CLAT PG Tax Law

Sample Paper – 9

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. The State Revenue Department of a state issues a demand notice requiring all marble quarrying firms in the state to pay a "mineral development contribution" at the rate of 5% of ex-quarry value of marble extracted. No statute of the state legislature or Parliament authorises this levy; the demand is based solely on an executive circular issued by the Department of Mines. A quarrying firm challenges the demand notice in the High Court, invoking Article 265 of the Constitution of India. Which of the following correctly states the scope and legal effect of Article 265?

(A) Article 265 operates as a directive principle and is not enforceable in a court of law; a quarrying firm must first exhaust all administrative remedies before challenging a revenue demand in the High Court, regardless of whether the levy has legislative backing.

(B) Article 265 of the Constitution provides that no tax shall be levied or collected except by authority of law; the expression "authority of law" means a validly enacted statute conferring the power to levy the tax. An executive circular, departmental order, or administrative notification without the backing of a statute enacted by a competent legislature cannot constitute "authority of law" within the meaning of Article 265. A demand for a "mineral development contribution" without any enabling statute is constitutionally void and the High Court must quash it.

(C) Article 265 restricts only the Central Government from levying taxes without legislative authority; state governments retain an inherent executive power to raise revenues through administrative levies for development purposes, provided the amounts collected are credited to the Consolidated Fund of the State.

(D) Article 265 applies only to indirect taxes collected from consumers; a direct levy on producers such as quarrying firms is governed by the executive power of the state under Article 162 and cannot be challenged under Article 265.

Q.2. The State Legislature of a border state enacts a law imposing a sales tax on all transactions involving the sale of agricultural commodities where the transaction originates within the state, irrespective of whether the delivery is made within the state or in another state. Traders carrying out inter-state sales of foodgrains challenge the law on the ground that it violates Article 286 of the Constitution of India. Parliament has enacted the Central Sales Tax Act, 1956, prescribing principles for determining when a sale takes place in inter-state trade. What is the correct constitutional position?

(A) A state legislature has plenary power to tax all commercial transactions originating within its territory; Article 286 is a general declaration of policy that does not bind state legislatures on individual transactions and creates no enforceable bar against taxing inter-state sales.

(B) Article 286 restricts states from taxing inter-state sales only in respect of goods declared of special importance under the Essential Commodities Act; for ordinary agricultural produce, a state may freely impose sales tax on inter-state transactions without constitutional constraint.

(C) Article 286(1) prohibits a state from imposing a tax on the sale or purchase of goods where such sale or purchase takes place in the course of inter-state trade or commerce, or outside the state, or in the course of import into or export from India. Under Article 286(2), Parliament is empowered to formulate the principles for determining when a sale or purchase takes place in the course of inter-state trade; the Central Sales Tax Act, 1956 enacted under this power occupies the field and overrides inconsistent state law, making the state levy on inter-state sales void to the extent it conflicts with Parliament's formulation.

(D) Article 286 applies only to sales of goods made in the course of export out of India; transactions in the course of inter-state trade between two states within India are beyond the scope of Article 286 and remain subject to state sales tax legislation without any constitutional restriction.

Q.3. Ramesh, a private sector employee covered by the Payment of Gratuity Act, 1972, retires after 22 completed years of service. His last drawn monthly salary (basic pay plus dearness allowance forming part of retirement benefits) is Rs. 60,000. His employer pays him a gratuity of Rs. 18,00,000. The government-notified maximum exemption limit applicable at the time of his retirement under Section 10(10) of the Income Tax Act, 1961 is Rs. 20,00,000. How much gratuity is exempt from income tax in Ramesh's hands, and what amount (if any) is chargeable to tax?

(A) Under Section 10(10)(ii) read with the Payment of Gratuity Act, 1972, the exemption is the *least* of three amounts: (i) actual gratuity received = Rs. 18,00,000; (ii) notified maximum limit = Rs. 20,00,000;

and (iii) 15 days' salary for each completed year of service (or part thereof exceeding six months), computed as (Rs. 60,000 $\div$ 26) $\times$ 15 $\times$ 22 $\approx$ Rs. 7,61,538. The least of the three is Rs. 7,61,538, which is the exempt amount. The balance of Rs. 18,00,000 − Rs. 7,61,538 = Rs. 10,38,462 is chargeable to tax as salary income.

(B) The entire gratuity of Rs. 18,00,000 is exempt from income tax because the amount received is below the government-notified maximum limit of Rs. 20,00,000; once the amount received is below the ceiling, no further least-of-three computation is required under Section 10(10).

(C) Gratuity received by a private sector employee is entirely taxable in the year of receipt; the Section 10(10) exemption applies only to gratuity received by central and state government employees and employees of local authorities.

(D) The exempt amount is Rs. 15,00,000, computed as 25 days' salary (Rs. 60,000 $\div$ 26 $\times$ 25) multiplied by 22 years of service, because the Payment of Gratuity Act formula uses 25 days' wages per year for monthly-rated employees whose salary exceeds the statutory ceiling.

Q.4. Meera receives a residential flat from her colleague Prashant as a gift, through a registered gift deed, without paying any consideration. The stamp duty value of the flat (as assessed by the state government for stamp duty purposes) is Rs. 75,00,000 on the date of the gift deed. Meera contends that since the gift is genuine, duly documented, and no money has exchanged hands, no income-tax liability can arise in her hands. The Assessing Officer proposes to invoke Section 56(2)(x) of the Income Tax Act, 1961. What is the correct tax treatment in Meera's hands?

(A) Section 56(2)(x) does not apply to gift transactions evidenced by a registered instrument; a registered gift deed provides conclusive proof of the genuineness of the gift, and no tax can be levied in the recipient's hands regardless of the value of the property received.

(B) Section 56(2)(x) applies only to the receipt of movable property (jewellery, shares, paintings, etc.) without consideration; immovable property received as a gift is governed exclusively by the Transfer of Property Act, 1882, and is not covered by Section 56(2)(x) of the Income Tax Act.

(C) The taxable amount under Section 56(2)(x) in the case of immovable property received without consideration is the excess of fair market value over the stamp duty value; since Meera paid no consideration, she is taxed only on the difference between FMV and stamp duty value, if any.

(D) Section 56(2)(x) of the Income Tax Act, 1961 provides that where an individual receives any immovable property without consideration and the stamp duty value of such property exceeds Rs. 50,000, the stamp duty value of the property shall be deemed to be income chargeable to tax under the head "Income from Other Sources" in the previous year of receipt. Accordingly, the entire stamp duty value of Rs. 75,00,000 is taxable in Meera's hands in the year she receives the gift deed. The exemption for gifts from "relatives" (as defined in the Explanation to Section 56(2)(x)) is not available because Prashant is a colleague, not a relative; nor does any other specified exception (marriage gift, inheritance by will, etc.) apply on the facts.

Q.5. Sudhir, an individual taxpayer, has a gross total income of Rs. 9,00,000 for Financial Year 2024-25. During the year he pays a life insurance premium of Rs. 1,50,000 on a policy (issued in FY 2015-16) with a sum assured of Rs. 8,00,000. He also invests Rs. 50,000 in a Public Provident Fund account and deposits Rs. 25,000 in a 5-year fixed deposit with a scheduled bank under Section 80C. Sudhir claims the maximum deduction available under Section 80C of the Income Tax Act, 1961. What is the correct amount of deduction?

