Mock Test Paper - Series II: December, 2025

Date of Paper: 10th December, 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

SFT Flair Trust is a business trust registered under SEBI (Real Estate Investment Trusts) Regulations, 2014. Details of its income for the previous year ended 31st March, 2025 are as follows:

I. Rental income of ₹ 5 crores from directly owned real estate assets.

II. Short term capital gain of ₹ 1.5 crore on sale of listed shares of XYZ Ltd., an Indian company in which SFT Flair trust holds controlling interest through holding 60% of the shareholding of XYZ Ltd. Transfer took place on 15.4.2024. STT paid both at the time of purchase and sale.

III. Short term capital gain of ₹1 crore on sale of development properties.

IV. Dividend of ₹ 4.5 crore from XYZ Ltd.

Miscellaneous Information:

SFT Flair Trust has distributed ₹ 12 crores to its resident and non-resident unit holders in the previous year 2024-25.

From the information given above, choose the most appropriate answer of MCQs 1 to 4:-

1. In case of distribution of rental income component to its resident and non-resident unit holders, SFT Flair Trust is liable to deduct tax at source at the rate of

   (a) 10% under section 194-I and rates in force under section 195, respectively

   (b) 10% and rates in force, respectively under section 194LBA

(c) 30% and 10%, respectively under section 194LBA

(d) 5% and 10%, respectively under section 194LBA

2. Which of the following statements is correct regarding taxability in the hands of SFT Flair Trust for short-term capital gain of ₹ 1.5 crore on sale of listed shares of XYZ Ltd. and short-term capital gain of ₹ 1 crore on sale of development properties.

   (a) Short-term capital gain on sale of listed shares is taxable @ 15% and short-term capital gain on sale of development properties is taxable at maximum marginal rate

   (b) Short-term capital gain on sale of listed shares is taxable at maximum marginal rate and short-term capital gain on sale of development properties is taxable @15%

   (c) Both the short-term capital gains are taxable at maximum marginal rate

   (d) Both the short-term capital gains are taxable @ 15%

3. Which of the following statements is correct regarding taxability in the hands of SFT Flair Trust and its unit holders in respect of Rental income of ₹ 5 crores from directly owned real estate assets:

   (a) Exempt in the hands of SFT Flair Trust and unit holders both u/s 10(23FCA).

   (b) Taxable in the hands of SFT Flair Trust and unit holders u/s 115UA(3).

   (c) Exempt in the hands of SFT Flair Trust u/s 10(23FCA) and taxable in the hands of unit holders u/s 115UA(3).

   (d) Taxable in the hands of SFT Flair Trust u/s 115UA(3) and exempt in the hands of unit holders u/s 10(23FCA).

4. Which of the following statements is correct regarding taxability in the hands of SFT Flair Trust and its unit holders in respect of dividend income if XYZ Ltd. has not opted to pay tax as per section 115BAA?

   (a) Exempt in the hands of SFT Flair Trust and unit holders both.

   (b) Taxable in the hands of SFT Flair Trust but exempt in the hands of its unit holders.

   (c) Exempt in the hands of SFT Flair Trust and taxable in the hands of unit holders.

   (d) Taxable in the hands of SFT Flair Trust and unit holders. **(2 x 4 = 8 Marks)**

Case Scenario II

Mint (P) Ltd., Mumbai is engaged in manufacture of ceiling fans and exporting the same to various associated and other enterprises worldwide. The income tax assessment for A.Y. 2022-23 was completed by making reference to the TPO who enhanced the arm's length price of the international transaction by ₹ 855 lakhs. The company applied for APA in March 2024 which was signed in July 2024. The company also applied for rollback benefit which was agreed and signed in December 2024. If the APA is applied, the ALP determined for the A.Y.2022-23 would get enhanced by ₹ 580 lakhs as against ₹ 855 lakhs originally determined by TPO.

Mint (P) Ltd. borrowed USD 100 lakhs from Triple Inc. USA on 1st July 2019 under a loan agreement approved by the Central Government. Interest is payable half yearly in foreign currency @ 4% per annum, on every half year i.e. on 31st December and 30th June. For the half year ended 31st December 2024, interest was paid on 28th February 2025 after deducting tax at source.

TT buying rate of SBI on various dates are: 31st December 2024 - 1 USD = ₹ 72; 31st January, 2025 - 1 USD = ₹ 73; 28th February, 2025 - 1 USD = ₹ 72.50; 31st March 2025-1 USD = ₹ 74.

Mint (P) Ltd. exported its products to unrelated party Finland Ltd., Canada. Mint (P) Ltd. did not maintain prescribed document and information in respect of sales made to Finland Ltd. During the financial year 2024-25, the aggregate sale made by Mint (P) Ltd. to Finland Ltd., was ₹ 12 crores.

From the information given above, choose the most appropriate answer of MCQs 5 to 8:

5. What is the time limit for filing the modified return of income in respect of rollback years under the APA provisions?

   (a) Within 3 months from the end of the month in which the original APA was signed, i.e., 30th October 2024

   (b) Within 3 months from the end of the month in which the rollback agreement was signed, i.e., 31st March 2025

   (c) Within 6 months from the end of the financial year in which original APA was signed, i.e., 30th September 2025

   (d) On or before the original due date of filing return of income for rollback years

6. Which of the following statements is **correct** regarding the adjustment of Arm's Length Price (ALP) for A.Y. 2022-23 based on the APA and TPO's original determination?

   (a) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as the adjustment based on APA of ₹ 580 lakhs results in reducing the total income of the company compared to the TPO's adjustment of ₹ 855 lakhs, thereby disqualifying rollback provisions.

(b) ALP adjustment of ₹ 580 lakhs has to be made for A.Y. 2022-23 even though it is less than the TPO's original adjustment of ₹ 855 lakhs since it does not reduce total income as declared in the return of income.

(c) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as rollback provisions cannot be applied for A.Y. 2022-23.

(d) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as the ALP is already determined by the TPO.

7. How much is the amount of tax deductible at source by Mint (P) Ltd. on interest paid to Triple Inc. on 28th February 2025?

(a) ₹ 7,63,776

(b) ₹ 7,74,384

(c) ₹ 7,69,080

(d) ₹ 61,10,208

8. How much would be the quantum of penalty leviable on Mint (P) Ltd. for failure to keep and maintain documents in respect of its transactions with Finland Ltd?

(a) ₹ 1,00,000

(b) ₹ 12,00,000

(c) ₹ 24,00,000

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

Case Scenario III

The Assessing Officer, with prior approval of the Principal Commissioner of Income-tax, surveyed the business premises of Orion Foods Pvt. Ltd., which was within his jurisdiction, at 9:00 p.m. on 1.6.2024 for the purpose of obtaining information which may be relevant to the proceedings under the Income-tax Act, 1961. The survey operations continued till 11:05 p.m.

