CLAT PG Tax Law

Sample Paper – 3

Duration: 15 Minutes **Maximum Marks: 15**

Instructions

- This paper contains **15** Multiple Choice Questions (Single Correct Answer), modelled on the Tax Law portion of **CLAT PG** entrance.
- Each correct answer carries **+1 mark**. There is **a penalty of 0.25 marks** for each incorrect answer. Unattempted questions carry no penalty.
- Only **one** option is correct. Choose carefully.
- Syllabus: Income Tax Act 1961, CGST Act 2017, Customs Act 1962, and constitutional provisions (Articles 265–289) at LLM entrance level.
- Use of mobile phones, calculators, or electronic gadgets is strictly prohibited.

PART A — TAX LAW (15 Questions)

Q.1. Under Article 271 of the Constitution of India, Parliament may impose a surcharge on any duty or tax referred to in Articles 269 and 270. Which of the following statements correctly describes the constitutional treatment of the proceeds of such a surcharge?

(A) The proceeds of surcharges form part of the divisible pool and must be distributed between the Union and the States as recommended by the Finance Commission under Article 280.

(B) A surcharge under Article 271 can be imposed only after obtaining the prior concurrence of not less than two-thirds of the State Legislatures under the proviso to Article 271.

(C) The proceeds of such a surcharge are credited to the Consolidated Fund of India but are thereafter mandatorily allocated to the National Disaster Relief Fund for specified purposes.

(D) The entire proceeds of a surcharge levied under Article 271 form part of the Consolidated Fund of India and are retained exclusively by the Union, without being shared with the States.

Q.2. Which of the following statements most accurately describes the composition and voting mechanism of the Goods and Services Tax Council constituted under Article 279A of the Constitution of India?

(A) The GST Council is chaired by the Prime Minister of India, with the Finance Ministers of all States as members; decisions require a simple majority of all members present and voting, with each member having one equal vote.

(B) The GST Council is co-chaired by the Union Finance Minister and the Finance Minister of a State on a rotational annual basis, and decisions are taken by unanimous consent of all members present.

(C) The GST Council is chaired by the Union Finance Minister, with the Union Minister of State in charge of Finance and Finance or Taxation Ministers of all States as members; every decision requires a majority of not less than three-fourths of the weighted votes of members present and voting, with the Union Government's vote carrying one-third weight.

(D) The GST Council consists exclusively of Finance Ministers of the States; the Union Government participates only as a permanent observer without any voting rights, and decisions require a two-thirds majority of all State members.

Q.3. Which of the following statements correctly captures the essential content of the charging provision under Section 4 of the Income Tax Act, 1961?

(A) Income tax is charged only on individuals, Hindu Undivided Families, and partnership firms at rates specified in the Income Tax Act, 1961 itself, without any reference to any external fiscal legislation.

(B) Income tax shall be charged for every assessment year at the rates prescribed by the annual Finance Act on the total income of the previous year of every person, subject to the provisions of the Act.

(C) Income tax is charged on income earned and received during the current financial year at rates fixed by the Central Board of Direct Taxes through annual administrative circulars.

(D) Income tax is charged only on resident persons; non-residents are taxed exclusively under the provisions of the applicable Double Taxation Avoidance Agreement and not under Section 4 of the Act.

Q.4. Mr. Holden is a citizen of Australia who visits India for 45 days in a financial year and has no prior history of residence in India. Under Section 5 of the Income Tax Act, 1961, which of the following correctly describes the scope of his total income chargeable to tax in India for that year?

(A) Only income received or deemed to be received in India, and income that accrues or arises or is deemed to accrue or arise in India, is includible in Mr. Holden's total income chargeable in India.

(B) All income accruing or arising to Mr. Holden anywhere in the world is includible in his Indian total income, as the Income Tax Act, 1961 operates on a universal source-based jurisdiction.

(C) Income accruing to Mr. Holden outside India is also includible in his total income in India, provided the amount is remitted to an Indian bank account within 180 days of the date of accrual.

(D) Mr. Holden's total income in India includes all business income and employment income earned globally, but excludes passive income such as dividends and interest received outside India.

Q.5. Ms. Priya is a salaried employee drawing a gross salary of Rs. 14,00,000 per annum. She pays professional tax (tax on employment) of Rs. 2,500 to the State Government during the previous year. Which of the following correctly states the deductions available to her under Section 16 of the Income Tax Act, 1961?

(A) She may claim only a standard deduction of Rs. 50,000 under Section 16(ia); professional tax paid to the State Government is not an allowable deduction under Section 16.

(B) She may claim a deduction only for the professional tax of Rs. 2,500 actually paid under Section 16(iii); the standard deduction under Section 16(ia) is available only to central and state government employees.

(C) She may claim a standard deduction of Rs. 50,000 under Section 16(ia) and a further deduction of Rs. 2,500 for the professional tax paid under Section 16(iii), giving a total deduction of Rs. 52,500 from gross salary.

