

**Mock Test Paper - Series I: November, 2025**

**Date of Paper: 24<sup>th</sup> November, 2025**

**Time of Paper: 2 P.M. to 5 P.M.**

**FINAL COURSE: GROUP - II**

**PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION**

*Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in Answers to Question in Division A, working notes are not required.*

*All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

**Division A – Multiple Choice Questions**

***Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.***

**Case Scenario I**

Raghav, a non-resident Indian aged 46 years, furnishes the following particulars of income earned by him in India during the previous year 2024-25:

- (a) Short-term capital gain (computed) on sale of equity shares of M/s ST Ltd., an Indian company – ₹ 2,40,000.

These shares were purchased in convertible foreign exchange on 01.06.2024 and sold on 30.09.2024. He invested the whole of the sale proceeds ₹ 6,00,000 in the shares of M/s TU Ltd., an Indian company on 05.10.2024. STT has been paid on purchase and sale of these shares.

- (b) Long-term capital gain on sale of equity shares of M/s CD Pvt. Ltd., an Indian company – ₹ 4,00,000 (computed).

These shares were purchased in convertible foreign exchange on 01.10.2021 and sold on 15.10.2024 for ₹ 8,00,000.

Out of the sale proceeds, he further purchased the shares of M/s Y Ltd., an Indian company for ₹ 5,50,000 on 31.02.2025.

- (c) Dividend received (gross) from M/s ST Ltd. and M/s CD Pvt. Ltd. – ₹ 90,000.

Assume that he opts out of the default tax regime. Ignore the effect of foreign currency fluctuation.

**Based on the above information, choose the most appropriate option for each of the following Multiple Choice Questions (MCQs) from Q.1 to Q. 4:**

1. What is the long-term capital gain chargeable to tax in the hands of Raghav for the Assessment Year 2025-26 in respect of sale of shares of M/s CD Pvt. Ltd. under the provisions of Chapter XII-A?
  - (a) ₹ 1,25,000
  - (b) ₹ 1,50,000
  - (c) ₹ 2,25,000
  - (d) Nil
2. What is the tax amount on dividend income in the hands of Raghav for the Assessment Year 2025-26 if he opts out of the provisions of Chapter XII-A? Ignore surcharge and cess.
  - (a) ₹ 13,500 u/s 115E
  - (b) ₹ 9,000 u/s 115A
  - (c) ₹ 18,000 u/s 115A
  - (d) As per the applicable slab rate
3. What is the tax liability of Raghav for the Assessment Year 2025-26 under the provisions of Chapter XII-A?
  - (a) ₹ 85,670
  - (b) ₹ 84,890
  - (c) ₹ 68,640
  - (d) ₹ 56,160
4. What is the tax liability of Raghav in respect of these incomes for the Assessment Year 2025-26 if he opts out of the provisions of Chapter XII-A, assuming that his other income exceeds the basic exemption limit?
  - (a) ₹ 66,170
  - (b) ₹ 1,08,160
  - (c) ₹ 1,20,640
  - (d) ₹ 104,390

**(2 x 4 = 8 Marks)**

## Case Scenario II

Eagle Ltd. a company incorporated in Country Z is an associated enterprise of Nova Inc. of USA. Eagle Ltd. has a branch in India since 2011. It sells goods to Indian customers by importing from various countries, besides selling in India the goods manufactured by it in Country Z.

The adjusted total income of the Indian branch of Eagle Ltd. for the year ended 31<sup>st</sup> March, 2025 is ₹ 90 lakhs.

The branch incurred ₹ 14 lakhs by way of executive and general administrative expenditure during the financial year 2024-25. The head office has allocated ₹ 21 lakhs as the branch's share of head office expenditure, including ₹ 14 lakhs incurred by the branch.

A survey under section 133A of the Act was conducted in its branch premises in January, 2024, and unexplained investments of ₹ 1 crore were found. Assessment for the assessment year 2024-25 was completed by making addition of the entire unexplained investments of ₹ 1 crore. The assessee preferred an appeal before CIT (Appeals), who gave complete relief to the assessee. The Income-tax Department now intends to file an appeal before ITAT on 18<sup>th</sup> November 2024.

N (P) Ltd., an Indian company and a wholly owned subsidiary of Eagle Ltd., paid ₹ 60 lakhs to ABC Inc. of Country N as fee for technical services (FTS). The services were rendered by the employees of the branch of ABC Inc. in India.

There is no DTAA between India and Country N. N (P) Ltd. has entered into certain international transactions during the P.Y. 2023-24 and P.Y. 2024-25.

N (P) Ltd. invested in TT (P) Ltd. of Country W and received dividend of ₹ 600 lakhs during the financial year 2024-25.

It declared and distributed interim dividend of ₹ 300 lakhs on 10.11.2024 and a final dividend of ₹ 260 lakhs on 12.11.2025.

N (P) Ltd. filed its return of income on 15.11.2024 for A.Y. 2024-25 and on 30.11.2025 for A.Y. 2025-26.

**Based on the above facts, choose the most appropriate answer to Q.5 to Q.8 below:**

5. How much tax is to be deducted at source by N (P) Ltd. on the fee for technical services paid to ABC Inc.?
- (a) ₹ 21,84,000
  - (b) ₹ 24,96,000
  - (c) ₹ 6,00,000
  - (d) ₹ 6,24,000

6. How much of the dividend received by N (P) Ltd. would be liable to tax for the assessment year 2025-26?
- (a) ₹ 300 lakhs
  - (b) ₹ 340 lakhs
  - (c) ₹ 40 lakhs
  - (d) ₹ 600 lakhs
7. How much of the head office expenditure can be claimed by the Indian branch of Eagle Ltd. for the assessment year 2025-26?
- (a) ₹ 4,50,000
  - (b) ₹ 9,00,000
  - (c) ₹ 14,00,000
  - (d) ₹ 21,00,000
8. Can the Income-tax Department prefer an appeal before ITAT in respect of the complete relief obtained by Eagle Ltd. from CIT (Appeals)?
- (a) No, as the tax effect is less than ₹ 60 lakhs.
  - (b) Yes, as the tax effect is more than ₹ 30 lakhs.
  - (c) Yes, as the tax effect is more than ₹ 60 lakhs.
  - (d) No, as the unexplained investments do not exceed ₹ 1 crore **(2 x 4 = 8 Marks)**

### Case Scenario III

The assessment of Ridhi Associates, a partnership firm, for the Assessment Year 2022-23 was made under section 143(3) on 28<sup>th</sup> March, 2024. The Assessing Officer made two additions to the income of the assessee viz.

- (i) addition of ₹ 5,00,000 under section 40(a)(ia), and
- (ii) addition of ₹ 6,50,000 on account of unexplained cash credit.

The assessee contested the addition on account of unexplained cash credit in appeal to the Commissioner (Appeals). The appeal was decided in February, 2025, against the assessee.

On 12<sup>th</sup> April, 2024, the Assessing Officer issued a notice under section 142(1) calling upon Ridhi Associates to file its return of income for Assessment Year 2023-24. In response to the said notice, Ridhi Associates furnished a return of loss comprising of business loss and unabsorbed depreciation.

Ridhi Associates pays interest on loan @14% to its partners Rahul & Rajesh from 1.4.2024, being the date of loan, which amounts to ₹ 8,00,000 in total in the Previous Year 2024-25. The same was approved by modification of the partnership deed on 1.6.2024 w.r.e.f. 1.4.2024.

Rahul, a non-resident, is a working partner, whereas Rajesh, who is resident in India, is not a working partner. Both of them share profits and losses of the firm equally.