On 15.6.2024, the Assessing Officer entered the business premises of Horizon Appliances Ltd., which was also within his jurisdiction, at 8:25 p.m. for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961, and left the premises at 9:20 p.m. The business premises of Orion Foods Pvt. Ltd. are kept open for business every day between 10 a.m. and 10 p.m., and the business premises of Horizon Appliances Ltd. are kept open every day between 9:30 a.m. and 9:30 p.m.

In both the above cases, the Assessing Officer impounded and retained in his custody, for a period of 12 days (inclusive of holidays), the books of account and other documents inspected by him, after recording reasons for doing so. However, he did not obtain specific permission from the Principal Commissioner for this action.

In July 2024, the business premises of Vanguard Developers Ltd. were searched after following the due procedure laid down under section 132, consequent to which the Assessing Officer came into possession of certain documents showing information pertaining to shares valued at ₹34 lakhs purchased in P.Y. 2017–18 and shares valued at ₹25 lakhs purchased in P.Y. 2018-19.

From the information given above, choose the most appropriate answer of MCQs Q.9 to Q.12:

9. Is the action of the Assessing Officer in entering the business premises of Orion Foods Pvt. Ltd. at 9:00 p.m. and continuing survey operations till 11:05 p.m. valid? Also, is the action of the Assessing Officer in entering the business premises of Horizon Appliances Ltd. at 8:25 p.m. valid?

   (a) Yes, the action of the Assessing Officer, in both cases, is valid.

   (b) No, the action is not valid in both cases, as the Assessing Officer cannot enter the premises of Orion Ltd. and Horizon Ltd. after sunset.

   (c) No, the action is not valid in the case of Orion Ltd., as the survey operations continued beyond business hours. However, the action of the Assessing Officer in the case of Horizon Ltd. is valid.

   (d) The action of the Assessing Officer is valid in the case of Orion Ltd. but not in the case of Horizon Ltd.

10. Is the action of the Assessing Officer in impounding and retaining books of account and other documents of Orion Foods Pvt. Ltd. and Horizon Appliances Ltd., after recording reasons for doing so, valid, where he had not taken specific permission from the Principal Commissioner for this action?

   (a) No, the action of the Assessing Officer is not valid in the case of both Orion Ltd. and Horizon Ltd.

   (b) Yes, the action of the Assessing Officer is valid in the case of both Orion Ltd. and Horizon Ltd.

   (c) The action of the Assessing Officer is valid in the case of Orion Ltd. but not in the case of Horizon Ltd.

(d) The action of the Assessing Officer is valid in the case of Horizon Ltd. but not in the case of Orion Ltd.

11. Can the Assessing Officer issue notice under section 148 to Orion Foods Pvt. Ltd. in August 2024, in respect of A.Y. 2020–21, A.Y. 2021–22, and A.Y. 2022–23, consequent to the survey conducted in the business premises of Orion Foods Pvt. Ltd.?

(a) No, since the survey conducted is itself not valid.

(b) Yes, he can do so; compliances stipulated under section 148A are not necessary.

(c) Yes, he can do so, after following the compliances stipulated under section 148A.

(d) Yes, he can do so with the prior approval of the specified authority under section 151; other compliances stipulated under section 148A are not necessary.

12. Would the action of the Assessing Officer in entering the premises of Orion Foods Pvt. Ltd. at 9:00 p.m. and impounding and retaining books of account have been valid if he had surveyed Orion Foods Pvt. Ltd. only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?

(a) Yes, the action of the Assessing Officer in entering the premises and impounding and retaining books of account would be valid.

(b) No, the action of the Assessing Officer in entering the premises at 9:00 p.m. and impounding and retaining books of account is not valid.

(c) The action of the Assessing Officer in entering the premises at 9:00 p.m. is valid but not the action of impounding and retaining books of account.

(d) The action of the Assessing Officer in entering the premises at 9:00 p.m. is valid but not the action of continuing the survey beyond 10 p.m. **(2 x 4 = 8 Marks)**

13. Mr. Anjan, a property dealer, sold a flat in Mumbai, the stamp duty of which is ₹ 2 crores for ₹ 1.80 crores to his friend Mr. Ashwin, a college lecturer. Mr. Anjan had purchased the flat one year back for ₹ 1.50 crores and the stamp duty value on that date was also ₹ 1.50 crores. What are the tax implications of such sale?

(a) ₹ 50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin

(b) ₹ 50 lakhs would be taxable as business income in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin

(c) ₹ 50 lakhs would be taxable as business income in the hands of Mr. Anjan and ₹ 20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin

(d) ₹ 50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan and ₹ 20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin **(2 Marks)**

14. Mr. Rahul, a resident individual, starts a new business on 01-11-2024 for sale of designer suits. He obtained a valid PAN in his name and registers himself on Shine.com (a Country M based website), an e-commerce operator, for sale of his products in India. Mr. Rahul sold goods worth ₹ 80 lakhs through Shine.com upto 31-03-2025. E-commerce operator credited ₹ 35 lakhs on 31.12.2024, ₹ 12 lakhs on 1.1.2025 and ₹ 18 lakhs on 28.2.2025 payable to Mr. Rahul in its books of accounts. These amounts were paid to Mr. Rahul on 15.3.2025 after deducting a commission of 10% on gross sale proceeds.

    On 31.3.2025, remaining amount of ₹ 15,00,000 were directly credited in Mr. Rahul bank account by the buyers. Who is liable to deduct tax at source on the above transactions? When and what amount of tax is deductible?

    (a) Shine.com is required to deduct tax at source of ₹ 35,000, ₹ 12,000, ₹ 18,000 and ₹ 15,000 on 31.12.2024, 1.1.2025, 28.2.2025 and on 31.3.2025, respectively.

    (b) Shine.com is required to deduct tax at source of ₹ 3,500, ₹ 1,200, ₹ 1,800 and ₹ 1,500 on 31.12.2024, 1.1.2025, 28.2.2025 and on 31.3.2025, respectively.

    (c) Shine.com is required to deduct tax at source of ₹ 80,000 on 15.3.2025.

    (d) Shine.com is required to deduct tax at source of ₹ 65,000 on 15.3.2025.

