CLAT PG Tax Law

Sample Paper – 5

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. This is **Sample Paper 5** in the Tax Law series.
- 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.

Questions

Q.1. Before the Constitution of India came into force, the State of Mysore levied an octroi on goods entering municipal areas under a pre-constitutional statute. Parliament subsequently enacted legislation on a subject that occupied the same field within the State List. The state argues that its pre-existing octroi law remains valid. Which constitutional provision specifically preserves taxes, duties, cesses, or fees that were being lawfully levied by a state, municipality, or other local body immediately before the commencement of the Constitution, even if they relate to a matter in the State List, until Parliament by law otherwise provides?

(A) Article 254(2), which permits a state legislature to repeal or amend a central law on a concurrent subject with Presidential assent, thereby preserving older state laws by operation of law.

(B) Article 277, which specifically saves any taxes, duties, cesses, or fees that were being lawfully levied by a state, municipality, or other local body immediately before the commencement of the Constitution on matters in the State List, until Parliament by law otherwise provides.

(C) Article 372, which continues all pre-constitutional laws in force in India generally, but does not specifically address the continued validity of pre-constitutional taxes that may conflict with a new legislative entry after a Parliamentary occupation of the field.

(D) Article 254(1), which protects state laws on the Concurrent List from repugnancy with central laws where the state law was enacted before the central law came into existence.

Q.2. The State Legislature of Goa enacted the Goa State Goods and Services Tax (Amendment) Act extending SGST to the "supply of alcoholic liquor for human consumption" within the state, contending that Article 246A(1) confers concurrent GST powers on Parliament and State Legislatures without carving out alcoholic liquor. Evaluate the constitutional validity of this enactment.

(A) The enactment is valid because Article 246A(1) confers concurrent power on Parliament and State Legislatures to make laws with respect to goods and services tax on all goods, and no explicit exclusion of alcoholic liquor appears in the constitutional text of Article 246A(1) itself.

(B) The enactment is valid because each state has exclusive power over intoxicating liquors under Entry 8 of List II of the Seventh Schedule, and this exclusive power overrides and supersedes the GST framework in its entirety for liquor.

(C) The enactment is invalid because the CGST Act, 2017 has occupied the entire field of goods and services tax, leaving no room for any independent state legislation on any supply whatsoever, including supplies of liquor.

(D) The enactment is constitutionally invalid because Article 246A(1), while conferring concurrent GST legislative powers, expressly excludes "alcoholic liquor for human consumption" from the scope of goods and services tax at the constitutional level; this exclusion operates as a structural limitation on both Parliament and State Legislatures, so neither can impose GST on such supply without a further constitutional amendment.

Q.3. Rohan holds 12% of the equity shares of Prestige Ltd. (a closely held company), carrying a beneficial interest of 12% in the company. Prestige Ltd. extends a loan of Rs. 5 lakh to Rohan, who is not receiving the loan in his capacity as an employee. Prestige Ltd. has accumulated profits of Rs. 8 lakh at the time of the loan. How is this loan treated under Section 2(22)(e) of the Income Tax Act, 1961?

(A) The loan is deemed to be a dividend in Rohan's hands to the extent of Rs. 5 lakh (subject to the ceiling of accumulated profits of Rs. 8 lakh), because Rohan holds more than the prescribed 10% beneficial interest in the company, and Section 2(22)(e) specifically treats loans or advances made by a closely held company to such shareholders as deemed dividend in their hands.

(B) The loan is not a deemed dividend because Section 2(22)(e) applies only to shareholders who hold more than 20% of the voting rights in the company; a 12% shareholding is below this threshold.

(C) The loan is treated as income from other sources in Rohan's hands at the applicable fair market rate of interest, not as a deemed dividend, because Rohan received it in an arm's-length commercial transaction supported by a loan agreement.

(D) The loan is exempt from tax as Prestige Ltd. is a closely held private company; the deemed dividend provisions of Section 2(22)(e) apply only to public companies whose shares are freely transferable on a recognised stock exchange.

Q.4. Rajkamal owns a tea estate in Assam where he grows tea, plucks the leaves, and processes them into made tea (finished tea product) in a factory situated on the same estate. He sells the finished made tea for

Rs. 30 lakh per year and claims the entire income as exempt "agricultural income" under Section 10(1) of the Income Tax Act, 1961, arguing that the entire process from cultivation to sale is integral and indivisible. How should his income be treated under the Act?

(A) The entire Rs. 30 lakh is exempt agricultural income because the tea is grown, manufactured, and sold entirely on the estate by the same person, making the processing an integral extension of agricultural activity.

(B) The income is entirely taxable as income from business because the processing of tea leaves into finished made tea transforms agricultural produce into a manufactured product, thereby removing the agricultural income exemption in its entirety.

(C) Under Rule 8 of the Income Tax Rules, 1962, 60% of the income from growing and manufacturing tea is treated as agricultural income exempt under Section 10(1), and the remaining 40% is treated as income from business chargeable to tax at the applicable rates.

(D) Section 10(1) exempts only the income directly attributable to the growing of raw tea leaves (i.e., the standing crop value); all income from the manufacturing process is fully taxable and the split between exempt and non-exempt must be certified by a licensed agricultural income valuer.

Q.5. Avinash owns three residential properties in Mumbai: Property A, Property B, and Property C. He and his family use all three on a rotational basis as a residence and none of the three properties is let out to any tenant. He claims all three should be assessed with nil annual value as "self-occupied" under Section 23 of the Income Tax Act, 1961. Under Section 23(2) and (4), as amended, how many properties can legally be treated as self-occupied with nil annual value?

(A) All three properties can be treated as self-occupied with nil annual value because Section 23 does not place any numerical restriction on the number of self-occupied properties for a resident individual, provided none is let out.

(B) As per the Finance Act, 2019 amendment to Section 23(2) and (4), a maximum of two houses can be treated as self-occupied with nil annual value at the option of the assessee; the third property is deemed to be let out and its notional annual value (fair rental value) must be computed and brought to tax under the head "Income from House Property".

