CLAT PG Tax Law

Sample Paper – 7

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.

Questions

Q.1. Article 366(12A) of the Constitution defines "goods and services tax" as any tax on supply of goods, or services, or both, except taxes on supply of alcoholic liquor for human consumption. Article 279A(5) empowers the GST Council to specify the date from which GST shall be levied on petroleum crude, high speed diesel, motor spirit, natural gas, and aviation turbine fuel. A state legislature enacts a law levying SGST on petroleum crude. A writ petition is filed challenging this levy on the ground that the state lacks constitutional competence. Which of the following correctly states the constitutional position?

(A) The GST Council has already recommended petroleum crude for inclusion under GST; therefore the state is competent to levy SGST on petroleum crude at the rate approved by the Council.

(B) The state legislature has independent authority to tax petroleum crude under Entry 54 of the State List, which covers taxes on the sale or purchase of goods, and this power is unaffected by Article 366(12A).

(C) Under Article 366(12A) read with Article 279A(5), petroleum crude falls within the five specified goods on which GST shall be levied only from such date as the GST Council may recommend; until such recommendation is made, neither the Union nor any state can levy GST (including SGST) on petroleum crude, and the state law is constitutionally incompetent.

(D) States possess plenary legislative power under Article 246 to tax any commodity within their territory; Article 366(12A) restricts only the Union's power, and states may therefore levy SGST on petroleum crude independently.

Q.2. The Government of Karnataka owns a multi-storey commercial complex that it leases to private firms, earning substantial annual rental income. The Central Government issues a notice to Karnataka proposing to levy income tax on this rental income under the Income Tax Act, 1961. Karnataka resists on the ground that state property and income are constitutionally immune from Union taxation. Which of the following correctly describes the constitutional position under Article 289?

(A) Under Article 289(1), the property of a State and income accruing therefrom are exempt from Union taxation; however, Article 289(2) empowers Parliament to impose tax on income accruing to a State from any trade or business carried on by it other than ordinary governmental functions — whether the rental income falls under Article 289(1) or Article 289(2) depends on whether letting out the commercial complex constitutes a "trade or business" of the State.

(B) Article 289 provides no immunity whatsoever to state governments; the Union Parliament has plenary power under Entry 82 of the Union List to tax all income, including income of state governments, without any constitutional restriction.

(C) Article 289 exempts only immovable property of the State from Union taxation; income derived by a state from commercial activities on such property — including rent from private tenants — is fully taxable by the Union as it constitutes income and not property.

(D) Article 289 extends its shield to all state-owned public sector undertakings and their subsidiaries; accordingly, the Central Government cannot impose income tax on any income earned by any entity in which a state government holds shares, regardless of the nature of the income.

Q.3. Prem purchased 1,000 listed equity shares of a company on the Bombay Stock Exchange in April 2017 at Rs. 100 per share. The fair market value (FMV) of those shares on 31 January 2018 was Rs. 150 per share. He sold all 1,000 shares in March 2024 at Rs. 220 per share. Long-term capital gains on such listed shares are taxable under Section 112A of the Income Tax Act, 1961, which contains a grandfathering provision for the cost of acquisition. What is the cost of acquisition per share for the purposes of Section 112A?

(A) Rs. 100 per share, being the actual original purchase price paid by Prem in April 2017, since actual cost is always the basis for computing capital gains.

(B) Rs. 220 per share, being the full value of consideration received on the date of sale in March 2024, because Section 112A deems the sale price as the cost to prevent double counting.

(C) Rs. 175 per share, being the simple arithmetic average of the original cost (Rs. 100) and the sale price (Rs. 220), as Section 112A prescribes an averaging formula.

(D) Rs. 150 per share, being the FMV on 31 January 2018, which is the deemed cost of acquisition under the grandfathering provision of Section 112A — computed as the higher of actual cost (Rs. 100) and the lower of the FMV on 31 January 2018 (Rs. 150) and the full value of consideration (Rs. 220).

Q.4. Beta Ltd., a company engaged in management consultancy, pays Rs. 10 lakh as professional fees to a resident expert consultant during the previous year without deducting tax at source (TDS) as required under Section 194J of the Income Tax Act, 1961. The company claims the entire Rs. 10 lakh as a deductible business expenditure. The assessing officer proposes to invoke Section 40(a)(ia). What is the correct tax treatment of this payment for the year in which it is made?

(A) The entire Rs. 10 lakh is disallowed as a deduction because Section 40(a)(ia) mandates full disallowance of any payment made to a resident without deduction of TDS.

(B) Thirty per cent of the professional fees (Rs. 3 lakh) is disallowed as a deduction under Section 40(a)(ia) in the year of payment; the balance 70% (Rs. 7 lakh) remains deductible.

(C) The full Rs. 10 lakh is deductible since professional fees are a legitimate business expenditure under Section 37(1); non-deduction of TDS only attracts interest and penalty under Chapter XVII but does not result in any disallowance of the expenditure.

(D) The payment is fully disallowed in the current year but is allowable as a deduction in the subsequent year in which TDS is belatedly deducted and remitted to the government.

Q.5. Ajay runs a small retail grocery business (not a profession) with an annual turnover of Rs. 1.5 crore for the previous year. All receipts are in cash. He opts for the presumptive taxation scheme under Section 44AD of the Income Tax Act, 1961. His actual net profit as per books of account is Rs. 8 lakh. He asks his tax advisor what income he must declare under Section 44AD. What will be his presumptive income under this scheme?

(A) Rs. 8 lakh, being the actual net profit as per books; an assessee who opts for Section 44AD is not prevented from declaring his actual (lower) profit if it accurately reflects his business income.

(B) Rs. 9 lakh, being 6% of the total turnover of Rs. 1.5 crore, which is the prescribed presumptive rate applicable under the amended Section 44AD for all small businesses.