(A) The total deduction is Rs. 2,25,000 (the sum of the LIC premium Rs. 1,50,000 + PPF Rs. 50,000 + bank FD Rs. 25,000) because all three instruments are expressly listed as eligible investments and the aggregate of qualifying investments can be deducted without any cap other than gross total income.

(B) Section 80C(3A) provides that in the case of a life insurance policy issued on or after 1st April 2012, the premium deductible shall not exceed 10% of the sum assured; accordingly, only Rs. 80,000 (10% of Rs. 8,00,000) of the Rs. 1,50,000 LIC premium qualifies. Total eligible Section 80C investments = Rs. 80,000 (LIC) + Rs. 50,000 (PPF) + Rs. 25,000 (bank FD) = Rs. 1,55,000. However, the overall ceiling under Section 80C is Rs. 1,50,000 and the deduction cannot exceed this limit. The maximum deduction available to Sudhir is therefore Rs. 1,50,000.

(C) The LIC premium is disallowed entirely because Rs. 1,50,000 exceeds 20% of the sum assured (Rs. 8,00,000 $\times$ 20% = Rs. 1,60,000 — actually it does not exceed 20%); the total deduction is only Rs. 75,000 (PPF Rs. 50,000 + bank FD Rs. 25,000), which is the sum of the two permissible investments.

(D) The maximum aggregate deduction under Section 80C is Rs. 1,00,000 for all qualifying investments combined; any investments beyond Rs. 1,00,000 are outside the scope of the deduction regardless of the type of instrument.

Q.6. Sunrise Chemicals Ltd., a domestic company incorporated in FY 2015-16, exercises the option under Section 115BAA of the Income Tax Act, 1961 for Assessment Year 2024-25 by filing Form 10-IC. The company had been claiming additional depreciation under Section 32(1)(iia) and a deduction under Section 80-IC in earlier years. It seeks to understand the conditions attaching to the 115BAA option and whether it may revert to the normal tax regime in a subsequent year. Which of the following correctly states the legal position under Section 115BAA?

(A) Under Section 115BAA, an existing domestic company (including one incorporated before 1st October 2019) may opt to pay income tax at a flat rate of 22% (plus applicable surcharge of 10% and health and education cess of 4%) without the Minimum Alternate Tax (MAT) obligation under Section 115JB. To avail this rate, the company must not claim: (a) deductions under Sections 10AA, 80-

IA, 80-IAB, 80-IB, 80-IC, 80-IE, or any other profit-linked incentive; or (b) additional depreciation under Section 32(1)(iia) or investment allowance under Section 32AD. The option once exercised by filing Form 10-IC is irrevocable; the company cannot withdraw the option and revert to the normal tax rate regime in any subsequent assessment year.

(B) Section 115BAA is available only to companies incorporated on or after 1st October 2019 (the date of the Ordinance introducing the section); an existing company like Sunrise Chemicals Ltd., incorporated in FY 2015-16, cannot opt for the concessional 22% rate and must continue to pay tax at the normal applicable rate.

(C) A company that has exercised the Section 115BAA option may continue to claim deductions under Sections 80-IC and 80-IA for the first five years after exercising the option; such deductions are forfeited only from the sixth year onwards. The option may also be revoked once during the lifetime of the company if business exigencies require it.

(D) Under Section 115BAA, the concessional tax rate for existing domestic companies is 15%, which is the same rate as the concessional rate available to new manufacturing companies under Section 115BAB; the 22% rate applies only to companies that had filed no return of income prior to the date of the Ordinance.

Q.7. The Assessing Officer issued a notice under Section 148 of the Income Tax Act, 1961 on 20th June 2022 proposing to reopen the assessment for Assessment Year 2016-17 (i.e., more than four years after 31st March 2017, the end of the relevant assessment year). The original assessment for AY 2016-17 was completed under Section 143(3) after scrutiny. The AO's recorded reason for reopening is that income allegedly escaped assessment, but the AO's reasons do not allege or demonstrate that the assessee failed to disclose fully and truly all material facts necessary for the assessment during the original proceedings. The assessee challenges the notice. What is the correct legal position under the Income Tax Act (as it stood prior to the Finance Act, 2021 amendments)?

(A) The AO is empowered to reopen any assessment within six years from the end of the relevant assessment year upon forming a reason to believe that income has escaped assessment; no additional condition of failure to disclose material facts is required where the escapement exceeds Rs. 1 lakh.

(B) Notice under Section 148 cannot be issued in any case beyond three years from the end of the assessment year; since more than three years have elapsed since the end of AY 2016-17, the notice is absolutely time-barred and the assessee is immune from any reopening.

(C) Under Section 147 of the Income Tax Act (as it stood prior to the Finance Act, 2021 amendment), where a notice under Section 148 is issued beyond four years from the end of the relevant assessment year, an additional jurisdictional condition must be satisfied: the income must have escaped assessment "by reason of the failure on the part of the assessee to disclose fully and truly all material facts necessary for his assessment." Since the AO's recorded reasons do not allege or demonstrate any such failure to disclose, the AO lacks jurisdiction to reopen the assessment beyond four years; the notice under Section 148 is liable to be quashed by the High Court in a writ petition.

(D) Section 147 of the Act makes no distinction between reopening within four years and reopening beyond four years; the sole condition for issuing a notice under Section 148 is the AO's reason to believe that income has escaped assessment, and no additional condition of failure to disclose material facts is ever imposed.

Q.8. Omega Ltd., an Indian company, makes a payment of Rs. 50,00,000 to TechnoServ AG, a Swiss company, for software consultancy services rendered outside India. Omega Ltd.'s tax counsel advises that under the India-Switzerland Double Taxation Avoidance Agreement (DTAA), the payment is not taxable in India because TechnoServ AG has no Permanent Establishment in India; accordingly, Omega Ltd. makes the payment without deducting any TDS under Section 195 of the Income Tax Act, 1961. The Assessing Officer initiates proceedings against Omega Ltd. under Section 201 for short deduction. What is the correct legal position?

(A) Section 195 does not apply to payments for services rendered entirely outside India; since TechnoServ AG performed its consultancy work in Switzerland, the income has no territorial nexus with India and no TDS obligation arises under Section 195.

(B) Omega Ltd. correctly made the payment without TDS because a DTAA exemption, once applicable, automatically extinguishes the payer's obligation under Section 195; the payer need not obtain any certificate or prior determination, and Section 201 liability cannot arise where a bona fide DTAA position is taken.

(C) Section 195 applies only to payments exceeding Rs. 1,00,00,000 in a financial year to a single non-resident; since the payment of Rs. 50,00,000 is below this threshold, Omega Ltd. was not required to deduct TDS regardless of DTAA applicability.

(D) Section 195 of the Income Tax Act, 1961 casts a positive obligation on every person responsible for paying any sum chargeable under the Act to a non-resident to deduct TDS at the time of credit or payment. Even if the payer bona fide believes that the DTAA exemption applies, the correct procedure is to either: (a) apply to the Assessing Officer for a determination under Section 195(2) or 195(3); or (b) obtain a nil or lower deduction certificate from the AO under Section 197 before making the payment without deduction. Unilaterally making the payment without deduction or a prior determination renders Omega Ltd. an assessee-in-default under Section 201 and liable for the short-deducted amount plus interest under Section 201(1A).