Further, Ridhi Associates furnished the following information pertaining to installments paid to an NBFC during the previous year 2024-25 towards loan borrowed for the business:

| Month                      | Amount     | Mode of Payment      |
|----------------------------|------------|----------------------|
| 30 <sup>th</sup> April     | ₹ 1,20,000 | Cash                 |
| 31 <sup>st</sup> May       | ₹ 1,50,000 | Account payee cheque |
| 30 <sup>th</sup> June      | ₹ 1,50,000 | BHIM                 |
| 31 <sup>st</sup> July      | ₹ 1,20,000 | Cash                 |
| 31 <sup>st</sup> August    | ₹ 50,000   | Cash                 |
| 30 <sup>th</sup> September | ₹ 3,50,000 | Cash                 |

**From the information given above, choose the most appropriate answer to the following questions from MCQ 9 to MCQ 12:**

9. Would Ridhi Associates be entitled to carry forward the business loss and unabsorbed depreciation for the A.Y. 2023-24?
  - (a) Yes, it can carry forward both business loss and unabsorbed depreciation
  - (b) No, it cannot carry forward the business loss and unabsorbed depreciation
  - (c) It can carry forward business loss but cannot carry forward unabsorbed depreciation
  - (d) It can carry forward unabsorbed depreciation but cannot carry forward business loss
10. Can Ridhi Associates apply for rectification under section 154 or revision under section 264 with respect to addition of ₹ 6.5 lakh on account of unexplained cash credit for A.Y. 2022-23?
  - (a) It can either apply for revision before the Commissioner under section 264 or can make application for rectification under section 154
  - (b) It cannot apply for revision before the Commissioner under section 264 but can make application for rectification under section 154
  - (c) It can apply for revision before the Commissioner under section 264 but cannot make application for rectification under section 154
  - (d) It can neither apply for revision before the Commissioner under section 264 nor for rectification under section 154

11. Would any penalty be leviable for installments received by NBFC? If yes, what would be the amount of penalty and who can impose such penalty?
- No penalty is leviable
  - Yes, penalty is leviable for ₹ 3,50,000 under section 271DA. It can be imposed by the Joint Commissioner.
  - Yes, penalty is leviable for ₹ 6,90,000 under section 271DA. It can be imposed by the Joint Commissioner.
  - Yes, penalty is leviable for ₹ 3,50,000 under section 271DA. It can be imposed by any Income-tax authority.
12. Is tax required to be deducted at source by the firm on payment of interest to Mr. Rahul and Mr. Rajesh?
- No tax is required to be deducted at source in respect of interest payment to Mr. Rahul & Mr. Rajesh.
  - Yes, tax is required to be deducted at source in respect of payments to Mr. Rahul & Mr. Rajesh.
  - No tax is required to be deducted in respect of payment to Mr. Rahul but tax is required to be deducted in respect of payment to Rajesh.
  - No tax is required to be deducted in respect of payment to Rajesh but tax is required to be deducted in respect of payment to Rahul. **(2 x 4 = 8 Marks)**
13. Vardhan Foundation is a charitable trust registered under section 12AB, with its main object falling under the residuary clause "any other object of general public utility." During the Previous Year 2024-25, it received ₹1.05 crore as voluntary contributions. The trust also borrowed ₹55 lakh on 14.08.2024 from HDFC Bank to purchase land for the construction of an administrative building from where it can carry out its charitable activities. The trust repaid principal of ₹12 lakh to HDFC Bank on 31.03.2025.
- Out of its current year's income, the trust has donated ₹16 lakh (as a corpus donation) to another trust registered under section 12AB, whose main object is providing medical relief to poor persons. Assume that the trust has fulfilled all conditions under section 12A, and you are required to compute the amount of application of the trust for the P.Y. 2024-25 (excluding unconditional accumulation of 15%).
- What would be the application of income of the trust for P.Y. 2024-25?
- ₹ 25.6 lakh
  - ₹ 12 lakh

(c) ₹ 68.6 lakh

(d) ₹ 71 lakh

**(2 Marks)**

14. Which of the following deduction/exemption/set-off of losses are not allowable while computing income under respective head of income and total income of an individual as per section 115BAC?

(i) Deduction for interest on housing loan in respect of self-occupied property

(ii) Deduction for Interest on housing loan in respect of let-out property

(iii) Exemption in respect of agricultural income

(iv) Exemption in respect of minor child income included in the income of parent

(v) Set-off of loss under the head house property against income under any other head

(vi) Standard Deduction u/s 16(ia)

The correct answer is –

(a) (ii), (iii) & (vi)

(b) (i), (ii), (iii) & (vi)

(c) (i), (iv) & (v)

(d) (ii), (iv), (v) & (vi)

**(2 Marks)**

15. Mr. R, Managing Director of Riviera Alloys Pvt. Ltd., holds 75% of its paid-up share capital of ₹ 25 lakhs. The balance in the General Reserve of the company as on 31.03.2025 was ₹8 lakhs. On 01.04.2025, the company advanced an interest-free loan of ₹ 9.50 lakhs to its Supervisor, who draws a monthly salary of ₹16,000. Subsequently, on 28.04.2025, the Supervisor advanced the same amount to Mr. R.

Determine the amount that would be treated as deemed dividend under section 2(22)(e) of the Income-tax Act, 1961.

(a) NIL

(b) ₹ 8,00,000

(c) ₹ 9,50,000

(d) ₹ 1,92,000

**(2 Marks)**

## Division B – Descriptive Questions

### Question No. 1 is compulsory.

***Attempt any four questions from the remaining five questions.***

1. The Statement of Profit & Loss of Bhagwati Private Ltd., a domestic company engaged in manufacturing, shows net profit of ₹ 1,07,00,000 for the financial year ended on 31<sup>st</sup> March, 2025, after debit/credit of the following items.

A. Credited to the Statement of Profit and Loss:

- (i) Rent received (gross) from vacant land ₹ 2,55,000
- (ii) Rent received (gross) from a commercial property owned by the company ₹ 5,30,000
- (iii) Interest received on income tax refund ₹ 48,000
- (iv) Profit on sale of plot ₹ 8,00,000.
- (v) Dividend from AMA Inc., Canada, a wholly owned subsidiary in February, 2025 ₹ 6,00,000

B. Debited to the Statement of Profit and Loss:

- (i) Depreciation charged to the Statement of Profit and Loss ₹ 11,86,000.
- (ii) Donation of ₹ 85,000 paid to Swachh Bharat Kosh.
- (iii) Actual contribution to the pension scheme of employees: ₹ 1,90,000
- (iv) Bonus to employees ₹ 4,48,000. However, payment was made on 18<sup>th</sup> December, 2025.
- (v) Provision made for income-tax ₹ 4,20,000 (including interest of ₹ 70,000 thereon)
- (vi) Contribution of ₹ 1,00,000 to a University approved and notified under section 35(1)(ii).
- (vii) Interest of ₹ 1,50,000 on loan borrowed for acquiring shares in AMA Inc., Canada

**Additional information:**

- (1) Depreciation as per the Income-tax Act, 1961 ₹ 18,00,000. However, while calculating such depreciation, rate applicable to computers has been adopted for (i) accessories like printers and scanners, and (ii) EPABX. The written down value of these items as on 01.04.2024 is given below:



- (a) Printers and Scanners ₹ 3,00,000
- (b) EPABX ₹ 5,00,000
- (2) Additional depreciation on plant and machinery purchased for ₹ 34,00,000 on 18<sup>th</sup> November, 2024 has not been considered while calculating depreciation as per Income-tax Act, 1961 as above.
- (3) Provision for audit fee ₹ 1,00,000 was made in the books for the year ended on 31<sup>st</sup> March, 2024 without deducting tax at source. Such fee was paid to auditors in October 2024 after deducting tax at source under Section 194J and tax so deducted was deposited on 12<sup>th</sup> December, 2024.
- (4) During the financial year 2023-24, the company made a provision for an outstanding bill of ₹ 90,000 for purchase of raw material. Out of such outstanding amount, the company paid ₹ 45,000 in cash on 20<sup>th</sup> August, 2024.
- (5) Plot was sold in March, 2025 for ₹ 58,00,000 was acquired by the company in January, 2023 for ₹ 50,00,000.
- (6) The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.
- (7) The company declared interim dividend of ₹ 5,20,000 in September, 2024.
- (8) Cost Inflation Index – FY 2022-23: 331; FY 2024-25: 363

Compute total income of Bhagwati Private Limited as per section 115BAA for the Assessment Year 2025-26 stating reasons for treatment of each item. **(14 Marks)**

2. (a) Taurus Industries Ltd., a domestic company, provides the following information of its Statement of Profit and Loss for the year ended on 31/03/2025. It earned profit of ₹ 26 lakhs after debiting/crediting of the below items:

**Items debited to Statement of Profit and Loss:**

| S. No. | Particular                                                         | ₹        |
|--------|--------------------------------------------------------------------|----------|
| 1.     | Provision for loss of Subsidiary                                   | 2,00,000 |
| 2.     | Provision for doubtful debts                                       | 2,25,000 |
| 3.     | Provision for income-tax                                           | 2,50,000 |
| 4.     | Provision for gratuity based on actuarial valuation                | 3,50,000 |
| 5.     | Depreciation                                                       | 5,20,000 |
| 6.     | Interest to Financial Institution (unpaid before filing of return) | 2,40,000 |
| 7.     | Penalty for infraction of law                                      | 1,80,000 |

Items credited to Statement of Profit and Loss:

| S. No. | Particular                                                    | ₹        |
|--------|---------------------------------------------------------------|----------|
| 1.     | Profit from unit established in 2019 in special economic zone | 7,50,000 |
| 2.     | Share in Income of an AOP as a member                         | 2,50,000 |
| 3.     | Income from units of UTI                                      | 2,00,000 |

**Other Information:**

- (i) Provision for income-tax includes ₹ 70,000 of interest payable on income-tax.
- (ii) Depreciation includes ₹ 3,00,000 on account of revaluation of fixed assets.
- (iii) Depreciation as per Income-tax Rules is ₹ 4,30,000.
- (iv) Brought forward loss of ₹ 14 lakhs include unabsorbed depreciation of ₹ 5 lakhs.
- (v) The AOP, of which the company is a member, has paid tax at maximum marginal rate.

