CLAT PG Tax Law

Sample Paper – 4

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.

Q1. Parliament enacted a statute empowering the Central Government to notify "such additional levies as may be necessary" on petroleum products. Without any further parliamentary sanction, the Ministry of Petroleum issued a notification imposing a new cess of Rs. 5 per litre. A taxpayer challenges the notification before the Supreme Court. Which statement correctly reflects the constitutional position under Article 265 of the Constitution of India?

(A) The notification is unconstitutional because Article 265 requires every tax to be imposed by "law" — meaning a statute enacted by the legislature — and delegated legislation cannot, absent an express parliamentary grant of tax-imposition power with defined essential legislative elements, create a new fiscal burden on citizens.

(B) The notification is valid because Parliament may validly delegate its entire taxing power to the executive for purposes of dynamic economic management, provided the parent Act confers some general authority on the Government.

(C) The notification is valid because only the fixation of tax rates, and not the imposition of a new tax, requires parliamentary legislation; the executive is fully competent to impose new levies within the broad remit of the parent statute.

(D) The notification is unconstitutional solely because it was issued by the Ministry of Petroleum rather than the Ministry of Finance, which is the constitutionally designated authority for all fiscal matters.

Q2. Which of the following statements most accurately describes the constitutional protection afforded to the property and income of the Union against State taxation under Article 288 of the Constitution of India?

(A) States may levy and collect tax on income derived by the Union from commercial activities conducted in direct competition with private enterprises, since the immunity under Article 288 does not extend to commercial or trading income.

(B) Article 288 protects only immovable property of the Union from State taxation; it does not extend to the income of the Union, nor to movable assets such as ships, vehicles, or aircraft owned by the Central Government.

(C) Under Article 288, property vested in or income accruing to the Union is exempt from all State taxes and duties; "property" for this purpose includes ships and aircraft owned by the Central Government; Parliament may, however, by law, direct that a specified undertaking of the Union shall be liable to pay State tax on the same terms as a private enterprise.

(D) The exemption under Article 288 applies exclusively when Union property is situated within a Union Territory; Union property located within the territorial limits of a State is subject to the State's general taxing jurisdiction.

Q3. Under the Income Tax Act, 1961, which of the following statements regarding the classification of income under Section 14 read with the definition of "total income" in Section 2(45) is **correct**?

(A) The five heads of income specified in Section 14 are illustrative and not exhaustive; income that does not fit within any of the five heads is brought to tax under a separate residual charging provision in the Act.

(B) "Total income" under Section 2(45) includes agricultural income for the purpose of computing the rate of tax applicable to an assessee's non-agricultural income, since partial integration operates through this definition.

(C) An assessee may voluntarily classify income under any one of the five heads that produces a lower tax liability, provided there is a reasonable nexus between the income and the chosen head.

(D) The five heads of income enumerated in Section 14 are exhaustive and together constitute the only permissible categories for assessment; any income must fall within one of these heads to be assessable to income tax, and if it genuinely falls outside all five heads, it escapes tax altogether under the Act.

Q4. Radhika Ltd., a company resident in India, enters into a contract with TechServe GmbH, a German company, for technical services rendered entirely in Germany and used exclusively outside India. Radhika Ltd. remits fees for technical services (FTS) to TechServe GmbH. Under Section 9(1)(vii) of the Income Tax Act, 1961 read with Explanation 2 thereto, which of the following correctly states the tax position?

(A) The FTS is not deemed to accrue or arise in India because the services are rendered outside India and utilised exclusively outside India; accordingly, no withholding obligation arises under Section 195.

(B) The FTS is deemed to accrue or arise in India by virtue of Explanation 2 to Section 9(1)(vii), which provides that FTS paid by a resident payer to a non-resident payee is deemed to accrue in India regardless of whether the services are rendered or used in India; Radhika Ltd. is accordingly required to deduct tax at source under Section 195.

(C) The FTS is deemed to accrue in India only if TechServe GmbH has or had a Permanent Establishment in India at any time during the previous year in which the payment is made.

(D) Whether the FTS is taxable in India depends entirely on the India-Germany DTAA; in the absence of treaty provisions expressly creating source-country taxation rights, the income is not taxable in India.

Q5. Pradeep worked for an Indian multinational and, during an overseas posting, had salary credited to a foreign retirement account governed by the laws of the source country and notified under Section 89A of the Income Tax Act, 1961. Upon retirement he receives a lump-sum withdrawal from that account. He also has a pending arrear salary claim from his domestic employer in India. Which of the following correctly describes the interplay between Section 89 and Section 89A?

(A) Sections 89 and 89A are mutually exclusive reliefs; an assessee who claims relief under Section 89A in any income year is permanently barred from claiming relief under Section 89 in any other year.

(B) Section 89A provides a deduction from total income, whereas Section 89 provides a tax rebate computed through the Form 10E mechanism filed with the return of income.

(C) Section 89A specifically provides relief in respect of income from specified foreign retirement accounts by allowing the income to be taxed in the year of receipt rather than the year of accrual, thereby avoiding distortive bunching; Section 89 provides relief for domestic salary received in arrears or advance; and filing of Form 10E on the income-tax portal is a mandatory precondition for claiming relief under Section 89, failing which the relief cannot be granted even by the Appellate Tribunal.

(D) Form 10E is a mandatory filing requirement only under Section 89A and has no relevance to a claim for relief under Section 89 on arrears of salary from a domestic employer.