(D) She may claim a standard deduction of Rs. 50,000 and a professional tax deduction of Rs. 2,500, but the two deductions together are subject to a combined ceiling of Rs. 50,000 under Section 16.

Q.6. Which of the following statements regarding the exemption available under Section 54 of the Income Tax Act, 1961 on long-term capital gains arising from the transfer of a residential house property is INCORRECT?

(A) The exemption is available only when the transferred asset is a long-term capital asset being a residential house, the income from which was chargeable or would have been chargeable under the head "Income from House Property."

(B) The assessee must purchase a new residential house within one year before or two years after the date of transfer, or construct a new residential house within three years after the date of transfer.

(C) If the capital gains cannot be utilised for purchase or construction before the due date for filing the return of income, the unutilised amount must be deposited in the Capital Gains Account Scheme with a specified bank.

(D) The lock-in condition under Section 54 stipulates that the new residential house shall not be transferred within five years of its purchase or construction; if transferred earlier, the exemption originally allowed is withdrawn by taxing it as capital gains in the year of such transfer.

Q.7. Under Section 22 read with Section 27 of the Income Tax Act, 1961, which of the following persons is deemed to be the "owner" of a house property and is, therefore, liable to tax on the annual value of such property under the head "Income from House Property"?

(A) A person who has acquired possession of immovable property in part performance of a contract of the nature referred to in Section 53A of the Transfer of Property Act, 1882, satisfying all conditions stipulated therein.

(B) A tenant in occupation of property under a long-term notarised lease of 99 years who pays ground rent to the landlord, who retains the registered legal title.

(C) A licensee occupying commercial premises under a revocable leave and licence agreement and using the property exclusively for carrying on business.

(D) A mortgagee bank that has taken possession of a residential property as security for a housing loan advanced to the mortgagor-borrower pending repayment.

Q.8. Mr. Suresh, a self-employed Chartered Accountant, donates Rs. 3,00,000 to the National Defence Fund during the previous year. His gross total income for the year is Rs. 15,00,000. Which of the following correctly describes his deduction under Section 80G of the Income Tax Act, 1961?

(A) Mr. Suresh may claim a deduction of 50% of the donated amount, i.e., Rs. 1,50,000, subject to a ceiling of 10% of his adjusted gross total income, as the National Defence Fund falls in the restricted category.

(B) Mr. Suresh may claim a deduction of 100% of the donated amount, i.e., Rs. 3,00,000, without any ceiling or restriction on the quantum of deduction, as the National Defence Fund is a notified fund qualifying for full deduction under Section 80G.

(C) Mr. Suresh cannot claim any deduction under Section 80G because Section 80G is available only to corporate taxpayers and not to self-employed individual professionals.

(D) Mr. Suresh may claim a deduction of 100% of the donated amount but only to the extent of 10% of his adjusted gross total income, i.e., a ceiling of Rs. 1,50,000 would apply to his claim.

Q.9. Under Section 9(3) of the Central Goods and Services Tax Act, 2017, the tax on specified supplies shall be paid on reverse charge basis by the recipient. Which of the following correctly describes this mechanism?

(A) All supplies of services valued above Rs. 5,000 per day received by a registered person from any unregistered supplier are compulsorily covered under the reverse charge mechanism mandated by Section 9(3).

(B) The reverse charge mechanism under Section 9(3) applies only to supplies between related persons where no consideration is charged, deeming such transactions as taxable supplies under Schedule I.

(C) The Government may, on the recommendation of the GST Council, by notification specify categories of supply of goods or services or both in respect of which the recipient of such supply shall be liable to pay the tax instead of the supplier.

(D) The reverse charge mechanism under Section 9(3) is applicable exclusively to e-commerce operators who are required to collect tax at source on supplies made through their electronic platform.

Q.10. Arvind Textiles, a registered manufacturer, sends raw fabric (inputs) to a job worker for dyeing and printing. The inputs are neither returned to Arvind Textiles nor supplied directly from the job worker's premises within the time limit prescribed under Section 19 of the Central Goods and Services Tax Act, 2017. What is the statutory consequence under the CGST Act?

(A) Arvind Textiles forfeits the input tax credit on such inputs only if the job worker is an unregistered person; if the job worker holds a valid GST registration, the principal's ITC is unaffected.

(B) The CGST Act grants an automatic extension of one additional year upon the principal filing a declaration with the jurisdictional GST officer within 30 days of the expiry of the original time limit.

(C) The job worker becomes personally liable to pay the applicable CGST along with interest on behalf of Arvind Textiles from the date on which the inputs were originally sent out to the job worker.

(D) The inputs not returned within the prescribed period are deemed to have been supplied by Arvind Textiles to the job worker on the date the inputs were originally sent out, and Arvind Textiles must discharge the applicable GST liability on such deemed supply.