(2 Marks)

15. Mr. Sarthak set-up a three-star hotel "Lake View" in Bhopal on 16.5.2009 and another three-star hotel "Sea View" in Mumbai on 1.4.2012. His brother Mr. Akhand is in the business of building and operating hospitals. He has set-up hospital "Heartline" (with 50 beds capacity) in Mumbai which begins to operate on 1.8.2008 and another hospital "Fitcare" (with 120 beds capacity) in Bhopal which begins to operate on 15.5.2016. For the previous year, 2024-25, Mr. Sarthak has profit from hotel "Lake View" of ₹ 95 lakhs and loss from hotel "Sea View" of ₹ 35 lakhs. Mr. Akhand has profit from Hospital "Heartline" of ₹ 54 lakhs and loss from hospital "Fitcare" of ₹ 25 lakhs for the P.Y. 2024-25. What would be the profits and gains from business or profession of

Mr. Sarthak and Mr. Akhand and also determine the loss to be carried forward, if both of them opt out to pay tax as per section 115BAC?

(a) Business income of ₹ 60 lakhs in the hands of Mr. Sarthak and amount to be carried forward would be Nil. Business income of ₹ 54 lakhs in the hands of Mr. Akhand and ₹ 25 lakhs loss to be carried forward.

(b) Business income of ₹ 95 lakhs in the hands of Mr. Sarthak and ₹ 35 lakhs loss to be carried forward. Business income of ₹ 29 lakhs in the hands of Mr. Akhand and no amount to be carried forward.

(c) Business income of ₹ 60 lakhs in the hands of Mr. Sarthak and amount to be carried forward would be Nil. Business income of ₹ 29 lakhs in the hands of Mr. Akhand and no amount to be carried forward.

(d) Business income of ₹ 95 lakhs in the hands of Mr. Sarthak and ₹ 35 lakhs loss to be carried forward. Business income of ₹ 54 lakhs in the hands of Mr. Akhand and ₹ 25 lakhs to be carried forward. **(2 Marks)**

Division B – Descriptive Questions

Question No. 1 is compulsory.

Attempt any four questions from the remaining five questions.

1. The net profit of Peacock Ltd. as per its statement of profit and loss for the year ended 31.03.2025 amounted to ₹ 27,22,000 after debiting/ crediting following items:

(i) Payment of interest on money borrowed from bank for purchase of new Machinery from Australia ₹ 2,00,000. The machinery could not be imported in India due pending approvals from authorities till 31.03.2025.

(ii) Commission of ₹ 1,00,000 paid in the month of February, 2025 on which tax was deducted in February, 2025 itself. Commission of ₹ 1,25,000 paid in the month of March, 2025 on which tax was deducted in May, 2025. Tax deducted at source on these payments was deposited to the Government on 28.09.2025.

(iii) Travelling expenses of ₹ 90,000 on a foreign tour of a director for negotiating collaboration with a foreign manufacturer for initiation of new line of business.

(iv) As part of the restructuring of its debt, the company has converted arrears of interest of ₹ 3,00,000 on term loan into a new term loan with a revised repayment schedule. The company has paid ₹ 50,000 towards such funded interest during the year. ₹ 3,00,000 is debited to statement of profit and loss.

(v) On EPABX and mobile phones (exclusively used for business purpose) purchased during the year, depreciation amounting to ₹ 18 lakhs was claimed at 40% treating them as computers.

(vi) ₹ 5,00,000, being contribution to S Ltd. (wholly owned subsidiary company) for construction of a school for the benefit of employees of Peacock Ltd.

(vii) Dividend received from P Ltd. on 10,000 equity shares of ₹ 10 each purchased at ₹ 100 per share on 10th October, 2017. The rate of dividend declared is 100%, the record date being 10th December, 2024. These shares were sold on 15.3.2025 at ₹ 130 per share. Long term capital gain of ₹ 3 lakhs is credited in statement of profit and loss. Fair market value of shares as on 31.1.2018 is ₹ 110. STT paid both at the time of purchase and sale.

(viii) Provision for gratuity based on actuarial valuation ₹ 6,00,000 was debited to statement of profit and loss. Actual gratuity paid ₹ 1,50,000 was debited to provision for gratuity account.

Other information:

1) Provision for bonus for the year 2023-24 paid on 15.11.2024 ₹ 98,000. It is inclusive of payment by bearer cheque of ₹ 34,000 to one employee.

2) The company has purchased and put to use another new machinery of ₹ 8,00,000 from ABC Ltd., an Indian Company for the purpose of business on 21.03.2025 and calculated depreciation@15% for the full year. Depreciation debited to the statement of profit and loss is calculated on all other assets as per the rates prescribed in the Income-tax Act, 1961.

Compute the total income of the company chargeable to tax for the A.Y. 2025-26, ignoring the provisions of section 115JB. Company is not opting for any concessional tax regimes.

(14 Marks)

2. (a) M/s Silver Green is a Limited Liability Partnership firm (LLP) consisting of three partners J, K and L. Mr. J and Mr. K are working partners as per deed. Partnership deed authorizes interest to partners @14% p.a. The deed also authorizes remuneration to the working partners @₹ 75,000 per month.

It has a unit in SEZ which started its operations w.e.f. 01.06.2019. Its total turnover, export turnover and net profits for the F.Y. 2024-25 are ₹ 120 lakhs, ₹ 90 lakhs and ₹ 24 lakhs, respectively. The unit fulfills all the conditions of section 10AA of Income-tax Act, 1961.

The firm has commenced the operations of a warehousing facility for storage of sugar on 01.05.2024. It incurred capital expenditure of ₹ 60 lakhs on purchase of land and construction of building during the period January 2024 to April 2024 (It includes ₹ 35 lakhs for cost of land) for such warehouse. This expenditure has been capitalized in the books of accounts, but no depreciation has been charged on the same. The warehousing facility fulfills all the conditions of section 35AD.

Profits from operation of warehousing facility are ₹ 30 lakhs, before considering deduction u/s 35AD, for the F.Y. 2024-25 and after debiting the following items:

1. Interest on capital @14% ₹ 11,48,000

2. Salary credited to all 3 partners ₹ 9,00,000 each

(i) Compute the total income and income tax liability of the firm M/s Silver Green for the A.Y. 2025-26 giving explanations for each item. (Ignore AMT provisions)

(ii) Assuming that the LLP filed its return of income for A.Y. 2025-26 in December, 2025 i.e. after the due date of filing return of income as prescribed under the Act, Will it make any impact on deduction under section I0AA or deduction u/s 35AD for A.Y. 2025-26? (No need to recompute total income and tax liability). **(8 Marks)**

(b) Mr. James, a non-resident and a person of Indian origin (aged 49 years), furnished following information for the previous year ended 31st March, 2025:

Particulars	Amount in (₹)
Sale proceeds of listed equity shares in A Limited, an Indian company on 31.05.2024	6,00,000
Cost of acquisition (in convertible foreign exchange) of equity shares of A Limited acquired on 01.06.2020	1,10,000
Expenditure wholly and exclusively incurred in connection with transfer of listed equity shares of A Limited	50,000
Interest on Government Securities (net of TDS) (Acquired in convertible foreign exchange)	81,000
Interest on deposits with pubic limited companies (Gross) (Acquired in convertible foreign exchange) Expenditure incurred in earning such income ₹ 7,500	3,25,000

Interest on deposits held with Private limited companies (Gross) (These deposits were made when Mr. James was resident in India out of his taxable income in India during F.Y. 2014-15)	5,55,000
Fresh Investment in shares of Indian public limited companies on 11.11.2024	2,20,000

You are required to compute the total income and tax liability of Mr. James for assessment year 2025-26 in accordance with special provisions prescribed under chapter XII-A applicable to non-residents and other provisions of the Act. Mr. James has opted to shift out of default tax regime provided under section 115BAC(1A). He has no other income. Ignore the effect of first proviso to section 48.