Q6. Arvind transfers a plot of land (a long-term capital asset) to a developer for an actual sale consideration of Rs. 80 lakh. The stamp duty value assessed by the Sub-Registrar on the date of transfer is Rs. 1 crore. Arvind disputes the stamp duty value. Which of the following accurately reflects the operation of Section 50C of the Income Tax Act, 1961?

(A) Section 50C deems the stamp duty value (Rs. 1 crore) as the full value of consideration for computing capital gains; however, if the stamp duty value does not exceed 110% of the actual sale consideration, the actual consideration is adopted; since the stamp duty value here exceeds 110% of Rs. 80 lakh (i.e., Rs. 88 lakh), Section 50C is triggered, though Arvind may request the Assessing Officer to refer the matter to the Stamp Valuation Authority.

(B) Section 50C does not apply to agricultural land even after its conversion to non-agricultural use, because the character of land for tax purposes is determined by its original use at the time of acquisition by the transferor.

(C) Section 50C mandates that the Assessing Officer must refer the valuation to the Stamp Valuation Authority in every case where any dispute is raised by the assessee, and the actual sale consideration must be adopted pending the Authority's report.

(D) The stamp duty value under Section 50C is adoptable as the full value of consideration only when the actual sale consideration is below 80% of the stamp duty value; a gap of up to 20% between the two figures is condoned without invoking the deeming provision.

Q7. Kaveri receives dividend income from listed shares and also receives a monthly family pension from the employer of her deceased husband. She borrows funds at interest to invest further in dividend-paying shares. Under Section 57 of the Income Tax Act, 1961, which of the following correctly states the deductions permissible from income classified under the head “Income from Other Sources”?

(A) Interest paid on the borrowed capital used to earn dividend income is fully deductible without any ceiling, and family pension is entirely exempt from tax with no deduction applicable against it.

(B) Deductions under Section 57 are not available in respect of dividend income received from domestic companies; they are restricted only to interest income, family pension, and rental income from plant and machinery.

(C) Interest on borrowed capital used to earn dividend income is deductible up to 20% of the gross dividend income, and no deduction of any kind is available against family pension income under Section 57.

(D) Interest paid on capital borrowed to invest in shares is deductible under Section 57(iii), subject to the cap of 20% of dividend income from domestic companies introduced by the Finance Act, 2020; additionally, from family pension income, a deduction of one-third of the pension or Rs. 15,000, whichever is less, is allowable under Section 57(iia).

Q8. Arundhati is a first-time home buyer who avails a housing loan of Rs. 40 lakh (loan sanctioned on 15 November 2020) to purchase a residential house with a stamp duty value of Rs. 44 lakh. During the relevant assessment year she pays Rs. 1.8 lakh as interest on this loan and has already claimed the maximum deduction of Rs. 2 lakh under Section 24(b). Advise Arundhati on her entitlement under Section 80EEA of the Income Tax Act, 1961.

(A) Arundhati is not entitled to a deduction under Section 80EEA because the stamp duty value of the house (Rs. 44 lakh) exceeds the statutory ceiling of Rs. 40 lakh prescribed for affordable housing under the section.

(B) Arundhati is entitled to a deduction under Section 80EEA of up to Rs. 1.5 lakh (the statutory maximum), since the stamp duty value does not exceed Rs. 45 lakh, the loan was sanctioned within the prescribed window (1 April 2019 to 31 March 2022), and she is a first-time buyer; this deduction is available in addition to and over and above the deduction already claimed under Section 24(b).

(C) Section 80EEA deduction cannot be availed simultaneously with Section 24(b); a taxpayer who claims the Section 24(b) deduction on the same housing loan must forgo Section 80EEA.

(D) The deduction admissible under Section 80EEA is Rs. 2 lakh and is available to all home-loan borrowers regardless of whether they are first-time buyers, provided the stamp duty value condition and loan-sanction date condition are satisfied.

Q9. Under the Integrated Goods and Services Tax Act, 2017, which of the following supplies qualifies as a "zero-rated supply" under Section 16(1) and entitles the registered person to a refund of unutilised input tax credit?

(A) Supply of goods that are exempt from GST under notifications issued by the Government, as such exempt supplies are deemed to be zero-rated for the purpose of input tax credit entitlement.

(B) Supply of goods or services at a nil rate of tax as prescribed in the GST rate schedules, since a nil rate is economically equivalent to a zero rate and should receive the same treatment in terms of ITC refund.

(C) Export of goods or services or both out of India, and supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit; the registered supplier may either furnish a Letter of Undertaking and supply without payment of IGST and then claim refund of accumulated ITC, or pay IGST on the supply and subsequently claim a refund of the IGST so paid.

(D) Supply of goods between two GST-registered entities located in different States, since inter-State supplies attract IGST and the recipient's ITC set-off functions as an equivalent of a zero-rate mechanism within the GST chain.

Q10. A registered dealer received an inward supply during the financial year 2022-23 but inadvertently failed to avail the corresponding input tax credit in GSTR-3B for any month of that year. The due date for filing GSTR-3B for the month of September 2023 was 20 October 2023. The dealer filed its annual return (GSTR-9) for FY 2022-23 on 28 February 2024. Under Section 16(4) of the CGST Act, 2017 (as amended by the Finance Act, 2022), which is the last date by which the input tax credit could lawfully have been availed?

(A) 20 October 2023 — the due date of GSTR-3B for September 2023, being the September of the financial year immediately following FY 2022-23 — because Section 16(4) caps ITC availing at the earlier of: (i) the due date of the return for September of the next financial year, and (ii) the date of filing the annual return; and 20 October 2023 is earlier than 28 February 2024.