Q.11. For the purpose of determining the place of supply of services where the location of the supplier or the location of the recipient is outside India, which of the following correctly states the general rule applicable under the Integrated Goods and Services Tax Act, 2017?

(A) The place of supply shall be the location of the recipient of services, in accordance with the destination principle applicable to cross-border service transactions, unless a specific exception under the Act provides otherwise.

(B) The place of supply shall invariably be the location of the supplier of services, since the supplier holds the primary obligation to charge, collect, and remit the integrated tax to the Government.

(C) The place of supply for cross-border services is always the location where the service is physically performed or where the benefit is enjoyed, irrespective of the location of the supplier or recipient.

(D) The place of supply for cross-border services is determined exclusively by reference to the provisions of the applicable Double Taxation Avoidance Agreement entered into between India and the relevant foreign country.

Q.12. A consignment of imported goods is entered for home consumption under the Customs Act, 1962. A dispute arises as to which rate of customs duty and tariff valuation is applicable. Under Section 15(1)(a) of the Customs Act, 1962, the rate of duty and tariff valuation shall be the rate and valuation in force on which of the following dates?

(A) The date on which the vessel or aircraft carrying the imported goods first entered the Indian territorial waters or airspace, marking the commencement of customs jurisdiction over the consignment.

(B) The date on which a bill of entry is presented by the importer under Section 46 of the Customs Act, 1962 at the customs station where the goods have arrived.

(C) The date on which the assessment order is formally made and signed by the proper officer of customs after examination of the goods and verification of documents.

(D) The date on which the customs duty is actually paid by the importer in full before the goods are permitted clearance from the customs area or port.

Q.13. When the Principal Commissioner or Commissioner of Income Tax, with the approval of the Approving Panel, determines that an arrangement constitutes an "Impermissible Avoidance Arrangement" (IAA) under the General Anti-Avoidance Rule provisions of the Income Tax Act, 1961, which of the following correctly describes the permissible consequences that may be invoked by the tax authority?

(A) The arrangement is automatically rendered void ab initio under civil law, requiring all parties to unwind the transaction and restore the pre-arrangement position; a mandatory penalty of 300% of tax avoided is simultaneously imposed.

(B) Only the Assessing Officer – and not the Principal Commissioner or Commissioner – is competent to declare an arrangement as an IAA; any such declaration by the Commissioner is without jurisdiction and legally void.

(C) The tax authority may disregard, combine, or recharacterize any step or part of the arrangement; treat connected parties as one; reallocate income, deductions, credits, or reliefs among the parties; and deny any tax benefit obtained through the impermissible arrangement.

(D) The GAAR provisions apply exclusively to cross-border or international arrangements and cannot be invoked in respect of purely domestic transactions, even where such transactions result in significant avoidance of tax.

Q.14. In the context of Double Taxation Avoidance Agreements (DTAAs) entered into by India, the concept of "beneficial ownership" is incorporated primarily to achieve which of the following objectives?

(A) To prevent treaty shopping by ensuring that reduced withholding tax rates on dividends, interest, and royalties are available only to the entity that is the true economic owner of such income with the full right to use and enjoy it, and not to a mere conduit or intermediary routing the income to a resident of a non-treaty country.

(B) To determine the exclusive jurisdiction for taxation of business profits attributable to a permanent establishment and to override the domestic tax law of the source country in all circumstances arising from such attribution.

(C) To allow any company incorporated in a country with which India has a DTAA to claim full treaty benefits regardless of the residence of its controlling shareholders, the economic substance of its operations, or the ultimate destination of the income.

(D) To mandate that the source country unconditionally exempt from withholding tax all passive income payments made to any legal entity that is registered as a legal person in the other contracting state to the treaty.

Q.15. Under Section 92D read with Section 92E of the Income Tax Act, 1961, which of the following correctly describes the documentation and reporting obligations of a person who has entered into international transactions covered by the transfer pricing provisions?

(A) Every resident assessee is required to maintain transfer pricing documentation prescribed under Section 92D irrespective of whether any international transaction or specified domestic transaction has actually been undertaken during the relevant previous year.

(B) Transfer pricing documentation is mandatory only for international transactions exceeding Rs. 50 crores in aggregate value; all transactions with aggregate value below this threshold are completely exempt from all documentation requirements under the Act.

(C) A report in Form 3CEB certified by a Chartered Accountant must be filed by every assessee who has entered into any international transaction, regardless of the aggregate value of such transactions during the previous year.

(D) Every person who has entered into an international transaction is required to maintain prescribed information and documents under Section 92D, and must furnish a report in Form 3CEB certified by a Chartered Accountant under Section 92E if the aggregate value of such international transactions exceeds the prescribed threshold.

Detailed Solutions

Sol.1.