Compute minimum alternate tax under section 115JB of the Income-tax Act, 1961, for A.Y. 2025-26, assuming that Taurus Industries Ltd. is not required to comply with the Indian Accounting Standards (Ind AS). **(8 Marks)**

- (b) Calculate the total income and net tax liability of Mr. Arvind, aged 72 years, for A.Y. 2025-26, after granting relief under section 91, based on the income earned by him from various sources during the previous year ended 31-03-2025:

**India**

Pension from State Government ₹ 4,10,000

Short term capital gains on sale of plot ₹ 2,40,000

Deposit in PPF Account ₹ 1,70,000

Speculative Income ₹ 1,25,000

**Country X**

Agricultural Income (gross) ₹ 1,00,000

Dividends from a company incorporated in Country X (gross) ₹ 70,000 [Exempt in Country X]

### **Country Y**

Business loss (proprietary business) ₹ 1,20,000 [Not eligible for set off against other incomes in Country Y].

Gross rental income from a property ₹ 3,40,000 (No statutory deduction was available in Country Y).

Municipal taxes paid in respect of the above property (not allowed as deduction in Country Y) ₹ 25,000.

### **Additional Information:**

- (1) There is no agreement under section 90 for relief for avoidance of double taxation between India and Country X and Country Y where the incomes have accrued or arisen.
- (2) Mr. Arvind is an individual resident in India, and he has paid applicable taxes on incomes earned in Country X and Country Y, where the applicable tax rates are 10% and 5%, respectively.

Assume Mr. Arvind paying tax under default tax regime under section 115BAC.

**(6 Marks)**

3. (a) Lotus Welfare Foundation, a charitable trust registered under section 12AB, derived income from property held under trust of ₹ 650 lakh during the P.Y. 2025-26.

During the year, the trust decided to pay an amount of ₹ 80 lakh to another registered charitable trust, Harmony Educational Trust, which is also registered under section 12AB.

How much of the amount paid by Lotus Welfare Foundation will be considered as application of income for charitable purposes, if such contribution is given—

- (i) with a direction that the amount shall be used for general charitable purposes and not as corpus; and
- (ii) with a specific direction that the amount shall form part of the corpus of Harmony Educational Trust.

Also, examine the conditions that Harmony Educational Trust must satisfy for not including the amount received from Lotus Welfare Foundation (given with a specific direction to form part of its corpus) in its total income. **(4 Marks)**

- (b) SDP Foundation is a charitable trust registered under section 12AB engaged in the activity of providing old-age homes to senior citizens. The total receipts of the trust for the financial year 2024-25 was ₹ 145 lakhs. This receipt of ₹ 145 lakhs

includes a voluntary contribution received from Mr. Karan, a resident individual, amounting to ₹ 70,000. During F.Y. 2024-25, out of the total receipts, the trust gave an unsecured loan of ₹ 5 lakhs to Mr. Karan at an interest rate of 12% p.a. The scheduled banks charge interest at the rate of 11.50% for a similar kind of loan. The trust has always applied 85% of the total receipts for its objects. Discuss the implications in the hands of the trust as per the provision of the Income-tax Act, 1961. **(4 Marks)**

(c) Compute the total income and tax liability Winter Technologies Inc., a non-resident German company for the A.Y. 2025-26. The following are the details of income earned in India during the year ended on 31.03.2025:

- (i) Dividend income of ₹ 12,50,000 from BlueWave Ltd., an Indian company listed on recognized stock exchange.
- (ii) 8% debentures of ₹ 20,00,000 received from X Ltd., an Indian Company, on October 1, 2024, in consideration of providing technical knowhow (date of payment of interest being March 31 every year).
- (iii) Dividend of ₹ 5,50,000 on Global Depository Receipts of Greenfields Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of shares of the company and purchased by Winter Technologies Inc. in foreign currency through an approved intermediary.
- (iv) Business Income of ₹ 8,00,000 from a unit established at Mumbai.
- (v) Income by way of royalty (other than referred to in section 44DA) amounting to ₹ 10,00,000, from RedTech Ltd., an Indian company, in pursuance of an agreement approved by Central Government. As per DTTA between the two countries, such royalty is taxable @22%. **(6 Marks)**

4. (a) (i) M/s Crystal Wash Pvt. Ltd., a domestic company engaged in the business of manufacturing and selling washing powder and bars, hires agents to promote and boost sales of its products by paying them incentives and commission based on the sales achieved through them. During the P.Y. 2024-25, Mr. Mohan Kumar, a resident individual, worked as an agent for the company. The company paid him commission of ₹ 1,55,000 on 21<sup>st</sup> July 2024 for achieving the sales target of Quarter 1, ₹ 1,80,000 on 10th January 2025 for achieving the sales target of Quarter 3, and other incentives amounting to ₹ 1,60,000 on 15th January 2025 are given as reimbursement for booking air tickets for an event in Singapore for Mr. Mohan Kumar and his family members who accompanied him. Additionally, the company gave Mr. Mohan Kumar a laptop worth ₹ 80,000

in October 2024 for achieving the sales target for the month of September 2024.

Examine the applicability of tax deducted at source/tax collected at source and calculate the amount of TDS as per the provisions applicable for A.Y. 2025-26 **(4 Marks)**

- (ii) Suhas (aged 43 years) is working with TP Ltd. He is entitled to a salary of ₹ 85,000 per month w.e.f. 1.4.2024. He has a house property which is self-occupied. He paid an interest of ₹ 1,95,000 on loan, during the previous year 2024-25. The loan was taken for construction of house. He has notified his employer TP Ltd. that there will be a loss of ₹ 1,95,000 in respect of this house property for financial year ended 31.3.2025. Suhas declared that he has exercised option to shift out of default regime of section 115BAC.

Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31<sup>st</sup> March, 2025.

**(4 Marks)**

- (b) Pristine Cement Industries Ltd. (PCIL) is an Indian company, having its head office at Chennai. For the P.Y. 2024-25, it furnished the following information of certain entities and the transactions undertaken with these companies:

- Sakura Industries Ltd. is a wholly owned foreign subsidiary of PCIL, having its head office in Japan. It is currently paying royalty of USD 3 million per annum to PCIL for supply of know-how. For similar supply of know how to Hikari Ltd., a wholly owned Government Company in Japan, PCIL receives annual royalty of USD 4 million. (1 USD = ₹ 82).
- PCIL has borrowed a sum of equivalent of ₹ 220 crores from Orion Capital Inc., Dubai on 1.4.2024. On this date, the assets position of PCIL was as under:

|                       | (In ₹ Crores) |            |
|-----------------------|---------------|------------|
| Type of assets        | Market value  | Book value |
| Tangible fixed assets | 350           | 270        |
| Intangible assets     | 30            | 25         |
| Other assets          | 40            | 35         |

Orion Capital Inc., has charged interest at 8% and PCIL has paid interest of ₹ 17.6 crores for the year ended 31.3.2025. Though the normal lending

rate of Orion Capital Inc. was 7% per annum to other parties, in view of the urgent requirement of funds and pressing financial commitments, PCIL decided to borrow this amount then.

- PCIL supplies goods to Pacific Build Corp. (PBC), in Singapore. The paid-up capital of PBC in foreign currency equivalent is ₹ 92 crores. PCIL holds shares to the tune of ₹ 22 crores in PBC. The voting power in the company is directly proportional to the number of shares held.