(B) 28 February 2024 — the date on which the annual return for FY 2022-23 was actually filed — since that is the operative cut-off event under Section 16(4) directly relating to the supplies of the relevant financial year.

(C) 31 December 2023 — the extended due date for filing the annual return as notified by the Central Government for FY 2022-23 — because the time limit is keyed to the due date of the annual return rather than the actual filing date.

(D) The five-year period of limitation applicable to recovery proceedings under the CGST Act governs; ITC may be availed at any time within that limitation period and Section 16(4) imposes no separate restriction of its own.

Q11. Mitra Construction Co. undertakes a project to construct a commercial complex for a private client under a single composite contract covering the supply of cement, steel, sand, and finishing materials as well as all construction labour and services. The client argues that a substantial portion of the contract value represents goods (materials) and should attract GST at goods rates. Under Section 2(119) of the CGST Act, 2017, which of the following best describes the correct GST treatment of this transaction?

(A) This is a composite supply in which the principal supply is the goods (construction materials) because they constitute the dominant portion of the contract value; GST is therefore charged at the rate applicable to the principal supply of goods.

(B) This is a mixed supply under Section 2(74) of the CGST Act; the applicable GST rate is the highest rate attracted by any single element of the contract.

(C) The construction of an immovable property is not a "supply" under the CGST Act because immovable property is excluded from the definition of "goods"; accordingly, no GST liability arises on this contract.

(D) The contract constitutes a "works contract" as defined in Section 2(119) of the CGST Act; by virtue of Entry 6(a) of Schedule II to the Act, it is treated entirely as a supply of services irrespective of the proportion of goods supplied; GST is levied at the composite rate prescribed for works contract services (18% for commercial construction), and the contract cannot be bifurcated into separate goods and services components.

Q12. A consignment of imported electronic components arrives at Nhava Sheva port on 10 May 2024. The importer files a bill of entry for home consumption under Section 46 of the Customs Act, 1962. After examination and assessment, the proper officer passes an order under Section 47 on 20 May 2024. The importer physically clears the goods from the customs area on 25 May 2024. The applicable regulations grant a free period of two days from the date of the Section 47 order. Which of the following statements is **correct**?

(A) The Out of Charge order under Section 47 is not a mandatory requirement for clearance if duty has already been assessed and paid; the importer may remove the goods from the customs area upon production of the duty-payment challan alone.

(B) The Out of Charge order passed under Section 47 is the mandatory final authority for clearance of imported goods for home consumption; since the goods were cleared on 25 May 2024 — three days after the two-day free period expired on 22 May 2024 — interest on the duty amount is payable for the three-day delay under the relevant customs rules.

(C) An importer may clear goods from the customs area before a Section 47 order is passed by furnishing a bank guarantee equivalent to the assessed duty amount, subject to post-clearance verification by the customs officer.

(D) Section 47 clearance orders apply only to goods imported under an Advance Licence or specific import licence; self-certified imports under the free import policy are cleared under a separate provision of the Customs Act.

Q13. The Income Tax Department discovers that Mr. Suresh deliberately maintained two sets of account books and suppressed sales of Rs. 50 lakh, filing a return declaring nil taxable income. The Department initiates prosecution under Section 276C of the Income Tax Act, 1961. Which of the following correctly states the elements, mens rea requirement, and sentencing framework of the offence under Section 276C?

(A) Section 276C is a strict liability offence; it does not require the Department to prove any intention to evade tax, and mere non-disclosure of income is sufficient for conviction regardless of the reason for the omission.

(B) Section 276C penalises tax avoidance and tax evasion with equal severity; accordingly, a taxpayer who lawfully structures transactions to minimise tax liability may be prosecuted if the tax savings are sufficiently large.

(C) Section 276C creates a criminal offence of wilful attempt to evade tax, penalty, interest, or the repayment of any loan or advance; the word "wilful" imports a requirement of intentional or deliberate conduct, distinguishing it from mere negligence; it is conceptually distinct from legitimate tax planning and lawful avoidance; conviction under Section 276C(1) may result in rigorous imprisonment ranging from three months to seven years along with a fine, depending on whether the tax sought to be evaded exceeds Rs. 25 lakh.

(D) Prosecution under Section 276C can validly be launched only after the assessment order has attained finality through exhaustion of all appeals and the confirmed demand has remained unpaid for not less than six months.

Q14. Ms. Veronica holds citizenship of Country X and has maintained a permanent home there for twenty years. During the relevant tax year, however, she spent most of her time in India, and her centre of vital interests — including her family, primary business operations, and social connections — is overwhelmingly situated in India. Both Country X and India claim her as a tax resident. Under the tie-breaker rule in Article 4(2) of the OECD Model Convention (as incorporated in most of India's double taxation avoidance agreements), which country has the primary right to tax Ms. Veronica as a resident?

(A) Country X, because nationality is the first and overriding tie-breaker criterion under Article 4(2) of the OECD Model Convention; an individual's citizenship in one of the contracting states is decisive.

(B) India, because the number of days of physical presence in the contracting state during the tax year is the first and decisive criterion in the Article 4(2) sequential tie-breaker.

(C) Country X, because a permanent home maintained for twenty years creates an irrebuttable presumption of residence in that country under treaty tie-breaker rules and overrides all subsequent criteria.

(D) India, because Article 4(2) applies its criteria sequentially: the permanent home test is applied first, and since Ms. Veronica has a permanent home available to her in both states, that criterion is inconclusive; the centre of vital interests test is then applied, and since her personal and economic relations are closer to India, India is deemed to be her state of residence for treaty purposes.