Solution

Concept — Article 271 (Surcharges for Union Purposes): Article 271 empowers Parliament to increase any of the duties or taxes referred to in Articles 269 and 270 by imposing a surcharge for purposes of the Union. The entire proceeds of every such surcharge form part of the Consolidated Fund of India and are *not* shareable with the States. This creates an important exception to the scheme of tax sharing contemplated in Articles 269 and 270.

Step 1 — Rationale for exclusion from divisible pool: Articles 269 and 270 deal with taxes that must be distributed between the Union and States. Article 271 carves out an exception: any surcharge thereon goes exclusively to the Union. The Finance Commission has no role in distributing surcharge proceeds. The rationale is that surcharges are typically temporary measures to meet Union-specific fiscal emergencies.

Step 2 — Evaluating options:

- Option A: Incorrect. Surcharge proceeds under Art. 271 are NOT part of the divisible pool and are not subject to Finance Commission distribution.
- Option B: Incorrect. No concurrence of State Legislatures is required; Parliament acts unilaterally and the power is plenary.
- Option C: Incorrect. There is no constitutional provision mandating allocation of Art. 271 surcharge proceeds to the National Disaster Relief Fund.
- Option D: Correct. Surcharge proceeds form part of the Consolidated Fund of India and are retained exclusively by the Union without sharing.

Final Answer: Article 271 surcharge proceeds are retained exclusively by the Union without sharing with States. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q1

Sol.2.

Solution

Concept — Article 279A: GST Council Composition and Voting: Inserted by the Constitution (101st Amendment) Act, 2016, Article 279A establishes the GST Council as a constitutional body. The Chairperson is the **Union Finance Minister**; members include the Union Minister of State in charge of Finance or Revenue, and the Minister in charge of Finance or Taxation (or any other Minister nominated by the Governor) of each State. Under Art. 279A(9), every decision requires a majority of **not less than three-fourths of the weighted votes** of members present and voting.

Step 1 — Weighted voting: The Union Government's vote has a weight of **one-third (1/3)** of the total votes cast. The votes of all State Governments and Union Territories with Legislatures together have a weight of **two-thirds (2/3)** of the total votes cast. This structure gives both the Union and the States a meaningful role in decision-making.

Step 2 — Evaluating options:

- Option A: Incorrect on two counts: the Prime Minister is not the Chairperson (it is the Union Finance Minister), and decisions do not require a simple majority.
- Option B: Incorrect. There is no rotational co-chairmanship; the Union Finance Minister is the permanent Chairperson. Unanimous consent is not required.
- Option C: Correct. Accurately states the composition, the three-fourths weighted majority requirement, and the Union's one-third voting weight.
- Option D: Incorrect. The Union Government is a full and voting member; it holds one-third of weighted votes.

Final Answer: The GST Council is chaired by the Union Finance Minister with decisions requiring three-fourths weighted majority. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q2

Sol.3.

Solution

Concept — Section 4: The Charging Provision: Section 4 is the cornerstone charging section of the Income Tax Act, 1961. It provides that where any Central Act (i.e., the annual Finance Act) enacts that income tax shall be charged for any assessment year at any rate or rates, income tax at those rates shall be charged for that year in accordance with the provisions of the ITA in respect of the *total income of the previous year* of *every person*.

Step 1 — Four critical elements of Sec 4: (i) Tax is charged for the **assessment year**; (ii) on the **total income of the previous year**; (iii) of **every person** (broadly defined to include individuals, HUFs, firms, companies, AOPs, etc.); (iv) at rates **prescribed by the Finance Act** – not the ITA itself, and certainly not CBDT circulars.

Step 2 — Evaluating options:

- Option A: Incorrect. Sec 4 covers "every person," not just individuals, HUFs, and firms. Rates are set by the Finance Act, not the ITA itself.
- Option B: Correct. Accurately reflects all four essential elements of the charging section.
- Option C: Incorrect. Rates are fixed by Parliament through the Finance Act; CBDT does not set tax rates. Tax is also on the *previous year's* income, not the current year.
- Option D: Incorrect. Non-residents are also subject to Sec 4 of the ITA; DTAA provisions operate alongside, not in substitution of, the charging section.

Final Answer: Sec 4 charges tax for every AY at Finance Act rates on total income of the PY of every person. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q3

Sol.4.

Solution

Concept — Section 5(2): Scope of Total Income for Non-Residents: Mr. Holden visits India for only 45 days in the relevant year and has no prior Indian residence history. Under Section 6(1) of the ITA, he does not satisfy the 182-day threshold and is therefore a **Non-Resident (NR)** for that year. Section 5(2) provides that the total income of an NR includes only: (a) income received or deemed to be received in India during such year; and (b) income that accrues or arises, or is deemed to accrue or arise, in India during such year. Foreign-source income is entirely outside the Indian taxable scope for an NR.

Step 1 — Contrast with Resident status: A Resident and Ordinarily Resident (ROR) is taxed on worldwide income under Sec 5(1). A Resident but Not Ordinarily Resident (RNOR) is taxed on Indian-source income and income from businesses controlled in or professions set up in India. Only the NR is restricted to purely Indian-source income.