Q.9. Adventure Retreats Ltd. offers an all-inclusive "Himalayan Holiday Package" comprising: (i) accommodation at a hill resort for five nights; (ii) all meals (breakfast, lunch, dinner); (iii) a guided trekking tour; and (iv) travel insurance for the duration of the trip — all supplied together for a single consolidated price of Rs. 25,000 per person. The GST Department contends that the package is a "mixed supply" and should attract the highest GST rate among its components. Adventure Retreats argues that it is a "composite supply" taxable at the rate applicable to its principal supply (accommodation). Which characterisation is correct under Sections 2(30), 2(74), and 8 of the CGST Act, 2017?

(A) The package is a "mixed supply" under Section 2(74) of the CGST Act because each constituent element — accommodation, food, trekking, and insurance — can independently be purchased by a consumer; where individual supply is possible, the bundle must be treated as a mixed supply and the highest applicable GST rate governs the entire package.

(B) The package constitutes a "composite supply" under Section 2(30) of the CGST Act because the supplies are naturally bundled in the ordinary course of business and are provided in conjunction with each other — a traveller booking a Himalayan holiday package would not ordinarily purchase accommodation without the accompanying meals, guided trekking, and travel insurance that are integral to the holiday experience. The "principal supply" (the element giving the composite supply its essential character) is the accommodation service. Under Section 8(a), the entire composite supply is chargeable to GST at the rate applicable to the principal supply, i.e., the rate on accommodation services.

(C) Both composite supply and mixed supply attract GST at the highest rate among the constituent supplies, as a general rule under Section 8; the distinction between the two categories has no effect on the applicable rate of tax.

(D) A holiday package comprising accommodation and services rendered in the course of outdoor recreation is classified as a "works contract" under Section 2(119) of the CGST Act and taxed at a flat rate of 18%, irrespective of the nature of the individual components.

Q.10. Bharat Textiles, a sole proprietor registered under GST and dealing exclusively in taxable goods, had an aggregate turnover of Rs. 1,20,00,000 in the preceding financial year. He wishes to opt for the composition scheme under Section 10 of the CGST Act, 2017 for the current year. He also supplies goods through an e-commerce operator (a major online marketplace that collects tax at source under Section 52). What is the correct legal position regarding Bharat Textiles' eligibility for and restrictions under the composition scheme?

(A) The composition scheme under Section 10 of the CGST Act is available to a supplier of goods whose aggregate turnover in the preceding financial year did not exceed Rs. 1,50,00,000 (Rs. 75,00,000 for specified special category states). Bharat Textiles satisfies this turnover condition. However, Section 10(2)(d) specifically disqualifies a person from the composition scheme if he "effects supplies of goods through an electronic commerce operator who is required to collect tax at source under Section 52." Since Bharat Textiles supplies through an e-commerce operator subject to Section 52 TCS, he is ineligible for the composition scheme.

(B) The composition scheme is available to Bharat Textiles because his aggregate turnover (Rs. 1.2 crore) is below the Rs. 1.5 crore threshold, and selling through an e-commerce operator is permitted under the scheme provided the supplier registers the e-commerce operator's GSTIN on the common portal at the time of opting in.

(C) The composition scheme under Section 10 is available only to service providers, restaurant operators, and mixed-supply businesses; suppliers dealing exclusively in goods are required to register under the regular scheme and are statutorily ineligible for the composition scheme.

(D) Bharat Textiles may opt for the composition scheme unconditionally since his turnover is within the prescribed limit; the restriction on e-commerce supplies was removed by the Finance Act, 2022 and no longer applies to suppliers of goods with turnover below Rs. 1.5 crore.

Q.11. Delta Electronics, a GST-registered dealer, received a tax invoice dated 18th July 2023 from its supplier for a consignment of components supplied in FY 2023-24. The supply is duly reflected in Delta Electronics' GSTR-2B. However, Delta Electronics failed to claim the Input Tax Credit (ITC) on this invoice in any GSTR-3B filed for the period July 2023 to September 2024. It now seeks to include the ITC for this invoice in the GSTR-3B for October 2024. What is the correct legal position under Section 16(4) of the CGST Act, 2017?

(A) Section 16(4) imposes no limitation period for claiming ITC as long as the supply has been received, the tax invoice is genuine, and tax has been paid by the supplier to the government; a registered person may claim ITC for any tax period at any time by filing a rectified or amended GSTR-3B.

(B) The time limit for claiming ITC under Section 16(4) is the date of furnishing the annual return (GSTR-9) for the financial year in which the invoice is issued; since the annual return for FY 2023-24 is due on 31st December 2024, Delta Electronics can still include the ITC by filing GSTR-3B for October 2024 (due in November 2024) within the annual return deadline.

(C) Section 16(4) of the CGST Act provides that a registered person shall not take ITC in respect of any invoice pertaining to a financial year after the *earlier* of: (i) the due date for furnishing the return under Section 39 for the month of September following the end of the financial year to which the invoice relates (i.e., the due date of GSTR-3B for September 2024, which falls in October 2024, for invoices pertaining to FY 2023-24); or (ii) the date of furnishing the annual return for that year. The invoice pertains to FY 2023-24. Since Delta Electronics did not claim the ITC by the due date for the September 2024 GSTR-3B (the Section 16(4) cut-off), the ITC lapses permanently and cannot be claimed in the GSTR-3B for October 2024 or any subsequent period.

(D) Delta Electronics may still claim the ITC by filing a rectification application under Section 161 of the CGST Act within two years from the due date of the original GSTR-3B in which the ITC should have been claimed; Section 16(4) does not extinguish ITC where it was inadvertently omitted due to oversight.

Q.12. Crystal Ceramics Ltd. manufactures glazed ceramic tiles attracting GST at 28%. It procures raw materials — feldspar, silica, and kaolin — on which the applicable GST rate is 5%. This inverted duty structure results in Crystal Ceramics accumulating large amounts of unutilized Input Tax Credit (ITC) each month. The company applies for a refund under Section 54(3) of the CGST Act, 2017. The tax authority allows the refund on ITC pertaining to goods inputs but disallows the refund on the portion of ITC attributable to input services (such as freight, testing services, and professional fees), stating that the refund under the inverted duty structure formula is restricted to ITC on inputs (goods) only. What is the correct legal position?

(A) Section 54(3) of the CGST Act permits a registered person to claim a refund of all unutilized ITC regardless of whether it arises from inputs or input services; the authority's distinction between goods inputs and input services for refund eligibility under the inverted duty structure has no statutory basis and is contrary to the plain text of Section 54(3).

(B) No refund of ITC is permissible under the inverted duty structure scenario; the proper remedy for Crystal Ceramics is to carry forward the accumulated credit indefinitely and adjust it against future output tax liability when the duty inversion reverses; Section 54(3) does not apply to manufacturing concerns.

(C) A refund of ITC under Section 54(3) in an inverted duty structure situation is available only if the taxpayer first exhausts all ITC — including ITC on input services — and the residual unclaimed credit is then demonstrated to be exclusively referable to goods inputs; since input service credits are involved, no refund can be claimed.

(D) The Supreme Court of India in *Union of India v. VKC Footsteps India Pvt. Ltd.* (2021) upheld the validity of Rule 89(5) of the CGST

Rules, 2017, which prescribes the formula for computing the refund of unutilized ITC under the inverted duty structure. Rule 89(5) defines the formula using only "Net ITC" attributable to inputs (goods) and expressly excludes ITC on input services from the refund formula. Accordingly, the tax authority's disallowance of the portion of the refund attributable to ITC on input services is consistent with the current statutory framework and the Supreme Court's ruling; Crystal Ceramics' refund claim is limited to ITC on goods inputs under the inverted duty formula.