(C) Only one property can be treated as self-occupied with nil annual value under Section 23(2); the remaining two properties are deemed to be let out and must be assessed on the basis of their fair rental value or actual rent received, whichever is higher.

(D) The self-occupied benefit under Section 23 is available only for the property in which the owner permanently and exclusively resides; Avinash's rotational use disqualifies all three properties from nil annual value treatment, and all three are to be assessed at their respective fair rental values.

Q.6. Bharat Enterprises Ltd., a manufacturing company, purchases a new plant costing Rs. 50 lakh on 1 December of the previous year and puts it to use immediately. The plant is used for 121 days in that previous year, i.e., less than 180 days. The applicable depreciation rate for the plant under the Income Tax Act, 1961 is 15%. What is the depreciation allowable for that previous year?

(A) Rs. 7,50,000 (i.e., 15% on Rs. 50 lakh), because the full rate of depreciation applies irrespective of the period of use during the year once the asset is put to use before the end of the previous year.

(B) Rs. 3,00,000 (i.e., 6% on Rs. 50 lakh), because when an asset is put to use for less than 180 days, the Act prescribes an adjusted depreciation rate of 6% for plant and machinery as a statutory floor rate.

(C) Nil, because the Income Tax Act disallows all depreciation for assets put to use for less than six calendar months in the year of first acquisition, as the full tax benefit is deferred to the following year.

(D) Rs. 3,75,000 (i.e., half of 15% = 7.5% on Rs. 50 lakh), because Section 32 read with the proviso thereto provides that where any asset is put to use for a period of less than 180 days in the year in which it is first put to use, the allowable depreciation is restricted to 50% of the amount that would otherwise have been allowed at the full applicable rate.

Q.7. Kannan, a textile trader, makes a single cash payment of Rs. 12,000 to one supplier for the purchase of raw materials in a single day. This is the only payment made to that supplier for that transaction. Under Section 40A(3) of the Income Tax Act, 1961, what is the tax treatment of this expenditure in Kannan's hands?

(A) The entire expenditure of Rs. 12,000 is disallowed under Section 40A(3) because the cash payment to a single person in a single day exceeds Rs. 10,000, and the section mandates 100% disallowance of the entire sum paid (not merely the amount in excess of Rs. 10,000) when the prescribed monetary limit is breached.

(B) Only Rs. 2,000 (the amount exceeding Rs. 10,000) is disallowed under Section 40A(3); the first Rs. 10,000 of the payment is within the threshold and is fully deductible as a business expenditure.

(C) The expenditure is fully allowable because the limit of Rs. 10,000 under Section 40A(3) applies only to payments made to registered dealers; since the supplier's registration status is not mentioned, the restriction cannot be applied.

(D) No disallowance arises because the payment is made for the purchase of raw materials, which qualify as trading stock, and Section 40A(3) applies only to revenue expenditure on services, not to purchases of goods used in manufacturing or trading.

Q.8. Mansi holds a 21% share in the profits of Rosette Partnership Firm. Her husband Deepak is also a partner in the same firm and earns a salary of Rs. 3 lakh per annum from the firm in his capacity as a working partner. Deepak does not possess any special technical or professional qualifications; the salary is paid for general management duties. The Assessing

Officer proposes to club Deepak's salary of Rs. 3 lakh in Mansi's total income under Section 64(1)(ii) of the Income Tax Act, 1961. Is the AO's action legally correct?

(A) No, because Section 64(1)(ii) applies only to companies in which the assessee holds equity shares; a partnership firm is not a "concern" covered by the clubbing provision, and partnership income cannot be clubbed under this section.

(B) No, because Deepak is a working partner who earned the salary through his own efforts as a partner; Section 64(1)(ii) expressly excludes all income arising from active participation in a business and does not apply to any partner's remuneration.

(C) Yes, because Mansi holds more than 20% of the profits of the firm (21%), conferring on her a "substantial interest" as defined in Section 2(32); under Section 64(1)(ii), income received by her spouse from a concern in which she has substantial interest is includible in her total income, since the salary is not solely attributable to Deepak's technical or professional knowledge and experience.

(D) No, because the clubbing provision in Section 64(1)(ii) applies only where the assessee has personally caused or arranged for the spouse's appointment or employment in the concern; Deepak's partnership is independent of Mansi's shareholding and was not arranged by her.

Q.9. Delicious Dhaba, an intrastate restaurant located in Rajasthan, has an aggregate annual turnover of Rs. 80 lakh in the preceding financial year. The proprietor wishes to opt for the composition scheme under Section 10 of the CGST Act, 2017 and seeks clarity on eligibility, applicable rate, and restrictions. Which of the following statements about the composition scheme under Section 10 of the CGST Act, 2017 is most accurate?

(A) Delicious Dhaba is ineligible for the composition scheme because restaurants are specifically excluded from Section 10 by a CGST notification; they must mandatorily register under the regular scheme and charge GST at 5% on food and non-alcoholic beverages with full input tax credit.

(B) Under the composition scheme, restaurants pay GST at 1% of their annual turnover, are entitled to avail input tax credit on all purchases, and may supply goods and services inter-state to customers without any restriction.

(C) The composition scheme permits Delicious Dhaba to issue tax invoices to customers, charge GST separately as a line item on the invoice, and deposit the collected tax at the concessional composition rate of 5% to the government.

(D) Delicious Dhaba, with aggregate annual turnover below Rs. 1.5 crore, is eligible to opt for the composition scheme under Section 10 of the CGST Act, 2017; as a restaurant it will pay GST at 5% of its annual turnover without availing any input tax credit, cannot make inter-state outward supplies, cannot issue tax invoices (only bills of supply), and customers cannot claim ITC on purchases made from it.

Q.10. Meridian Traders, a GST-registered dealer making intrastate supplies, has not filed its GSTR-3B returns for eight consecutive months. The proper officer issues a show cause notice proposing to cancel its registration. Meridian Traders argues that cancellation of registration under the CGST Act, 2017 can only be done at the taxpayer's own request and the officer has no suo motu power to cancel it merely for non-filing of returns. What action can the proper officer lawfully take under Section 29 of the CGST Act, 2017?