Step 2 — Evaluating options:

- Option A: Correct. Accurately states the Sec 5(2) scope for NRs – only Indian-received and Indian-accruing income.
- Option B: Incorrect. Worldwide income taxation applies only to RORs under Sec 5(1), not to NRs.
- Option C: Incorrect. No provision under Sec 5 includes foreign income merely because it is remitted to India within 180 days; remittance-based inclusion is not the statutory test.
- Option D: Incorrect. Section 5(2) draws no distinction between active and passive income categories for NRs; all foreign income is excluded.

Final Answer: Non-residents are taxed only on income received in India and income accruing or arising in India under Sec 5(2). $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q4

Sol.5.

Solution

Concept — Section 16: Deductions from Salary Income: Section 16 provides three independent deductions from salary: (i) **Section 16(ia):** Standard deduction of Rs. 50,000 (or the amount of salary, whichever is less) – available to all salaried employees regardless of government or private sector employment; (ii) **Section 16(ii):** Entertainment allowance – available only to central and state government employees, subject to prescribed limits; (iii) **Section 16(iii):** Deduction for tax on employment (professional tax), equal to the *actual amount paid* during the year. There is **no combined ceiling** on deductions under Sec 16(ia) and Sec 16(iii); they are independently applicable.

Step 1 — Applying to Ms. Priya: Gross salary = Rs. 14,00,000. Standard deduction under Sec 16(ia) = Rs. 50,000 (salary exceeds Rs. 50,000, so cap applies). Professional tax under Sec 16(iii) = Rs. 2,500 (full amount deductible).

Total deduction = Rs. 50,000 + Rs. 2,500 = Rs. **52,500**.

Step 2 — Evaluating options:

- Option A: Incorrect. Professional tax is specifically deductible under Sec 16(iii); its exclusion in option A is factually wrong.
- Option B: Incorrect. Standard deduction under Sec 16(ia) is available to all salaried employees, not restricted to government employees.
- Option C: Correct. Both deductions are separately applicable and there is no combined ceiling; total = Rs. 52,500.
- Option D: Incorrect. There is no statutory combined ceiling of Rs. 50,000 on Sec 16 deductions; both operate independently.

Final Answer: Standard deduction (Rs. 50,000) and professional tax (Rs. 2,500) are both deductible independently under Sec 16. ⇒ $\boxed{\text{C}}$

Answer: (C) Go Back to Q5

Sol.6.

Solution

Concept — Section 54: Exemption on LTCG from Residential Property: Section 54 grants exemption from long-term capital gains tax to individuals and HUFs who transfer a residential house and reinvest in a new residential house in India. Critical conditions: (a) **Qualifying asset:** Long-term capital asset being a residential house; (b) **Time limit for reinvestment:** Purchase within 1 year before or 2 years after the date of transfer, or construction within 3 years after transfer; (c) **Lock-in period:** The new house shall not be transferred within **3 years** of purchase or construction. Transfer of the new house before the 3-year lock-in triggers withdrawal of the exemption, and the exempted gains become chargeable in the year of the subsequent transfer.

Step 1 — Identifying the INCORRECT statement: Option D states the lock-in period as **five years** – this is factually and statutorily wrong. The correct period under Section 54 is **three years**, not five years. The five-year restriction applies to other provisions (e.g., Section 54F in certain situations), not Section 54.

Step 2 — Verifying correctness of other options:

- Option A: Correct statement. Sec 54 applies only to residential houses whose income was or would have been chargeable under "House Property."
- Option B: Correct statement. The prescribed time limits of 1 year/2 years/3

years are accurately stated.

- Option C: Correct statement. Depositing in Capital Gains Account Scheme is the prescribed mechanism for protecting unutilised gains.
- Option D: Incorrect. The lock-in is **3 years**, not 5 years; this is the INCORRECT statement asked by the question.

Final Answer: The lock-in period under Sec 54 is **3 years** (not 5 years); Option D is the incorrect statement. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q6

Sol.7.

Solution

Concept — Sections 22 and 27: Deemed Ownership for House Property: Section 22 charges tax on the annual value of property of which the assessee is the "owner." Section 27 extends ownership by deeming certain persons as owners even without legal title. Section 27(iiia) deems as owner a person who has acquired possession of immovable property **in part performance of a contract of the nature referred to in Section 53A of the Transfer of Property Act, 1882** – i.e., where there is a registered agreement to transfer, possession has been taken, and the transferee has done or is willing to do their part of the contract.

Step 1 — Section 53A, Transfer of Property Act, 1882: Where a person contracts to transfer immovable property for consideration, takes or retains possession, and has paid or is willing to pay the consideration, the transferor cannot enforce any right inconsistent with the contract. The ITA treats such a possessor-purchaser as the "owner" under Sec 27(iiia) for tax purposes, even though the registered sale deed may not yet have been executed.