(C) Rs. 12 lakh, being 8% of the total turnover of Rs. 1.5 crore; under Section 44AD, profits are deemed to be 8% of total turnover (where receipts are in cash), and Ajay must declare at least this amount irrespective of his actual profit.

(D) Rs. 6 lakh, being 4% of the turnover of Rs. 1.5 crore, which is the prescribed flat rate for retail businesses eligible under the scheme.

Q.6. Rajesh owns a commercial property that earns an annual rent of Rs. 6 lakh. He executes a notarised deed transferring to his brother the right to receive the rent from this property for a period of three years. The property itself is not transferred. Rajesh's brother collects the rent and treats it as his own income. The assessing officer proposes to tax the rental income in the hands of Rajesh and not his brother. Under Section 60 of the Income Tax Act, 1961, which of the following is the correct position?

(A) The rental income is taxable in the hands of Rajesh under Section 60 of the Income Tax Act, 1961; where a person transfers income from an asset without transferring the asset itself, the income is deemed to arise to the transferor and is included in his total income.

(B) The rental income is taxable solely in the hands of the brother, since the right to receive rent has been validly transferred by a registered deed and the brother is the legal recipient of the income during the three-year period.

(C) The rental income must be apportioned equally between Rajesh and his brother for tax purposes, since Rajesh retains the asset while the brother holds the income right — each is taxable on 50% of the rent.

(D) The arrangement is treated as a gift of income from Rajesh to a relative (brother); income received by way of gift from a relative is exempt from tax in the recipient's hands under Section 56(2)(x) and therefore no tax arises in either hand.

Q.7. Priya is a salaried employee earning Rs. 12 lakh per annum. For Assessment Year 2024–25, she opts for the new personal tax regime under

Section 115BAC of the Income Tax Act, 1961 (made the default regime from AY 2024–25). She wishes to know which tax benefit she is *not* entitled to claim under the new regime. Which of the following correctly identifies a deduction or exemption that is *not* available to Priya under Section 115BAC?

(A) Deduction for interest paid on a loan taken to acquire a residential property that is let out, under Section 24(b), since the interest on let-out property is deductible even under the new regime.

(B) Standard deduction of Rs. 50,000 from salary income under Section 16(ia), which is available to salaried individuals under the new regime with effect from Assessment Year 2024–25.

(C) Exemption for gratuity received from the employer on retirement under Section 10(10), which continues to be available under the new tax regime as Section 10 exemptions of this nature are preserved.

(D) Deduction under Section 80C for contributions to a Public Provident Fund or premiums paid on a life insurance policy, which is expressly unavailable under the new tax regime as Chapter VI-A deductions (other than those specifically saved) are not allowable.

Q.8. Gamma Ltd., a manufacturing company, engages Speedway Logistics Pvt. Ltd. (a logistics company, not an individual or HUF) to transport finished goods to its dealers. During the financial year, Gamma Ltd. makes 15 equal payments of Rs. 26,667 each to Speedway, totalling Rs. 4,00,000 for the year. Each individual payment is below the per-payment threshold under Section 194C. Gamma Ltd. contends it is not required to deduct TDS because no single payment exceeds Rs. 30,000. Is Gamma Ltd. correct?

(A) Yes, Gamma Ltd. is correct; under Section 194C, TDS is required only if a single payment to a contractor exceeds Rs. 30,000; since each payment is Rs. 26,667 (below Rs. 30,000), no TDS obligation arises regardless of the annual aggregate.

(B) No, Gamma Ltd. is wrong; Section 194C requires TDS deduction where the aggregate of payments to a contractor during the financial year exceeds Rs. 1,00,000; since the aggregate payment to Speedway is Rs. 4,00,000, TDS must be deducted at 2% (applicable to non-individual contractors) on the payments made.

(C) TDS is required only on the amount by which the aggregate exceeds Rs. 1,00,000; Gamma Ltd. must deduct TDS at 2% on Rs. 3,00,000 (being Rs. 4,00,000 minus Rs. 1,00,000).

(D) No TDS is required because transportation of goods by road is specifically exempted from Section 194C when the transporter furnishes a declaration of its PAN to the payer, and Speedway being a registered logistics operator is outside the scope of Section 194C.

Q.9. Flipkart Online Services Pvt. Ltd. operates an e-commerce marketplace. Patel Enterprises, a registered seller, lists its goods on Flipkart's platform. A customer purchases goods worth Rs. 50,000 from Patel through the Flipkart platform. The GST department seeks to know what obligation, if any, the CGST Act, 2017 places on Flipkart as the e-commerce operator in relation to GST on this transaction. Which of the following correctly identifies Flipkart's obligation?

(A) Flipkart is required to deduct TDS at 2% on the value of taxable supplies facilitated through its platform under Section 51 of the CGST Act and remit the deducted amount to the government on behalf of the seller.

(B) Flipkart has no independent GST obligation in relation to this transaction; the entire GST liability rests exclusively on Patel Enterprises as the registered supplier, and Flipkart's role is limited to providing a marketplace platform.

(C) Under Section 52 of the CGST Act, 2017, Flipkart, as an e-commerce operator, is required to collect tax at source (TCS) at 1% on the net value of taxable supplies made by Patel through its platform, remit the TCS to the government, and file a monthly statement; Patel can take credit of the TCS amount against its own output tax liability.

(D) Flipkart must obtain a GST registration in every state where sellers on its platform make supplies, but it has no obligation to collect or remit any GST on behalf of the sellers; all GST compliance obligations rest solely on the individual sellers.

Q.10. Kaveri Ltd., a registered supplier, dispatches goods from its warehouse ("date of removal") on 1 March. The invoice is raised by Kaveri Ltd. on 10 March. The buyer makes payment on 25 March. Under Rule 47 of the CGST Rules, 2017, a tax invoice for supply involving movement of goods must be issued at or before the time of removal of such goods. Under Section 12(2) of the CGST Act, 2017, when does the liability to pay GST arise (i.e., what is the time of supply of these goods)?