You are required to examine the various transactions entered into by PCIL and determine the applicability of transfer pricing provisions for each transaction. Ignore provisions of section 94B, if applicable, in this case. **(6 Marks)**

5. (a) Answer **any two out of** the following sub-parts viz (i), (ii) and (iii):

- (i) Novatech Industries Pvt. Ltd. filed its return of income for assessment year 2023-24 on 25th October 2024. The return is selected for regular assessment under section 143(3) for which notice under section 143(2) is served on the company on 9th July 2025. The company responded to the notice under section 143(2). Examine whether the service of the notice is within time and if not, whether the assessment order can be challenged by the assessee.
- (ii) Assessee had taken an engine on lease under an agreement with a foreign company (lessor), a tax resident of the Germany, having no permanent establishment (PE) in India. The foreign company also does not have PAN in India. The assessee company deducted tax at source @10% on lease rental as per the provisions contained under DTAA between India and Germany.

However, revenue contended that in the absence of furnishing of PAN, the assessee was under an obligation to deduct tax at a higher rate of 20% following the provisions of section 206AA. In the light of the latest Supreme Court rulings, discuss whether the contention of Revenue is correct or not.

- (iii) Metro Buildcon Pvt. Ltd. is engaged in the construction of bridges and flyovers. During the previous year 2024-25, it made payment to various parties and deducted tax amounting to ₹ 18 lakhs. However, the business did not deposit the aforementioned sum with the income-tax department within the time period specified under the Income-tax Act, 1961. The company stated that it is having financial difficulties as a result of a significant amount of money being held up by both its debtors and the income tax department in the form of tax refunds. It is further submitted

that inspite of financial crisis, the company has *suo-moto* deposited the TDS amount along-with interest u/s 201(1A), before receiving any notice from the income-tax department in this regard. However, prosecution proceedings were initiated under section 276B against the company and its directors. The company has approached you to advise in the matter.

**(4 x 2 = 8 Marks)**

- (b) (i) Explain the term "Exchange of information" as per Article 26 of Model Tax Conventions under OECD Model and UN Model and explain importance of Article 26. **(4 Marks)**
- (ii) What do you understand by "GloBE Rules"? Which entities are covered under these Rules? **(2 Marks)**

6. (a) India-Z9 tax treaty provides that architectural services are technical services and payment for the same to a company may be taxed in India. However, if such professional services are provided by a firm or individual, then payment for such services are taxable only if the firm has a fixed base in India or stay of partners/employees in India exceed 180 days. Limitation of benefit clause does not exist in tax treaty between India-Z9.

M/s DesignSphere Inc is a company incorporated in country Z9. It is engaged in the business of providing architectural design services all over the world. It receives an offer from Serenity Estates Pvt Ltd, an Indian company, for design and development of resorts all over India. M/s DesignSphere Inc forms a partnership firm with a third party (director of the company) having only a nominal share. The firm enters into an agreement to carry out the services in India. The company seconded its trained manpower to the firm. The manpower stayed in India for less than 180 days.

Thus, the partnership firm claimed the treaty benefit and no tax was paid in India. Can such an arrangement be examined under GAAR? **(4 Marks)**

- (b) An agreement has been made between Orange Inc., a company registered in Country A, and Unicorn Ltd., an Indian company, to provide technical know-how. Orange Inc.'s sister company, XYZ LLC of Country A, has received an Advance Ruling about a similar technological know-how arrangement with another Indian business, MNC Ltd.

The agreement is expected to be of ₹ 350 crores and expected tax liability would be ₹ 120 crores.

Can Unicorn Ltd. make an application to the Board for Advance Rulings to issue same ruling for Unicorn Limited in accordance with the Act? Examine whether the Board can ask for the submission of books of accounts when a decision on a related matter has already been made. Examine in the context of the provisions of the Income-tax Act, 1961? **(4 Marks)**

- (c) On February 28, 2025, a search was conducted u/s 132 of the Income-tax Act, 1961 in the instance of the gold jewelry retail chain USHA Jewellers (P) Ltd. Data from the billing software was analyzed as part of the post-search inquiries. After this data was analyzed, it was discovered that the company has substantially violated section 40A(3) by purchasing old gold for about ₹ 18 crores.

Some of the clients whose locations were known via computer records were approached, and their responses were recorded under oath in order to confirm the conclusions drawn from digital data. These customers admitted under oath that they had sold old gold and received the amounts (all exceeding ₹ 10,000) in cash. The fact which emerged from the enquiries is that USHA Jewellers (P) Ltd. purchase old gold and make payments for these purchases in cash, even if they exceed ₹ 10,000.

However, the tax auditor had mentioned "Yes" in response to the statement in sub-clause (A) of Clause 21(d) on whether the expenditure covered under section 40A(3) read with Rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. The tax auditor submitted that standing instructions were given by the management of the entity to the employees to make payments above ₹ 10,000 only through account payee cheques and/or bank drafts or other permissible electronic modes; and copy of these instructions were verified by him. He further submitted that he had also taken a representation from the Management that net payment in cash to any person in a day did not exceed ₹ 10,000. Also, he mentioned that the test checks conducted by him did not reveal any violation. Examine the ethical implications in this case and the consequences thereof. **(6 Marks)**



Mock Test Paper - Series I: November, 2025

Date of Paper: 24<sup>th</sup> November, 2025

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – II

PAPER – 7: DIRECT TAX LAWS & INTERNATIONAL TAXATION

SOLUTIONS

Division A – Multiple Choice Questions

| MCQ No. | Most Appropriate Answer | MCQ No. | Most Appropriate Answer |
|---------|-------------------------|---------|-------------------------|
| 1.      | (a)                     | 9.      | (d)                     |
| 2.      | (c)                     | 10.     | (d)                     |
| 3.      | (b)                     | 11.     | (b)                     |
| 4.      | (c)                     | 12.     | (d)                     |
| 5.      | (a)                     | 13.     | (b)                     |
| 6.      | (c)                     | 14.     | (c)                     |
| 7.      | (a)                     | 15.     | (b)                     |
| 8.      | (c)                     |         |                         |

1. Computation of Total Income of Bhagwati Private Ltd. as per section 115BAA for the A.Y.2025-26

|    | Particulars                                                                                                                                                                                          | Amount (₹)                  |          |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------|
| I  | <b>Income from house property</b><br>[Rental income from commercial property]<br>Gross Annual Value <sup>1</sup> /Net Annual Value<br>Less: Deduction under section 24(a)<br>30% of Net Annual Value | 5,30,000<br><u>1,59,000</u> | 3,71,000 |
| II | <b>Profits and gains of business and profession</b><br>Net profit as per profit and loss account                                                                                                     | 1,07,00,000                 |          |

<sup>1</sup> Rent received has been taken as the Gross Annual Value (GAV) in the absence of information relating to Municipal Value, Fair Rent and Standard rent.

|                                                                                                                                                                                                                                                                                                                     |          |  |  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--|--|
| <b>Add: Items debited but to be considered separately or to be disallowed</b>                                                                                                                                                                                                                                       |          |  |  |
| B(ii) Donation paid to Swachh Bharat Kosh                                                                                                                                                                                                                                                                           | 85,000   |  |  |
| [Not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable under section 37]                                                                                                                                                                                          |          |  |  |
| B(iii) Contribution towards pension scheme of employees                                                                                                                                                                                                                                                             | 50,000   |  |  |
| [Contribution towards pension scheme, referred to in section 80CCD, of employees is allowed only to the extent of 14% of salary of the employee in the P.Y. i.e., ₹ 1,40,000 being 14% of ₹ 10,00,000. Therefore, the excess contribution of ₹ 50,000 [i.e., ₹ 1,90,000 – ₹ 1,40,000] is disallowed u/s 36(1)(iva). |          |  |  |
| B(iv) Bonus to employees                                                                                                                                                                                                                                                                                            | 4,48,000 |  |  |
| [Since the payment is made after the due date of filing return of income, disallowance under section 43B is attracted]                                                                                                                                                                                              |          |  |  |
| B(v) Provision for income-tax (including interest of ₹ 70,000 thereon)                                                                                                                                                                                                                                              | 4,20,000 |  |  |
| [Not allowable as deduction. Disallowance under section 40(a)(ii) is attracted]                                                                                                                                                                                                                                     |          |  |  |
| B(vi) Contribution to a University approved and notified u/s 35(1)(ii)                                                                                                                                                                                                                                              | 1,00,000 |  |  |
| No deduction is allowed u/s 115BAA in respect of contribution to a University approved and notified u/s 35(1)(ii)                                                                                                                                                                                                   |          |  |  |