Q.13. Sunrise Imports Pvt. Ltd. declares a transaction value of Rs. 40,00,000 for a consignment of precision industrial machinery imported from Germany. The Customs Officer, based on contemporaneous import data, suspects that the declared price is significantly lower than the price at which similar machinery is being imported by other buyers, and proposes to reject the declared transaction value. Sunrise argues that Section 14 of the Customs Act, 1962 mandates acceptance of the transaction value as the primary basis of valuation. What does Section 14 of the Customs Act provide regarding the determination of the value of imported goods, and in what circumstances may the declared value be rejected?

(A) Section 14 of the Customs Act, 1962 provides that the assessable value of imported goods is always the fair market value of the goods in India at the time and place of importation; the transaction value declared on the invoice is merely indicative and the Customs Officer may freely replace it with any value he considers appropriate without following any prescribed methodology.

(B) Section 14(1) of the Customs Act, 1962 provides that the value of imported goods shall be the *transaction value* — the price actually paid or payable for the goods when sold for export to India — subject to adjustments for freight, insurance, loading and unloading charges, royalties and licence fees, and proceeds of subsequent resale accruing to the seller, to the extent not already included in the price. Transaction value is the primary and preferred basis of valuation. However, the transaction value may be rejected where the Customs Officer has reasonable grounds to doubt its truth or accuracy (as elaborated by the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007); in such cases, value must be determined sequentially through prescribed alternative methods — transaction value of identical goods, transaction value of similar goods, deductive value, computed value, and residual (fallback) method — in that prescribed order.

(C) Section 14 of the Customs Act mandates that customs valuation shall be based exclusively on the standard retail price published by the manufacturer or the prevailing market price in the country of export; invoice prices declared by importers are inadmissible as evidence of value for customs assessment.

(D) Section 14 grants the Customs Officer unfettered discretionary power to determine the value of imported goods at any amount he considers just and proper; a mere suspicion of undervaluation entitles the officer to substitute any figure without regard to any sequential valuation methodology.

Q.14. The Central Government issues a notification under Section 25(1) of the Customs Act, 1962, granting an *absolute* exemption from basic customs duty on solar photovoltaic panels imported for use in specified renewable energy projects. Several importers, relying on this notification, open letters of credit and place purchase orders for large consignments. Thereafter, the government issues a fresh notification that amends the exemption by making it *conditional* — requiring prior project registration with the Ministry of New and Renewable Energy — purportedly with retrospective effect from the date of the original notification. Importers whose consignments are in transit challenge the retrospective modification. What does Section 25(1) permit, and what is the judicial position on such modifications?

(A) Section 25(1) of the Customs Act, 1962 empowers the Central Government to grant exemptions from customs duty by notification in the

Official Gazette; such exemptions may be absolute or conditional. While the government has broad power to amend or withdraw exemption notifications prospectively, a retrospective withdrawal or modification of an absolute exemption that adversely affects importers who acted on the basis of the existing exemption may be struck down as arbitrary, violative of legitimate expectations, or as unreasonable restriction on the right to trade under Article 19(1)(g). Courts have held that importers who have already committed to transactions on the faith of an absolute exemption cannot be subjected retrospectively to conditions that did not exist at the time of their commitment.

(B) Section 25(1) expressly permits the Central Government to amend or withdraw any exemption notification with retrospective effect from any date it chooses; importers have no vested right in a customs duty exemption, and retrospective modifications are immune from judicial challenge because tax exemptions are a matter of executive grace.

(C) An exemption notification issued under Section 25(1) is irrevocable once acted upon by an importer; the government cannot amend or withdraw a customs duty exemption unless Parliament enacts an amending statute; an executive notification cannot undo what an executive notification granted.

(D) Section 25(1) exemption notifications apply only prospectively from the date of their Official Gazette publication and can be withdrawn only by another prospective notification; courts have uniformly held that no customs duty exemption — whether absolute or conditional — can be granted or withdrawn with retrospective effect under any circumstances.

Q.15. Priti has held a plot of urban land as a long-term capital asset since 2010, with an indexed cost of acquisition of Rs. 22,00,000. On 1st April 2022, she converts the plot into stock-in-trade for her newly launched real estate development business. The fair market value (FMV) of the plot on the date of conversion is Rs. 90,00,000. She completes construction and sells the developed residential units (being the stock-in-trade derived from the plot) in FY 2025-26 for aggregate sale proceeds of Rs. 1,50,00,000. Under Section 45(2) of the Income Tax Act, 1961, what is the correct tax treatment of the capital gains element arising on conversion of the plot?

(A) Capital gains on the conversion of a capital asset into stock-in-trade arise and are taxable in the year of conversion itself (i.e., FY 2022-23, AY 2023-24); Priti must pay long-term capital gains tax in AY 2023-24 on the difference between the FMV on the date of conversion (Rs. 90,00,000) and the indexed cost of acquisition, with no further capital gains taxation when the stock-in-trade is subsequently sold.

(B) The conversion of a capital asset into stock-in-trade is not a "transfer" within the meaning of Section 2(47) of the Income Tax Act, 1961 and therefore does not give rise to any capital gains at any stage; the entire sale proceeds of Rs. 1,50,00,000 from the developed units are assessable exclusively as business income without any capital gains element.

(C) Section 45(2) of the Income Tax Act, 1961 provides that where a capital asset is converted into stock-in-trade, the profits or gains arising from such conversion shall be *deemed* to be income chargeable to tax under the head "Capital Gains" in the **previous year in which the stock-in-trade is sold or otherwise transferred** (i.e., FY 2025-26), not in the year of conversion. The FMV of the asset on the date of conversion (Rs. 90,00,000) is treated as the full value of consideration for computing capital gains, and the indexed cost of acquisition (Rs. 22,00,000) is deducted therefrom. Simultaneously, the FMV on the date of conversion (Rs. 90,00,000) is deemed to be the cost of the stock-in-trade, and the difference between the sale proceeds (Rs. 1,50,00,000) and this deemed cost forms part of the business income in FY 2025-26.

(D) Under Section 45(2), capital gains arising on conversion of a capital asset to stock-in-trade are split equally between the year of conversion and the year of sale; Priti must report 50% of the capital gains in FY 2022-23 and the remaining 50% in FY 2025-26 as long-term capital gains.

Detailed Solutions

Sol.1.

Solution

Concept — Article 265: No Tax Without Authority of Law: Article 265 of the Constitution of India provides that "no tax shall be levied or collected except by authority of law." This is a fundamental constitutional guarantee that every tax imposition must trace its lineage to a validly enacted law — a statute made by a competent legislature. It is not sufficient for the executive to issue orders, circulars, or notifications purporting to levy a tax; the levy must be backed by a legislative act.

Step 1 — "Authority of law" explained: The Supreme Court has consistently held that "authority of law" under Article 265 means an actual statute enacted by a competent legislature. An executive circular, administrative order, departmental notification, or government memorandum that has no basis in a statute does not constitute "authority of law." A demand issued on the strength of such executive fiat, without an enabling enactment, is unconstitutional and void.

Step 2 — Application to the mineral development contribution: The "mineral development contribution" demanded by the state revenue department is based solely on an executive circular. There is no statute of the state legislature or Parliament that authorises this levy. The demand therefore lacks "authority of law" within the meaning of Article 265 and is liable to be struck down as unconstitutional.

