect of goods shipped at Rotterdam, Netherlands, it received Rs. 50 lakhs in India. Its tax liability (rounded off) for the A.Y.2024-25 is -

- (a) Rs. 4,21,200
- (b) Rs. 4,43,040
- (c) Rs. 3,12,000
- (d) Rs. 1,77,840

Q.	Ans.	Description
1	C	Refer section 9(1)(iii) and section 10(7)
2	B	Refer section 10(6)(vi)
3	B	Refer section 115AC
4	A	Refer section 194LC
5	B	Refer section 44B

Double Taxation Relief

- S 1. Samraat, a resident Indian, has earned an income of US dollars equivalent to Rs. 4 lakh in the P.Y.2023-24 by way of lump sum consideration for copyright of a book, being a work of literary nature, from a publisher in Country E, with which India does not have a DTAA. The same has been taxed at a flat rate of 5% in Country E. The amount has been remitted to India in March, 2024. His gross total income as per the Income-tax Act, 1961 for A.Y.2024-25 is Rs. 7 lakhs.
- What would be the deduction available under section 91 for A.Y.2024-25 assuming that Samraat exercises the option to shift out of the default tax regime under section 115BAC?
- (a) Rs. 20,000
 - (b) Rs. 7,725
 - (c) Rs. 1,950
 - (d) Nil

Q.	Ans.	Description
1	D	Nil

Advance Rulings

- M 1. As per section 245N(a)(iv), advance ruling means determination or decision by the Board for Advance Rulings as to whether an arrangement, which is proposed to be undertaken by a person is an impermissible avoidance arrangement as referred to in Chapter X-A or not. For making an application in this regard, the applicant has to be -
- (a) Only a Non-resident
 - (b) Only a Resident
 - (c) Only a Resident falling within such class or category of persons as notified by the Central Government
 - (d) Either a resident or a non-resident

Q.	Ans.	Description
1	D	Refer section 245N

Transfer Pricing

- S 1. Alpha Ltd.'s total income of A.Y. 2024-25 has increased by Rs. 34 lakhs due to application of arm's length price by the Assessing Officer on transactions of purchase of goods from its foreign holding company in respect of a retail trade business carried on by it, and the same has been accepted by Alpha Ltd., then, -
- (a) business loss of A.Y.2020-21 cannot be set-off against the enhanced income
 - (b) deductions under Chapter VI-A cannot be claimed in respect of the enhanced income
 - (c) unabsorbed depreciation of A.Y.2014-15 cannot be set-off against the enhanced income
 - (d) Business loss referred to in (a), deductions referred to in (b) and unabsorbed depreciation referred to in (c) cannot be set-off against the enhanced income
- S 2. If ABC Ltd. has two Units, Unit 1 is engaged in power generation business and Unit 2 is engaged in manufacture of wires. Both the units were set up in Karnataka in the year 2015. In the year 2023-24, twenty lakh metres of wire are transferred from Unit 2 to Unit 1 at Rs. 125 per metre when the market price per metre was Rs. 180. Which of the following statements is correct?
- (a) Transfer pricing provisions would be attracted in this case
 - (b) Transfer pricing provisions would not be attracted in this case since Unit 1 and Unit 2 belong to the same company and are not associated enterprises
 - (c) Transfer pricing provisions would not be attracted in this case as it is not an international transaction since both Units are in India. For the purpose of Chapter VI-A deduction, the profits of power generation business shall, however, be computed as if the transfer has been made at the market value of Rs. 180 per MT
 - (d) Transfer pricing provisions would not be attracted in this case due to reasons mentioned in both (b) and (c) above
- S 3. Y is a foreign company having permanent establishment in India namely X. Z, a non-resident associated enterprise, has invested Rs. 900 crore through debt in X. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of X during the financial year was Rs. 150 crore. What is the amount of interest allowable in respect of the debt assuming that the debt was invested on the first day of the financial year and the rate of interest is 10% p.a.?
- (a) Rs. 45 crore
 - (b) Rs. 90 crore
 - (c) Rs. 30 crore
 - (d) Rs. 27 crore