|                                                                                                                                                                                                                                                                                                             |          |                  |  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------------|--|
| B(vii) Interest on loan borrowed for investing in shares of AMA Inc.                                                                                                                                                                                                                                        | 1,50,000 | <u>12,53,000</u> |  |
| [Allowability or otherwise of interest expenditure on earning dividend has to be considered separately under the head "Income from Other Sources"]                                                                                                                                                          |          |                  |  |
| <i>Add:</i> Cash Payment for purchase of raw material deemed as income                                                                                                                                                                                                                                      |          | 1,19,53,000      |  |
| AI(4) [Since the provision for outstanding bill for purchase of raw material has been allowed as deduction during the P.Y. 2023-24, cash payment in excess of ₹ 10,000 against such bill in the P.Y. 2024-25 would be deemed as income of P.Y. 2024-25 as per section 40A(3A)]                              |          | <u>45,000</u>    |  |
|                                                                                                                                                                                                                                                                                                             |          | 1,19,98,000      |  |
| <i>Less:</i> Expenditure to be allowed B(i) & AI(1) Depreciation                                                                                                                                                                                                                                            | 4,89,000 |                  |  |
| [Difference between the normal depreciation of ₹ 16.75 lakhs as per Income-tax Act, 1961 [See <i>Note below</i> ] and depreciation charged to the statement of profit and loss of ₹ 11.86 lakhs].                                                                                                           |          |                  |  |
| <b>Note</b> – <sup>2</sup> <i>Printers and scanners form an integral part of the computer system and they cannot be used without the computer. Thus, they are part of the computer system, they would be eligible for depreciation at the higher rate of 40% applicable to computers including computer</i> |          |                  |  |

<sup>2</sup> CIT v. BSES Yamuna Powers Ltd (2013) 358 ITR 47 (Delhi)

|                                                                                                                                                                                                                                                                                                                                   |          |                 |  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------------|--|
| software. However, EPABX is not a computer and is, hence, not entitled to higher depreciation @40% <sup>3</sup>                                                                                                                                                                                                                   |          |                 |  |
| Accordingly, depreciation of ₹ 1,25,000 on EPABX computed @ 25% (40% - 15%) is to be reduced from the depreciation given as per the Income-tax Act, 1961 of ₹ 18 lakhs. Thus, depreciation as per Income-tax Act, 1961 allowed as deduction would be ₹ 16.75 lakhs.                                                               |          |                 |  |
| AI(2) Additional depreciation on new plant and machinery [Not allowable as deduction under section 115BAA]                                                                                                                                                                                                                        | Nil      |                 |  |
| AI(3) Audit Fees relating to P.Y.2023-24                                                                                                                                                                                                                                                                                          | 30,000   | <u>5,19,000</u> |  |
| [₹ 30,000, being 30% of audit fees of ₹ 1,00,000 provided for in the books of account of F.Y.2023-24 would have been disallowed due to non-deduction of tax at source. Since tax has been deducted in October, 2024 and paid on 12.12.2024, the amount of ₹ 30,000 is deductible while computing business income of P.Y.2024-25]. |          |                 |  |
|                                                                                                                                                                                                                                                                                                                                   |          | 1,14,79,000     |  |
| Less: Items credited to statement of profit and loss, but not includible in business income                                                                                                                                                                                                                                       |          |                 |  |
| A(i) Rent received from vacant land [Chargeable to tax under the head "Income from other sources"]                                                                                                                                                                                                                                | 2,55,000 |                 |  |

<sup>3</sup> Federal Bank Ltd. v. ACIT (2011) 332 ITR 319 (Kerala)

|     |                                                                                                                                                                              |          |                  |                 |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------------|-----------------|
|     | A(ii) Rent received from commercial property owned by the company [Chargeable to tax under the head "Income from house property"]                                            | 5,30,000 |                  |                 |
|     | A(iii) Interest received on income tax refund [Chargeable to tax under the head "Income from other sources"]                                                                 | 48,000   |                  |                 |
|     | A(iv) Profit on sale of plot [Chargeable to tax under the head "Capital Gains"]                                                                                              | 8,00,000 |                  |                 |
|     | A(v) Dividend from AMA Inc. company<br>[Dividend received from foreign company is taxable under the head "Income from Other Sources"]                                        | 6,00,000 | <u>22,33,000</u> |                 |
|     |                                                                                                                                                                              |          | 92,46,000        |                 |
|     | Profits and gains from the business of manufacturing                                                                                                                         |          |                  | 92,46,000       |
| III | <b>Capital Gains</b>                                                                                                                                                         |          |                  |                 |
|     | Capital gain on sale of plot                                                                                                                                                 |          |                  |                 |
|     | Sale consideration                                                                                                                                                           |          | 58,00,000        |                 |
|     | Less: Cost of Acquisition [since land is transferred on or after 23.7.2024, indexation benefit will not be to a person other than an individual or a HUF, resident in India] |          | <u>50,00,000</u> |                 |
|     | Long-term capital gain                                                                                                                                                       |          |                  | 8,00,000        |
| IV  | <b>Income from Other Sources</b>                                                                                                                                             |          |                  |                 |
|     | Rent received from vacant land                                                                                                                                               |          | 2,55,000         |                 |
|     | Interest received on income-tax refund                                                                                                                                       |          | 48,000           |                 |
|     | Dividend from AMA Inc., a foreign company                                                                                                                                    | 6,00,000 |                  |                 |
|     | Less: Interest expenditure of ₹ 1,50,000 allowed deduction upto 20% of dividend                                                                                              | 1,20,000 | 4,80,000         |                 |
|     |                                                                                                                                                                              |          |                  | <u>7.83.000</u> |

|                                                                                                                                                                                                                                                                            |          |                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------------|
| <b>Gross Total Income</b>                                                                                                                                                                                                                                                  |          | <b>1,12,00,000</b> |
| Less: Deductions under Chapter VI-A                                                                                                                                                                                                                                        |          |                    |
| Deduction under section 80G                                                                                                                                                                                                                                                |          |                    |
| Not allowable u/s 115BAA                                                                                                                                                                                                                                                   | -        |                    |
| Deduction under section 80M                                                                                                                                                                                                                                                | 4,80,000 |                    |
| Deduction in respect of inter-corporate dividend to the extent of ₹ 5,20,000, being dividend distributed by it one month prior to the due date specified u/s 139(1) or ₹ 4,80,000 dividend received to the extent includible in the gross total income, whichever is lower |          | <u>4,80,000</u>    |
| <b>Total Income</b>                                                                                                                                                                                                                                                        |          | <b>1,07,20,000</b> |

2. (a) **Computation of “Book Profit” for levy of MAT under section 115JB for A.Y. 2025-26**

| <b>Particulars</b>                                                                                                                                                                                                                                                                         | <b>₹</b>        | <b>₹</b>         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------|
| Net Profit as per Statement of Profit and Loss                                                                                                                                                                                                                                             |                 | 26,00,000        |
| Add: Net profit to be increased by the following amounts as per <i>Explanation 1</i> to section 115JB(2):                                                                                                                                                                                  |                 |                  |
| - <b>Provision for the loss of subsidiary</b>                                                                                                                                                                                                                                              | 2,00,000        |                  |
| - <b>Provision for doubtful debts,</b> being the amount set aside as provision for diminution in the value of any asset                                                                                                                                                                    | 2,25,000        |                  |
| - <b>Provision for income-tax</b><br>[As per <i>Explanation 2</i> to section 115JB, income-tax shall include, inter alia, any interest charged under the Act, therefore, whole of the amount of provision for income-tax including ₹ 55,000 towards interest payable has to be added back] | 2,50,000        |                  |
| - <b>Depreciation</b>                                                                                                                                                                                                                                                                      | <u>5,20,000</u> | <u>11,95,000</u> |
|                                                                                                                                                                                                                                                                                            |                 | 37,95,000        |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                 |                         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------------------------|
| Less: Net profit to be decreased by the following amounts as per <i>Explanation 1</i> to section 115JB:                                                                                                                                                                                                                                                                                                                                                                                |                 |                         |
| - <b>Share in income of an AOP as a member</b><br>[In a case, where AOP has paid tax on its total income at maximum marginal rate, no income-tax is payable by the company, being a member of AOP, in accordance with the provisions of section 86. Therefore, share in income of an AOP on which no income-tax is payable in accordance with the provisions of section 86, would be reduced while computing book profit, since the same has been credited to profit and loss account] | 2,50,000        |                         |
| - <b>Income from units in UTI</b><br>[Income from units in UTI not to be reduced while computing the book profits, since the same is taxable in the hands of unitholders]                                                                                                                                                                                                                                                                                                              | -               |                         |
| - <b>Depreciation</b> other than depreciation on revaluation of assets (₹ 5,20,000 – ₹ 3,00,000)                                                                                                                                                                                                                                                                                                                                                                                       | 2,20,000        |                         |
| - <b>Unabsorbed depreciation or brought forward business loss</b> , whichever is less, as per the books of account.<br><br>Lower of unabsorbed depreciation ₹ 5,00,000 and brought forward business loss ₹ 9,00,000 as per books of accounts has to be reduced while computing the book profit]                                                                                                                                                                                        | <u>5,00,000</u> |                         |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                 | <u>9,70,000</u>         |
| <b>Book Profit</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                 | <b><u>28,25,000</u></b> |