Why other options are wrong:

- Option A: Article 265 is a justiciable constitutional provision enforceable by courts; it is not a directive principle. The High Court has jurisdiction to quash a tax demand lacking statutory backing.
- Option C: Article 265 applies to all taxes levied or collected in India, whether by the Centre or the states; there is no exclusion for state levies or any reservoir of inherent executive taxing power.
- Option D: Article 265 is mandatory, not directory; courts will not sustain a tax levy that lacks a legislative foundation simply because there is a general intent to raise revenue.

Final Answer: A "mineral development contribution" demanded by executive circular without an enabling statute has no "authority of law" under Article 265 and must be quashed. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q1

Sol.2.

Solution

Concept — Article 286: Restriction on State Power to Tax Inter-State Sales: Article 286 of the Constitution places express limits on a state's legislative competence to tax sales or purchases of goods. These restrictions protect the unity of the internal market and prevent economic balkanisation.

Step 1 — Article 286(1) bars: Article 286(1) prohibits a state from imposing a tax on the sale or purchase of goods where such sale or purchase takes place: (a) outside the state; (b) in the course of the import of goods into, or export of goods out of, the territory of India; or (c) in the course of inter-state trade or commerce. A sale of agricultural commodities involving delivery in another state is a sale in the course of inter-state trade and falls within this bar.

Step 2 — Article 286(2) and Parliament's overriding power: Article 286(2) empowers Parliament to formulate, by law, the principles for determining when a sale or purchase of goods takes place in each of the situations mentioned in Article 286(1). Parliament enacted the Central Sales Tax Act, 1956 pursuant to this power. The CST Act prescribes the principles and occupies the field; a state law that is inconsistent with Parliament's formulation is overridden.

Why other options are wrong:

- Option A: Article 286 is a binding constitutional restriction, not a directive principle; states have no inherent executive or legislative power to override it.
- Option B: Article 286 applies to all inter-state sales, not just those involving goods of special importance; the Essential Commodities Act is a separate statute with no bearing on Article 286's scope.
- Option D: Article 286(1)(b) bars taxation of goods in the course of export; but Article 286(1)(c) separately and independently bars state taxation on inter-state sales, which is the primary issue here.

Final Answer: Article 286(1) bars the state from taxing inter-state sales; Article 286(2) empowers Parliament to define these situations, and the CST Act occupies the field, making the state levy void. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q2

Sol.3.

Solution

Concept — Section 10(10): Gratuity Exemption for Private Sector Employees: Section 10(10) of the Income Tax Act, 1961 exempts gratuity received by an employee from income tax. For employees covered by the Payment of Gratuity Act, 1972 (i.e., most private sector employees), the exemption under Section 10(10)(ii) is the *least* of three amounts: (i) the actual gratuity received; (ii) the government-notified maximum limit; and (iii) 15 days' salary for each completed year of service (or part thereof exceeding six months), computed using the formula: (last drawn monthly salary $\div$ 26) $\times$ 15 $\times$ number of completed years of service.

Step 1 — Compute the three limbs:

- Limb (i): Actual gratuity received = Rs. 18,00,000.
- Limb (ii): Notified maximum limit = Rs. 20,00,000.
- Limb (iii): 15 days' salary $\times$ completed years = (Rs. 60,000 $\div$ 26) $\times$ 15 $\times$ 22 = Rs. 2,307.69 $\times$ 15 $\times$ 22 = Rs. 7,61,538 (approx.).

Step 2 — Apply the least-of-three rule: The least among Rs. 18,00,000, Rs. 20,00,000, and Rs. 7,61,538 is **Rs. 7,61,538**. This is the exempt amount. The taxable gratuity = Rs. 18,00,000 − Rs. 7,61,538 = Rs. 10,38,462, chargeable as salary income.

Why other options are wrong:

- Option B: Merely being below the ceiling does not grant full exemption; all three limbs must be computed and the least applied. The ceiling is only one of the three limbs.
- Option C: Section 10(10)(ii) specifically covers private sector employees covered by the Payment of Gratuity Act, 1972; the exemption is not confined to government employees.
- Option D: The formula under the Payment of Gratuity Act uses 15 days' wages (not 25 days) per completed year; 25 days is not the applicable figure for monthly-rated employees under either the Act or Section 10(10).

Final Answer: The least of three = Rs. 7,61,538 (the per-year formula figure); this is the exempt amount and Rs. 10,38,462 is taxable. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q3

Sol.4.

Solution

Concept — Section 56(2)(x): Deemed Income on Receipt of Immovable Property Without Consideration: Section 56(2)(x) of the Income Tax Act, 1961 taxes the receipt of specified assets (including immovable property) without consideration or for inadequate consideration in the hands of the recipient as "Income from Other Sources." This provision was introduced as an anti-avoidance measure to counter tax-free transfers of valuable assets camouflaged as gifts.

Step 1 — Conditions for applicability: Section 56(2)(x)(b)(i) provides that where any person receives any immovable property without consideration, and the stamp duty value of such property exceeds Rs. 50,000, the entire stamp duty value is deemed to be income in the hands of the recipient in the previous year of receipt.

Step 2 — Exceptions not applicable: The provision carves out specific exceptions where the receipt is not taxable: (a) from a relative (as defined in the Explanation); (b) on the occasion of the marriage of the individual; (c) under a will or by way of inheritance; (d) in contemplation of death of the payer; (e) from a local authority; (f) from any educational or medical institution. Prashant is Meera's colleague, not a relative as defined; hence none of the exceptions applies. The full stamp duty value of Rs. 75,00,000 is taxable.

Why other options are wrong:

- Option A: A registered gift deed does not immunise the recipient from Section 56(2)(x); the statutory provision expressly covers genuine gifts received from non-relatives.
- Option B: Section 56(2)(x) explicitly covers immovable property; the provision is not limited to movable property.
- Option C: When the property is received without any consideration, the entire stamp duty value (not excess over FMV) is treated as income; the "excess of FMV over stamp duty value" formula applies to a different situation (purchase for inadequate consideration below stamp duty value).

Final Answer: Section 56(2)(x) deems the stamp duty value of Rs. 75,00,000 as income from other sources in Meera's hands in the year of receipt; no exception applies since Prashant is not a relative. ⇒ $\boxed{\text{D}}$

Answer: (D) Go Back to Q4

Sol.5.

Solution

Concept — Section 80C: LIC Premium Cap and Overall Ceiling: Section 80C of the Income Tax Act, 1961 allows deduction up to Rs. 1,50,000 for specified investments and payments, including LIC premiums, PPF contributions, and 5-year bank fixed deposits. However, Section 80C(3A) imposes a specific cap on LIC premium: for life insurance policies issued on or after 1st April 2012, the premium eligible for deduction shall not exceed **10%** of the actual sum assured.

Step 1 — LIC premium cap: Policy issued in FY 2015-16 (after 1st April 2012). Sum assured = Rs. 8,00,000. 10% of sum assured = Rs. 80,000. Premium actually paid = Rs. 1,50,000. Eligible LIC premium = Rs. 80,000 (capped at 10% of sum assured).

Step 2 — Aggregate eligible investments:

- Eligible LIC premium (after cap): Rs. 80,000
- PPF contribution: Rs. 50,000
- 5-year bank FD: Rs. 25,000
- Total eligible: Rs. 1,55,000

Step 3 — Apply overall ceiling: The maximum deduction under Section 80C is Rs. 1,50,000. Since aggregate eligible investments (Rs. 1,55,000) exceed the ceiling, the deduction is restricted to **Rs. 1,50,000**.