- M** 4. XYZ Ltd. has failed to report an international transaction entered into by it with PQR Inc., which is a specified foreign company in relation to XYZ Ltd. What would be the penalty leviable in this case?
- (a) 2% of the value of the international transaction
 (b) 50% of tax payable on under-reported income
 (c) 200% of tax payable on under-reported income
 (d) Both (a) and (c)
- M** 5. Under which of the following methods, arm's length price shall be the arithmetical mean of all values included in the dataset, irrespective of the number of entries in the dataset. It may be assumed that the variation between the arm's length price computed and the transaction price is 15%.
- (a) Profit split method
 (b) Resale price method
 (c) Cost plus method
 (d) Transactional net margin method
- D** 6. A notified infrastructure debt fund eligible for exemption under section 10(47) of the Income-tax Act, 1961 has to pay interest of Rs. 5 lakhs to a company incorporated in a foreign country. The foreign company incurred expenditure of Rs. 12,000 for earning such interest. The fund also has to pay interest of Rs. 3 lakhs to Mr. Frank, who is a resident of Country A, a notified jurisdictional area. Which of the following statements is correct?
- (a) No tax deduction at source is required in respect of both the payments
 (b) No TDS is required in respect of Rs. 5 lakhs payable to the foreign company. However, payment of interest to Frank attracts TDS@31.2%
 (c) TDS@5.20% is attracted on Rs. 4,88,000 payable to the foreign company. TDS@31.2% is attracted on interest payment of Rs. 3 lakhs to Mr. Frank
 (d) TDS@5.20% is attracted on interest of Rs. 5 lakhs payable to the foreign company. TDS@31.2% is attracted on interest of Rs. 3 lakhs payable to Mr. Frank

Q.	Ans.	Description
1	B	Refer first proviso to section 92C(4)
2	A	Refer section 92BA
3	A	Refer section 94B
4	D	Refer sections 270A and 271AA
5	A	Refer Rule 10CA(7)
6	D	Refer section 94A

Fundamentals of BEPS

- S** 1. Which action plan deals with developing a multilateral instrument on tax treaty measures to tackle BEPS?
- (a) Action Plan 12
 (b) Action Plan 13
 (c) Action Plan 14
 (d) Action Plan 15
- M** 2. Which are the BEPS action plans based on the fundamental pillar of transparency?
- (a) BEPS Action Plan 5 (1st component -Preferential tax regimes), 11, 12 and 13
 (b) BEPS Action Plan 5 (2nd component - Exchange of information on tax rulings), 6, 11, 12 and 14
 (c) BEPS Action Plan 5 (2nd component - Exchange of information on tax rulings), 11, 12, 13 and 14
 (d) BEPS Action Plan 5 (1st component -Preferential tax regimes), 12, 13 and 14
- D** 3. Which are the forms of hybrid mismatch arrangements?
- (i) Participation exemption regimes
 (ii) Misuse of foreign tax credit
 (iii) Creation of two deductions for a single borrowal
 (iv) Generation of deductions without corresponding income inclusions.
- (a) Only (i) and (ii) above
 (b) Only (i) and (iii) above
 (c) (i), (ii) and (iii) above
 (d) (i), (ii), (iii) and (iv) above

Q.	Ans.	Description
1	D	Refer Action Plan 15
2	C	BEPS Action Plan 5 (2nd component – Exchange of information on tax rulings), 11, 12, 13 and 14
3	D	Refer Action Plan 2

Application & Interpretation of Tax Treaties

- S 1. While interpreting the treaty entered into by India with Country "P", the Budget Speech of the finance minister was relied upon to understand the intent at the time of signing the treaty. Which law of interpretation has been followed in this case?
- (a) Liberal Interpretation
 - (b) Subjective Interpretation
 - (c) Purposive Interpretation
 - (d) Objective Interpretation