Step 2 — Evaluating options:

- Option A: Correct. A person in possession under a Sec 53A-type contract is deemed the owner under Sec 27(iiia) of the ITA.
- Option B: Incorrect. A lessee paying ground rent does not become deemed owner under Sec 27; the lessor retains ownership for ITA purposes.
- Option C: Incorrect. A licensee under a revocable leave and licence agreement acquires no proprietary interest and is not a deemed owner.
- Option D: Incorrect. A mortgagee bank holds a security interest, not ownership; the mortgagor-borrower remains the owner for ITA purposes.

Final Answer: A person in possession under a Sec 53A-type contract is the deemed owner under Sec 27(iiia) of the ITA. ⇒ $\boxed{\text{A}}$

Answer: (A) Go Back to Q7

Sol.8.

Solution

Concept — Section 80G: Deduction for Donations to Specified Funds: Section 80G allows deductions for donations to specified funds and institutions. Donations are classified into four categories based on deduction rate and ceiling: (i) 100% without ceiling; (ii) 50% without ceiling; (iii) 100% with 10% of Adjusted GTI ceiling; (iv) 50% with 10% of Adjusted GTI ceiling. The **National Defence Fund**, set up by the Government of India, falls squarely in category (i): **100% deduction without any ceiling**. The deduction under Sec 80G is available to all categories of taxpayers including individuals, HUFs, firms, and companies.

Step 1 — Applying to Mr. Suresh: Donation to National Defence Fund = Rs. 3,00,000. Deduction = 100% of Rs. 3,00,000 = **Rs. 3,00,000**. No AGTI ceiling applies. Being self-employed does not disqualify him; Sec 80G makes no distinction based on the nature of the assessee's profession.

Step 2 — Evaluating options:

- Option A: Incorrect. The National Defence Fund qualifies for 100% deduction with no AGTI ceiling; 50% with 10% ceiling is a different category entirely.
- Option B: Correct. 100% deduction of Rs. 3,00,000 without any ceiling is available to Mr. Suresh.
- Option C: Incorrect. Section 80G is available to all assessees including self-employed individuals; there is no restriction to corporate taxpayers.
- Option D: Incorrect. The 10% AGTI ceiling applies to categories (iii) and (iv), not to National Defence Fund donations.

Final Answer: Donations to the National Defence Fund qualify for 100% deduction without any ceiling under Sec 80G. ⇒ $\boxed{\text{B}}$

Answer: (B) Go Back to Q8

Sol.9.

Solution

Concept — Section 9(3) CGST: Reverse Charge Mechanism (RCM): Section 9(3) of the CGST Act, 2017 is a specific reverse charge provision. It provides that the Government may, on the **recommendations of the GST Council**, by notification, specify categories of supply of goods or services or both, on which the tax shall be paid on *reverse charge basis* by the **recipient** of such supply. The supplier is relieved of the obligation to charge tax in such cases. Examples of supplies notified under Sec 9(3) include: legal services by advocates to business entities, services of goods transport agencies (for specified categories), and services of directors to the company.

Step 1 — Distinguishing from related provisions: Sec 9(4) covers supplies received from unregistered suppliers (if notified). Sec 52 covers tax collected at source by e-commerce operators. Schedule I covers deemed supplies without consideration. Section 9(3) operates independently of all these as a category-specific RCM.

Step 2 — Evaluating options:

- Option A: Incorrect. This describes a provision akin to the former Sec 9(4) mechanism for unregistered supplier supplies; it also incorrectly adds a Rs. 5,000 daily threshold which is not part of Sec 9(3).
- Option B: Incorrect. Sec 9(3) is not restricted to related-party transactions without consideration; that is the domain of Schedule I.
- Option C: Correct. Accurately describes the government notification power on GST Council recommendation for category-specific RCM under Sec 9(3).
- Option D: Incorrect. E-commerce operator TCS is governed by Sec 52 of the CGST Act, not Sec 9(3).

Final Answer: Sec 9(3) empowers the Government to notify specific categories where the recipient pays GST under reverse charge. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q9

Sol.10.

Solution

Concept — Section 19 CGST: ITC on Inputs Sent to Job Worker: Section 19 of the CGST Act permits the *principal* (the registered person who sends goods to the job worker) to avail input tax credit on inputs sent to a job worker. The inputs must be returned to the principal or supplied directly from the job worker's premises within **one year** from the date of being sent out. Capital goods (other than moulds, dies, jigs, fixtures, and tools) must be returned within **three years**. Non-compliance attracts a deeming provision.

Step 1 — Deemed supply under Sec 19(3): If inputs are not returned within one year, Section 19(3) explicitly provides that such inputs **shall be deemed to have been supplied** by the principal to the job worker on the day such inputs were *originally sent out*. The principal is then required to discharge GST on such deemed supply, as if the supply was made on that original date, along with applicable interest.