(A) 25 March, being the date of receipt of payment by the supplier, since actual receipt of consideration is the final and determining event for the time of supply of goods under the CGST Act.

(B) 10 March, being the date of actual issue of the invoice by Kaveri Ltd., since the invoice date is the operative trigger for the time of supply of goods under Section 12.

(C) The GST liability is spread proportionally across all three events — 1 March, 10 March, and 25 March — as all three constitute components of the supply chain, and a blended approach reflects the economic reality of the transaction.

(D) 1 March, being the date of removal/dispatch of goods, which is the last date by which Kaveri Ltd. was required to issue the invoice under Rule 47; under Section 12(2)(a) of the CGST Act, the time of supply is the earlier of the date of issue of invoice and the last date on which the supplier is required to issue the invoice — making 1 March the time of supply.

Q.11. Zenith Exports Ltd. is a registered exporter of engineering goods. It exports goods under a Letter of Undertaking (LUT) without paying Integrated GST (IGST) on the exports. As a result, it accumulates substantial input tax credit (ITC) on its domestic purchases. It applies for a refund of the accumulated ITC. The GST department raises a query about the applicable provision. Which provision of the CGST Act, 2017 specifically governs the refund of accumulated ITC arising from zero-rated supplies made without payment of tax?

(A) Section 54 of the CGST Act, 2017 is the governing provision; Section 54(3) specifically provides that a registered person may claim refund of unutilised input tax credit accumulated on account of zero-rated supplies made without payment of integrated tax, and the proper officer is required to sanction a provisional refund of 90% of the claimed amount within seven days of acknowledgement.

(B) Section 16(4) of the IGST Act, 2017 is the exclusive provision governing refunds for exporters; since the zero-rated supply is made under the IGST framework, the refund must be filed under the IGST Act and not the CGST Act.

(C) Section 77 of the CGST Act, 2017 governs refunds of IGST paid on exports; since Zenith exported under the LUT route without paying IGST, no refund provision applies and the accumulated ITC must be carried forward indefinitely.

(D) Zenith must first reverse its decision to export under LUT, pay IGST on the exports, and then claim a refund of the IGST paid under Section 96 of the CGST Act; the LUT route does not carry any refund entitlement for accumulated ITC.

Q.12. Delta Imports Pvt. Ltd. imports electronic components and is aggrieved by an order passed by the Deputy Commissioner of Customs (the adjudicating authority) confirming a demand of customs duty and imposing a penalty. The order is communicated to Delta Imports on 5 January. The company wishes to challenge this order. What is the proper appellate forum and what is the time limit for filing the first appeal under the Customs Act, 1962?

(A) The first appeal lies to the jurisdictional High Court by way of a writ petition challenging the order; the petition must be filed within 180 days from the date of the impugned order under the limitation principles applicable to writ jurisdiction.

(B) The first appeal from an order of the adjudicating authority (below the level of Commissioner) lies to the Commissioner (Appeals) under Section 128 of the Customs Act, 1962; it must be filed within 60 days from the date of communication of the order, extendable by a further 30 days on sufficient cause being shown.

(C) The first appeal lies directly to the Customs, Excise and Service Tax Appellate Tribunal (CESTAT) under Section 129A of the Customs Act; it must be filed within 90 days from the date of communication of the adjudicating authority's order, and no intermediate appeal to the Commissioner (Appeals) is required.

(D) Before filing any formal appeal, Delta Imports must first approach the Customs Settlement Commission to settle the dispute; direct appeals to the Commissioner (Appeals) are not available for orders relating to valuation and penalty and must await the settlement process.

Q.13. During the course of assessment, the assessing officer notices a credit of Rs. 15 lakh appearing in the bank account of Raman, a salaried tax-payer. When asked to explain the source, Raman is unable to offer any satisfactory explanation regarding the nature or source of the credit. The assessing officer proposes to treat this amount as the income of Raman for that year. How is the unexplained credit taxed under the Income Tax Act, 1961?

(A) The unexplained credit is treated as a deemed gift received from an unknown person; under Section 56(2)(x), gifts up to Rs. 50,000 are exempt, so only Rs. 14.5 lakh is taxable as income from other sources at the normal applicable slab rate.

(B) The credit is treated as undisclosed business income and taxed at the normal slab rate applicable to Raman under the head "Profits and Gains of Business or Profession", since it appeared in his bank account in the ordinary course of his financial activities.

(C) Under Section 68 of the Income Tax Act, 1961, the unexplained credit of Rs. 15 lakh is treated as Raman's income for that year; by virtue of Section 115BBE, such income is taxed at a flat rate of 60% (plus surcharge at 25% on such tax and applicable health and education cess), and no deduction, expenditure, or set-off of losses is permissible against this income.

(D) The assessing officer cannot add the credit to Raman's income on the strength of a mere bank entry alone; corroborative evidence of actual receipt of income beyond the ledger credit is a mandatory prerequisite for triggering Section 68, and in its absence, no addition can be made.

Q.14. Suresh is a resident Indian individual who earned dividend income of Rs. 10 lakh from a UK company. The UK levied withholding tax at 20% on this dividend. In India, the same dividend income falls in Suresh's tax bracket of 30%. The India–UK Double Taxation Avoidance Agreement (DTAA) Article 23 provides for elimination of double taxation by the credit method (ordinary credit). How much credit can Suresh claim in India against his Indian tax liability on this dividend income?

(A) Suresh can claim a credit of 20% (the UK tax actually paid) against the Indian tax of 30% on the same income; since the foreign tax rate (20%) is lower than the Indian rate (30%), the entire UK tax of 20% is creditable, reducing his net Indian tax on this income to 10%.