Q.	Ans.	Description
1	B	Refer Subjective Interpretation

Latest Developments in International Taxation

- S** 1. Minimum tax rates prescribed by Pillar Two is -
- (a) 15% under GloBE rules and STTR
 - (b) 9% under GloBE rules and STTR
 - (c) 9% under GloBE rules and 15% under STTR
 - (d) 15% under GloBE rules and 9% under STTR
- S** 2. Pillar Two consists of -
- (a) the Global Anti-Base Erosion (GloBE) Rules and a treaty-based Subject to Tax Rule (STTR)
 - (b) Only Income Inclusion Rule (IIR) and Undertaxed Payment Rule (UTPR)
 - (c) Only Income Inclusion Rule (IIR) and Qualified Domestic Minimum Tax (QDMT)
 - (d) Only Qualified Domestic Minimum Tax (QDMT) and Undertaxed Payment Rule (UTPR)
- S** 3. Amount A is -
- (a) 10% of residual profit that will be allocated to market jurisdictions
 - (b) 15% of residual profit that will be allocated to market jurisdictions
 - (c) 20% of residual profit that will be allocated to market jurisdictions
 - (d) 25% of residual profit that will be allocated to market jurisdictions
- M** 4. Which Rule imposes a top-up tax on a parent entity in respect of the constituent entity located in low-taxed jurisdiction?
- (a) Treaty-based Subject to Tax Rule (STTR)
 - (b) Income Inclusion Rule (IIR)
 - (c) Undertaxed Payment Rule (UTPR)
 - (d) Qualified Domestic Minimum Tax (QDMT)
- M** 5. In Scope companies are MNCs with -
- (a) Global turnover of above 10 billion euros and profitability above 10% (i.e., profit after tax/revenue)
 - (b) Global turnover of above 10 billion euros and profitability above 20% (i.e., profit before tax/revenue)
 - (c) Global turnover of above 20 billion euros and profitability above 10% (i.e., profit before tax/revenue)

(d) Global turnover of above 20 billion euros and profitability above 10% (i.e., profit after tax/revenue)

Q.	Ans.	Description
1	D	15% under GloBE rules and 9% under STTR
2	A	the Global Anti-Base Erosion (GloBE) Rules and a treaty-based Subject to Tax Rule (STTR)
3	D	25% of residual profit that will be allocated to market jurisdictions
4	B	Income Inclusion Rule (IIR)
5	C	Global turnover of above 20 billion euros and profitability above 10% (i.e., profit before tax/revenue)



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Important: ICAI may add more MCQs on the BOS portal. If there are any additions, I'll update them on my Telegram channel & also for more amazing free resources make sure to join it.



Case Scenario MCQs

Case Scenario 1

Mr. Rajat is a diamond merchant. During the P.Y.2023-24, he has turnover of Rs. 20 crores and net profit of Rs. 60 lakhs after taking into account all the permissible deductions. He has invested in shares of various private limited companies, from which dividend of Rs. 12 lakhs is receivable by him. He has two house properties in India, both of which were self-occupied. On one of the properties, he had taken loan of Rs. 50 lakh on which interest payable was Rs. 2,50,000, out of which he paid Rs. 1,80,000 during the year. On his birthday, he received jewellery from his friend (fair market value of which was Rs. 5 lakhs). He had also withdrawn cash of Rs. 1.2 crores during the P.Y. 2023-24 in aggregate from his current account maintained with ABC Bank. Further, he also withdrew Rs. 50 lakhs from a co-operative bank account in October, 2023. He is regularly filing his return of income.

His brother, Mr. Rahul has not filed his return of income for the last five years, even though his total income exceeded the basic exemption limit. He withdrew Rs. 50 lakhs from a co-operative bank account in March, 2024.

Also, Mr. Rajat holds 20% voting power in XYZ Pvt. Ltd. (closely held company and engaged in diamond manufacturing) from which he has obtained loan of Rs. 10 lakhs on 1.4.2023. The company had free reserves of Rs. 8 lakh as on 31.3.2023.