(A) The proper officer can cancel the registration of Meridian Traders suo motu under Section 29(2)(c) of the CGST Act, 2017 because a registered person's failure to furnish returns for a continuous period of six months is a statutory ground for cancellation; the officer must give the registered person an opportunity of being heard before passing the cancellation order.

(B) The proper officer can only suspend the registration for a period of 90 days pending rectification of the default; permanent cancellation of a GST registration requires a formal order from the GST Appellate Authority and cannot be done at the officer level.

(C) The proper officer has no power to cancel registration for non-filing of returns; the CGST Act reserves this power for the GST Tribunal, and only a monetary penalty under Section 122 can be imposed by the proper officer for a compliance lapse such as non-filing.

(D) Registration can be cancelled only upon a finding of deliberate tax evasion, fraud, or wilful misstatement; non-filing of returns for eight months is treated as a technical compliance lapse attracting only a late fee under Section 47 and cannot trigger cancellation of registration.

Q.11. Sunita exclusively supplies fresh vegetables (which are wholly exempt from GST) from her farm to local markets in Maharashtra. Her aggregate turnover for the current year is Rs. 18 lakh. The GST department issues a notice demanding mandatory registration on the ground that her turnover is approaching the threshold. Sunita contends that she is not liable to register. Who is legally correct under the CGST Act, 2017?

(A) The department is correct, because the threshold exemption under Section 22 applies only to persons making taxable supplies; since Sunita's supplies are exempt, the general threshold does not protect her and she must obtain registration to account for exempt supplies.

(B) Sunita is correct, because Section 23(1) of the CGST Act, 2017 expressly provides that a person engaged exclusively in the supply of goods or services or both that are wholly exempt from tax under the Act is not liable to obtain registration, irrespective of the quantum of turnover.

(C) Sunita must register because the aggregate turnover threshold of Rs. 20 lakh applies to all persons making any supply (taxable or exempt), and while she has not yet crossed Rs. 20 lakh, she must apply for registration as a precautionary measure once turnover crosses Rs. 18 lakh.

(D) The department is correct, because fresh agricultural produce is not classified as "goods" under the CGST Act and therefore Sunita's farm sales fall entirely outside the exempt supply category, making registration mandatory regardless of turnover.

Q.12. The Central Government issued a notification under Section 25(1) of the Customs Act, 1962, granting full exemption from basic customs duty on the import of solar panels subject to the condition that the panels are used exclusively for generating power in a solar power project. Helios Energy Ltd. imports 10,000 solar panels under this conditional exemption but installs 7,000 in its solar power project and diverts the remaining 3,000 panels for use in its corporate office buildings. What is the customs consequence of this partial diversion?

(A) No customs duty is recoverable on any of the 10,000 panels because the exemption, once granted at the time of importation, is absolute and cannot be reversed; the subsequent use of the goods is an internal company decision irrelevant to customs law.

(B) Helios must pay customs duty at the applicable rate only on the 3,000 diverted panels calculated on their value at the date of import, but no interest is chargeable because the diversion was not accompanied by any fraudulent or wilful act.

(C) The conditional exemption under Section 25 of the Customs Act, 1962 is forfeited to the extent of violation; Helios must pay customs duty at the applicable rate on the 3,000 panels diverted from the approved use, along with applicable interest from the date of importation, because the condition of exclusive use in a solar power project was not satisfied in respect of those panels.

(D) The entire exemption covering all 10,000 panels is forfeited because conditional exemptions under the Customs Act are indivisible; any breach of condition for any part of the consignment renders the entire exemption void ab initio, requiring duty payment on all imported goods.

Q.13. The Income Tax department conducts a search under Section 132 of the Income Tax Act, 1961 at the premises of Nikhil Exports Pvt. Ltd. The search team discovers undisclosed gold jewellery worth Rs. 80 lakh and unaccounted cash of Rs. 25 lakh. Following the search, the Assessing Officer issues notices under Section 153A requiring the company to file returns for the six assessment years immediately preceding the year of search, as well as for the search year. Nikhil Exports challenges the scope, contending that assessments already completed for prior years cannot be reopened. Which statement is most accurate regarding the scope of a search assessment under Section 153A?

(A) A Section 153A assessment is limited to the income actually discovered and documented during the search; previously assessed income for the six prior years cannot be disturbed under any circumstances, and the AO is confined solely to additions of undisclosed income found physically during the search.

(B) The search authorization under Section 132 is valid only for the specific premises named in the warrant; any undisclosed income inferred from documents found at premises not expressly named in the warrant is inadmissible in a Section 153A assessment and cannot be added to income.

(C) Section 153A empowers the AO to frame a fresh assessment only for those years in which at least one incriminating document was directly found during the search; for remaining years in which no document was seized, no fresh assessment can be made and the earlier assessment orders stand undisturbed.

(D) Under Section 153A, the Assessing Officer is required to issue notices to the searched person directing the filing of returns for each of the six assessment years immediately preceding the year of search as well as the search year; the AO has jurisdiction to assess or reassess income (including income previously assessed) for all such years, and undisclosed income found during or on account of the search can be brought to tax in any or all of these years in accordance with the evidence gathered.

Q.14. Klaus Muller is a resident of Germany employed by Brenner GmbH, a German company that has no permanent establishment in India. Under his employment contract, he is deputed to work in India for 150 days during the relevant tax year. His entire salary of EUR 1,20,000 is paid by Brenner GmbH from Germany, and no part of the salary cost is borne by any establishment or entity in India. Under Article 15 of the India-Germany Double Taxation Avoidance Agreement (DTAA), which country has the right to tax Klaus's employment income earned during those 150 working days in India?

(A) Germany alone has the right to tax Klaus's salary because all three conditions of the exemption clause in Article 15(2) are simultaneously satisfied: (i) Klaus is present in India for not more than 183 days in the tax year; (ii) the remuneration is paid by Brenner GmbH, an employer not resident in India; and (iii) the remuneration is not borne by a permanent establishment or fixed base of the employer in India; consequently, the source-state exemption applies and only Germany, as Klaus's state of residence and the employer's state, may tax the income.