(Cost Inflation Index F.Y. 2020-21: 301, F.Y. 2024-25: 363*)* **(6 Marks)**

3. (a) Examine and discuss each of the following independent cases of charitable trust/institutions based on the relevant provisions of Income-tax Act, 1961 for the assessment year 2025-26.

(i) M/s Covid Care Foundation, a trust registered u/s 12AB of the Income-tax Act, 1961, runs a hospital. During the financial year 2023-24, it received a voluntary contribution of ₹ 95 lakhs with a specific direction that it should form part of the corpus of the trust. The trust invested such amount in the shares of M/s Active Care Ltd., a public sector company.

On March 31, 2025, due to disinvestment by the Government, M/s Active Care Ltd. ceases to be a public sector company.

(ii) M/s Heart Care Foundation, a trust registered u/s 12AB of the Income-tax Act, 1961, which runs a hospital also paid consultancy fees ₹ 1,00,000 to Mr. Sachin, a doctor on 31.08.2024. The trust did not deduct the TDS on consultancy fees paid to doctors. The accountant of the trust claims that the trust is not liable to tax audit under section 44AB (being a trust), therefore it is out of the purview of section 194J. **(4 Marks)**

(b) The following trusts claim that anonymous donations received by them during the financial year 2024-25 are not liable to tax under section 115BBC:

(i) A charitable trust referred to in section 11 which applied the entire amount of anonymous donations for purposes of the trust during the relevant financial year.

(ii) A trust established wholly for religious purposes which applied 85% of the amount of anonymous donations for the purposes of the objects of the trust during the relevant financial year.

Examine the validity of the claim made by the trusts. **(4 Marks)**

(c) Mr. Ashu, an individual resident in India, aged 25 years furnished the following information for the year ended 31.3.2025:

He earned royalty income of ₹18 lakhs from QR Corp. of Country Y for writing articles in journals and newspapers during FY 2024-25. He received only ₹13.60 lakhs in the previous year, with the balance outstanding as on 31.03.2025. He follows cash system of accounting for royalty income.

He also earned gross rental income of ₹3.60 lakhs from a house property in Country Y. Municipal taxes paid on the property amounted to ₹12,000, which are not deductible in Country Y. No DTAA exists between India and Country Y. All incomes in Country Y are taxed at 15%.

Additionally, dividend of ₹ 5.50 lakhs (gross) received from N Ltd., an Indian company. On 01.04.2024, he availed an educational loan from a bank for his son's MBA course. Annual repayment of loan and interest amounted to ₹ 1.40 lakhs and ₹ 0.36 lakhs, respectively.

Compute the total income and net tax liability of Mr. Ashu for the Assessment Year 2025-26. Assume that Mr. Ashu opt out of default tax regime under section 115BAC. **(6 Marks)**

4. (a) 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

(i) Mr. Shubham purchased scrap of ₹ 55 lakhs from Mr. Rajkumar for the purpose of his manufacturing unit and credited him in books of account. Mr. Shubham furnished a certificate to Mr. Rajkumar that the scrap shall be utilized for manufacturing process carried on by him and shall not be used for trading purposes. Mr. Shubham made the payment of ₹ 45 lakhs during the F.Y 2024-25 to Mr. Rajkumar. Assume turnover of both Mr. Shubham and Mr. Rajkumar from the business carried on by them exceeds ₹ 10 crores in the financial year 2023-24. **(4 Marks)**

(ii) Vinayak Hospitals Pvt. Ltd. has recently been accorded recognition by several insurance companies to admit and treat patients on cashless hospitalization basis. Payment to the assessee hospital will be made by Third Party Administrators (TPA) who will process the claims of the patients admitted and make payments to the various hospitals including the assessee. All TPAs are corporate entities. The assessee wants to know whether the TPAs are bound to deduct tax at source under section 194J or under section 194C. Examine. **(4 Marks)**

(b) Vega Ltd., an Indian Company, is engaged in manufacturing activities by importing raw material from Solaris Inc. of UK. Solaris Inc. has a total loan of 1 million pounds from XYZ Bank of UK. Out of that, Vega Ltd. guarantees 20% of total borrowings in case of any default made by Solaris Inc.

During the financial year 2024-25, Vega Ltd. imported goods for ₹ 60 crores from Solaris Inc. Solaris Inc. supplied similar raw materials to unrelated parties with a mark-up of 20%, whereas, for Vega Ltd. it provided a mark-up of 25%. Vega Ltd. was allowed to use the brand name of Solaris Inc., without any payment and whereas the unrelated parties cannot use such brand name in India. The annual cost of brand value is ₹ 100 Lakhs. Vega Ltd. was allowed credit period of 2 months, whereas for the unrelated parties, Solaris Inc. allowed only 1 month as credit period. The interest cost may be taken as 12% per annum and the purchases were uniform throughout the year.

The Assessing Officer referred the matter to Transfer Pricing Officer (TPO) for determination of Arm Length Price (ALP).

You are required to

(i) Compute the ALP and the adjustments to be made to the income of Vega Ltd.

(ii) What is the due date for Vega Ltd. for furnishing audit report u/s 92E?

(iii) What amount of penalty is leviable on Vega Ltd., if it fails to furnish audit report u/s 92E? **(6 Marks)**

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

(i) Mr. Arjun, a resident individual, electronically filed his income tax return for AY 2024-25 on 30.07.2024, disclosing full interest income of ₹ 25 lakhs received from M/s Rajesh Finance Pvt. Ltd., Delhi (deductor), and claimed TDS credit accordingly.

However, the tax department disallowed the TDS credit, pursuant to intimation issued u/s 143(1). The application filed under section 154 was also rejected for the reason that TDS credit is not reflected in Form 26AS and consequently, the said tax was recovered from the assessee itself. Advice, Mr. Arjun, on the basis of latest Court rulings, whether the department can recover tax due from him. Discuss the relevant Provisions and give conclusion.