From the information given above, choose the most appropriate answer to the MCQs 1 to 5 -

- Which of the following statements is correct in respect of loan of Rs. 10 lakhs obtained by Mr. Rajat from XYZ Pvt. Ltd?
 - Rs. 10 lakhs would be taxable as deemed dividend in the hands of Mr. Rajat
 - Rs. 8 lakhs would be taxable as deemed dividend in the hands of Mr. Rajat
 - The entire amount is received in the ordinary course of the business and therefore, the loan obtained would not be treated as deemed dividend
 - The company will pay distribution tax@ 34.944% on Rs. 8 lakhs
- Would cash withdrawals by Mr. Rajat during the P.Y. 2023-24 attract deduction of tax at source?
 - Yes, tax is required to be deducted u/s 194N @5% on Rs. 1.2 crores by ABC Bank and 2% on Rs. 50 lakhs by the co-operative bank

- (b) Yes, tax is required to be deducted@2% on Rs. 20 lakhs u/s 194N by ABC Bank
 (c) Yes, tax is required to be deducted@5% on Rs. 20 lakhs u/s 194N by ABC Bank
 (d) Yes, tax is required to be deducted u/s 194N @5% on Rs. 20 lakhs by ABC Bank and 2% on Rs. 50 lakhs by the co-operative bank
3. Would cash withdrawals by Mr. Rahul during the P.Y. 2023-24 attract deduction of tax at source?
 (a) No, TDS provisions are not attracted since cash withdrawals is less than Rs. 1 crore
 (b) No, TDS provisions are not attracted in respect of cash withdrawals from co-operative bank
 (c) No, TDS provisions are not attracted due to reasons stated in both (a) and (b)
 (d) Yes, tax is required to be deducted@2% on Rs. 30 lakhs u/s 194N by co-operative bank
4. What is the total income of Mr. Rajat for P.Y.2023-24, assuming that he has shifted out of the default tax regime and pays tax under normal provisions of the Act?
 (a) Rs. 72 lakhs
 (b) Rs. 75 lakhs
 (c) Rs. 83 lakhs
 (d) Rs. 83.20 lakhs
5. What is the amount of gross tax liability of Mr. Rajat for the A.Y. 2024-25, assuming that he has shifted out of the default tax regime and pays tax under normal provisions of the Act?
 (a) Rs. 23,59,500
 (b) Rs. 26,34,060
 (c) Rs. 25,94,060
 (d) Rs. 26,40,924

Q.	Ans.	Description
1	B	Refer section 2(22)(e)
2	B	Refer section 194N
3	D	Refer section 194N
4	C	HP = (2,00,000) PGBP = 60 lakhs <u>Other Sources</u> Gift = 5 lakhs Deemed dividend = 8 lakhs dividend = 12 lakhs Total Income = 83 lakhs
5	B	Tax on Rs. 83 lakhs at normal slab rate + 10% surcharge + 4% HEC

Case Scenario 2

A Ltd. is an Indian company which has invested in shares of other Indian and foreign companies. During the P.Y.2023-24, A Ltd. received dividend from these companies as follows:

	% of holding of A Ltd.	Date of declaration of dividend by the company	Date of distribution of dividend by the company	Amount of dividend [Gross] (Rs.)	Interest expenditure on loan borrowed for investment in shares (Rs.)
B Ltd., an Indian company	10%	20.6.2023	3.7.2023	2,00,000	45,000
C Inc, a foreign company	22%	17.9.2023	12.10.2023	4,00,000	90,000
D Inc., a foreign company	30%	13.11.2023	28.11.2023	6,00,000	1,30,000
E Ltd., an Indian company	15%	14.1.2024	2.2.2024	3,20,000	70,000

A Ltd. declared and distributed dividend of Rs. 6 lakhs for the F.Y.2022-23 in December, 2023 and dividend of Rs. 7 lakhs for the F.Y.2023-24 in July, 2024.

Mr. Aakash and Mr. Aarav are two brothers who have invested in shares of A Ltd. Both of them were born in India; their parents and grand parents were also born in India. Mr. Aakash is an Indian citizen who lives in Hyderabad. He is employed with a leading textile manufacturing unit at a salary of Rs. 1 lakh per month. His brother, Mr. Aarav is settled in Country Y since the year 2010. He is a citizen of Country Y and is a partner with a software development firm in Country Y. His share of profit in the Country Y firm for the F.Y.2023-24 is CYD 1,20,000, which was credited to his bank account in Country Y. The value of one CYD may be taken as Rs. 25. He is not subject to income-tax in Country Y, since the share of profits of a firm is exempt in the hands of partners in Country Y. Mr. Aarav visits India for four months (in continuation) every year. He earns interest of Rs. 14 lakhs from fixed deposits with Bank of India.