(B) India has the right to tax Klaus's salary for the 150 days worked in India because India is the state where the employment is physically exercised, and source-country taxation is the unconditional default rule under Article 15(1) regardless of the duration of stay or the residence of the employer.

(C) Both India and Germany have concurrent taxing rights over Klaus's salary; India taxes the proportionate salary attributable to 150 days (i.e., 150/365 of annual salary) as source state, while Germany taxes the residual amount under the residence-state rule, with relief provided through the foreign tax credit mechanism.

(D) Germany and India must share the taxing right equally (50:50) for the days Klaus worked in India, as Article 15 of the DTAA provides for a balanced and symmetric allocation of employment income between source and residence states without giving priority to either country.

Q.15. Sigma Global Ltd. is an Indian company that is the ultimate parent entity of an international group of companies. The consolidated group revenue for the accounting year preceding the relevant reporting year is Rs. 7,000 crore. The group has constituent entities operating in India, the United States, Singapore, the Netherlands, and Japan. Under Section 286 of the Income Tax Act, 1961, what is the obligation of Sigma Global Ltd. regarding Country-by-Country Reporting (CbCR)?

(A) Sigma Global Ltd. has no CbCR obligation for the current year because even though consolidated revenue of Rs. 7,000 crore exceeds the prescribed threshold, a one-year grace period is available to entities that cross the Rs. 5,500 crore threshold for the first time, during which only an intimation is required.

(B) Sigma Global Ltd., as the Indian parent entity of a multinational group whose consolidated group revenue exceeds Rs. 5,500 crore, is required under Section 286(2) of the Income Tax Act, 1961 to furnish a Country-by-Country Report (CbCR) to the prescribed income tax authority for each accounting year, disclosing revenue, profit before tax, income tax paid and accrued, number of employees, stated capital, retained earnings, and tangible assets of each constituent entity grouped by country, along with the nature of activities carried out by each entity.

(C) The CbCR obligation under Section 286 applies only to the foreign constituent entities; the Indian parent entity need not file any CbCR itself but must issue a notification to each constituent entity in each country directing it to file the CbCR with the local tax authority of the country in which it is incorporated.

(D) The Rs. 5,500 crore threshold under Section 286 is based on the standalone revenue of the Indian parent entity, not the consolidated group revenue; if Sigma Global Ltd.'s own standalone revenue is below Rs. 5,500 crore, the CbCR obligation does not apply regardless of the overall group size.

Detailed Solutions

Sol.1.

Solution

Concept — Article 277 (Saving of Laws): Article 277 of the Constitution of India is a special saving provision. It provides that any taxes, duties, cesses, or fees that were being lawfully levied by a state, municipality, local board, or other local authority or body immediately before the commencement of the Constitution for purposes of the state, municipality, district, or other local area — even if they relate to a matter in the State List or Concurrent List — may continue to be levied and applied to those same purposes until Parliament by law otherwise provides.

Step 1 — Distinguishing Article 277 from general continuance provisions: Article 372 continues pre-constitutional laws generally, but Article 277 specifically protects taxes levied by states and local bodies on State List subjects from being immediately displaced when Parliament legislates in the same field. The protection lasts until Parliament expressly displaces the existing levy.

Step 2 — Application to the Mysore octroi: The octroi was lawfully levied before the Constitution's commencement. Even after Parliament later occupies the field, Article 277 preserves the pre-existing state/local levy until Parliament specifically provides otherwise, giving constitutional shelter to the continuation of such taxes.

Why other options are wrong:

- Option A: Article 254(2) deals with repugnancy on Concurrent List subjects and requires Presidential assent for state laws; it does not save pre-constitutional taxes from subsequent Parliamentary occupation.
- Option C: Article 372 provides general continuance of existing laws but does not specifically address the targeted saving of state/local taxes from Parliamentary override; Article 277 is the specific provision.
- Option D: Article 254(1) concerns repugnancy between Concurrent List laws; it has no application to the State List or to the saving of pre-constitutional tax levies from Parliamentary legislation.

Final Answer: Article 277 specifically saves pre-constitutional taxes lawfully levied by states and local bodies until Parliament by law otherwise provides. $\Rightarrow$ $\boxed{\text{B}}$

Answer: (B) Go Back to Q1

Sol.2.

Solution

Concept — Article 246A and the exclusion of alcoholic liquor: Article 246A, inserted by the Constitution (One Hundred and First Amendment) Act, 2016, confers concurrent legislative power on Parliament and State Legislatures to make laws with respect to goods and services tax. However, the Constitution itself excludes "alcoholic liquor for human consumption" from the scope of GST. This exclusion operates at the constitutional level and is not a mere policy decision of Parliament or the GST Council.

Step 1 — Structural reading of Article 246A: Article 246A(1) grants GST legislative power "with respect to goods and services tax imposed by the Union or by such State." The constitutional scheme, read with the definition of "goods and services tax" in Article 366(12A), excludes alcoholic liquor for human consumption from the GST base at the foundational level. Five petroleum products are also excluded until the GST Council recommends their inclusion.

Step 2 — Effect on the Goa enactment: A state SGST law extending to alcoholic liquor for human consumption conflicts with this constitutional exclusion. The power conferred by Article 246A does not extend to alcoholic liquor; the state legislature lacks constitutional competence to impose SGST on such supply under this provision.

Why other options are wrong:

- Option A: Article 246A does not confer GST power over all goods without exception; alcoholic liquor is constitutionally excluded.
- Option B: Entry 8 of List II deals with regulation and prohibition of liquor, not GST; the GST exclusion operates as a specific carve-out from the GST framework rather than as an expansion of Entry 8 powers.
- Option C: The CGST Act has not "occupied the entire field" in a way that bars all state GST laws; States validly enact their own SGST laws for subjects within the GST framework. The issue here is the constitutional exclusion, not occupation of field.

Final Answer: Article 246A excludes alcoholic liquor for human consumption from GST at the constitutional level; the Goa SGST amendment covering such supply is constitutionally invalid. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q2

Sol.3.