Q15. An Indian subsidiary of a multinational group wishes to obtain advance certainty regarding the arm's length price of its intra-group transactions with its foreign parent for the next five assessment years, and also seeks to apply the agreed transfer pricing methodology to the four financial years preceding the year in which the APA application was filed. Which of the following correctly describes the Advance Pricing Agreement regime under Section 92CC read with Section 92CD of the Income Tax Act, 1961?

(A) An APA entered into under Section 92CC is legally binding on the applicant and the prescribed income-tax authority in respect of the international transactions covered; it may be unilateral (concluded only with India's competent authority), bilateral (involving the competent authority of a treaty partner country through the mutual agreement procedure), or multilateral (involving competent authorities of two or more treaty partners); the rollback provision under Section 92CD permits the agreed methodology to be applied to a maximum of four preceding financial years, subject to specified conditions.

(B) An APA under Section 92CC, once entered into, is binding on the applicant and the Assessing Officer but is not binding on the Income Tax Appellate Tribunal; the Tribunal may independently disregard the APA if it concludes that the agreed methodology does not produce an arm's length result.

(C) The rollback provision under Section 92CD is available exclusively for bilateral and multilateral APAs; unilateral APAs carry no rollback benefit and the agreed methodology applies only prospectively from the first year covered by the APA.

(D) An APA under Section 92CC can be applied for only after the relevant transactions have been assessed and determined by the Transfer Pricing Officer to be at non-arm's length; the APA then regularises those past transactions and applies prospectively from the date of its execution.

Detailed Solutions

Q1.

Solution

Concept — Article 265 and the Requirement of Legislative Authority: Article 265 of the Constitution declares that no tax shall be levied or collected except by authority of law. The Supreme Court has consistently held that "law" within Article 265 means a statute enacted by the competent legislature. While Parliament may delegate the power to fix tax rates within specified limits, the essential legislative function of imposing a new tax cannot be delegated.

Step 1 — Is the Notification "Law" under Article 265? A Ministry notification is subordinate (delegated) legislation deriving its force from the parent Act. If the parent Act has not itself created the charge — meaning it has not defined the taxable event, the base, or the essential legislative elements — a notification imposing a new cess amounts to self-authorisation by the executive and violates Article 265.

Step 2 — Doctrine of Excessive Delegation: In *Gwalior Rayon* and related cases, the Supreme Court held that while rate-fixation within a legislative ceiling may be delegated, the decision that a particular subject shall be taxed must reside in the legislature. The notification here creates a wholly new levy (a cess), going beyond any permissible rate-variation, and is therefore ultra vires.

Why other options are wrong:

- Option B: Parliament cannot delegate its entire taxing power; the essential legislative function — the imposition of the charge — must be retained; blanket delegation is unconstitutional.
- Option C: The distinction works the other way: it is the imposition of the charge (not rate fixation) that must be by parliamentary law; delegating rate-fixation within limits is permissible, but creating the levy itself is not.
- Option D: The constitutional invalidity arises from the absence of parliamentary authority for the new levy, not from the identity of the Ministry issuing the notification; any Ministry notification imposing a tax without legislative sanction is equally void.

Final Answer: Article 265 requires each levy to be created by a statute of the legislature; the Ministry notification creates an impermissible new fiscal burden without the requisite legislative foundation. $\Rightarrow \boxed{\text{A}}$

$\boxed{\text{Answer: (A)}}$ Go Back to Q1

Q2.

Solution

Concept — Article 288: Immunity of Union Property and Income from State Taxation: Article 288 of the Constitution embodies the principle of intergovernmental immunity in India's federal structure. It provides that property vested in and income accruing to the Union shall not be subject to taxation imposed by a State or any authority within a State. The term "property" is construed broadly to include all assets of the Central Government, including movable property such as ships and aircraft.

Step 1 — Scope of "Property" and "Income": The immunity is comprehensive and extends to both property and income of the Union. Commercial income earned through Union-owned undertakings is not excluded. Courts have applied the immunity broadly unless Parliament has itself lifted it.

Step 2 — Parliamentary Power to Waive Immunity: Article 288 contains an important qualification: Parliament may, by law, require a specified undertaking of the Union to pay State tax, thereby creating a legislative exception to the general immunity. This power is solely Parliament's — it cannot be exercised by the State legislature.

Why other options are wrong:

- Option A: Commercial activity does not strip the Union of the Article 288 immunity; the Constitution draws no such distinction based on the nature of the Union's activity.
- Option B: The immunity extends to income of the Union and to movable property including ships and aircraft, not just to immovable property.
- Option D: Article 288 immunity is not geographically limited to Union Territories; it applies wherever Union property is situated, including within the territory of a State.

Final Answer: Article 288 protects Union property (including ships and aircraft) and income from State taxation; Parliament alone may waive the immunity for specific undertakings. $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q2

Q3.

Solution

Concept — Section 14 Heads of Income: Exhaustive Classification: Section 14 of the Income Tax Act, 1961 lists five heads of income: (i) Salaries, (ii) Income from House Property, (iii) Profits and Gains of Business or Profession, (iv) Capital Gains, and (v) Income from Other Sources. Section 2(45) defines “total income” as the total amount of income computed in the manner laid down in the Act. There is no residual charging provision beyond these five heads.

Step 1 — Exhaustive Nature of the Heads: The Supreme Court in *CIT v. Raja Bahadur Kamakhya Narayan Singh* (1948) and subsequent decisions confirmed that the five heads in Section 14 are exhaustive. If a receipt cannot genuinely be brought within any head, it is not taxable, because there is no free-standing residual charge in the Act.