Step 2 — Evaluating options:

- Option A: Incorrect. The deemed supply consequence applies regardless of whether the job worker is registered or unregistered.
- Option B: Incorrect. There is no statutory provision for an automatic one-year extension under Sec 19 upon filing a declaration; any extension would require a specific Government notification.
- Option C: Incorrect. The liability for the deemed supply vests with Arvind Textiles (the principal) and not with the job worker.
- Option D: Correct. The deemed supply mechanism under Sec 19(3) taxes the principal on the transaction as of the date of the original dispatch.

Final Answer: Inputs not returned within 1 year are deemed supplied by the principal to the job worker under Sec 19(3). $\Rightarrow \boxed{\text{D}}$

Answer: (D) **Go Back to Q10**

Sol.11.

Solution

Concept — Place of Supply for Cross-Border Services (Destination Principle): Under the IGST Act, 2017, the place of supply rules for services involving an overseas party are contained in Section 13. Section 13(2) lays down the **general rule**: the place of supply shall be the **location of the recipient** of services. This embodies the *destination principle* of indirect taxation – the consumption country (where the recipient is located) has the right to levy tax. Specific exceptions under Sections 13(3) to 13(13) carve out categories such as services relating to immovable property, admission to events, transportation, etc., where alternative rules apply.

Step 1 — Policy rationale: The destination principle prevents double taxation and eliminates competitive distortion. It aligns with the OECD International VAT/GST Guidelines, ensuring that tax revenue accrues to the economy where consumption takes place. For B2B cross-border services, the recipient's business establishment location is determinative.

Step 2 — Evaluating options:

- Option A: Correct. The Sec 13(2) general rule is the location of the recipient, applying the destination principle.
- Option B: Incorrect. The supplier's location is the general rule for *domestic* services under Sec 12 where the recipient's location is unknown; for cross-border services under Sec 13, it is the recipient's location.
- Option C: Incorrect. Physical performance location is a specific exception under Sec 13(3)(a) for certain categories such as services relating to goods, not the general rule.
- Option D: Incorrect. DTAAs govern direct tax (income tax) and do not determine the place of supply for GST purposes; these are entirely separate statutory frameworks.

Final Answer: For cross-border services, the general rule under Sec 13(2) IGST Act is the location of the recipient (destination principle). $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q11

Sol.12.

Solution

Concept — Section 15(1)(a) Customs Act, 1962: Relevant Date for Duty Rate: Section 15(1) of the Customs Act, 1962 prescribes the relevant date for determining the applicable rate of customs duty and tariff valuation. Section 15(1)(a) covers goods entered for home consumption under Section 46: the relevant date is the **date of presentation of the bill of entry** under Section 46. This protects the importer from rate changes between the date of filing and the date of actual payment or clearance.

Step 1 — Policy significance: The bill of entry presentation date is chosen as the relevant date because it is the formal, verifiable declaration by the importer regarding the goods, their classification, and value. Post-filing rate changes do not affect the duty payable. Section 15(1)(b) covers warehouse clearances (ex-bond bill of entry presentation date), and Section 15(1)(c) covers residual cases (date of payment of duty).

Step 2 — Evaluating options:

- Option A: Incorrect. Entry into territorial waters or airspace is relevant for other customs purposes (e.g., smuggling jurisdiction) but not for the duty rate determination under Sec 15(1)(a).
- Option B: Correct. The date of presentation of the bill of entry under Sec 46 is the statutorily prescribed relevant date under Sec 15(1)(a).
- Option C: Incorrect. The date of assessment by the proper officer occurs after filing; it is not the relevant date for rate determination under Sec 15(1)(a).
- Option D: Incorrect. The date of actual payment of duty is a separate subsequent event and is not the relevant date under Sec 15(1)(a).

Final Answer: Under Sec 15(1)(a), the rate of customs duty is that in force on the date of presentation of the bill of entry. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q12

Sol.13.

Solution

Concept — GAAR Consequences under Sections 95–102 of the ITA: The General Anti-Avoidance Rule (GAAR) provisions in Chapter X-A (Sections 95–102) of the ITA enable the tax authority to counteract Impermissible Avoidance Arrangements (IAAs). Once an arrangement is declared an IAA, Section 98 enumerates the wide array of consequences that may be invoked.

Step 1 — Consequences under Section 98: The tax authority (with prior approval of the Approving Panel) may: (a) disregard, combine, or recharacterize any step or part of the IAA; (b) treat the IAA as if it had not been entered into or carried out; (c) disregard any accommodating party or treat an accommodating party and any connected person as one and the same; (d) reallocate among the parties any accrual, receipt, income, expenditure, deduction, relief, or rebate; (e) treat debt financing as equity financing or vice versa; and (f) allow or disallow any deduction, exemption, exclusion, avoidance, deferral, or reduction.