### Computation of MAT liability under section 115JB

| Particulars                            | ₹                      |
|----------------------------------------|------------------------|
| 15% of book profit                     | 4,23,750               |
| Add: Health & education cess@4%        | <u>16,950</u>          |
| <b>Minimum Alternate Tax liability</b> | <b><u>4,40,700</u></b> |

#### Notes:

- (1) It is only the specific items mentioned under *Explanation 1* to section 115JB, which can be adjusted from the net profit as per the Statement of Profit and Loss prepared as per the Companies Act for computing book profit for levy of MAT. Since the following items are not specified thereunder, the same cannot be adjusted for computing book profit:
    - Interest to financial institution (unpaid before filing of return) and
    - Penalty for infraction of law
  - (2) Provision for gratuity based on actuarial valuation is an ascertained liability [*CIT v. Echjay Forgings (P) Ltd. (2001) 251 ITR 15 (Bom.)*]. Hence, the same should not be added back to compute book profit.
  - (3) As per proviso to section 115JB(6), the profits from unit established in special economic zone cannot be excluded while computing the book profit, and hence, such income would be liable for MAT.
- (b) Since Mr. Arvind is an individual resident in India for the P.Y.2024-25, his global income would be subject to tax in India. Therefore, income earned by him in Country X and Country Y would be taxable in India. He would, however, be entitled to deduction under section 91, since India does not have a DTAA with Country X and Country Y, and all conditions under section 91 are satisfied.

### Computation of total income of Mr. Arvind for A.Y. 2025-26 under default tax regime

| Particulars                             | ₹             | ₹        |
|-----------------------------------------|---------------|----------|
| <b>Income under the head "Salaries"</b> |               |          |
| Pension from State Government           | 4,10,000      |          |
| Less: Standard deduction u/s 16(ia)     | <u>75,000</u> |          |
|                                         |               | 3,35,000 |



|                                                                                                                |                 |                        |
|----------------------------------------------------------------------------------------------------------------|-----------------|------------------------|
| <b>Income from House Property</b>                                                                              |                 |                        |
| Rental income from property in Country Y <sup>4</sup>                                                          | 3,40,000        |                        |
| Less: Municipal taxes                                                                                          | <u>25,000</u>   |                        |
|                                                                                                                | 3,15,000        |                        |
| Less: Deduction u/s 24(a)@30%                                                                                  | <u>94,500</u>   |                        |
|                                                                                                                |                 | 2,20,500               |
| <b>Profits and Gains of Business or Profession</b>                                                             |                 |                        |
| Speculative income in India                                                                                    | 1,25,000        |                        |
| Less: Set-off of business loss from proprietary business in Country Y under section 70                         | <u>1,20,000</u> |                        |
|                                                                                                                |                 | 5,000                  |
| <b>Short-term capital gains</b> on sale of plot in India                                                       |                 | 2,40,000               |
| <b>Income from Other Sources</b>                                                                               |                 |                        |
| Agricultural income from Country X [not exempt u/s 10(1), since it is earned from land situated outside India] | 1,00,000        |                        |
| Dividend from a company in Country X                                                                           | <u>70,000</u>   |                        |
|                                                                                                                |                 | <u>1,70,000</u>        |
| <b>Gross Total Income</b>                                                                                      |                 | 9,70,500               |
| <b>Less: Deduction under Chapter VI-A [No deduction allowable as per section 115BAC]</b>                       | -               | <u>-</u>               |
| <b>Total Income</b>                                                                                            |                 | <u><b>9,70,500</b></u> |

#### Computation of net tax liability of Mr. Arvind for A.Y.2025-26

| Particulars                                            |        | ₹             |
|--------------------------------------------------------|--------|---------------|
| Tax payable on ₹ 9,70,500                              |        |               |
| Upto ₹ 3,00,000                                        | Nil    |               |
| ₹ 3,00,000 to ₹ 7,00,000 @ 5%                          | 20,000 |               |
| ₹ 7,00,000 to ₹ 9,70,500 @10%                          | 27,050 | 47,050        |
| Add: Health and education cess@4%                      |        | <u>1,882</u>  |
|                                                        |        | <b>48,932</b> |
| Less: Rebate under section 91 (See Working Note below) |        | <u>10,067</u> |

<sup>4</sup> In the absence of any information relating to fair rent, municipal value and standard rent, rental income is assumed to be the gross annual value.

|                                                                                                                                  |          |                      |
|----------------------------------------------------------------------------------------------------------------------------------|----------|----------------------|
| <b>Tax Payable</b>                                                                                                               |          | <b>38,865</b>        |
| <b>Tax Payable (rounded off)</b>                                                                                                 |          | <b>38,870</b>        |
| <b>Calculation of Rebate under section 91:</b>                                                                                   | ₹        |                      |
| Average rate of tax in India [i.e., ₹ 48,932/ ₹ 9,70,500 x 100] = 5.042%                                                         |          |                      |
| <b>Doubly taxed income pertaining to Country X</b>                                                                               |          |                      |
| Agricultural income                                                                                                              | 1,00,000 |                      |
| Dividend from a company in Country X [Not includible, since exempt in Country X]                                                 | <u>-</u> |                      |
|                                                                                                                                  | 1,00,000 |                      |
| Rebate under section 91 on ₹ 1,00,000 @5.042% [being the lower of average Indian tax rate (5.042%) and Country X tax rate (10%)] |          | 5,042                |
| <b>Doubly taxed income pertaining to Country Y</b>                                                                               |          |                      |
| Income from house property <b>less</b> business loss set-off against income chargeable to tax in India (₹ 2,20,500 – ₹ 1,20,000) | 1,00,500 |                      |
| Rebate under section 91 on ₹ 1,00,500 @5% [being the lower of average Indian tax rate (5.042%) and Country Y tax rate (5%)]      |          | <u>5,025</u>         |
| <b>Total rebate under section 91 (Country X + Country Y)</b>                                                                     |          | <b><u>10,067</u></b> |

3. (a) (i) As per *Explanation 4(iii)* to Section 11(1), only 85% of the amount paid to Harmony Educational Trust (other than for corpus) is considered as an application of income. Accordingly, ₹ 68 lakh will be treated as an application of income for charitable purposes.
- (ii) As per *Explanation 2* to Section 11(1), any contribution made by one trust to another trust or institution (even if registered under Section 12AB or Section 10(23C)(iv)/(v)/(vi)/(via)) with a direction that such amount shall form part of corpus is **not** considered as an application of income for charitable purposes. Therefore, the ₹ 80 lakhs given for corpus will **not** be treated as an application of income for Lotus Welfare Foundation.

As per section 11(1)(d), an amount received by a fund/ trust/ institution etc. would not be included in the total income, if such amount is received with a specific direction that it shall form part of the corpus and the said corpus contribution is invested in any of the modes specified under section 11(5).

- (b) As per section 13(2), if any part of the income or the property of the trust or institution is or continues to be lent to any “specified person” referred to in section 13(3) for any period during the previous year without either adequate security or adequate interest or both, such income or property is to be deemed to have been used or applied for the benefit of a person referred to in section 13(3).

In the present case, Mr. Karan has made a substantial contribution of ₹ 70,000 which exceeds the limit of ₹ 50,000 to SDP Foundation, he would fall within the category of persons specified under section 13(3).

SDP Foundation trust gave loan of ₹ 5 lakhs out of the income of the trust without any security to Mr. Karan though rate of interest i.e., 12% is higher than the market rate of 11.50%, such income/loan amount of ₹ 5 lakhs is deemed to have been used or applied for the benefit of Mr. Karan, being a person specified u/s 13(3). By virtue of section 13(1)(c), the provisions of section 11 or 12 would not apply to such income to exclude from the total income of the P.Y. 2024-25.

Consequently, the income of ₹ 5 lakhs would be considered as specified income u/s 115BBI and be taxable @30%.