Solution

Concept — Section 2(22)(e) deemed dividend: Section 2(22)(e) of the Income Tax Act, 1961 deems certain payments by a closely held company to be dividends. Specifically, any payment by way of loan or advance made by a company (in which the public are not substantially interested) to a person who is a registered shareholder holding not less than 10% of the voting power, or to a concern in which such shareholder has substantial interest, is deemed to be a dividend to the extent of the accumulated profits of the company.

Step 1 — Threshold under Section 2(22)(e): The prescribed minimum beneficial interest is 10% (not 20%) of the voting power. Rohan holds 12%, which exceeds the 10% threshold. Accordingly, the deemed dividend provision is triggered.

Step 2 — Computation: The loan of Rs. 5 lakh is deemed a dividend to the extent of accumulated profits (Rs. 8 lakh). Since the loan amount (Rs. 5 lakh) is less than the accumulated profits (Rs. 8 lakh), the entire Rs. 5 lakh is deemed a dividend in Rohan's hands and is includible in his income (though Section 115-O and the current dividend taxation regime determine the applicable rate).

Why other options are wrong:

- Option B: The threshold is 10% of voting power, not 20%; Rohan's 12% holding satisfies the condition.
- Option C: The loan is specifically deemed to be a dividend by statute; it is not treated as income from other sources on interest basis; no arm's-length exception exists under Section 2(22)(e).
- Option D: Section 2(22)(e) applies to closely held companies (where public are not substantially interested); it does not apply to listed/public companies. The question presents Prestige Ltd. as a closely held company, making this provision squarely applicable.

Final Answer: Rohan's 12% beneficial interest exceeds the 10% threshold; the Rs. 5 lakh loan is deemed a dividend under Section 2(22)(e), subject to accumulated profits of Rs. 8 lakh. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q3

Sol.4.

Solution

Concept — Agricultural income from tea and Rule 8: Section 10(1) of the Income Tax Act, 1961 exempts "agricultural income" as defined in Section 2(1A). However, income from growing and manufacturing tea involves both agricultural activity (cultivation of tea leaves) and manufacturing activity (processing into made tea). The Act and Rules provide a special split for such composite activities.

Step 1 — Rule 8 of the Income Tax Rules, 1962: Rule 8 specifically deals with income from the business of growing and manufacturing tea in India. It mandates that such income shall be computed as if it were income derived from business, and 40% of the income so computed shall be deemed as income from business (taxable), while the remaining 60% shall be deemed as agricultural income (exempt under Section 10(1)).

Step 2 — Application to Rajkamal: Rajkamal's income of Rs. 30 lakh from growing and manufacturing tea is subject to Rule 8. He can claim exemption on 60% (Rs. 18 lakh) as agricultural income. The remaining 40% (Rs. 12 lakh) is taxable as income from business.

Why other options are wrong:

- Option A: The Act does not treat the entire income as exempt; Rule 8 specifically splits the income 60:40, acknowledging the manufacturing component.
- Option B: The income is not entirely taxable; Rule 8 recognises the agricultural component and exempts 60%.
- Option D: Rule 8 prescribes a fixed statutory split (60:40) and does not require valuation by a licensed agricultural income valuer; the split is a rule of law, not a factual determination.

Final Answer: Rule 8 mandates a 60% agricultural income (exempt) and 40% business income (taxable) split for income from growing and manufacturing tea. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q4

Sol.5.

Solution

Concept — Section 23(2) and (4): self-occupied property and the two-house limit: Section 23(2) of the Income Tax Act, 1961 provides that the annual value of a house property that an assessee owns and occupies for his own residential use (self-occupied property) shall be taken as nil. Prior to the Finance Act, 2019, this benefit was available for only one property. The Finance Act, 2019 amended Section 23(4) to extend the nil annual value benefit to a maximum of two self-occupied properties at the assessee's option.

Step 1 — Post-2019 position: After the Finance Act, 2019, an individual may treat up to two houses as self-occupied, and both will have nil annual value. The assessee can choose which two properties to treat as self-occupied.

Step 2 — Third property deemed let out: The third property (and any additional property beyond two) is deemed to be let out under Section 23(4). Its annual value is computed at the higher of fair rent and municipal value (notional rent), and income from house property is computed and charged accordingly.

Why other options are wrong:

- Option A: There is a numerical restriction; Section 23(4) caps the benefit at two self-occupied properties; a third property is deemed let out.
- Option C: The pre-2019 law allowed only one self-occupied property with nil annual value; the Finance Act, 2019 increased this to two.
- Option D: There is no requirement of permanent and exclusive residence in a single property under Section 23; rotational use among family members does not disqualify properties from the self-occupied classification under the Income Tax Act.

Final Answer: After the Finance Act, 2019 amendment, a maximum of two properties can be treated as self-occupied with nil annual value; the third is deemed let out. $\Rightarrow \boxed{B}$

Answer: (B) Go Back to Q5

Sol.6.

Solution

Concept — Section 32 and the half-rate rule for assets used less than 180 days: Section 32(1) of the Income Tax Act, 1961 allows depreciation on assets used for the purposes of business. The proviso to Section 32(1) provides that where an asset is acquired during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days in that previous year, the deduction on account of depreciation shall be restricted to 50% of the amount calculated at the prescribed rate.

Step 1 — Computation with the half-rate: Plant cost: Rs. 50 lakh. Normal depreciation rate: 15%. Normal depreciation: Rs. 7,50,000. Since the plant was put to use for only 121 days (less than 180 days), depreciation is restricted to 50% of Rs. 7,50,000 = Rs. 3,75,000.

Step 2 — Policy behind the rule: The half-rate rule prevents taxpayers from claiming a full year's depreciation on assets acquired and put to use late in the financial year. It applies only in the year of first use; in subsequent years, full depreciation on the written-down value is available.

Why other options are wrong:

- Option A: The full rate of 15% does not apply where usage is less than 180 days in the year of first use; the proviso mandates the 50% restriction.
- Option B: The restriction is 50% of the normal depreciation amount (not a different rate of 6%); 6% is not a rate prescribed under the proviso or the Income Tax Rules.
- Option C: The Act does not provide for nil depreciation on assets used for less than 180 days; it restricts the amount to 50%, not to zero.