(ii) ABC Software Solutions Pvt. Ltd., a domestic company engaged in software development at an IT park and employing 700 staff, deducted TDS aggregating ₹1.10 crores on salaries, contractual payments and other sums up to 31.03.2025 for AY 2025-26.

In March 2025, the assessee deposited part of the TDS being ₹ 38 lakhs and balance of ₹ 72 lakhs was deposited later in July 2025. However, the Additional Commissioner of Income Tax issued a show cause notice proposing to levy penalty under section 271C of the Income-tax Act 1961 of the amount equal to TDS and also levied penal interest under section 201(1A) of the Income-tax Act, 1961. Feeling aggrieved and dissatisfied with the levy of interest/penalty under the Income tax Act, 1961 on late deposit of TDS, the company has approached you. Examine. Your answer should cover issue involved, provision applicable, analysis and conclusion.

(iii) Suchitra Ltd. filed its return of income under section 139(1) on 15th September, 2023 for A.Y. 2023-24. The return was found to be defective, and an intimation was issued on 10th May, 2024, directing the assessee to rectify the defects within 15 days. The defects were rectified on 19th May, 2024. The return was processed, and intimation was sent on 15th July, 2024. Subsequently, the Assessing Officer issued a notice under section 143(2) on 21st June, 2025.

CA. of Suchitra Ltd. contended that the notice was barred by limitation since it was issued beyond the permissible time limit. Examine the validity of the notice issued under section 143(2) by the Assessing Officer.

(4 x 2 = 8 Marks)

(b) What is meant by Digital economy? What are the taxation issues in E-Commerce? List out the OECD recommendations under Action Plan 1 which deals with the digital economy? **(6 Marks)**

6. (a) The Indian branch of F Inc., Country J, conducted transactions worth ₹ 600 crores with SR Enterprises Pvt. Ltd., Hyderabad, during FY 2024-25. SR Enterprises applied for an advance ruling in January 2025 to determine the tax implications for both itself and the non-resident F Inc. The Board for Advance Rulings (BAR) accepted the application and pronounced its ruling on 30.04.2025 and said ruling was communicated to SR Enterprises Pvt. Ltd. on the same date. SR Enterprises Pvt. Ltd. was, however, not satisfied with said ruling. State whether the advance

ruling pronounced by BAR is binding on SR Enterprises Pvt. Ltd. Is there any remedy available to SR Enterprises Pvt. Ltd. if it is aggrieved with the said ruling? Examine. **(4 Marks)**

(b) M/s Apex Metals Pvt. Ltd., an Indian-incorporated entity, establishes two manufacturing units for steel containers - one in a Special Economic Zone (SEZ) and one in a Domestic Tariff Area (DTA). The DTA unit supplies containers to the SEZ unit at below fair market value. The SEZ unit performs only minimal processing on these containers before sales. This arrangement shifts substantial profits to the SEZ unit, enabling larger tax deductions. Such DTA-to-SEZ transfers account for 15% of the SEZ unit's total sales. Can provisions of GAAR be invoked?

(4 Marks)

(c) Mr. Rajesh, proprietor of M/s. Gupta Electronics, trades in smartphones. For FY 2024-25, his turnover and total receipts total ₹ 5,12,00,000. He collected ₹22,00,000 in cash from sundry debtors, with the balance of ₹ 4.90 crore received via online banking before 31.03.2025. He also made a total business payment of ₹ 5,50,00,000 against purchase of goods, rent; salary and other business expenses during the previous year 2024-25, out of which total cash payments amounted to ₹ 28,00,000 and remaining all kind of payments made through online banking channel. No other amount received or paid during the year on business account. He has no other business in his name.

Is Mr. Rajesh mandatorily required to audit the books of M/s. Gupta Electronics for AY 2025-26 under Section 44AB of the Income-tax Act, 1961? Discuss the applicability.

Assuming Mr. Rajesh is required to get his accounts audited and in the light of the Tax Audit applicability u/s 44AB of the Act, Also discuss whether the following issue need to be reported by the Chartered Accountant of Mr. Rajesh in the tax audit report as applicable for A.Y. 2025-26 u/s 44AB in relation to Tax audit of M/s. M/s. Gupta Electronics in view of section 269ST. You need to give the relevant provisions of law in support of your answer.

M/s. Gupta Electronics issued an invoice of ₹ 3,50,000 to M/s. PQR Traders for sale of mobiles on 10.02.2025. M/s. PQR Traders made payment of ₹ 2,50,000 through account payee cheque. The balance of ₹ 1,00,000 has been paid on 10 different dates in cash, through payment of ₹ 10,000 on each day before 31.03.2025.

Ignore the Clause numbers given in Form 3CD prescribed for Tax Audit Report u/s 44AB for such reporting. **(6 Marks)**

Mock Test Paper - Series II: December, 2025

Date of Paper: 10th December, 2025

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

FINAL COURSE: GROUP – II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

SOLUTIONS

Division A – Multiple Choice Questions

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

1. Computation of total income of Peacock Ltd. for A.Y.2025-26

	Particulars	₹	₹
I	**Profits & Gains of Business of Profession**		
	Net Profit as per Statement of Profit & Loss		27,22,000
	Add: **Items debited but to be considered separately or to be disallowed**		
	- **Interest on money borrowed for purchase of land**	2,00,000	
	[As per section 36(1)(iii), interest on borrowed capital till the asset is put to use has to be capitalized. Hence, interest on moneys borrowed is not allowable under section 36(1)(iii). Since it is already debited to statement of profit and loss, the same has to be reduced.]		
	- **Commission paid in February, 2025**	Nil	
	[Commission paid in February, 2025 after deduction of tax is allowable as deduction during		

	the P.Y. 2024-25 since TDS has been deposited before the due date of filing return of income. Since commission is already debited to statement of profit and loss, no adjustment is required.]		
	- **Commission paid in March, 2025** [30% of commission paid in March 2025 on which TDS was deducted and paid in subsequent year would be disallowed during the P.Y. 2024-25 and would be allowed as deduction in the year in which such tax has been paid. Hence, 30% of commission debited to statement of profit and loss would be added back]	37,500	
	- **Travelling expenses on foreign tour in connection with new line of business** [Travelling expenses incurred on foreign tour of a director for initiating a new line of business is a capital expenditure. The same is, therefore, not deductible under section 37(1). Since it is already debited to statement of profit and loss, the same has to be reduced.]	90,000	
	- **Interest on term loan converted into new term loan** [Under section 43B, interest on loan due to any scheduled bank, etc. is allowed as deduction, if such interest is actually paid irrespective of the method of accounting followed by the assessee. Conversion of arrear interest into a fresh loan by a bank cannot be considered as actual payment of interest. However, the amount of funded interest (i.e., converted loan) actually paid is allowable as deduction. Hence, out of ₹ 3 lakhs, only ₹ 50,000, being the funded interest was actually paid which is allowable as deduction while computing business income of P.Y. 2024-25. The balance of ₹ 2,50,000 has to be added back.]	2,50,000	
	- **Excess depreciation provided on EPABX & Mobile phones not allowable as deduction** [EPABX and mobile phones are not computers and therefore, are not entitled to depreciation	11,25,000	