Further, in terms of section 271AAE, penalty of ₹ 5 lakhs would also be leviable, calculated at 100% of income provided as a benefit, where the violation is noticed for the first time during any previous year.

- (c) **Computation of total income and tax liability of Winter Technologies Inc., a non-resident German company, for the A.Y. 2025-26:**

| Particulars                                                                                                                                                                                                                                   | ₹         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| <b>Profits and gains from business or profession</b>                                                                                                                                                                                          |           |
| Business Income from a unit established at Mumbai                                                                                                                                                                                             | 8,00,000  |
| <b>Income from other sources</b>                                                                                                                                                                                                              |           |
| ➤ Dividend income from BlueWave Ltd. an Indian company                                                                                                                                                                                        | 12,50,000 |
| ➤ Fees for technical services [would be equivalent to the amount of debentures of ₹ 20,00,000 received from an Indian company, issued in consideration of providing technical knowhow]                                                        | 20,00,000 |
| ➤ Interest on Debentures [₹ 20,00,000 x 8% x 6/12]                                                                                                                                                                                            | 80,000    |
| ➤ Dividend on Global Depository Receipts (GDRs) of Greenfields Ltd. an Indian company, issued under a scheme of Central Government against the initial issue of Greenfields Ltd. and purchased in foreign currency by Winter Technologies Inc | 5,50,000  |

|                                                                                                                                                       |                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| ➤ Royalty income received from RedTech Ltd. an Indian company in pursuance of an agreement approved by Central Government                             | 10,00,000        |
| <b>Gross Total Income/ Total income</b>                                                                                                               | <b>56,80,000</b> |
| <b>Computation of tax liability</b>                                                                                                                   |                  |
| Dividend income of ₹ 12,50,000, taxable @20% u/s 115A                                                                                                 | 2,50,000         |
| Dividend on GDRs of ₹ 5,50,000, taxable @10% u/s 115AC                                                                                                | 55,000           |
| Royalty income of ₹ 10,00,000, taxable @20% u/s 115A, since it is in pursuance of an agreement approved by the Central Government                     | 2,00,000         |
| FTS of ₹ 20,00,000, taxable @35%, since it is not in pursuance of an agreement approved by the Central Government                                     | 7,00,000         |
| Interest on debentures of ₹ 80,000, taxable @35%, since debt is incurred in Indian currency, it is not eligible for concessional rate of 20% u/s 115A | 28,000           |
| Business income of ₹8,00,000 [taxable @35%]                                                                                                           | 2,80,000         |
|                                                                                                                                                       | <b>15,13,000</b> |
| Add: Health and education cess@4%                                                                                                                     | 60,520           |
| <b>Tax liability</b>                                                                                                                                  | <b>15,73,520</b> |

4. (a) (i) M/s Crystal Wash Pvt. Ltd is required to deduct tax at source on commission paid to Mr. Mohan Kumar under section 194H @5% till 30.9.2024 and @2% from 1.10.2024, being sum exceeding ₹ 15,000.
- Reimbursement of expenses of ₹ 1.6 lakhs for booking air tickets for Mr. Mohan Kumar and his family and laptop of ₹ 80,000 for achieving sale target is benefit or perquisite arising to Mr. Mohan Kumar from his business or the exercise of his profession, being sum exceeding ₹ 20,000. Accordingly,  
M/s Crystal Wash Pvt. Ltd is required to deduct tax at source under section 194R @10%.
- Tax to be deducted under section 194H = 5% on ₹ 1,55,000 + 2% on ₹ 1,80,000 = ₹ 11,350
- Tax to be deducted under section 194R = 10% on ₹ 1,60,000 (Air tickets) + ₹ 80,000 (laptop) = ₹ 24,000
- (ii) Section 192 provides that tax is required to be deducted on the payment made as salaries. Tax is to be deducted on the estimated income at the

rates specified under section 115BAC(1A) or at the average of income tax computed on the basis of the rates in force for the financial year in which payment is made in case the employee submitted a declaration of opt out of the default regime under section 115BAC.

The employee may declare details of his other incomes (including loss under the head "Income from house property" but not any other loss) to his employer. In this case, since Mr. Suhas has submitted a declaration of opt out of section 115BAC and also notified his employer TP Ltd. of loss from self-occupied house property, the employer has to take the same into consideration for deduction of tax at source.

Therefore, TP Ltd. is required to deduct tax at source on the salary of ₹ 85,000 per month paid to Mr. Suhas, in the following manner:

| Particulars                                    | Amount (₹)      |
|------------------------------------------------|-----------------|
| Income under the head salaries (₹ 85,000 x 12) | 10,20,000       |
| Less: Standard deduction under section 16(ia)  | 50,000          |
|                                                | <b>9,70,000</b> |
| Income under the head "house property"         | (1,95,000)      |
| <b>Gross total income</b>                      | <b>7,75,000</b> |
| Less: Deduction under Chapter VI-A             | Nil             |
| <b>Total Income</b>                            | <b>7,75,000</b> |
| Tax on ₹ 7,75,000                              | 67,500          |
| Add: Health and Education cess@4%              | 2,700           |
| <b>Tax to be deducted at source</b>            | <b>70,200</b>   |

- (b) Any income arising from an international transaction, between two or more "associated enterprises", shall be computed having regard to arm's length price as per the provisions of Chapter X of the Act. Section 92A defines an "associated enterprise" and sub-section (2) of this section speaks of the situations when the two enterprises shall be deemed to be associated enterprises.

#### Transaction with Sakura Industries Ltd.

Sakura Industries Ltd. is a wholly owned subsidiary of PCIL and is a non-resident company. Hence, it is an associated enterprise. Royalty falls within the meaning of international transaction, since it is payment for supply of know-how, being an intangible property. Sakura Industries Ltd. is currently paying a royalty of USD 3 million per annum to PCIL for supply of know-how. For similar supply of know how

to Hikari Ltd., a wholly owned Government Company in Japan, PCIL receives annual royalty of USD 4 million.

Under CUP Method, ALP has to be taken as USD 4 million. Understatement of royalty is 1 million USD, i.e., 1 M USD x ₹ 82 = ₹ 820 lakhs.

#### **Transaction with Orion Capital Inc.**

As per section 92A(2), if one enterprise advances loan to the other enterprise of an amount of 51% or more of the book value of the total assets of such other enterprise, the two enterprises would be deemed to be associated enterprises.

As on the date of borrowing, the amount advanced is ₹ 220 crores out of ₹ 330 crores, which comes to 66.67%. Hence, Orion Capital Inc., is deemed to be an associated enterprise of PCIL. Interest payments are also covered by the term "international transaction".

Orion Capital Inc., has charged interest at 8% and PCIL has paid interest of ₹ 17.6 crores for the year ended 31.3.2025. Interest rate charged to other parties is 7%. This has to be taken as the ALP rate.

In view of this, the interest payment should have been  $17.6 \times 7/8$  i.e., ₹ 15.4 crores. An excess payment of 2.2 crores over the ALP has been made.

#### **Transaction with PBC**

In PBC, PCIL holds 22/92 i.e., 23.91% of the voting power. Since PCIL holds less than 26% of the voting power, PBC is not an associated enterprise. Hence, the transfer pricing provisions would not be applicable on sales made by PCIL to PBC.

5. (a) (i) The time limit for service of notice under section 143(2) is three months from the end of the financial year in which the return of income was furnished by the assessee. The return of income for assessment year 2024-25 was filed by the assessee on 25<sup>th</sup> October, 2024. Therefore, the notice under section 143(2) has to be served by 30<sup>th</sup> June, 2025. However, the notice was served on the assessee only on 9<sup>th</sup> July, 2025. Hence, the notice issued under section 143(2) is time-barred.

However, as per section 292BB, where an assessee had appeared in any proceedings or co-operated in any enquiry relating to an assessment or reassessment, it shall be deemed that any notice required to be served upon him, has been duly served upon him in time in accordance with the provisions of the Act and such assessee shall be precluded from raising

any objection in any proceeding or enquiry that the notice was (a) not served upon him or (b) not served upon him in time or (c) served upon him in an improper manner.

The above provision shall not be applicable where the assessee has raised such objection before the completion of such assessment or reassessment. Therefore, in the instant case, if the assessee, Novatech Industries Pvt. Ltd, had raised an objection to the proceeding, on the ground of non-service of the notice under section 143(2) on time, then, the validity of the assessment order can be challenged. In absence of such objection, the assessment order cannot be challenged.