Step 2 — Agricultural Income and “Total Income”: Agricultural income is expressly excluded from “total income” by Section 10(1). It enters the computation only for the purpose of rate determination (partial integration) under the annual Finance Act — it is not itself a component of “total income” as defined in Section 2(45).

Why other options are wrong:

- Option A: The heads are exhaustive, not illustrative; there is no separate residual charging provision for income falling outside all five heads.
- Option B: Agricultural income is excluded from “total income” under Section 10(1); it is not included within Section 2(45) but is only used for rate-computation purposes.
- Option C: An assessee cannot choose the head; income must be placed under the head that correctly describes its legal nature, not whichever is more tax-efficient.

Final Answer: The five heads under Section 14 are exhaustive; income that does not fall within any head cannot be brought to tax under the Act. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q3

Q4.

Solution

Concept — Section 9(1)(vii) and Explanation 2 (Fees for Technical Services): Section 9(1)(vii) deems FTS to accrue or arise in India in certain circumstances. Explanation 2 (inserted by the Finance Act, 2010 with retrospective effect from 1976) overrides the source/use nexus requirement and provides that FTS paid by a resident to a non-resident is deemed to accrue in India irrespective of whether the services are rendered in India or utilised in India.

Step 1 — Effect of Explanation 2: Prior to the Explanation, the Supreme Court in *Ishikawajima-Harima Heavy Industries* held that both rendering and utilisation in India were necessary for the deemed-accrual rule. Explanation 2 legislatively overruled this by removing both conditions: the mere fact that a resident payer pays FTS to a non-resident suffices.

Step 2 — Section 195 Obligation: Since the FTS is deemed to accrue in India, Radhika Ltd. is required to deduct tax at source under Section 195 at the applicable rate (or treaty rate if lower under the India-Germany DTAA).

Why other options are wrong:

- Option A: This was the pre-Explanation 2 position; Explanation 2 has removed the render/use nexus requirement.
- Option C: A Permanent Establishment is relevant for taxing business profits under Article 7 of the DTAA; FTS has its own specific deeming provision that operates independently of any PE nexus.
- Option D: The domestic deeming provision creates the tax obligation; while a DTAA may restrict India's right to tax, it does not eliminate the withholding obligation unless the treaty rate is Nil.

Final Answer: Explanation 2 to Section 9(1)(vii) deems FTS paid by a resident to a non-resident to accrue in India regardless of the place of rendering or utilisation. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q4

Q5.

Solution

Concept — Section 89A vs. Section 89: Section 89 of the ITA provides a rebate to an employee who receives salary in arrears or advance, computed by spreading the receipts over the relevant years to neutralise the distortion caused by progressive rate bunching. Section 89A (inserted by the Finance Act, 2021) specifically addresses income from *foreign* retirement accounts (e.g., 401(k), UK pension trusts) held by Indian residents who worked abroad, permitting taxation only in the year of actual receipt.

Step 1 — Distinct Scope and Mechanism: Section 89A shifts the point of taxation from accrual to receipt, dealing with the India-foreign mismatch where the source country taxes on withdrawal while India taxes on accrual. Section 89 operates within domestic employment and gives relief through a rebate calculated under Rule 21A and disclosed in Form 10E.

Step 2 — Form 10E Mandatory for Section 89: The Central Board of Direct Taxes and Appellate Tribunals (e.g., *Bhakta v. ITO*, ITAT Delhi) have consistently held that filing Form 10E on the income-tax portal before the due date of the return is a mandatory pre-condition for claiming Section 89 relief; without it, the relief is denied even by appellate authorities. Form 10E is not required for Section 89A.

Why other options are wrong:

- Option A: The two sections address entirely different income types and are not mutually exclusive for separate years; claiming one does not bar the other.
- Option B: Section 89A does not provide a deduction from income; it shifts the taxability year. Section 89 provides a rebate (relief from extra tax), not a deduction from gross income.
- Option D: Form 10E is mandatory for Section 89 on domestic salary arrears; it has no application to Section 89A (which has its own reporting framework).

Final Answer: Section 89A covers foreign retirement accounts (taxed on receipt); Section 89 covers domestic salary arrears/advance; Form 10E mandatory for Section 89. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q5

Q6.

Solution

Concept — Section 50C: Stamp Duty Value as Deemed Full Value of Consideration: Section 50C provides that where a capital asset (land or building or both) is transferred for a consideration less than the value adopted by the stamp duty authority (SDV), the SDV shall be deemed to be the full value of consideration for computing capital gains. This prevents understatement of sale consideration.

Step 1 — The 110% Safe Harbour (Finance Act, 2020): A 10% tolerance was introduced: if the SDV does not exceed 110% of the actual sale consideration, the actual consideration is adopted and the deeming provision does not apply. Here: 110% of Rs. 80 lakh = Rs. 88 lakh. The SDV of Rs. 1 crore (Rs. 100 lakh) exceeds Rs. 88 lakh, so Section 50C is triggered and the SDV is deemed to be the full consideration.

Step 2 — Dispute and SVA Reference: Arvind may request the Assessing Officer to refer the matter to the Stamp Valuation Authority (SVA). If the SVA determines a lower value, that lower value is adopted. If the SVA's determination equals or exceeds the Registrar's SDV, the Registrar's value stands.