		@ 40%. It was so held by the Kerala High Court in *Federal Bank Ltd. v. ACIT (2011) 332 ITR 319*. Therefore, EPABX and mobile phones would be entitled to depreciation of ₹ 6,75,000, calculated by applying the rate of 15%, being the general rate applicable to plant and machinery, on the cost of ₹ 45,00,000 (₹ 18,00,000 × 100/40). The excess depreciation of ₹ 11,25,000 (being ₹ 18,00,000 – ₹ 6,75,000), debited to statement of profit and loss, has to be added back.]		
	-	**Contribution to S Ltd. (wholly owned subsidiary company)** [Contribution to a wholly owned subsidiary company for construction of a school for the benefit of its employees is allowable under section 37(1).]	-	
	-	**Provision for gratuity ₹ 6,00,000** ***Less:* Gratuity paid ₹ <u>1,50,000</u>** [Under section 40A(7), no deduction is allowed in respect of any provision made for the payment of gratuity to the employees on retirement or termination of employment for any reason. However, gratuity actually paid is admissible as deduction. Therefore, provision for gratuity of ₹ 6,00,000 is to be disallowed. Actual gratuity paid ₹ 1,50,000 debited to provision for gratuity account is allowable. Hence, only the net sum of ₹ 4,50,000 has to be added back.]	4,50,000	
	-	**Depreciation on new machinery** [Depreciation on new machinery has been calculated @15% and, consequently, ₹ 1,20,000 has been debited to statement of profit and loss. Since it was acquired in March 2025 only, 50% of normal depreciation is allowable. The excess depreciation of ₹ 60,000 is, hence, disallowed.]	60,000	22,12,500
				49,34,500

	Less: **Items credited but to be considered separately and those not charged but to be allowed**		
	- **Long term capital gain on sale of equity shares** [Taxable under the head "Capital gains"]	3,00,000	
	- **Bonus paid on 15.11.2024 in respect of previous year 2023-24 disallowed last year but allowable in P.Y. 2024-25** [Provision for bonus for the previous year 2023-24 would have been disallowed under section 43B for non-payment by due date for filing of return of income for assessment year 2024-25. Payment of bonus made after the said date is allowed in the year of actual payment. However, such deduction allowable in the year of payment is subject to the provisions of section 40A(3). Hence, the sum of ₹ 34,000, being bonus paid by bearer cheque shall not be allowed as deduction in the year of payment.]	64,000	
	- **Dividend from P Ltd.** [Dividend is taxable under the head "Income from Other Sources"]	1,00,000	4,64,000
			44,70,500
II	**Capital Gains**		
	Long term capital gain on sale of equity shares [Taxable @12.5% on sum exceeding ₹ 1,25,000]		
	Sale consideration [10,000 x ₹ 130]	13,00,000	
	Less: Cost of acquisition	11,00,000	2,00,000
	Higher of		
	- Actual cost of ₹ 10 lakhs [10,000 x 100]		
	- Lower of fair market value as on 31.1.2018 of ₹ 11 lakhs or sale consideration of ₹ 13 lakhs		
III	**Income from Other Sources**		
	Dividend from P Ltd.		1,00,000
	[Dividend is taxable under the head "Income from Other Sources"]		
	Total Income		**47,70,500**

2. (a) (i) Computation of Total income and tax liability of M/s Silver Green for A.Y. 2025-26

Particulars	₹	₹
Profits and gains of business or profession		
Unit in SEZ		24,00,000
Profit from operation of warehousing facility	30,00,000	
Add: Interest on capital @14%	11,48,000	
Salary credited to all partners [₹ 9,00,000 x 3]	27,00,000	
	68,48,000	
Less: Deduction under section 35AD [Capital expenditure incurred prior to commencement of business and capitalised in the books of account excluding the expenditure incurred for cost of land] [₹ 60 lakhs – ₹ 35 lakhs]	25,00,000	43,48,000
		67,48,000
Less: Interest to partners on capital [Maximum interest@12% is allowed as per section 40(b)] [₹11,48,000/14%*12%]		9,84,000
Book profits		**57,64,000**
Less: Partners' remuneration allowable under section 40(b)(v)		
(i) As per limit prescribed in section 40(b)		
On first ₹ 6,00,000 Higher of ₹ 3,00,000 or 90% of ₹ 6 lakhs	5,40,000	
On the balance ₹ 51,64,000 @60%	30,98,400	
	36,38,400	
(ii) Remuneration actually paid or payable to working partners [₹ 9,00,000 x 2]	18,00,000	
Whichever is less is allowed		18,00,000
PGBP/Gross total income		**39,64,000**
Less: Deduction u/s 10AA [₹ 24 lakhs x 90 lakhs/120 lakhs x 50%, since this is the sixth year]		9,00,000

Total income		30,64,000
Computation of tax liability		
Tax @ 30% on ₹ 30,64,000		9,19,200
Add: Health and Education cess @ 4%		36,768
Tax liability		9,55,968
Tax liability (Rounded off)		**9,55,970**

(ii) As per proviso to section 10AA(1), no deduction under section 10AA shall be allowed to an assessee who does not furnish a return of income on or before the 'due date' specified in section 139(1).

However, there is no such condition for claiming deduction under section 35AD.

Since M/s Silver Green files its return of income for A.Y. 2025-26 in December, 2025 i.e., after the due date of filing return of income, it cannot claim deduction under section 10AA in respect of profits derived from unit in SEZ. It will be eligible to claim the deduction under section 35AD.