The details of investment in shares of A Ltd. by Mr. Aakash and Mr. Aarav are given below -

Name of the shareholder	% of holding	Month of declaration & distribution of dividend	Amt of dividend [Gross] (Rs.)	Interest expenditure on loan borrowed for investment in shares (Rs.)
Aakash	10%	December, 2023	60,000	15,000
	10%	July, 2024	70,000	15,000
Aarav	15%	December, 2023	90,000	20,000
	15%	July, 2024	1,05,000	20,000

On the basis of the facts given above, choose the most appropriate answer, on the basis of the provisions of the Income-tax Act, 1961 [Ignore the provisions of DTAA, if any, with Country Y for the purpose of answering these questions] -

- What is the amount of dividend income includible in the gross total income of A Ltd. for A.Y.2024-25 under the provisions of the Income-tax Act, 1961?
 - Rs. 11,85,000
 - Rs. 12,16,000
 - Rs. 13,15,000
 - Rs. 13,36,000
- What is the deduction allowable under section 80M to A Ltd. for A.Y.2024-25?
 - Rs. 6,00,000
 - Rs. 7,00,000
 - Rs. 9,20,000
 - Rs. 13,00,000
- What is the tax liability (rounded off) of Mr. Aakash for A.Y.2024-25 under the provisions of the Income-tax Act, 1961 if he wishes to make maximum tax savings (ignore TDS)?
 - Rs. 1,04,830
 - Rs. 1,03,580
 - Rs. 1,78,780
 - Rs. 93,290
- What is the residential status of Mr. Aarav for A.Y.2024-25?
 - Resident and Ordinarily resident

- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Deemed resident

5. What is the tax liability (rounded off) of Mr. Aarav under the provisions of the Income-tax Act, 1961 for A.Y.2024-25, if he wishes to make maximum tax savings (ignore TDS)?
- (a) Rs. 2,64,260
 - (b) Rs. 2,60,520
 - (c) Rs. 1,53,920
 - (d) Rs. 1,75,760

Q.	Ans.	Description
1	B	Interest expense upto 20% o dividend is allowed as deduction from dividend income.
2	D	Refer section 80M
3	D	Salary income = 12 lakhs Less: Standard deduction = 50,000 Net salary = 11,50,00 Dividend after interest expense upto 20% = 48,000 (60,000 - 12,000) Total Income = 11,98,000 both under section 115BAC as well as normal provisions of the Act Tax under section 115BAC = 93,290 Tax under normal provisions of the Act = 1,78,780
4	C	Since income from Indian sources does not exceed Rs. 15 lakhs, 120 days + 365 days condition would not be applicable.
5	C	Interest on FD = 14,00,000 Dividend = 90,000 Total Income = 14,72,000 both u/s 115BAC as well as normal provisions of the Act Tax u/s 115BAC = 1,53,920 [(1,30,000 + 18,000) plus HEC] Tax under normal provisions of the Act = 2,60,520 [(2,32,500 + 18,000) plus HEC]

Note: Case Scenario 3 & 4 Covered in particular chapter.
(Check PGBP & TDS, TCS Chapter)



RTP May 24 - Case scenario

Other RTP MCQs & Case Scenarios Covered in particular chapters only.

The following details pertain to Mr. Sahil and his best friend Mr. Akhil:

Mr. Sahil

Particulars	Amount (₹)
Amount remitted to his elder son Aarav, who is pursuing two-year MBA Program from Columbia University, USA	
- Out of own savings through HDFC Bank, an authorized dealer under Liberalized Remittance Scheme (LRS) of the RBI	
• towards tuition fees on 5.7.2023	3,50,000
• to meet day to day expenses	
- 10.5.2023	1,20,000
- 29.9.2023	90,000
- 01.1.2024	1,35,000
- Through Axis Bank, an authorized dealer under Liberalized Remittance Scheme (LRS) out of	
• loan (towards tuition fees) on	
- 11.10.2023	3,50,000
- 10.01.2024	3,50,000
• Own savings (to meet day to day expenses) on 1.7.2023	1,50,000
To complete the formalities of admission, Mr. Sahil visited the USA from 10.4.2023 to 13.4.2023 for which he purchased a tour package from M/s Gate 2 Travel, a foreign tour operator and remits money under LRS on 5.4.2023. International travel tickets and hotel accommodation are included in the said package.	5,20,000