Why other options are wrong:

- Option B: Section 50C applies to any land or building held as a capital asset; the prior agricultural character of the land is irrelevant once it is a capital asset.
- Option C: An SVA reference is not automatic; it is made only on the assessee's request, not in every case where a dispute is raised.
- Option D: The safe harbour threshold is 110% (not 80%) of actual consideration; a gap up to 10% (not 20%) is condoned.

Final Answer: Section 50C applies (SDV exceeds 110% of actual price); the 110% safe harbour is the operative threshold; Arvind may seek SVA reference. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q6

Q7.

Solution

Concept — Section 57: Permissible Deductions from "Income from Other Sources": Section 57 enumerates the deductions allowable from income taxable under the head "Income from Other Sources." The two relevant deductions are: (i) Section 57(iii) — any expenditure (not being capital) laid out or expended wholly and exclusively for the purpose of earning the income; and (ii) Section 57(iia) — from family pension, one-third of the pension or Rs. 15,000, whichever is less.

Step 1 — Dividend Income and the 20% Cap on Interest: With effect from AY 2021-22, dividends from domestic companies are taxable under "Income from Other Sources." However, the Finance Act, 2020 introduced a specific restriction in the proviso to Section 57: the deduction for interest on borrowed capital used to earn such dividend is capped at 20% of the total dividend income received. No other expense (commission, salary, etc.) is deductible against dividend income.

Step 2 — Family Pension Deduction under Section 57(iia): Family pension received by the heir of a deceased employee is fully taxable as "Income from Other Sources." Section 57(iia) specifically allows a standard deduction of one-third of the pension or Rs. 15,000, whichever is less, as the only deduction available against this income.

Why other options are wrong:

- Option A: Interest deduction on borrowings for dividend is capped at 20% of dividend income (not unlimited); family pension is not exempt but is taxable with a specific deduction under Section 57(iia).
- Option B: Section 57 deductions are available against dividend income (with the 20% cap); they are not restricted to interest income, family pension, and rental income alone.
- Option C: The 20% cap for dividend interest is correctly stated, but denying any deduction against family pension is wrong — Section 57(iia) provides one.

Final Answer: Interest deductible up to 20% of dividend (post Finance Act 2020); family pension deduction is one-third or Rs. 15,000 whichever less under Section 57(iia). $\Rightarrow \boxed{\text{D}}$

$\boxed{\text{Answer: (D)}}$ Go Back to Q7

Q8.

Solution

Concept — Section 80EEA: Additional Deduction for Affordable Housing Home Loan Interest: Section 80EEA was introduced by the Finance Act, 2019 to incentivise affordable housing. It allows an individual assessee an additional deduction of up to Rs. 1.5 lakh per annum on interest paid on a housing loan, over and above the deduction of Rs. 2 lakh permissible under Section 24(b).

Step 1 — Eligibility Conditions: The four cumulative conditions are:

- The loan must be sanctioned by a financial institution between 1 April 2019 and 31 March 2022.
- The stamp duty value of the residential property must not exceed Rs. 45 lakh.
- The individual must not own any other residential house on the date of loan sanction (first-time buyer).
- The individual must not be claiming deduction under Section 80EE in the same year.

Step 2 — Applying Facts to Arundhati: Loan sanctioned 15 November 2020 (within the window); stamp duty value Rs. 44 lakh (within the Rs. 45 lakh limit); she is a first-time buyer. All conditions are satisfied. The deduction is the lesser of actual interest paid (Rs. 1.8 lakh) or the ceiling (Rs. 1.5 lakh) = Rs. 1.5 lakh; this is in addition to Section 24(b).

Why other options are wrong:

- Option A: The stamp duty value ceiling is Rs. 45 lakh, not Rs. 40 lakh; Rs. 44 lakh is within the limit.
- Option C: Section 80EEA is explicitly designed to be claimed in addition to Section 24(b); the two are not mutually exclusive.
- Option D: The maximum deduction is Rs. 1.5 lakh (not Rs. 2 lakh); the first-time buyer condition is mandatory and cannot be waived.

Final Answer: All Section 80EEA conditions are satisfied; Arundhati claims Rs. 1.5 lakh in addition to the Section 24(b) deduction already availed. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q8

Q9.

Solution

Concept — Section 16(1) IGST Act: Zero-Rated Supply: "Zero-rated supply" is a specific statutory category under the GST framework, expressly defined in Section 16(1) of the IGST Act. It comprises: (a) export of goods or services or both, and (b) supply of goods or services or both to a Special Economic Zone (SEZ) developer or SEZ unit. Zero-rated supply is distinct from exempt supply and nil-rated supply.

Step 1 — ITC Recovery: The critical distinction from exempt supplies is that a zero-rated supplier can fully recover input tax credit. Under Section 16(3) of the IGST Act, the supplier has two options: (i) furnish a Letter of Undertaking (LUT) and supply without paying IGST, then claim a refund of accumulated ITC under Section 54 of the CGST Act; or (ii) pay the applicable IGST on the supply and subsequently claim a refund of the IGST so paid.

Step 2 — Distinction from Exempt and Nil-Rated: Exempt supplies attract no GST, and ITC on inputs used for exempt supplies is blocked under Section 17(2) of the CGST Act. Nil-rated (0%) supplies are taxable supplies where the rate is zero; while ITC is technically available, there is no accumulated ITC to refund on domestic nil-rated supplies. Only zero-rated supplies trigger the LUT/refund mechanism.