(B) The dividend income is entirely exempt from Indian tax under the exemption method because the income has already been subject to tax in the UK at 20%, and the India–UK DTAA eliminates double taxation by exempting such income in the residence state.

(C) No foreign tax credit is available because India follows the exemption method (not the credit method) for dividends under the India–UK DTAA; dividend income taxed in the UK is fully exempt from Indian income tax under Article 23.

(D) The credit is limited to 10% — the difference between the Indian tax rate (30%) and the UK withholding rate (20%) — because the ordinary credit method under the DTAA provides only a "top-up" credit to bridge the gap between the two jurisdictions' rates.

Q.15. InfoSoft Solutions Ltd., an Indian IT company, derives Rs. 400 crore from software development services rendered exclusively to its associated enterprises (AEs) abroad. It opts for the safe harbour regime under Section 92CB of the Income Tax Act, 1961 read with Rule 10TD of the Income Tax Rules, 1962. The Transfer Pricing Officer questions whether opting for safe harbour provides any binding protection. What is the legal significance of the safe harbour regime for InfoSoft's international transactions?

(A) Opting for safe harbour under Section 92CB exempts InfoSoft entirely from maintaining transfer pricing documentation under Section 92D; the company need not prepare or retain any contemporaneous documentation for the international transactions covered under the safe harbour.

(B) The safe harbour operating profit margin under Rule 10TD is a fixed 25% for all IT services regardless of the transaction value or the category of service; InfoSoft must achieve exactly this margin to qualify for the safe harbour protection.

(C) The safe harbour regime under Rule 10TD is available only for companies whose aggregate international transactions do not exceed Rs. 200 crore in a year; InfoSoft at Rs. 400 crore is ineligible and must subject its transactions to regular arm's length price determination.

(D) Under Section 92CB read with Rule 10TD, if InfoSoft's declared operating profit margin on IT services to its associated enterprises meets or exceeds the safe harbour rate specified for the applicable transaction value slab, the transfer price declared by InfoSoft is accepted as the arm's length price without further scrutiny by the Transfer Pricing Officer; this provides certainty, shields the company from transfer pricing adjustments on those transactions, and substantially reduces its transfer pricing compliance burden.

Detailed Solutions

Sol.1.

Solution

Concept — Article 366(12A) and Article 279A(5): Article 366(12A) defines "goods and services tax" to cover taxes on supply of goods or services or both, expressly excluding taxes on supply of alcoholic liquor for human consumption. Article 279A(5) lists five petroleum products — petroleum crude, high speed diesel, motor spirit, natural gas, and aviation turbine fuel — on which GST shall be levied from such date as the GST Council may recommend.

Step 1 — Petroleum crude not yet within GST: Until the GST Council recommends a date for including petroleum crude within GST, it remains outside the GST framework. No state legislature can unilaterally bring petroleum crude under SGST by ordinary state legislation; the constitutional mechanism requires the GST Council's recommendation.

Step 2 — Effect on state competence: The state law purporting to levy SGST on petroleum crude is constitutionally incompetent. The state would need to wait for the GST Council's recommendation and a consequential amendment to include petroleum crude within the GST net.

Why other options are wrong:

- Option A: The GST Council has not yet (as of the current date) recommended a date for petroleum crude; the premise is factually and legally incorrect.
- Option B: Entry 54 of the State List (taxes on sale or purchase of goods) was repealed and subsumed into GST; states cannot independently levy a sales tax on petroleum crude outside the GST framework.
- Option D: Article 246 must be read with the constitutional amendments introducing GST; Article 366(12A) and Article 279A(5) together override any residual state power to levy GST on the five specified petroleum products unilaterally.

Final Answer: Petroleum crude is outside GST until the GST Council recommends; the state law is constitutionally incompetent. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q1

Sol.2.

Solution

Concept — Article 289: Article 289(1) provides that the property of a State and income accruing therefrom shall be exempt from Union taxation. This constitutional immunity protects the financial sovereignty of states. However, Article 289(2) contains a proviso that Parliament may by law impose a tax to the extent that it applies to a trade or business of a State (not being ordinary governmental functions or incidental to the same).

Step 1 — The immunity under Article 289(1): Rental income from a government-owned property is prima facie income accruing from the property of the State and is therefore exempt from Union taxation. This is the general rule.

Step 2 — The Article 289(2) exception: If the letting out of the commercial complex constitutes carrying on of a "trade or business" by the State (as opposed to a purely governmental function), Parliament may impose tax on that income. The characterisation depends on the nature and scale of the commercial activity — courts have distinguished passive income from property from active commercial trading.

Why other options are wrong:

- Option B: Article 289(1) expressly provides immunity to state property income from Union taxation; Option B ignores this constitutional provision entirely.
- Option C: Article 289(1) exempts both the property and "income accruing therefrom"; rent is income accruing from the property and is covered by the immunity, not excluded from it.
- Option D: Article 289 applies to the State government itself, not to PSUs incorporated as separate legal entities; companies incorporated under the Companies Act are distinct legal persons and do not automatically inherit the constitutional immunity of the State.

Final Answer: Article 289(1) grants immunity to state property income from Union taxation; Article 289(2) creates an exception for income from trade or business of the State. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q2

Sol.3.

Solution

Concept — Section 112A grandfathering formula: Section 112A of the Income Tax Act, 1961 taxes long-term capital gains on listed equity shares at 10% on gains exceeding Rs. 1 lakh. To protect gains accrued up to 31 January 2018, a grandfathering formula determines the deemed cost of acquisition: the cost of acquisition is the *higher* of (i) the actual cost and (ii) the *lower* of (a) the FMV on 31 January 2018 and (b) the full value of consideration (sale price).

Step 1 — Applying the two-step formula:

- Step A: Lower of FMV on 31 January 2018 (Rs. 150) and sale consideration (Rs. 220) = Rs. 150.
- Step B: Higher of actual cost (Rs. 100) and Rs. 150 = **Rs. 150**.