Final Answer: The proviso to Section 32(1) restricts depreciation to 50% of the normal amount when the asset is used for less than 180 days; allowable depreciation is Rs. 3,75,000 (7.5% on Rs. 50 lakh). $\Rightarrow \boxed{D}$

Answer: (D) Go Back to Q6

Sol.7.

Solution

Concept — Section 40A(3): disallowance for cash payments exceeding the prescribed limit: Section 40A(3) of the Income Tax Act, 1961 provides that where the assessee incurs any expenditure in respect of which payment (or aggregate of payments made to a person in a day) exceeds Rs. 10,000 and such payment is made otherwise than by an account payee cheque, account payee bank draft, or use of electronic clearing system or other prescribed modes, the whole of the expenditure shall be disallowed.

Step 1 — Nature of the disallowance: The disallowance under Section 40A(3) is of the *entire* expenditure, not merely the amount exceeding Rs. 10,000. This is a common misconception: there is no "excess-only" disallowance; once the cash payment in a single day to a single person crosses Rs. 10,000, the whole payment fails to qualify as a deductible expenditure.

Step 2 — Application: Kannan pays Rs. 12,000 in cash to one supplier in a single transaction for raw materials. This cash payment exceeds Rs. 10,000. Therefore, the entire Rs. 12,000 is disallowed under Section 40A(3) and cannot be claimed as a deduction in computing profits.

Why other options are wrong:

- Option B: Section 40A(3) does not provide for a partial disallowance of only the excess above Rs. 10,000; the entire payment is disallowed once the threshold is breached.
- Option C: There is no requirement that the payee be a "registered dealer"; Section 40A(3) applies to all cash payments exceeding the threshold, regardless of the registration status of the payee.
- Option D: Section 40A(3) applies to all expenditures irrespective of whether they relate to raw materials, revenue expenses, or other trading purchases; there is no carve-out for purchases of goods.

Final Answer: Section 40A(3) disallows the entire cash payment of Rs. 12,000 (not merely the Rs. 2,000 excess) because it exceeds the Rs. 10,000 per-person per-day cash limit. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q7

Sol.8.

Solution

Concept — Section 64(1)(ii): clubbing of spouse's income from a concern in which the assessee has substantial interest: Section 64(1)(ii) of the Income Tax Act, 1961 requires that where an individual has a "substantial interest" in a concern, any income of the spouse (salary, commission, fees, or any other remuneration) from that concern shall be included in the individual's total income, unless the income is solely attributable to the application of the spouse's technical or professional knowledge and experience.

Step 1 — Substantial interest defined: Section 2(32) defines "substantial interest" as a beneficial interest of not less than 20% of the profits of the concern at any time during the previous year. Mansi holds 21% of the profits, exceeding the 20% threshold; she therefore has substantial interest in Rosette Partnership Firm.

Step 2 — Applicability of the proviso: The proviso to Section 64(1)(ii) excludes from clubbing any income earned solely by the application of the spouse's technical or professional knowledge and experience. Since Deepak does not possess any special technical or professional qualifications and his salary is for general management duties, the proviso does not apply. Accordingly, Deepak's salary of Rs. 3 lakh must be clubbed in Mansi's total income.

Why other options are wrong:

- Option A: Section 64(1)(ii) applies to "concerns" which include partnership firms; it is not restricted to companies alone.
- Option B: Section 64(1)(ii) does not exclude all income earned through active participation; the proviso saves only income attributable solely to technical or professional knowledge and experience, which is a narrow exclusion not applicable here.
- Option D: The clubbing provision does not require the assessee to have personally arranged or caused the spouse's appointment; it operates automatically when the assessee has substantial interest and the spouse receives income from the same concern.

Final Answer: Mansi has substantial interest (21% $>$ 20%); Deepak's salary from the firm is clubbed in Mansi's income under Section 64(1)(ii) since the technical/professional proviso does not apply. $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q8

Sol.9.

Solution

Concept — CGST Section 10: Composition Scheme for restaurants: Section 10 of the CGST Act, 2017 provides an optional composition scheme for eligible registered persons. Restaurants (other than those in specified categories such as those located in hotels with room tariff above a threshold) are eligible to opt for the scheme if their aggregate annual turnover does not exceed the notified limit (Rs. 1.5 crore, subject to notification). The composition rate for restaurants is 5% of annual turnover.

Step 1 — Eligibility: Delicious Dhaba has a turnover of Rs. 80 lakh, which is well below the Rs. 1.5 crore threshold. It makes only intrastate supplies. It is therefore eligible to opt for the composition scheme under Section 10.

Step 2 — Key restrictions under Section 10: A composition dealer (i) cannot make inter-state outward supplies; (ii) cannot issue a tax invoice (only a bill of supply); (iii) cannot collect GST from customers; (iv) cannot avail input tax credit; and (v) customers purchasing from a composition dealer cannot claim ITC on such purchases.

Why other options are wrong:

- Option A: Restaurants are not excluded from Section 10; they are eligible for the composition scheme subject to the conditions and threshold.
- Option B: The composition rate for restaurants is 5%, not 1%; ITC is not available; and inter-state supplies are prohibited under the scheme.
- Option C: A composition dealer cannot issue tax invoices or charge GST separately from the customer; it can only issue bills of supply. Charging GST on an invoice is a feature of regular (non-composition) registration.

Final Answer: Delicious Dhaba is eligible for the composition scheme; it pays 5% on turnover with no ITC, no inter-state supplies, no tax invoices, and customers cannot claim ITC. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q9

Sol.10.

Solution

Concept — CGST Section 29: Suo motu cancellation of registration by the proper officer: Section 29 of the CGST Act, 2017 deals with cancellation of registration. While Section 29(1) covers voluntary cancellation at the registrant's request, Section 29(2) empowers the proper officer to cancel registration suo motu in specified circumstances. Section 29(2)(c) expressly provides that the proper officer may cancel registration if a person registered under the composition scheme fails to furnish the return for three consecutive tax periods, and — for regular registrants — fails to furnish returns for a continuous period of six months.

Step 1 — Statutory ground: Meridian Traders has failed to file GSTR-3B for eight consecutive months, which exceeds the six-month statutory threshold under Section 29(2)(c). This constitutes a valid ground for the proper officer to initiate cancellation proceedings suo motu.