Why other options are wrong:

- Option A: The LIC premium cannot be fully deducted as Rs. 1,50,000; it is capped at 10% of sum assured (Rs. 80,000) under Section 80C(3A) for post-2012 policies.
- Option C: The 20% cap (applicable to policies issued before 1st April 2012) is not relevant here; the post-2012 cap is 10%. In any event the calculation in Option C is erroneous.
- Option D: The Section 80C ceiling is Rs. 1,50,000, not Rs. 1,00,000; it has been Rs. 1,50,000 since FY 2014-15.

Final Answer: Eligible LIC premium = Rs. 80,000 (10% cap); total eligible investments = Rs. 1,55,000; deduction restricted to the Section 80C ceiling of Rs. 1,50,000. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q5

Sol.6.

Solution

Concept — Section 115BAA: Concessional Tax Rate for Existing Domestic Companies: Section 115BAA was introduced by the Taxation Laws (Amendment) Ordinance, 2019 (effective FY 2019-20) to allow *all* domestic companies (not just newly set up ones) to opt for a concessional income tax rate of **22%**, replacing the regular rate and MAT obligations, subject to specified conditions.

Step 1 — Eligibility: Unlike Section 115BAB (which is for new manufacturing companies set up after 1st October 2019), Section 115BAA is open to *all* domestic companies irrespective of the date of incorporation. Sunrise Chemicals Ltd., incorporated in FY 2015-16, is eligible.

Step 2 — Conditions (what must be foregone): To avail the 22% rate, the company must not claim: (a) deductions under Section 10AA (SEZ), 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID, 80-IE, and similar profit-linked incentives; (b) additional depreciation under Section 32(1)(iia); (c) investment allowance under Section 32AD; (d) deduction under Section 33AB, 33ABA; (e) loss or unabsorbed depreciation attributable to such claims in any earlier year. The company must also not be subject to MAT under Section 115JB after opting in.

Step 3 — Irrevocability: The option is exercised by filing Form 10-IC before the due date of the return. Once exercised, the option is **irrevocable**; the company cannot revert to the normal tax regime.

Why other options are wrong:

- Option B: Section 115BAA is not limited to companies incorporated on or after 1st October 2019; that restriction applies to Section 115BAB (manufacturing companies). Section 115BAA applies to all existing domestic companies.
- Option C: No deductions under Sections 80-IC or 80-IA are permissible even for the first five years after opting in; the option is also irrevocable, not revocable on grounds of business exigency.
- Option D: The concessional rate under Section 115BAA is 22%, not 15%; the 15% rate applies under Section 115BAB for new manufacturing companies.

Final Answer: Section 115BAA allows all domestic companies (including existing ones) to opt for 22% tax; conditions include forfeiture of specified deductions and additional depreciation; the option is irrevocable once exercised. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q6

Sol.7.

Solution

Concept — Section 147/148: Reassessment Beyond Four Years Requires Failure to Disclose: Under the Income Tax Act, 1961, as it stood prior to the Finance Act, 2021 amendment, Section 147 permitted the AO to reassess income where he had "reason to believe" that income had escaped assessment. However, two different limitation regimes applied depending on the time elapsed.

Step 1 — The four-year threshold: For reassessment within four years from the end of the relevant assessment year, the AO needed only to have a reason to believe that income had escaped assessment. For reassessment *beyond* four years (but within six years, or in certain cases ten years for large escapements), an additional jurisdictional precondition was mandatory: the escapement must have occurred "by reason of the failure on the part of the assessee to disclose fully and truly all material facts necessary for his assessment."

Step 2 — Application to the facts: AY 2016-17 ended on 31st March 2017. The notice was issued on 20th June 2022 — more than five years after the end of the assessment year, i.e., beyond the four-year threshold. The AO's reasons do not allege any failure to disclose fully and truly all material facts. This additional condition is a jurisdictional requirement; without it, the AO lacks the power to reopen the assessment beyond four years. The notice is therefore without jurisdiction and must be quashed.

Why other options are wrong:

- Option A: The six-year limit applied only where the additional condition (failure to disclose) was satisfied; a mere reason to believe is insufficient for reopening beyond four years.
- Option B: The three-year limit is not the outer boundary under the pre-2021 regime; the Act provided for reopening up to six years (and ten years in large cases), subject to conditions.
- Option D: The Act expressly draws a distinction between within-four-years and beyond-four-years reassessment; the additional condition of failure to disclose is a clear statutory requirement for the latter.

Final Answer: Reopening beyond four years requires a finding that income escaped due to the assessee's failure to disclose fully and truly all material facts; the AO cannot reopen without this condition, so the notice is liable to be quashed. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q7

Sol.8.

Solution

Concept — Section 195: TDS on Payments to Non-Residents: Section 195 of the Income Tax Act, 1961 requires any person responsible for paying any sum chargeable under the Act to a non-resident (or foreign company) to deduct income tax at source at the time of credit or payment (whichever is earlier). The obligation attaches to the payer irrespective of the payer's own tax status.

Step 1 — DTAA claim does not automatically suspend Section 195 obligation: The Supreme Court of India in *GE India Technology Centre Pvt. Ltd. v. CIT* (2010) and subsequent decisions has held that even where a payer believes that the payment is not chargeable to tax in India by virtue of a DTAA, the payer cannot unilaterally omit to deduct TDS. The correct procedure is: (a) apply to the AO for a determination under Section 195(2) or 195(3); or (b) obtain a certificate of lower or nil deduction under Section 197 before making the payment.

Step 2 — Consequence of non-deduction: If the payer makes the payment without deducting TDS (and without a prior determination or certificate), the payer is deemed an *assessee-in-default* under Section 201(1) and is liable for the tax that should have been deducted plus interest at 1.5% per month under Section 201(1A) from the date of payment to the date of actual deposit.

Why other options are wrong:

- Option A: Section 195 applies to sums "chargeable under the Act"; whether the sum is chargeable depends on facts including DTAA; but the mechanism to resolve the question is Sections 195(2), 195(3), or Section 197 — not the payer's unilateral decision.
- Option B: DTAA exemption does not automatically extinguish the Section 195 obligation; a formal determination or certificate is required.
- Option C: Section 195 contains no threshold amount of Rs. 1 crore; it applies to all payments to non-residents that may be chargeable to tax.

Final Answer: Omega Ltd. should have obtained a nil deduction certificate under Section 197 or a determination under Section 195(2); unilateral omission renders it an assessee-in-default under Section 201. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q8

Sol.9.

Solution

Concept — Sections 2(30), 2(74), and 8 CGST Act: Composite vs. Mixed Supply: The CGST Act distinguishes between two types of bundled supplies: (a) *composite supply* (naturally bundled, one principal supply); and (b) *mixed supply* (artificially bundled, individually separable). The distinction determines the applicable GST rate.

Step 1 — Composite supply (Section 2(30)): A composite supply means a supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply. Under Section 8(a), a composite supply is taxed at the rate applicable to the principal supply.

Step 2 — Natural bundling test: In a Himalayan holiday package, a traveller would not ordinarily purchase accommodation at a hill resort without the associated meals, guided trekking, and travel insurance — these are integral to the experience and are provided together as a matter of course. The bundle passes the natural bundling test. The principal supply is accommodation (the dominant element giving the package its essential character). GST applies at the rate for accommodation services.