Step 2 — Taxable gain: Deemed cost = Rs. 150 per share. Sale price = Rs. 220 per share. LTCG per share = Rs. 70. Total LTCG = Rs. 70,000 (for 1,000 shares), which is below the Rs. 1 lakh exemption threshold under Section 112A — no tax arises.

Why other options are wrong:

- Option A: Rs. 100 (original cost) ignores the grandfathering benefit that raises the cost to the 31 January 2018 FMV; this would overstate the taxable gain.
- Option B: Rs. 220 (sale price) cannot be the cost of acquisition; this would eliminate all gain artificially and is not the statutory formula.
- Option C: Rs. 175 (arithmetic average) is not prescribed anywhere in Section 112A; the grandfathering formula is specific and cannot be replaced by an averaging approach.

Final Answer: The deemed cost of acquisition under Section 112A is Rs. 150 per share (FMV on 31 January 2018, using the two-step grandfathering formula). $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q3

Sol.4.

Solution

Concept — Section 40(a)(ia): Section 40(a)(ia) of the Income Tax Act, 1961 was introduced to incentivise TDS compliance. It provides that 30% of any sum payable to a resident shall be disallowed if TDS has not been deducted (or, if deducted, has not been deposited within the prescribed time). The disallowance is partial — 30% of the payment — not total.

Step 1 — Statutory position: Beta Ltd. paid Rs. 10 lakh in professional fees without deducting TDS under Section 194J. Section 40(a)(ia) operates to disallow 30% of this expenditure: 30% $\times$ Rs. 10 lakh = Rs. 3 lakh is disallowed. The remaining Rs. 7 lakh (70%) is deductible.

Step 2 — Subsequent deduction and remittance: If Beta Ltd. later deducts and deposits the TDS in a subsequent year, the disallowed Rs. 3 lakh becomes deductible in that subsequent year under the proviso to Section 40(a)(ia).

Why other options are wrong:

- Option A: Section 40(a)(ia) specifies only a 30% disallowance; 100% disallowance is not the statutory consequence for non-deduction of TDS on payments to residents.
- Option C: Section 37(1) deductibility does not override Section 40(a)(ia); the disallowance provision specifically carves out 30% from the otherwise deductible expenditure.
- Option D: The deduction of the disallowed 30% is available in the *year of subsequent TDS deduction and remittance* (not the original year), but the current year consequence is the 30% disallowance — Option D mischaracterises the rule as a "full current-year disallowance" redeemed later.

Final Answer: Section 40(a)(ia) disallows 30% of the payment (Rs. 3 lakh) in the year of default; 70% remains deductible. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q4

Sol.5.

Solution

Concept — Section 44AD presumptive taxation: Section 44AD of the Income Tax Act, 1961 provides a presumptive taxation scheme for eligible small businesses (turnover up to Rs. 2 crore). The deemed profit is 8% of total turnover or gross receipts. A reduced rate of 6% applies to the portion of turnover received through account-payee cheques, demand drafts, electronic clearing, or other digital modes. The assessee must declare at least the presumptive profit; if actual profit is lower, he cannot declare a lower figure (unless he chooses to maintain books and get a tax audit under Section 44AB).

Step 1 — Applicable rate: Ajay's receipts are entirely in cash. The 6% concessional rate is not available for cash receipts. The applicable rate is 8%.

Step 2 — Computation: Presumptive income = 8% $\times$ Rs. 1,50,00,000 = Rs. 12,00,000. Ajay must declare Rs. 12 lakh, not his actual profit of Rs. 8 lakh.

Why other options are wrong:

- Option A: An assessee opting for Section 44AD cannot declare a profit lower than the statutory presumptive rate without giving up the scheme, maintaining books, and getting a tax audit; actual profit below the presumptive rate cannot be declared under the scheme.
- Option B: The 6% rate applies only to digitally received amounts; cash receipts are taxed at 8%, not 6%.
- Option D: No 4% rate exists under Section 44AD; the two rates are 8% (cash) and 6% (digital).

Final Answer: Under Section 44AD, Ajay must declare Rs. 12 lakh (8% of Rs. 1.5 crore turnover in cash receipts). $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q5

Sol.6.

Solution

Concept — Section 60 ITA: Section 60 of the Income Tax Act, 1961 provides that where a person transfers income without transferring the asset from which the income arises, the income shall, notwithstanding the transfer, be included in the total income of the transferor. This is a specific anti-avoidance rule targeting arrangements designed to divert income to others while retaining the underlying asset.

Step 1 — Essential conditions of Section 60: Two conditions must be satisfied: (a) transfer of income, and (b) the asset from which the income arises is *not* transferred. Here, Rajesh transferred only the right to receive rent (income) while retaining the property (asset). Both conditions are met.

Step 2 — Tax consequence: The rental income of Rs. 6 lakh per annum is included in Rajesh's total income for each year during the three-year period, regardless of the fact that his brother physically collects and retains the rent.

Why other options are wrong:

- Option B: The validity of the transfer deed under the Transfer of Property Act is irrelevant for income tax purposes; Section 60 overrides the civil law position and taxes the income in the hands of the transferor.
- Option C: Section 60 contains no equal-apportionment rule; the entire income is taxed in the hands of the transferor without any split.
- Option D: The exemption in Section 56(2)(x) for gifts received from relatives applies to the donee's income from the asset; it does not override Section 60, which operates at the stage of the transferor's income computation, not the recipient's. Moreover, a temporary assignment of rent is not a "gift" of income in the Section 56(2)(x) sense.

Final Answer: Under Section 60, the rental income is taxable in Rajesh's hands as he transferred income without transferring the asset. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q6

Sol.7.