Mr. Sahil has furnished undertakings containing the details of earlier remittances to HDFC bank and Axis bank. He has also furnished his PAN to the authorized dealers and to the seller of overseas tour program package.

Mr. Akhil

Mr. Akhil, an Indian citizen got a job offer from M/s Wellbeing Inc., a Dubai-based company of AED 10,500 per month. He left for Dubai on 29.3.2023 and joined M/s Wellbeing Inc. on 1st April 2023. He returned to India on 15.12.2023 on leaves for 15 days. On 23.12.2023, he went on 7 days tour to Bali with his wife and son. Thereafter, he directly went to Dubai with his wife and son. On 16.12.2023, he purchased a tour package for Bali from Make Your Trip, an Indian tour operator for which he paid ₹ 7,50,000 towards flight tickets and hotel accommodation. During F.Y. 2023-24, he has business income of ₹ 4,20,000 from a retail shop in India and interest on fixed deposit and savings account with Canara Bank of ₹ 1,20,000 and ₹ 8,000, respectively.

He is not liable to pay any tax in Dubai. Assume 1 AED = ₹ 23.

From the information given above, choose the most appropriate answer to Q. 1 to Q. 6:

1. Is HDFC Bank required to collect tax at source on the amount remitted by Mr. Sahil? If so, what is the amount of tax to be collected?
 - (a) Yes; TCS of ₹ 2,000 on 29.9.2023 and TCS of ₹ 27,000 on 1.1.2024
 - (b) Yes; TCS of ₹ 500 on 29.9.2023 and TCS of ₹ 27,000 on 1.1.2024
 - (c) Yes; TCS of ₹ 500 on 29.9.2023 and TCS of ₹ 6,750 on 1.1.2024
 - (d) No tax is required to be collected at source since receipts do not exceed ₹ 7 lakh

2. Is Axis Bank required to collect tax at source on the amount remitted by Mr. Sahil? If so, what is the amount of tax to be collected?
 - (a) Yes; TCS of ₹ 7,500 on 1.7.2023; TCS of ₹ 1,750 on 11.10.2023 and TCS of ₹ 1,750 on 10.1.2024
 - (b) Yes; TCS of ₹ 17,500 on 11.10.2023 and TCS of ₹ 17,500 on 10.1.2024
 - (c) Yes; TCS of ₹ 1,750 on 11.10.2023 and TCS of ₹ 1,750 on 10.1.2024
 - (d) No tax is required to be collected at source, on the remittances for education and for other purposes since each receipt does not exceed ₹ 7 lakh

3. Is tax required to be collected at source on the amount remitted for tour package to USA by Mr. Sahil? If so, what is the amount of tax to be collected?
 - (a) Yes; TCS of ₹ 26,000
 - (b) Yes; TCS of ₹ 1,04,000
 - (c) No tax is required to be collected at source, since tour package is purchased from a foreign tour operator
 - (d) No tax is required to be collected at source, since receipt does not exceed ₹ 7 lakh

4. Does Make Your Trip require to collect tax at source on the amount received for tour package to Bali from Mr. Akhil? If so, what is the amount of tax to be collected?
- (a) Yes; ₹ 2,500 is required to be collected at source
 (b) Yes; ₹ 37,500 is required to be collected at source
 (c) Yes; ₹ 45,000 is required to be collected at source
 (d) No tax is required to be collected at source
5. What is the total income of Mr. Akhil for the A.Y. 2024-25? Assume he has shifted out of the default tax regime u/s 115BAC.
- (a) ₹ 33,88,000 (b) ₹ 5,48,000 (c) ₹ 33,96,000 (d) ₹ 5,40,000
6. What would be the amount of the tax payable/refundable (computed in the most beneficial manner) to Mr. Akhil for the A.Y. 2024-25?
- (a) Tax payable ₹ 7,47,550 (b) Tax payable ₹ 12,900
 (c) No tax payable/refundable (d) Tax Refundable ₹ 45,000