(b) **Computation of total income and tax liability of Mr. James for A.Y. 2025-26 as per Chapter XII-A and other provisions of the Income-tax Act, 1961**

Particulars		Amount (₹)	Amount (₹)
Capital Gains			
Long term capital gain on sale of listed equity shares of A Ltd.			
Full value of consideration		6,00,000	
Less: Expenditure on Transfer		50,000	
Net consideration		5,50,000	
Less: Cost of Acquisition [Indexation benefit is not available]		1,10,000	
		4,40,000	
Less: Exemption under section 115F [4,40,000 x 2,20,000/ 5,50,000]		1,76,000	2,64,000
Income from Other Sources			
Interest on Government Securities [₹ 81,000/79.20% x 100%]		1,02,273	

Interest on deposits with public limited companies	3,25,000		
Less: Expenses incurred [Not allowed under section 115D]	NIL	3,25,000	
Interest on deposits with private limited companies		5,55,000	9,82,273
Gross total income/ Total income			12,46,273
Total income (Rounded off)			**12,46,270**
Computation of gross tax payable			
Tax on LTCG of ₹ 2,64,000 @10%		26,400	
Tax on investment income of ₹ 4,27,273@20% [₹ 1,02,273 + ₹ 3,25,000]		85,455	
Tax on other income of ₹ 5,55,000 at slab rate		23,500	
			1,35,355
Add: Health and education cess@4%			5,414
Gross tax payable			**1,40,769**
Gross tax payable (Rounded off)			**1,40,770**

3. **(a)** (i) Voluntary contribution of ₹ 95 lakhs received with a specific direction that it should form part of the corpus of the trust, would be eligible for exemption, since investment in shares of M/s Active Care Ltd. a public sector company is permissible mode of investment under section 11(5).

However as per provisions of section 11(5), where an investment is made in the shares of any public sector company and such public sector company ceases to be a public sector company, the investment so made shall be deemed to be an investment made for a period of three years from the date of such cessation.

Therefore, it would continue to be eligible for exemption for a period of 3 years from the cessation date i.e., 31.3.2025 on which M/s Active Care Ltd., ceases to be a public sector company due to the disinvestment.

(ii) A trust is required to deduct tax at source u/s 194J even if it is not subjected to tax audit u/s 44AB. Moreover, as per Explanation 3 to section 11(1), where tax has not been deducted at source on any expenditure, 30% of disallowance of expenditure for non-deduction of tax at source under section 40(a)(ia) would mutatis mutandis apply to a trust in determining application of income.

Accordingly, ₹ 30,000 being 30% of ₹ 1,00,000 would not be treated as application of income for non-deduction of tax at source on the consultancy fees paid to Mr. Sachin by M/s Covid Care Foundation.

(b) (i) Section 115BBC provides for levy of tax @ 30% on anonymous donation received by, *inter alia*, charitable trusts or institutions referred to in section 11 in the following manner:

(a) the amount of income-tax calculated @30% on the aggregate of anonymous donations received in excess of 5% of the total donations received by the assessee or one lakh rupees, whichever is higher; and

(b) the amount of income-tax with which the assessee would have been chargeable had his total income been reduced by the aggregate of the anonymous donations received in excess of 5% of the total donations received by the assessee or ₹ 1 lakh, as the case may be.

Further, section 13(7) provides that the exemption provisions contained in sections 11 and 12 shall not be applicable in respect of any anonymous donation liable to tax under section 115BBC. As such, application of the anonymous donations received by the charitable trust for charitable purposes does not confer any exemption from tax. Therefore, the claim for non-taxability under section 115BBC of anonymous donations received by the charitable trust is not valid in law.

However, a view may be taken that anonymous donation upto higher of 5% of total donations or ₹ 1 lakh, which is taxable at normal rates would be eligible for application of income and thereby, the benefit of exemption under section 11 would apply.

(ii) Section 115BBC(2) provides that the provisions contained in section 115BBC(1) relating to the taxability of anonymous donations are not applicable to any trust or institution created or established wholly for religious purposes. As such, the trust established wholly for religious purposes is not liable to be taxed in respect of the anonymous donations received by it. Therefore, the claim made by the trust is valid in law. The application or non-application of such anonymous donation for the purposes of trust during the relevant financial year is not germane to the issue of taxability under section 115BBC.

(c) Computation of total income of Mr. Ashu for A.Y.2025-26

Particulars	₹	₹
Income from House Property		
Rental income from property in Country Y[1]	3,60,000	
Less: Municipal taxes paid	12,000	
	3,48,000	
Less: Deduction u/s 24(a) @30%	1,04,400	
		2,43,600
Profits and gains from business or profession		
Royalty[2] from Country Y for writing article in journals [only the amount which is received during the previous year is includible, since he maintains cash system of accounting]		13,60,000
Income from Other Sources		
Dividend from N Ltd. an Indian company		5,50,000
Gross Total Income		**21,53,600**
***Less:* Deduction under Chapter VI-A**		
U/s 80E – deduction in respect of interest on educational loan for his son	36,000	
U/s 80QQB – No deduction is allowable since royalty income is for writing articles in journals and newspapers and not for writing books	-	36,000
Total Income		**21,17,600**

[1] *In the absence of any information relating to fair rent, municipal value and standard rent, rental income assumed to be gross annual value.*

[2] *Royalty can also be shown under the head "Income from other sources" instead of "Profits and gains from business or profession.*

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

Particulars		₹
Tax on total income [30% of ₹ 11,17,600 + ₹ 1,12,500]		4,47,780
Add: Health and education cess @4%		17,911
		4,65,691
Less: Relief under section 91 -		
Average rate of tax in India [[i.e., ₹ 4,65,691/21,17,600 x 100]	21.991%	
Average rate of tax in Country Y	15%	
Doubly Taxed income [Rental income of ₹ 2,43,600 + royalty income of ₹ 13,60,000]	16,03,600	
Deduction under section 91 on ₹ 16,03,600 @15%, being lower average Indian tax rate and foreign tax rate.		2,40,540
Net tax liability		**2,25,151**
Net tax liability (rounded off)		**2,25,150**

4. **(a)** (i) By virtue of section 206C(1A), Mr. Rajkumar is not required to collect tax at source under section 206C(1), since Mr. Shubham has furnished a certificate to Mr. Rajkumar that the scrap purchased from him is for manufacturing process carried on by him and not for trading purposes.

However, TDS under section 194Q will be attracted in the hands of the buyer in cases covered under section 206C(1A), if the conditions specified under section 194Q are fulfilled.

In this case, tax is required to be deducted at source under section 194Q by the buyer, Mr. Shubham, since his turnover in the immediately preceding financial year i.e., F.Y.2023-24 exceeds ₹ 10 crores and he has purchased goods of the value or aggregate of such value exceeding ₹ 50 lakhs in the F.Y.2024-25. TDS u/s 194Q would be 0.1% of the sum exceeding ₹ 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier.

Therefore, in the present case, Mr. Shubham is required to deduct tax at source @ 0.1% of ₹ 5,00,000, being the amount exceeding ₹ 50 lakhs at the time of credit.

(ii) This issue has been clarified by the CBDT Circular No.8/2009 dated 24.11.2009. As per provisions of section 194J(1), any person, who is responsible for paying to a resident any sum by way of fees for professional services, shall, at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to 10% of such sum as TDS.