Why other options are wrong:

- Option A: Exempt supplies are not zero-rated; ITC is blocked for exempt supplies under Section 17(2) CGST Act, not refundable.
- Option B: Nil-rated and zero-rated are legally distinct categories; nil-rated does not entitle a refund of accumulated ITC through the export/SEZ refund route.
- Option D: Ordinary inter-State supplies between two registered entities are standard taxable supplies attracting IGST; they are not zero-rated and carry no special ITC refund entitlement.

Final Answer: Zero-rated supply = exports + supply to SEZ; supplier uses LUT (ITC refund) or pays IGST (IGST refund). $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q9

Q10.

Solution

Concept — Section 16(4) CGST Act (Post Finance Act, 2022): Time Limit for Availing ITC: Section 16(4) of the CGST Act imposes a hard deadline on the availing of ITC. Post the Finance Act, 2022 amendment, the cut-off is the *earlier* of: (i) the due date of the return under Section 39 for the month of September of the financial year immediately following the financial year to which the supply relates; and (ii) the actual date of filing the annual return for that financial year.

Step 1 — Determining the Two Cut-offs: For supplies received in FY 2022-23:

- Cut-off (i): Due date of GSTR-3B for September 2023 (September of FY 2023-24, which is the year following FY 2022-23) = 20 October 2023.
- Cut-off (ii): Date of filing GSTR-9 for FY 2022-23 = 28 February 2024.

The earlier of the two dates is 20 October 2023. The ITC was not availed by that date and is therefore lost.

Step 2 — Policy Rationale: The time limit ensures that ITC disputes and reconciliations are resolved within a predictable window, aligning with the Department's revenue reporting and audit timelines.

Why other options are wrong:

- Option B: Section 16(4) takes the *earlier* of the two cut-offs; 28 February 2024 is the later date and therefore does not govern.
- Option C: The extended due date for the annual return (if any) would shift cut-off (ii) but would not affect cut-off (i) — the September return due date — which governs here as the earlier date.
- Option D: ITC is not governed by the general five-year limitation for tax demand proceedings; Section 16(4) imposes its own specific and earlier time bar.

Final Answer: Last date for ITC availing = 20 October 2023 (earlier of September-return due date and annual-return filing date). $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q10

Q11.

Solution

Concept — Section 2(119) CGST Act: Works Contract Treated as Supply of Services: Section 2(119) of the CGST Act defines "works contract" as a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration, or commissioning of any immovable property, in which transfer of property in goods (whether as goods or in some other form) is involved in the execution of the contract. Entry 6(a) of Schedule II to the CGST Act expressly deems works contracts to be a supply of services.

Step 1 — Legal Fiction: Entire Contract Treated as Services: The legislative design eliminates the pre-GST controversy of bifurcating works contracts into goods and services components. Regardless of the proportion of materials supplied, the entire contract is classified as a supply of services. The applicable rate for construction of commercial complexes is 18% (9% CGST + 9% SGST).

Step 2 — Why Bifurcation Is Impermissible: The client's argument that a portion of the contract value should attract goods rates is legally untenable: Schedule II Entry 6(a) forecloses bifurcation. This was also affirmed by the GST Council's FAQs and multiple Advance Ruling Authority decisions.

Why other options are wrong:

- Option A: Composite supply rules (principal supply dominates) apply to transactions outside the works contract definition; once a contract falls within Section 2(119), the Schedule II deeming rule takes over and the entire contract is services.
- Option B: A mixed supply involves independent supplies of different goods/services artificially bundled; a works contract is a single integrated service and is not a mixed supply.
- Option C: The exclusion of immovable property from "goods" does not exempt the service component; the CGST Act expressly covers works contracts as taxable services under Schedule II.

Final Answer: Works contract under Section 2(119) is entirely a supply of services per Schedule II Entry 6(a); composite rate of 18% applies; no bifurcation permitted. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q11

Q12.

Solution

Concept — Sections 46 and 47 of the Customs Act, 1962: Section 46 requires the importer to file a bill of entry for home consumption (or warehousing) before or on arrival of goods. Section 47 empowers the proper officer, after examination, assessment, and satisfaction that duty has been paid, to pass an "Out of Charge" (OOC) order — the mandatory final authority allowing physical removal of goods from the customs area. No goods may be legally cleared without an OOC order.

Step 1 — Free Period and Interest: After the OOC order is passed, the importer has a prescribed free period to clear the goods. If clearance is delayed beyond the free period, interest becomes payable on the duty amount under Section 47(2) of the Customs Act (at the rate prescribed by the Government) for each day of delay.

Step 2 — Applying the Facts: OOC order: 20 May 2024. Free period: 2 days ⇒ expiry: 22 May 2024. Actual clearance: 25 May 2024. Delay: 3 days. Interest is payable on the assessed duty for 3 days.

Why other options are wrong:

- Option A: Payment of duty alone is not sufficient for clearance; the OOC order under Section 47 is a mandatory procedural requirement before goods can be removed.
- Option C: There is no provision in the Customs Act permitting pre-OOC clearance on furnishing a bank guarantee; provisional assessment under Section 18 is a different and unrelated mechanism.
- Option D: Section 47 applies to all imports for home consumption regardless of the import licensing category; it is not restricted to licensed imports.

Final Answer: OOC order under Section 47 is mandatory for clearance; 3-day delay after the free period makes interest payable on the duty amount. ⇒ $\boxed{B}$

Answer: (B) Go Back to Q12

Q13.

Solution

Concept — Section 276C: Wilful Attempt to Evade Tax: Section 276C(1) of the ITA criminalises a wilful attempt to evade the payment of tax, penalty, or interest. The word "wilful" is central: it imports an element of intentional, deliberate conduct and distinguishes criminal evasion from inadvertent omissions. This makes Section 276C distinct from civil penalty provisions, which may apply even without intent.