Step 2 — Evaluating options:

- Option A: Incorrect. GAAR does not render transactions void ab initio under civil law – its effect is confined to tax computation. There is no automatic 300% mandatory penalty merely on an IAA declaration.
- Option B: Incorrect. The GAAR declaration procedure involves both the Commissioner/Principal Commissioner (who makes the preliminary determination) and the Approving Panel (which grants approval); the Assessing Officer is also involved but the description in option B misrepresents the process.
- Option C: Correct. Accurately describes the recharacterization, combination, denial of tax benefits, and income/deduction reallocation consequences under Sec 98.
- Option D: Incorrect. Section 95 expressly applies to "any arrangement" – there is no territorial or cross-border restriction; GAAR can apply to domestic transactions as well.

Final Answer: GAAR consequences include recharacterization, denial of tax benefits, and reallocation of income and deductions under Sec 98. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q13

Sol.14.

Solution

Concept — Beneficial Ownership in DTAAs: The beneficial ownership requirement is a standard clause inserted in most DTAAs negotiated by India, particularly in Articles dealing with dividends, interest, and royalties. It stipulates that reduced withholding tax rates (treaty rates lower than domestic rates) are available only if the recipient is the **beneficial owner** of the income – i.e., the entity has the full right to use, enjoy, and dispose of the income without any contractual or de facto obligation to pass it on to a third party in a non-treaty country.

Step 1 — Treaty shopping and conduit companies: Without a beneficial ownership requirement, a resident of Country X (which has no favourable treaty with India) could incorporate a shell company in Country Y (which has a favourable India-Y DTAA) solely to route Indian-source income. The conduit in Country Y would receive income at the reduced treaty rate and transmit it to Country X. The beneficial ownership clause prevents such "treaty shopping" by requiring economic substance in the claimed entitlement.

Step 2 — Evaluating options:

- Option A: Correct. Prevents treaty shopping by requiring the recipient to be the true economic owner with full right to use and enjoy the income, not a mere conduit.
- Option B: Incorrect. Beneficial ownership is a concept applied to passive income items (dividends, interest, royalties); PE attribution of business profits is a separate and distinct treaty concept.
- Option C: Incorrect. Beneficial ownership achieves exactly the opposite – it prevents shell companies incorporated in treaty countries from claiming benefits without economic substance.
- Option D: Incorrect. Beneficial ownership is a condition for treaty benefits, not an absolute exemption mandate; the source country does not unconditionally exempt income merely because the recipient is legally registered in the other state.

Final Answer: Beneficial ownership prevents treaty shopping by requiring the recipient to be the true economic owner of the income. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q14

Sol.15.

Solution

Concept — Sections 92D and 92E: Transfer Pricing Documentation and Form 3CEB: Section 92D of the ITA requires every person who has entered into an international transaction (or specified domestic transaction) to keep and maintain such **information and documents** as may be prescribed. Rule 10D of the Income Tax Rules, 1962 prescribes the detailed documentation (functional analysis, comparables, method justification, etc.). Section 92E separately requires that a person who has entered into international transactions must obtain a **report from a Chartered Accountant** in **Form 3CEB** and furnish it to the income tax authority on or before the due date for filing the return, *provided* the aggregate value of such transactions exceeds the **prescribed threshold** (Rs. 1 crore for international transactions, as generally applicable).

Step 1 — Key distinctions:

- Sec 92D: Documentation obligation – applicable to all persons with international/specified domestic transactions (not value-neutral in a complete sense; Rule 10D prescribes threshold above which full documentation is needed).
- Sec 92E: Form 3CEB filing – mandatory when aggregate value of international transactions exceeds Rs. 1 crore; not required below this threshold.
- Form 3CEB: Must be certified by a practicing Chartered Accountant (not just any accountant).

Step 2 — Evaluating options:

- Option A: Incorrect. Documentation is required only of persons who have *actually entered into* international transactions, not all resident assessees universally.
- Option B: Incorrect. The threshold for Form 3CEB filing (Sec 92E) is Rs. 1 crore, not Rs. 50 crores; no transaction is entirely exempt from all documentation simply because it falls below a value threshold.
- Option C: Incorrect. Form 3CEB is required only when the aggregate value of international transactions exceeds the prescribed threshold; filing irrespective of value is not the statutory requirement.
- Option D: Correct. Accurately captures both the maintenance obligation (Sec 92D) and the Form 3CEB filing requirement (Sec 92E) subject to the prescribed threshold, as certified by a Chartered Accountant.

Final Answer: Sec 92D mandates documentation; Sec 92E mandates Form 3CEB by CA when international transactions exceed the prescribed threshold. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q15

Answer Key

Q.No	Ans	Q.No	Ans	Q.No	Ans	Q.No	Ans	Q.No	Ans
1	D	2	C	3	B	4	A	5	C
6	D	7	A	8	B	9	C	10	D
11	A	12	B	13	C	14	A	15	D