Step 2 — Procedural safeguard: Before cancelling registration, the proper officer must follow the principle of natural justice: the registered person is given an opportunity to be heard (show cause notice and reply), and only thereafter can a cancellation order be passed under Section 29(2).

Why other options are wrong:

- Option B: The CGST Act does not require a court order or Appellate Authority order for cancellation; the proper officer has statutory authority to cancel registration under Section 29(2).
- Option C: Section 29(2) expressly grants the proper officer the power to cancel for non-filing; the CGST Tribunal is an appellate forum, not the authority for first-instance cancellation.
- Option D: Non-filing of returns for six months is explicitly a statutory ground for cancellation under Section 29(2)(c); cancellation is not limited to fraud or evasion cases.

Final Answer: The proper officer can cancel registration suo motu under Section 29(2)(c) for failure to file returns for six consecutive months, after giving an opportunity of being heard. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q10

Sol.11.

Solution

Concept — CGST Section 23: Persons not liable to registration: Section 23(1) of the CGST Act, 2017 identifies two categories of persons not required to obtain registration: (a) a person engaged exclusively in the business of supplying goods or services or both that are not liable to tax or wholly exempt from tax under the Act; and (b) an agriculturist to the extent of supply of produce out of cultivation of land. The exemption under Section 23(1)(a) applies regardless of the level of turnover.

Step 1 — Exclusive supply of exempt goods: Sunita exclusively supplies fresh vegetables, which are wholly exempt from GST. She does not supply any taxable goods or services alongside the exempt supplies. This squarely places her within the category of Section 23(1)(a).

Step 2 — Turnover is irrelevant for Section 23 exemption: Unlike the threshold-based exemption under Section 22 (which applies to taxable supplies crossing Rs. 20 lakh), Section 23(1)(a) does not impose any turnover limit. Even if Sunita's turnover were Rs. 50 lakh or Rs. 1 crore, she would not be required to register, provided all her supplies remain wholly exempt.

Why other options are wrong:

- Option A: Section 23(1)(a) specifically carves out persons dealing exclusively in exempt supplies from the registration obligation; the department's reliance on Section 22 is misplaced.
- Option C: The Rs. 20 lakh threshold under Section 22 applies to taxable supplies, not exempt supplies; moreover, crossing a threshold alone does not override the Section 23(1)(a) exemption.
- Option D: Fresh vegetables are classified as "goods" under the CGST Act and appear in the GST exemption list; the premise that fresh produce is not "goods" is factually incorrect.

Final Answer: Section 23(1)(a) exempts persons exclusively supplying wholly exempt goods/services from registration, regardless of turnover; Sunita is not required to register. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q11

Sol.12.

Solution

Concept — Customs Act Section 25: conditional exemption and consequences of breach: Section 25(1) of the Customs Act, 1962 empowers the Central Government to grant exemptions from customs duty by notification. Exemptions may be conditional (subject to specified end-use or other conditions). Where a conditional exemption is granted, the benefit is available only if the condition is fulfilled. Breach of the condition renders the exemption unavailable for the portion that does not comply, and customs duty becomes payable along with interest under Section 28AB.

Step 1 — Divisible nature of conditional exemptions: Unlike options that suggest the entire exemption collapses on any breach, conditional exemptions under the Customs Act are generally applied on a divisible basis. For goods imported under a condition of exclusive end-use, breach as to a portion of the goods triggers duty recovery only in respect of that portion, not the entire consignment (unless the notification specifies otherwise).

Step 2 — Interest liability: Upon breach of a condition, the importer is treated as having improperly availed the exemption from the date of import for the diverted goods. Customs duty and interest from the date of importation are recoverable under Section 28AB of the Customs Act.

Why other options are wrong:

- Option A: A conditional exemption is not absolute and can be reversed; subsequent non-compliance is directly relevant to customs law under Section 25.
- Option B: Interest is chargeable from the date of importation when an exemption is found to have been improperly availed, irrespective of whether the diversion was fraudulent; the Customs Act does not require fraud as a condition for levying interest on duty recovered.
- Option D: Conditional exemptions are generally applied divisibly; the entire exemption is not necessarily forfeited solely because a part of the consignment was diverted, unless the notification's conditions expressly require it.

Final Answer: Customs duty and interest are recoverable on the 3,000 diverted panels; the conditional exemption under Section 25 is forfeited to the extent of the breach. $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q12

Sol.13.

Solution

Concept — Section 132 search and Section 153A post-search assessment: Section 132 of the Income Tax Act, 1961 authorises the Director/Deputy Director or Commissioner/Joint Commissioner to authorise a search where there is reason to believe that any person has undisclosed income or assets. Following a search, Section 153A requires the Assessing Officer to issue notices to the searched person to furnish returns of income for each of the six assessment years immediately preceding the year of search plus, where applicable, the search year itself.

Step 1 — Jurisdiction under Section 153A: The AO's jurisdiction under Section 153A extends to all six preceding years and the search year. The AO is not confined only to years in which incriminating documents were found; the Supreme Court's ruling in *PCIT v. Abhisar Buildwell* (2023) clarified that in abated assessments the AO retains full jurisdiction, and in completed assessments additions can only be made on the basis of incriminating material. However, the fundamental point is that the AO issues notices for all six preceding years and can assess/reassess income for those years based on the search findings.

Step 2 — Previously completed assessments: Section 153A(1) provides that the AO shall assess or reassess the total income of the searched person in respect of each of the six preceding years. Assessments that have become final can be reopened and re-examined under Section 153A; the pending proceedings abate. Undisclosed income found during the search is brought to tax in the appropriate year.

Why other options are wrong:

- Option A: Previously assessed income can be disturbed and reassessed under Section 153A; the AO is not confined only to additions for undisclosed income physically found at the search site.
- Option B: Section 132 warrants do cover named premises, but evidence gathered about income across all relevant years can be used in Section 153A assessments; the restriction on premises is about the physical scope of the search, not the temporal scope of the assessment.
- Option C: Post the *Abhisar Buildwell* ruling, completed assessments can only be disturbed if incriminating material was found, but the AO's jurisdiction to issue notices for all six years (and conduct assessments for those years) is not limited to years with direct documentary seizures.