Solution

Concept — Section 115BAC new tax regime: Section 115BAC of the Income Tax Act, 1961 (introduced from AY 2021–22 and made the default regime from AY 2024–25) offers lower tax rates but requires the taxpayer to forego most exemptions and deductions. The regime specifically disallows Chapter VI-A deductions (80C, 80D, 80G, 80GG, etc.) with limited exceptions (e.g., 80CCD(2) employer NPS contribution, 80CCH Agnipath). Certain Section 10 exemptions relating to retirement benefits (gratuity, leave encashment) are preserved.

Step 1 — Deductions available under new regime: The Finance Act 2023 restored the standard deduction of Rs. 50,000 under Section 16(ia) for salaried employees opting for the new regime from AY 2024–25. Interest on home loan for let-out property under Section 24(b) is allowed. Gratuity exemption under

Section 10(10) is preserved as a Section 10 exemption.

Step 2 — Deduction not available: Section 80C deductions — PPF contributions, life insurance premiums, ELSS investments, principal repayment on home loan, etc. — are expressly excluded under Section 115BAC(2). Priya cannot claim the Section 80C deduction.

Why other options are wrong:

- Option A: Interest on loan for let-out property under Section 24(b) is allowed under the new regime; it is only the deduction for self-occupied property interest that is restricted.
- Option B: Standard deduction of Rs. 50,000 under Section 16(ia) was restored for the new regime from AY 2024–25; it is available to Priya and is not the answer.
- Option C: Gratuity exemption under Section 10(10) is preserved in the new regime; it is available to all employees irrespective of the regime chosen.

Final Answer: Section 80C deductions (PPF, LIP, etc.) are not available under the new tax regime under Section 115BAC. $\Rightarrow$ $\boxed{\text{D}}$

Answer: (D) Go Back to Q7

Sol.8.

Solution

Concept — Section 194C TDS on contractors: Section 194C requires the payer to deduct TDS at the time of credit or payment (whichever is earlier) if: (a) a single payment to a contractor exceeds Rs. 30,000; OR (b) the aggregate of payments to the same contractor during the financial year exceeds Rs. 1,00,000. The applicable TDS rate is 1% for individual/HUF contractors and 2% for all others.

Step 1 — Two triggers: The per-payment threshold (Rs. 30,000) and the annual aggregate threshold (Rs. 1,00,000) are alternative triggers; satisfying *either* one attracts the TDS obligation. Gamma Ltd. focuses only on the per-payment threshold while ignoring the aggregate threshold.

Step 2 — Application: Each of the 15 payments is Rs. 26,667, which is below the Rs. 30,000 per-payment threshold. However, the aggregate for the year is Rs. 4,00,000, which far exceeds the Rs. 1,00,000 annual threshold. TDS must be deducted at 2% (Speedway is not an individual/HUF) on each payment once the aggregate threshold is crossed.

Why other options are wrong:

- Option A: Section 194C has an alternative aggregate threshold of Rs. 1,00,000; per-payment compliance alone is not sufficient when the annual aggregate exceeds Rs. 1,00,000.
- Option C: TDS under Section 194C is calculated on the gross payment (not on the excess above the threshold); once the aggregate exceeds Rs. 1,00,000, TDS applies to the entire payment, not just the portion above Rs. 1,00,000.
- Option D: Section 194C does not exempt all transportation payments; a specific exemption exists for payments to a goods transporter who owns ten or fewer goods carriages and furnishes a self-declaration with PAN; Speedway is a logistics company and the exemption provision requires specific conditions that are not stated to be fulfilled.

Final Answer: The aggregate Rs. 4 lakh exceeds the Rs. 1 lakh annual threshold; TDS at 2% is required under Section 194C. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q8

Sol.9.

Solution

Concept — Section 52 CGST Act (Tax Collected at Source by e-commerce operators): Section 52 of the CGST Act, 2017 mandates that every e-commerce operator (who is not an agent) must collect tax at source (TCS) at 1% (0.5% CGST + 0.5% SGST; or 1% IGST for inter-state supplies) on the net value of taxable supplies made through its platform by suppliers registered under GST. The operator must remit this TCS to the government and file a monthly TCS return (GSTR-8).

Step 1 — Nature of TCS obligation: TCS under Section 52 is distinct from TDS under Section 51. E-commerce operators (like Flipkart) are covered under Section 52, not Section 51. The TCS is collected from the consideration payable to the seller and deposited by the operator.

Step 2 — Credit available to seller: The amount of TCS deducted is reflected in the seller's electronic cash ledger and can be used by the seller to offset its own output GST liability, effectively preventing double taxation on the same supply.

Why other options are wrong:

- Option A: TDS under Section 51 applies to specified government entities and certain notified persons — it does not apply to e-commerce operators; Flipkart's obligation is TCS under Section 52, not TDS at 2% under Section 51.
- Option B: E-commerce operators have a specific and mandatory obligation under Section 52; characterising Flipkart as having no GST obligation is legally incorrect.
- Option D: While e-commerce operators must register in every state from which supplies are facilitated, the obligation to collect and remit TCS under Section 52 is a separate and distinct requirement; non-collection of TCS is a statutory default.

Final Answer: Flipkart must collect TCS at 1% under Section 52 on net taxable supplies facilitated; the seller can claim credit of the TCS amount. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q9

Sol.10.

Solution

Concept — Section 12(2) CGST Act: time of supply of goods (forward charge): Section 12(2)(a) provides that the time of supply of goods under forward charge is the *earlier* of: (i) the date of issue of invoice by the supplier; or (ii) the last date on which the supplier is required to issue the invoice under Section 31 of the CGST Act. Rule 47 of the CGST Rules, 2017 requires that a tax invoice for supply involving movement of goods must be issued before or at the time of removal of such goods.

Step 1 — Last date to issue invoice: Rule 47 required Kaveri Ltd. to issue the invoice at or before the time of removal of goods, i.e., on or before 1 March. The actual invoice was issued on 10 March — after the mandatory due date.