Step 3 — Mixed supply (Section 2(74)): A mixed supply means two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person for a single price where such supply does not constitute a composite supply. It requires that the components are artificially bundled and each could be the main supply. Under Section 8(b), a mixed supply is taxed at the rate applicable to the supply attracting the highest rate. The holiday package does not qualify as mixed supply because it passes the natural bundling test.

Why other options are wrong:

- Option A: The natural bundling test determines composite vs. mixed supply; the fact that individual services can theoretically be purchased separately does not by itself make it a mixed supply.
- Option C: The highest rate applies only to mixed supply under Section 8(b); composite supply is taxed at the principal supply rate under Section 8(a) — the rules are different.
- Option D: A holiday package is not a works contract; works contracts under Section 2(119) involve construction, erection, installation, or similar works on immovable property.

Final Answer: The holiday package is a composite supply (naturally bundled; principal supply is accommodation); taxed at the GST rate for accommodation under Section 8(a). ⇒ $\boxed{\text{B}}$

Answer: (B) Go Back to Q9

Sol.10.

Solution

Concept — Section 10 CGST Act: Composition Scheme — Eligibility and Restrictions: Section 10 of the CGST Act, 2017 provides a simplified composition scheme for small suppliers of goods (and certain service providers). Eligible persons pay tax at a flat percentage of turnover instead of the normal GST rates and are not required to maintain detailed tax invoices or file complex returns.

Step 1 — Turnover condition: Under Section 10(1), a registered person whose aggregate turnover in the preceding financial year did not exceed Rs. 1,50,00,000 (Rs. 75,00,000 for specified special category states) may opt for composition. Bharat Textiles' aggregate turnover of Rs. 1.2 crore satisfies this condition.

Step 2 — E-commerce restriction (Section 10(2)(d)): Section 10(2)(d) of the CGST Act expressly provides that a person shall not be eligible for the composition scheme if he "effects supplies of goods through an electronic commerce operator who is required to collect tax at source under Section 52." Amazon (a major e-commerce operator) is required to collect TCS under Section 52. Since Bharat Textiles makes supplies through Amazon, this disqualifying condition is triggered, making him ineligible for the composition scheme.

Why other options are wrong:

- Option B: The e-commerce restriction is a statutory bar under Section 10(2)(d) and cannot be cured by registering the e-commerce operator's GSTIN; the restriction is absolute for Section 52 operators.
- Option C: Section 10 is available primarily to suppliers of goods; it also covers certain restaurant services and services with goods; the claim that it is only for service providers is incorrect.
- Option D: No amendment has removed the e-commerce restriction from Section 10(2)(d); the restriction remains in force as of the current statutory position.

Final Answer: Bharat Textiles satisfies the turnover threshold but is disqualified from the composition scheme by Section 10(2)(d) because he supplies through an e-commerce operator subject to Section 52 TCS. ⇒ $\boxed{\text{A}}$

Answer: (A) Go Back to Q10

Sol.11.

Solution

Concept — Section 16(4) CGST Act: Time Limit for Claiming ITC: Section 16(4) of the CGST Act, 2017 prescribes the outer time limit within which a registered person must claim Input Tax Credit in respect of any invoice or debit note pertaining to a financial year.

Step 1 — The statutory cut-off under Section 16(4): A registered person shall not take ITC in respect of any invoice pertaining to a financial year after the *earlier of*: (i) the due date for furnishing the return under Section 39 (GSTR-3B) for the month of September following the end of that financial year; or (ii) the date of furnishing the annual return for that financial year. For FY 2023-24, the September GSTR-3B is for the month of September 2024, due in October 2024. This is the operative deadline.

Step 2 — Application to Delta Electronics: The invoice pertains to FY 2023-24 (July 2023). Delta Electronics did not claim the ITC in any GSTR-3B from July 2023 through September 2024 (the last eligible return). If Delta Electronics files GSTR-3B for October 2024 and attempts to include this ITC, it is after the Section 16(4) cut-off. The ITC on the July 2023 invoice has permanently lapsed; it cannot be claimed in any subsequent return.

Why other options are wrong:

- Option A: Section 16(4) expressly imposes a time limit; there is no open-ended entitlement to claim ITC at any time merely because the underlying supply is genuine.
- Option B: The Section 16(4) cut-off is the September GSTR-3B due date, not the GSTR-9 annual return due date; the earlier of the two applies. Additionally, the October 2024 GSTR-3B is *after* the September cut-off.
- Option D: Section 161 of the CGST Act deals with rectification of errors apparent on the face of the record (such as arithmetical mistakes in orders); it does not create an independent two-year window for claiming ITC beyond the Section 16(4) deadline.

Final Answer: Section 16(4) cuts off ITC claims for FY 2023-24 invoices at the due date of the September 2024 GSTR-3B (October 2024); Delta Electronics missed this deadline and the ITC has permanently lapsed. $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q11

Sol.12.

Solution

Concept — Section 54(3) CGST Act and Rule 89(5): Refund of Unutilized ITC in Inverted Duty Structure: Section 54(3) of the CGST Act, 2017 permits a registered person to claim a refund of unutilized ITC at the end of a tax period where the credit has accumulated due to: (i) the rate of tax on inputs being higher than the rate of tax on output supplies (inverted duty structure); or (ii) zero-rated supplies made without payment of tax. Rule 89(5) of the CGST Rules, 2017 prescribes the formula for computing the refund amount under the inverted duty structure.

Step 1 — The Rule 89(5) formula and the input-only restriction: The refund formula under Rule 89(5) defines "Net ITC" as ITC availed on *inputs* during the relevant period, expressly excluding ITC availed on *input services* and *capital goods*. This limits the refund claim to ITC on goods inputs only. The Department disallowed the input service portion of the ITC refund on this basis.

Step 2 — VKC Footsteps (Supreme Court, 2021): The constitutional validity of Rule 89(5) was challenged on the ground that Section 54(3) does not expressly limit the refund to goods inputs only and that the Rule ultra vires the Act by restricting what the statute permits broadly. The Supreme Court of India in *Union of India v. VKC Footsteps India Pvt. Ltd.* (2021) upheld Rule 89(5) as valid and intra vires. The Court held that Section 54(3) is a beneficial provision enabling the legislature to grant refund; the legislature has the power to define the extent of the benefit through Rules, and restricting refund to goods inputs does not render the Rule ultra vires.

Why other options are wrong:

- Option A: The statutory restriction on input-service ITC refund under Rule 89(5) has been upheld by the Supreme Court; it is not without basis.
- Option B: Section 54(3) explicitly provides for refund of ITC in inverted duty structure; indefinite carry-forward is not the only remedy; the statute expressly contemplates a refund mechanism.
- Option C: The condition of exhausting all other credits first before claiming refund is not prescribed by Section 54(3) or Rule 89(5); the test is the Rule 89(5) formula.

Final Answer: Rule 89(5) restricts the inverted duty structure ITC refund to ITC on goods inputs; the Supreme Court in VKC Footsteps upheld this restriction; Crystal Ceramics' refund on input services portion is rightly disallowed. ⇒ $\boxed{\text{D}}$

Answer: (D) Go Back to Q12

Sol.13.

Solution

Concept — Section 14 Customs Act: Transaction Value as Primary Basis of Valuation: Section 14 of the Customs Act, 1962, read with the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 (CVR), implements the WTO Customs Valuation Agreement (Agreement on Implementation of Article VII of GATT 1994). Transaction value is the primary and preferred basis for determining the assessable value of imported goods.