Final Answer: Section 153A requires assessment/reassessment for six preceding years plus the search year; the AO has broad jurisdiction, and undisclosed income can be added for any of those years based on the search findings. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q13

Sol.14.

Solution

Concept — DTAA Article 15(2): the three-condition exemption for employment income: Article 15(1) of most DTAAs (including the India-Germany DTAA, following the OECD Model Convention) provides that salaries and other remuneration derived by a resident of one Contracting State in respect of employment exercised in the other Contracting State may be taxed in that other State (source state, i.e., India). However, Article 15(2) creates an exemption: such remuneration shall be taxable only in the employee's state of residence (Germany) if all three of the following conditions are simultaneously satisfied.

Step 1 — The three cumulative conditions of Article 15(2):

- Condition (i): The recipient is present in the source state (India) for a period or periods not exceeding in the aggregate 183 days in the fiscal/calendar year concerned.
- Condition (ii): The remuneration is paid by, or on behalf of, an employer who is not a resident of the source state (India).
- Condition (iii): The remuneration is not borne by a permanent establishment or a fixed base that the employer has in the source state (India).

Step 2 — Application to Klaus Muller: Klaus was present in India for 150 days $\leq$ 183 days (Condition i met). His salary is paid entirely by Brenner GmbH, a German company not resident in India (Condition ii met). Brenner GmbH has no PE in India (Condition iii met). All three conditions are fulfilled simultaneously, so the Article 15(2) exemption applies and only Germany may tax his salary.

Why other options are wrong:

- Option B: Article 15(1) is the default, but it is overridden by Article 15(2) when all three conditions are met; source-country taxation is not unconditional.
- Option C: When the Article 15(2) exemption applies, only the residence state (Germany) taxes the income; there is no proportionate split between the two countries.
- Option D: DTAAs do not prescribe a 50:50 split for employment income; Article 15 allocates the entire taxing right to one state or the other, depending on whether the Article 15(2) conditions are met.

Final Answer: All three conditions of Article 15(2) are satisfied; Germany alone has the right to tax Klaus's employment income for the 150 days worked in India. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q14

Sol.15.

Solution

Concept — Section 286: Country-by-Country Reporting (CbCR) obligation: Section 286 of the Income Tax Act, 1961, read with Rule 10DB of the Income Tax Rules, 1962, implements the OECD's Base Erosion and Profit Shifting (BEPS) Action 13 recommendations for Country-by-Country Reporting. Under Section 286(2), the parent entity (or an alternate reporting entity) of an international group is required to furnish a CbCR if the consolidated group revenue of the international group, as reflected in the consolidated financial statements for the accounting year preceding the reporting year, exceeds Rs. 5,500 crore.

Step 1 — Threshold and filing obligation: Sigma Global Ltd.'s consolidated group revenue is Rs. 7,000 crore, which exceeds the prescribed threshold of Rs. 5,500 crore. Sigma, being the Indian parent entity (ultimate parent entity), is therefore obligated under Section 286(2) to file the CbCR with the prescribed income tax authority (Director General of Income Tax — Risk Assessment) within the prescribed time.

Step 2 — Contents of CbCR: The report must contain, for each constituent entity of the international group, grouped by country: aggregate revenue (including from related and unrelated parties), profit or loss before income tax, income tax paid (on cash basis), income tax accrued, stated capital and accumulated earnings, number of employees, and net book value of tangible assets. The nature of business/activity of each entity must also be indicated.

Why other options are wrong:

- Option A: There is no one-year grace period for first-time threshold crossings under Section 286; the obligation arises as soon as the consolidated revenue exceeds Rs. 5,500 crore in the preceding accounting year.
- Option C: The CbCR obligation under Section 286(2) is on the Indian parent entity (Sigma), not only on foreign constituent entities; Sigma must file the report with the Indian tax authority.
- Option D: The Rs. 5,500 crore threshold is based on the consolidated group revenue of the international group, not the standalone revenue of the Indian

parent entity; standalone revenue of Sigma is irrelevant to the threshold test.

Final Answer: Sigma Global Ltd., with consolidated group revenue of Rs. 7,000 crore exceeding Rs. 5,500 crore, must file the CbCR with the prescribed authority under Section 286(2). $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q15

Answer Key

Quick Reference Answer Key

Q.1	Q.2	Q.3	Q.4	Q.5	Q.6	Q.7	Q.8	Q.9	Q.10
B	D	A	C	B	D	A	C	D	A

Q.11	Q.12	Q.13	Q.14	Q.15
B	C	D	A	B

Topic-wise Answer Summary

Q.No.	Topic	Answer
1	Constitutional — Art. 277 (saving of pre-constitutional taxes by states/local bodies)	B
2	Constitutional — Art. 246A (GST powers; exclusion of alcoholic liquor)	D
3	Income Tax — Sec. 2(22)(e) deemed dividend (loans to shareholders $> 10\%$)	A
4	Income Tax — Sec. 10(1) agricultural income; tea Rule 8 split (60%/40%)	C
5	Income Tax — Sec. 23(2)&(4) self-occupied property; two-house limit	B
6	Income Tax — Sec. 32 depreciation; half-rate for assets used < 180 days	D
7	Income Tax — Sec. 40A(3) disallowance of cash payments exceeding Rs. 10,000	A
8	Income Tax — Sec. 64(1)(ii) clubbing of spouse's income; substantial interest	C
9	GST — Sec. 10 CGST composition scheme for restaurants	D
10	GST — Sec. 29 CGST cancellation of registration; non-filing of returns	A
11	GST — Sec. 23 CGST persons not required to register; exclusive exempt supply	B
12	Customs — Sec. 25 conditional exemption; breach and duty/interest recovery	C
13	Income Tax — Sec. 132 search and seizure; Sec. 153A post-search assessment	D
14	DTAA — Art. 15 dependent personal services; 183-day three-condition exemption	A
15	Income Tax — Sec. 286 Country-by-Country Reporting (CbCR); threshold Rs. 5,500 crore	B