- (ii) **Issue Involved:** The issue under consideration is whether the provisions of section 206AA, which prescribe a higher rate of tax deduction at source in case of non-furnishing of PAN by a foreign company, override the Double Taxation Avoidance Agreement (DTAA) that specify a lower rate of tax.

**Provisions Applicable:** As per section 206AA, in case of non-furnishing of PAN by the deductee to the deductor, the tax is required to be deducted at higher of the rate specified in the relevant provision or at the rates in force or at the rate of 20%.

**Analysis and Conclusion:** Section 90(2) provides that the provisions of the DTAA would override the provisions of the Act in cases where the provisions of DTAA are more beneficial to the assessee. Even the charging sections 4 and 5 of the Act, which deal with the principle of ascertainment of total income under the Act, are also subordinate to the principle enshrined in section 90(2).

Thus, in so far as the applicability of the scope/rate of taxation with respect to the impugned payments made to the non-residents is concerned, no fault can be found with the rate of taxation invoked by the assessee based on the DTAA, which prescribed for a beneficial rate of taxation. The provisions of tax withholding, i.e., section 195 of the Act, would apply only to sums that are otherwise chargeable to tax under the Act. The provisions of DTAA, along with sections 4, 5, 9, 90 & 91 of the Act, are relevant while applying the provisions of tax deduction at source.

Therefore, section 206AA of the Act cannot be understood to override charging sections 4 and 5 of the Act.

Accordingly, the contention of the revenue that in the absence of furnishing of PAN, the assessee was under an obligation to deduct tax at a higher rate of 20% is not correct.

**Note –** *The facts given in the question are similar to the facts in CIT (International Taxation) v. Air India Ltd. [2023] 456 ITR 139 (SC). The above answer is based on the rationale of the Supreme Court ruling in the said case.*

- (iii) **Issue Involved:** The issue under consideration is whether prosecution proceedings can be initiated where tax deducted has been deposited by the assessee suo moto, after the time prescribed under the Act but before receiving notice from the income-tax department, along with interest under section 201(1A) and the assessee has shown reasonable cause for such delay.

**Relevant provisions of law:** Prosecution proceedings are attracted under section 276B, if a person fails to pay to the credit of the Central Government, the tax deducted at source by him as required under the provisions of the Act. The punishment is rigorous imprisonment for not less than 3 months but which may extend to 7 years and with fine. Section 278AA, however, provides that no person would be punishable for such failure if he proves that there was reasonable cause for the same.

**Analysis & Conclusion:** The CBDT has, vide Circular No. 24/2019 dated 9.9.2019, in exercise of the powers under section 119, listed out the offences covered under Chapter XXII of the Income-tax Act, 1961 in respect of which prosecution proceedings shall be launched by Approving Authority being the Sanctioning 15 Authority where the quantum of offences exceed the prescribed monetary threshold. Accordingly, in case of failure to pay TDS under section 276B or failure to pay TCS u/s 276BB, no prosecution will be processed if the TDS/TCS amount does not exceed ₹ 25 lakhs and delay in deposit is less than 60 days. In this case, the company has reasonable and sufficient cause since it was facing financial hardship on account of large sum of money stuck up with the debtors and also with the income-tax department on account of refunds. In spite of the financial crisis, the company has suo moto deposited the TDS along with interest under section 201(1A) of the Act, before receiving any notice from the income-tax department in this regard. Since it has deposited the TDS along with interest suo moto before receiving any notice from the department and it has also shown reasonable cause for such delay in



deposit, the company cannot be punishable for the delay in deposit of TDS. The initiation of prosecution proceedings under section 276B against the company and the directors is, therefore, not correct.

**Note** - The facts given in the question are similar to the facts in *ACIT v. AT-Dev Prabha (JV) and others* (2023) 454 ITR 59, wherein the above issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case read along with the CBDT Circular.

- (b) (i) In order to complete tax cases, a country may require certain information which may be available with the treaty partner. Article 26 provides for the information which may be exchanged and the manner in which such a request has to be made. The OECD and UN Model Conventions are similar with respect to this Article.

**Importance of Article 26:**

- facilitates effective exchange of information between Contracting States.
- curtails cross-border tax evasion and avoidance,
- curtails the capital flight that is often accomplished through tax evasion & avoidance. This is particularly relevant in the perspective of developing countries.

- (ii) Pillar Two consists of GloBE Rules which means Global Anti-Base Erosion rules, through which 15% global minimum tax has been introduced.

The GloBE Rules apply to constituent entities that are members of an MNE Group that has annual revenue of EURO 750 million or more in the Consolidated Financial Statements of the Ultimate Parent Entity (UPE) in at least two of the four Fiscal Years immediately preceding the tested Fiscal Year.

6. (a) In the given case, M/s. DesignSphere Inc., a company incorporated in Country Z9, entered into a contractual arrangement with Serenity Estates Pvt. Ltd., an Indian company, for rendering architectural design services in India.

M/s DesignSphere Inc. constituted a partnership firm in its home country with one of its directors as a nominal partner in order to avoid tax liability in India. The newly formed firm entered into the agreement with the Indian client, while the actual manpower and resources were seconded from the company. The firm thereafter claimed that the payment was not taxable in India under the India-Z9

tax treaty, as it had no fixed base and its partners/employees did not stay in India beyond the 180-day limit.

It is obvious that there was no commercial necessity to create a separate firm except to obtain the tax benefit. The firm was only on paper as the manpower was drawn from the company. The firm did not have any commercial substance. Moreover, it is a case of treaty abuse. Hence, GAAR may be invoked to disregard the firm and tax payment for architectural services as fee for technical services. However, the rate of tax on such payment shall be as applicable under the treaty, if more beneficial.

- (b)** A resident can make an application for advance ruling in relation to his tax liability arising out of one or more transactions valuing ₹ 100 crore or more in total which has been undertaken or is proposed to be undertaken.

Since the value of transactions between M/s Unicorn Ltd and M/s Orange Inc for providing technical knowhow exceeds ₹ 100 crores, Unicorn Ltd. can make an application for advance ruling with the Board for Advance Rulings.

As per section 245U, the Board for Advance Rulings shall have all the powers of the Civil Court in respect of discovery and inspection, enforcing the attendance of any person, including any officer of a banking company and examining on oath, issuing commissions and compelling the production of books of accounts and other documents.

Accordingly, the Board can ask for the production of books of accounts before passing advance ruling for Unicorn Ltd.

- (c)** As per section 40A(3), where the assessee incurs any expenditure, in respect of which payment or aggregate of payments made to a person in a day otherwise than by an account payee cheque drawn on a bank or by an account payee bank draft or use of electronic system through bank account or through such other prescribed electronic modes exceeds ₹ 10,000, such expenditure shall not be allowed as a deduction.

Clause 21(d) of Form 3CD requires the tax auditor to report, on the basis of the examination of books of account and other relevant documents/evidence, whether the expenditure covered under section 40A(3) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft; and if not, to furnish details mentioned thereunder, namely, date of payment, nature of payment, amount etc.

The Guidance Note on Tax Audit issued by ICAI states that there may be practical difficulties in verifying whether each payment is made through account payee

cheque or bank draft or ECS or other prescribed electronic modes. Where the reporting has been done on the basis of the certificate of the assessee, the fact has to be reported as an observation in para 3 of Form 3CA.

The tax auditor is required to point out in tax audit report, the violation of the provisions of section 40A(3) thereof involving expenditure to a person in a day exceeding ₹ 10,000 otherwise than by way of account payee cheque/bank draft, ECS and other prescribed electronic modes. However, in this case, the tax auditor has certified that there was no such instance, though such instances aggregate to a large quantum of ₹ 18 crores.

The tax auditor should have considered the nature of business i.e., jewellery business of the assessee and accordingly undertaken necessary checks to verify whether there are cash payments in violation of section 40A(3). He should have made use of the audit tools which are available to find out such payments expeditiously and accurately where the data is voluminous.

In this case, considering the nature of business of the assessee, namely, jewellery business, the onus was on the tax auditor to verify the same before reporting in Form 3CD. Mere reliance on certificate issued by the management is not acceptable in such a case. Also, even in a case where the reporting has been done on the basis of the certificate of the assessee, the fact has to be reported as an observation in para 3 of Form 3CA, which he had failed to do.

Thus, in the case, the tax auditor had failed to exercise due diligence in the conduct of his professional duties. He had also failed to obtain sufficient information which is necessary for expression of opinion. On account of such failure, clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 may be invoked.