Step 1 — Transaction value defined (Section 14(1)): The value of imported goods for the purpose of customs duty is the *transaction value* — the price actually paid or payable for the goods when sold for export to India, adjusted to include: (a) commissions and brokerage; (b) cost of containers and packing; (c) assists (materials, tools, etc. supplied by the buyer); (d) royalties and licence fees; (e) proceeds of subsequent resale accruing to the seller; and (f) cost of transport, loading/unloading, and insurance up to the port of importation.

Step 2 — When transaction value may be rejected: The Customs Officer may reject the declared transaction value only if there are "grounds to doubt" its truth or accuracy (Rule 12 of CVR). In that case, the Customs Officer must give the importer an opportunity to respond and must then determine value sequentially using prescribed alternative methods: (1) transaction value of identical goods; (2) transaction value of similar goods; (3) deductive value; (4) computed value; (5) residual/fallback method. The Customs Officer cannot substitute an arbitrary figure.

Why other options are wrong:

- Option A: Transaction value is the primary basis; it is not merely indicative. The Customs Officer cannot freely replace it without following prescribed rules.
- Option C: No provision makes the manufacturer's retail price the sole basis; Section 14 is based on the transaction value framework derived from the WTO Agreement.
- Option D: The Customs Officer does not have unfettered discretion; he must follow the sequential valuation hierarchy prescribed by the Customs Valua-

tion Rules.

Final Answer: Section 14 establishes transaction value as the primary basis, adjusted for prescribed additions; the declared value may be rejected only on stated grounds and replaced using the prescribed sequential method. $\Rightarrow \boxed{B}$

Answer: (B) Go Back to Q13

Sol.14.

Solution

Concept — Section 25(1) Customs Act: Exemption Notifications — Absolute vs. Conditional; Retrospective Operation: Section 25(1) of the Customs Act, 1962 empowers the Central Government to exempt goods from payment of the whole or part of the customs duty leviable thereon by notification in the Official Gazette. Such notifications may be absolute (unconditional) or conditional (subject to specified conditions).

Step 1 — Nature of the exemption power: The power under Section 25(1) is broad and discretionary. The government may grant, amend, or withdraw exemptions. However, this power is subject to judicial review and constitutional constraints — it cannot be exercised arbitrarily or in a manner that violates fundamental rights or the doctrine of legitimate expectation.

Step 2 — Retrospective withdrawal and legitimate expectation: Courts (including the Supreme Court in cases such as *Ind-Swift Laboratories Ltd. v. UOI* and analogous customs matters) have recognised that where an importer has acted on the faith of an absolute exemption — committed to transactions, opened letters of credit, placed orders — a retrospective withdrawal or imposition of new conditions may be struck down as arbitrary, violative of legitimate expectations, or as an unreasonable restriction on trade under Article 19(1)(g). Prospective amendment is permissible; retrospective adverse modification of a completed transaction is constitutionally suspect.

Why other options are wrong:

- Option B: Customs duty exemptions are not merely executive grace that can be arbitrarily withdrawn with retrospective effect; vested rights created by completed transactions are protected under constitutional law.
- Option C: The government can and does amend exemption notifications by executive notification; parliamentary legislation is not a precondition for amendment or withdrawal.

- Option D: The statement that exemptions can "never" be granted or withdrawn retrospectively is an overstatement; the position is more nuanced — prospective changes are permissible, while retrospective adverse changes affecting completed transactions attract greater judicial scrutiny.

Final Answer: Section 25(1) allows absolute or conditional exemptions; retrospective modification adversely affecting importers who relied on the absolute exemption may be struck down as arbitrary or violative of legitimate expectations. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q14

Sol.15.

Solution

Concept — Section 45(2): Capital Gains on Conversion of Capital Asset to Stock-in-Trade: Section 45(2) of the Income Tax Act, 1961 contains a special deeming provision for the situation where a capital asset is converted into stock-in-trade of a business carried on by the owner. It resolves the question of *when* the capital gains element is taxable and *how* to compute business profits on subsequent sale.

Step 1 — Year of chargeability: Section 45(2) provides that the profits or gains arising from such conversion shall be deemed to be the income chargeable to tax as **Capital Gains** in the *previous year in which the stock-in-trade is sold or otherwise transferred* — not in the year of conversion. This is the key feature: taxation is deferred to the year of actual sale, even though the conversion occurred earlier.

Step 2 — Computation of capital gains: For the capital gains computation triggered in the year of sale (FY 2025-26): (a) the *full value of consideration* is the FMV of the asset on the date of conversion (Rs. 90,00,000); (b) the *cost of acquisition* is the indexed cost of the original capital asset (Rs. 22,00,000). Capital gains = Rs. 90,00,000 − Rs. 22,00,000 = Rs. 68,00,000 (long-term capital gains, taxable in FY 2025-26).

Step 3 — Business income computation: For computing business profits in FY 2025-26, the FMV on the date of conversion (Rs. 90,00,000) is deemed to be the cost of the stock-in-trade. Business income = Rs. 1,50,00,000 (sale proceeds) − Rs. 90,00,000 (deemed cost of stock-in-trade) = Rs. 60,00,000, assessable as business income.

Why other options are wrong:

- Option A: Section 45(2) expressly defers the year of chargeability to the year of sale; capital gains are *not* taxable in the year of conversion.
- Option B: Section 2(47)(iv) expressly includes conversion of capital asset into stock-in-trade within the definition of "transfer"; it is not outside the capital gains regime.
- Option D: There is no 50-50 split mechanism in Section 45(2); the entire capital gains element is taxed in the year of sale of the stock-in-trade.

Final Answer: Section 45(2) defers capital gains taxation to the year of sale of stock-in-trade (FY 2025-26); FMV on date of conversion is the deemed full value of consideration for capital gains and the deemed cost of stock-in-trade for business income. $\Rightarrow \boxed{C}$

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

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

Topic-wise Answer Summary

Q.No.	Topic
1	Constitutional — Art. 265 (no tax without authority of law; ultra vires executive levy)
2	Constitutional — Art. 286 (restriction on state taxation of inter-state sales; Parliament's Clause 2 power
3	Income Tax — Sec. 10(10) (gratuity exemption; private sector; least-of-three rule)
4	Income Tax — Sec. 56(2)(x) (immovable property received without consideration; stamp duty value as
5	Income Tax — Sec. 80C (LIC premium; 10% of sum assured cap; Rs. 1.5 lakh ceiling)
6	Income Tax — Sec. 115BAA (concessional 22% rate for domestic companies; conditions; irrevocability)
7	Income Tax — Sec. 147/148 (reassessment beyond 4 years; failure to disclose material facts)
8	Income Tax — Sec. 195 (TDS on non-resident payments; Sec. 197 certificate; assessee-in-default)
9	GST — Sec. 8 (composite vs. mixed supply; principal supply; natural bundling test)
10	GST — Sec. 10 (composition scheme; turnover threshold; e-commerce operator restriction)
11	GST — Sec. 16(4) (ITC time limit; September GSTR-3B cut-off; permanent lapse)
12	GST — Sec. 54(3) / Rule 89(5) (ITC refund; inverted duty structure; inputs only; VKC Footsteps)
13	Customs — Sec. 14 (transaction value; adjustments; rejection; sequential valuation methods)
14	Customs — Sec. 25(1) (exemption notification; absolute vs. conditional; retrospective modification)
15	Income Tax — Sec. 45(2) (capital gains on conversion to stock-in-trade; year of chargeability; FMV as c