Step 2 — Determining time of supply: Under Section 12(2)(a), the time of supply is the earlier of: (a) date of issue of invoice (10 March) and (b) the last date on which invoice was required to be issued (1 March). The earlier of these two dates is 1 March. The payment date (25 March) is relevant only under Section 12(2)(b) as an alternative; since Section 12(2)(a) gives an earlier date, Section 12(2)(b) does not apply.

Why other options are wrong:

- Option A: Under Section 12(2), the date of receipt of payment is a trigger only if it is earlier than the invoice date or the due date for the invoice; here, 25 March is the latest of the three dates and does not determine time of supply.
- Option B: The actual invoice date of 10 March is not controlling where the invoice was issued *after* the mandatory due date; the "last date on which invoice was required to be issued" (1 March) overrides the actual (late) invoice date.
- Option C: The CGST Act specifies a single point in time as the time of supply; there is no concept of proportional spreading of tax liability across multiple dates.

Final Answer: Time of supply is 1 March — the last date by which the invoice was required to be issued under Rule 47. $\Rightarrow \boxed{\text{D}}$

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

Sol.11.

Solution

Concept — Section 54 CGST Act (Refund of Tax): Section 54 of the CGST Act, 2017 is the omnibus provision governing refund of taxes. Section 54(3) specifically entitles a registered person to claim refund of unutilised input tax credit (ITC) that has accumulated due to: (i) inverted duty structure; or (ii) zero-rated supplies made without payment of tax. Exports under LUT/bond are zero-rated supplies made without payment of IGST and squarely fall under Section 54(3)(ii).

Step 1 — Provisional refund mechanism: Section 54(6) read with Rule 91 of the CGST Rules, 2017 provides for a provisional refund of 90% of the total refund claimed within seven days of the acknowledgement of the refund application, subject to the condition that no prosecution has been initiated against the applicant.

Step 2 — LUT route vs. IGST payment route: When an exporter exports without paying IGST (LUT/bond route), no IGST refund arises; instead, accumulated ITC refund is claimed under Section 54(3). This is distinct from the route where IGST is paid on exports and the IGST is then refunded.

Why other options are wrong:

- Option B: Section 16(4) of the IGST Act governs zero-rated supplies and authorises the LUT/bond route but does not independently govern the ITC refund mechanism; the refund itself is processed under Section 54 of the CGST Act.

- Option C: Section 77 of the CGST Act deals with refund of tax paid by mistake when the supply is inter-state; it is unrelated to exporter ITC refunds.
- Option D: There is no "Section 96" refund provision in the CGST Act for exporters; and forcing exporters to pay IGST first defeats the purpose of the LUT/bond route created under Section 16(3) of the IGST Act.

Final Answer: Section 54(3) of the CGST Act governs refund of accumulated ITC on zero-rated exports under LUT; 90% provisional refund within seven days. ⇒ $\boxed{\text{A}}$

Answer: (A) Go Back to Q11

Sol.12.

Solution

Concept — Customs Act 1962 appellate structure: The Customs Act, 1962 provides a two-tier appellate structure below the High Court. Section 128 governs the first appeal: any person aggrieved by an order of an adjudicating authority (other than a Commissioner of Customs or the Principal Commissioner) may appeal to the Commissioner (Appeals). Section 129A provides for the second appeal to CESTAT from orders of the Commissioner (Appeals) or original orders of the Commissioner.

Step 1 — First appellate forum: Delta Imports is aggrieved by an order of the Deputy Commissioner, who is below the level of Commissioner. The first appeal must be filed before the Commissioner (Appeals) under Section 128 of the Customs Act.

Step 2 — Time limit: Section 128(1) prescribes a time limit of 60 days from the date of communication of the order. This is extendable by a further 30 days if the Commissioner (Appeals) is satisfied that there was sufficient cause for the delay.

Why other options are wrong:

- Option A: The Customs Act provides a statutory appellate hierarchy; parties must exhaust the appellate remedy under Section 128 before approaching the High Court. A direct writ petition to the High Court bypassing the statutory appeal is generally not maintainable unless exceptional circumstances (e.g., jurisdictional challenge, constitutional issue) exist.

- Option C: CESTAT (under Section 129A) hears second appeals from orders of the Commissioner (Appeals) or certain original orders of Commissioners; it is not the first appellate forum for orders of a Deputy Commissioner.
- Option D: The Settlement Commission is a separate quasi-judicial body for settling cases involving undisclosed income; it is not a mandatory pre-appeal step for customs duty disputes. Delta Imports can proceed directly to the Commissioner (Appeals).

Final Answer: First appeal lies to Commissioner (Appeals) under Section 128 within 60 days from communication of the order. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q12

Sol.13.

Solution

Concept — Section 68 and Section 115BBE ITA: Section 68 of the Income Tax Act, 1961 provides that where any sum is found credited in the books of account of an assessee and the assessee offers no satisfactory explanation of its nature and source, the sum may be treated as the income of the assessee for that year. Section 115BBE (introduced with effect from AY 2013–14 and strengthened from AY 2017–18) provides that income taxable under Section 68 is charged to tax at a flat rate of 60% (plus surcharge at 25% on such tax, and health and education cess).

Step 1 — Onus of proof: The onus is on the assessee to explain the nature and source of the unexplained credit. Raman's failure to offer any explanation satisfies the condition for invoking Section 68. The credit is treated as his income for that year.

Step 2 — Rate of tax under Section 115BBE: The effective tax rate (including 25% surcharge on tax) is 60% + 15% = 75%, plus cess at 4% on tax and surcharge. No deduction or set-off of any loss or allowance is permissible against income taxable under Section 115BBE. This punitive rate is designed to discourage concealment.