Q.	Ans.	Description
1	B	Yes; TCS of ₹ 500 on 29.9.2023 and TCS of ₹ 27,000 on 1.1.2024
2	C	Yes; TCS of ₹ 1,750 on 11.10.2023 and TCS of ₹ 1,750 on 10.1.2024
3	A	Yes; TCS of ₹ 26,000
4	D	No tax is required to be collected at source
5	D	₹ 5,40,000
6	B	Tax payable ₹ 12,900



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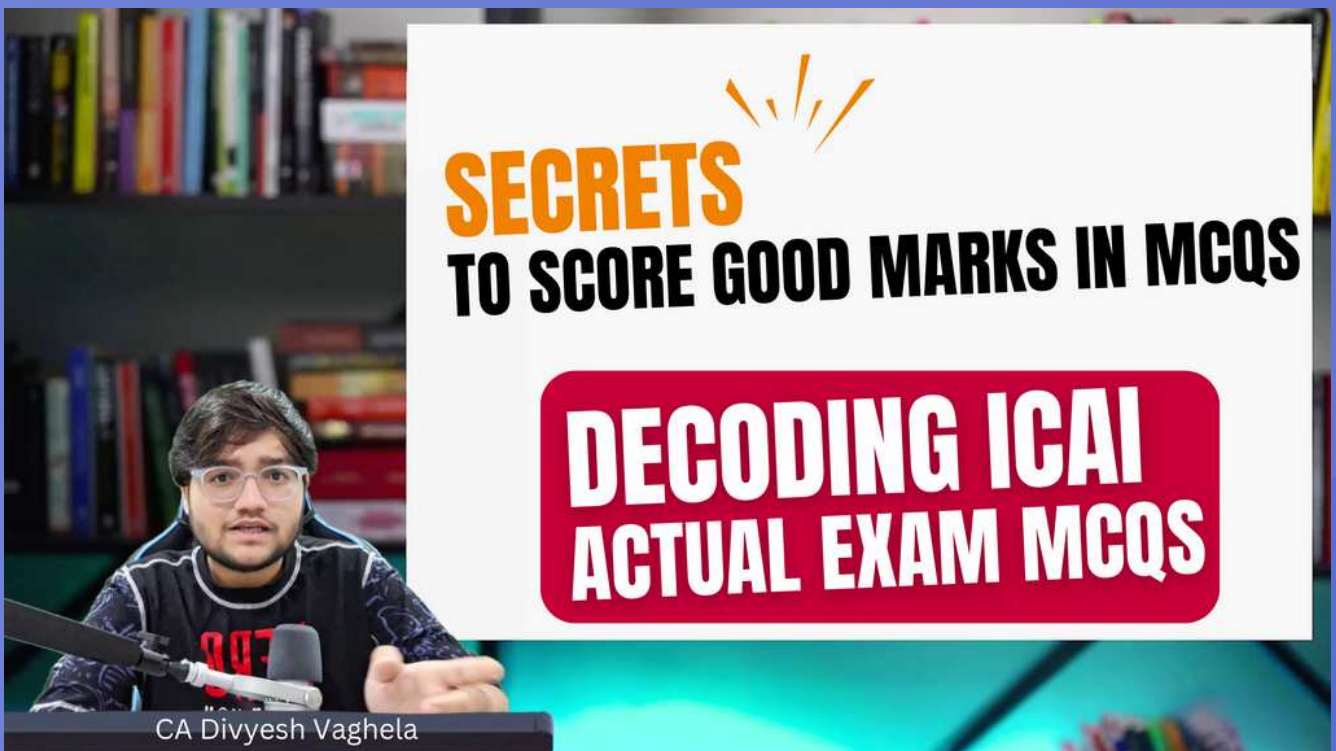
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