Step 1 — Mens Rea Requirement: The Supreme Court in *Prakash Nath Khanna v. CIT* and *Sanjay Dutt* line of cases confirmed that Section 276C is not a strict liability offence; the prosecution must establish that the accused deliberately and intentionally attempted to evade tax. Maintaining dual accounts and filing a nil-return in full knowledge of suppressed income is paradigmatic wilful evasion.

Step 2 — Sentencing Framework: Under Section 276C(1): where the amount of tax sought to be evaded exceeds Rs. 25 lakh, punishment is rigorous imprisonment of 6 months to 7 years plus fine. Where the amount does not exceed Rs. 25 lakh, it is 3 months to 2 years plus fine. In Mr. Suresh's case (suppression of Rs. 50 lakh in sales), the tax evaded is likely to exceed Rs. 25 lakh, attracting the higher range.

Why other options are wrong:

- Option A: Section 276C requires proof of wilfulness; it is not a strict liability offence; mere non-disclosure without deliberate intent would not sustain conviction.
- Option B: Tax avoidance and legitimate planning are legal and cannot attract Section 276C prosecution, regardless of the quantum of tax saved; only wilful evasion is criminal.
- Option D: Prosecution under Section 276C does not require the assessment to have attained finality; criminal proceedings may be launched concurrently with or independently of civil assessment and appellate proceedings.

Final Answer: Section 276C requires wilful intent to evade; distinct from lawful planning/avoidance; punishment up to 7 years RI plus fine where evasion exceeds Rs. 25 lakh. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q13

Q14.

Solution

Concept — OECD Model Article 4(2): Sequential Tie-Breaker for Individual Dual Residents: When an individual is simultaneously treated as a resident of both contracting states under their respective domestic laws, Article 4(2) of the OECD Model Convention (replicated in most Indian DTAAs) resolves the conflict through the following sequential criteria:

(a) Permanent home available to the individual;
(b) Centre of vital interests (personal and economic relations);
(c) Habitual abode;
(d) Nationality (citizenship);
(e) Mutual agreement of competent authorities.

Each criterion is applied only if the preceding one is inconclusive.

Step 1 — Permanent Home Test (Criterion 1): Ms. Veronica has a permanent home in Country X. However, if she also has a permanent dwelling available to her in India (e.g., her family home), both states satisfy criterion 1 and the test is inconclusive. The next criterion then applies.

Step 2 — Centre of Vital Interests (Criterion 2): The centre of vital interests is determined by where the individual has the closest personal and economic relations. The facts establish that Ms. Veronica's family, social connections, and primary business are all in India. India therefore has the closer relations and is deemed her state of residence.

Why other options are wrong:

- Option A: Nationality is the *fourth* and penultimate criterion in the sequence; it is applied only when permanent home, centre of vital interests, and habitual abode are all inconclusive.
- Option B: Days of physical presence is not a standalone tie-breaker criterion; it may inform the "habitual abode" analysis (criterion 3) but is not the first or decisive criterion.
- Option C: Long duration of the permanent home in Country X does not make criterion 1 conclusive; the test asks only whether a permanent home is available in each state, not for how long it has been maintained.

Final Answer: Permanent home test is inconclusive (both states); centre of vital interests (criterion 2) points decisively to India; India is the state of residence. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q14

Q15.

Solution

Concept — Section 92CC and 92CD: Advance Pricing Agreements (APA): An APA is a prospective agreement between a taxpayer and the tax authority that determines in advance the arm's length price or pricing methodology for specified international transactions for a future period (not exceeding five years). Section 92CD provides the rollback mechanism allowing the agreed methodology to apply to preceding years.

Step 1 — Types of APA: A unilateral APA involves only the CBDT and the Indian applicant. A bilateral APA additionally involves the competent authority of a treaty partner country through the Mutual Agreement Procedure (MAP) under the relevant DTAA. A multilateral APA involves competent authorities of two or more treaty partners. All three types are equally binding on the applicant and the prescribed income-tax authority.

Step 2 — Rollback Provision (Section 92CD): The rollback allows the agreed transfer pricing methodology to be applied to a maximum of four financial years preceding the first year covered by the APA (the "rollback years"), subject to: (i) the international transactions in the rollback years being the same as those covered by the APA; (ii) no appeal having been finally decided for those years; and (iii) the applicant agreeing to the rollback and paying any additional tax arising. The rollback is available for all three types of APAs — unilateral, bilateral, and multilateral.

Why other options are wrong:

- Option B: An APA is binding on both the assessee and the competent tax authority; the ITAT cannot disregard a validly executed APA without finding that it was obtained by fraud or misrepresentation.
- Option C: There is no restriction in Section 92CD excluding unilateral APAs from the rollback benefit; rollback is available for all three APA types.
- Option D: An APA is a *prospective* arrangement sought before transactions are entered into; it cannot be applied to transactions already assessed and determined non-arm's length (though the rollback covers prior-year transactions that have not yet been finally adjudicated).

Final Answer: APAs (unilateral/bilateral/multilateral) are binding; rollback under Section 92CD applies to a maximum of 4 preceding financial years. $\Rightarrow \boxed{A}$

$\boxed{\text{Answer: (A)}}$ **Go Back to Q15**

Answer Key

1	A	2	C	3	D	4	B	5	C
6	A	7	D	8	B	9	C	10	A
11	D	12	B	13	C	14	D	15	A