Why other options are wrong:

- Option A: Section 56(2)(x) applies to gifts received from persons other than relatives in excess of Rs. 50,000 as income from other sources; Section 68 is a separate and more specific provision that applies to unexplained credits and overrides the gift characterisation.

- Option B: Section 68 income is not treated as PGBP income and is not taxed at slab rates; Section 115BBE specifically prescribes the flat 60% rate for income covered by Section 68.
- Option D: Section 68 does not require corroborative evidence beyond the unexplained credit entry; the onus is on the assessee to explain, not on the assessing officer to produce additional proof; failure to explain is sufficient to trigger Section 68.

Final Answer: The Rs. 15 lakh unexplained credit is taxable under Section 68 at a flat rate of 60% under Section 115BBE, with no deductions or set-off permitted. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q13

Sol.14.

Solution

Concept — DTAA Article 23 credit method: The credit method for elimination of double taxation (as used in the India–UK DTAA and most of India's tax treaties) allows the residence state (India) to tax the income but grants a credit for taxes paid in the source state (UK). The credit is an "ordinary credit" — it is limited to the lower of (i) the foreign tax actually paid and (ii) the Indian tax that would have been payable on the same income.

Step 1 — Computation of credit:

- UK tax paid = 20% of Rs. 10 lakh = Rs. 2 lakh.
- Indian tax on same income = 30% of Rs. 10 lakh = Rs. 3 lakh.
- Ordinary credit = lower of Rs. 2 lakh (UK tax) and Rs. 3 lakh (Indian tax) = Rs. 2 lakh (i.e., 20%).

Step 2 — Net Indian tax: Gross Indian tax = Rs. 3 lakh. Less: credit = Rs. 2 lakh. Net Indian tax payable = Rs. 1 lakh (i.e., 10% effective rate on the dividend income).

Why other options are wrong:

- Option B: The India–UK DTAA uses the credit method for residents of India, not the exemption method; under the credit method, the income is included in Indian taxable income but relief is given by way of credit, not exemption.
- Option C: India does not follow the exemption method for dividends under the India–UK DTAA; Option C incorrectly describes the mechanism and the result.

- Option D: The ordinary credit method gives credit for the full foreign tax paid (20%), not merely the "difference" between the two rates; the "top-up" concept describes a different mechanism (the underlying tax credit) and is not how the India–UK DTAA Article 23 operates.

Final Answer: Under the credit method, Suresh can claim credit of 20% (full UK tax paid), reducing net Indian tax on the dividend to 10%. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q14

Sol.15.

Solution

Concept — Section 92CB and Rule 10TD safe harbour: Section 92CB of the Income Tax Act, 1961 empowers the CBDT to prescribe safe harbour rules for specified categories of international transactions. Rule 10TD of the Income Tax Rules, 1962 specifies the safe harbour rates for various categories including IT services, software development, KPO, contract R&D, and intra-group loans. If an eligible assessee declares a transfer price that results in an operating profit margin at or above the prescribed safe harbour rate for the relevant transaction value slab, the ALP of the international transaction is accepted without further scrutiny.

Step 1 — Binding nature of safe harbour: Once the assessee validly opts into the safe harbour regime under Rule 10TE and meets the margin threshold, the declared price is *conclusively* accepted as the ALP. The Transfer Pricing Officer cannot make any adjustment to the transfer price for the transaction covered under safe harbour.

Step 2 — Compliance benefit: Safe harbour significantly reduces documentation and litigation risk. However, the assessee is still required to maintain transfer pricing documentation under Section 92D; safe harbour provides protection from *adjustment*, not from all documentation obligations.

Why other options are wrong:

- Option A: Safe harbour does not exempt the assessee from maintaining contemporaneous documentation under Section 92D; it only protects the declared price from adjustment; documentation obligations continue.
- Option B: The safe harbour operating profit margin under Rule 10TD varies by transaction value slab and category of service; a uniform 25% margin for all IT services at all transaction levels is incorrect; the actual margins are lower and are tiered.

- Option C: Rule 10TD does not cap eligibility at Rs. 200 crore for all IT transactions; higher transaction values are accommodated within higher-rate slabs. The rule has evolved to permit safe harbour for larger IT/ITeS transactions with specified (and typically higher) margins.

Final Answer: Under Section 92CB/Rule 10TD, if the declared margin meets the safe harbour rate, the transfer price is accepted as ALP without scrutiny or adjustment. $\Rightarrow \boxed{\text{D}}$

Answer: (D) 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
C	A	D	B	C	A	D	B	C	D

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

Topic-wise Answer Summary

Q.No.	Topic	Answer
1	Constitutional — Art. 366(12A) & 279A(5): GST on petroleum crude	C
2	Constitutional — Art. 289: exemption of state property from Union tax	A
3	Income Tax — Sec. 112A: LTCG grandfathering / cost of acquisition	D
4	Income Tax — Sec. 40(a)(ia): 30% disallowance for non-deduction of TDS	B
5	Income Tax — Sec. 44AD: presumptive taxation (8% of turnover)	C
6	Income Tax — Sec. 60: transfer of income without transfer of asset	A
7	Income Tax — Sec. 115BAC: new tax regime — 80C not available	D
8	Income Tax — Sec. 194C: TDS on contractors (aggregate threshold)	B
9	GST — Sec. 52 CGST: TCS by e-commerce operator at 1%	C
10	GST — Sec. 12 CGST: time of supply of goods (date of removal)	D
11	GST — Sec. 54 CGST: refund of ITC on zero-rated supplies (LUT route)	A
12	Customs — Sec. 128: first appeal to Commissioner (Appeals), 60 days	B
13	Income Tax — Sec. 68 / 115BBE: unexplained cash credit taxed at 60%	C
14	DTAA — Art. 23 credit method: India–UK ordinary credit for foreign tax	A
15	Transfer Pricing — Sec. 92CB / Rule 10TD: safe harbour rules	D