Further, as per clause (a) of *Explanation* to section 194J "professional services" includes services rendered by a person in the course of carrying on medical profession.

The services rendered by hospitals to various patients are primarily medical services and therefore, the provisions of section 194J are applicable on payments made by TPAs to hospitals, etc. Further, for invoking provisions of section 194J, there is no stipulation that the professional services have to be necessarily rendered to the person who makes payment to the hospital. Therefore, TPAs who are making payment on behalf of insurance companies to hospitals for settlement of medical/ insurance claims, etc. under various schemes, including Cashless Schemes, are liable to deduct tax at source under section 194J on all such payments to hospitals, etc.

In view of the above, all such transactions between TPAs and hospitals would fall within the ambit of provisions of section 194J.

(b) (i) Vega Ltd., an Indian company and Solaris Inc. of UK, are deemed to be associated enterprises as per section 92A(2), since Vega Ltd. guarantees 10% or more of total borrowings of Solaris Inc.

Further, the transaction of purchasing raw material falls within the meaning of "international transaction" under section 92B. Hence, transfer pricing provisions would be attracted in this case.

Computation of Arm's length price and adjustment to be made as per Comparable Uncontrolled Price Method

Particulars	₹ in crores
Price of imported goods charged by Solaris Inc. from Vega Ltd.	60.00
Less: Mark up earned @ 25% [₹ 60 crores x 25/125] from Vega Ltd.	12.00
	48.00

Add: Mark up earned in uncontrolled comparable transaction @ 20%	9.60
Add: Adjustment on account of brand value [Annual cost of brand value]	1.00
Add: Adjustment on account of cost of credit for 1 month [12% x 1/12 x 57.60]	0.576
Arm's length price of raw material purchase	**59.176**
Less: Price at which raw material was imported by Vega Ltd. from Solaris Inc.	60.000
Adjustment to be made to the income of Vega Ltd.	**0.824**

(ii) Vega Ltd. is required to furnish the audit report under section 92E on or before 31.10.2025, being the specified date i.e., date one month prior to the due date for furnishing the return of income under section 139(1) for the relevant assessment year.

(iii) If Vega Ltd. fails to furnish the audit report under section 92E, penalty of ₹ 1 lakh would be leviable.

5. (a) (i) Deduction of taxes at source is one of the methods of collecting tax. The tax deducted at source is part of the assessee's income and therefore, the gross amount is included in the total income and offered to tax. It is on this premise that the tax deducted at source would have to be treated as tax paid on behalf of the assessee.

Section 205 provides for restriction against direct demand on assessee to the extent to which tax has been deducted from that income. Thus, no recovery of TDS can be made from the deductee.

Further, the amount retained against remittance made by the payer is nothing but tax which the assessee/deductee has offered for tax by grossing up the remittance. If credit is not given, the Department would end up doing indirectly what they cannot do directly i.e., recover tax directly from the deductee.

The assessee had followed the regime put in place in the Act for collecting tax albeit, through an agent (deductor) of the Government. The recovery proceedings could only be initiated against the deductor, as the deductor, an agent for collecting tax, had failed to deposit the tax with the Government. Therefore, the deductee should be given credit for TDS though it was not reflected in Form 26AS and no recovery towards TDS could be made from the assessee in terms of the provisions of section 205.

Thus, in the present case, the Department's action in recovering the tax due from Mr. Arjun on the ground that it is not reflected in Form 26AS, is bad in law

Note – The facts given in the question are similar to the facts in BDR Finvest Pvt. Ltd. v. DCIT [2024] 462 ITR 141 (Delhi). The above answer is based on the rationale of the Delhi High Court ruling in the said case.

(ii) **Issue Involved**: The issue under consideration is whether penalty u/s 271C and interest u/s 201(1A) both are leviable on late deposit of TDS.

Provisions applicable: Section 271C(1)(a) provides that if any person fails to deduct the whole or any part of the tax as required by or under the provisions of Chapter XVII-B, then, such person is liable to pay, by way of penalty, a sum equal to the amount of tax which such person failed to deduct. Section 201(1A) provides that in case a tax has been deducted at source but is subsequently remitted belatedly, such a person is liable to pay interest as provided under section 201(1A).

Analysis and Conclusion: On a plain reading of section 271C(1)(a), no penalty would be leviable on belated remittance of TDS after it is deducted by the assessee.

Similarly, section 276B speaks about prosecution for failure to pay the tax deducted at source to the credit of the Central Government within the prescribed time.

The words "fails to deduct" in section 271C(1)(a) cannot be read as "failure to deposit/pay the tax deducted".

Accordingly, no penalty would be leviable under section 271C on delay in remittance of the tax deducted at source after deducting it on time. However, interest u/s 201(1A) for late deposit of TDS is leviable.

Note – The above answer is based on the rationale of the Supreme Court in US Technologies International Pvt. Ltd. v. CIT [2023] 453 ITR 644.

(iii) The issue under consideration is whether, for the purpose of computing limitation period under section 143(2), the relevant date is the date of filing of the original return of income or the date of removal of defects in response to a notice issued under section 139(9).

The same issue came up before *Supreme Court in DCIT vs Travel Designer India Pvt. Ltd. vs (2025) 482 ITR 283.* In this case, the High Court noted that since the return was defective, the assessee was called upon to remove such defects, which was removed on 19th May, 2024, which is within the time allowed by the Assessing Officer. Therefore, upon such defects being removed, the return would relate back to the date of filing original return i.e., 15th September, 2023. Consequently, the limitation for issuance of notice under section 143(2) would be 30th June, 2024 i.e., three months from the end of the financial year in which the return under section 139(1) was filed.

In the present case, notice under section 143(2) has been issued on 21st June, 2025, which is much beyond the period of limitation. Therefore, such notice is barred by limitation and cannot be sustained.

Accordingly, the notice issued under section 143(2) is not a valid notice.

(b) In digital economy transactions like sale, purchase, payment, rendering services are performed through digital or virtual mode. In the digital domain, business does not actually occur in any physical location but instead takes place in "cyberspace."

Taxation issues in e-commerce

The typical taxation issues relating to e-commerce are:

(i) the difficulty in characterizing the nature of payment and establishing a nexus or link between taxable transaction, activity and a taxing jurisdiction,

(ii) the difficulty of locating the transaction, activity and identifying the taxpayer for income tax purposes.

The following are OECD recommendations under Action Plan 1 dealing with digital economy:

(1) Modifying the existing permanent establishment rule to provide for whether an enterprise engaged in fully dematerialized digital activities would constitute a PE, if it maintained a significant digital presence in another country's economy.

(2) a virtual fixed place of business in the concept of permanent establishments i.e., creation of a PE when the enterprise maintains a website on a server of another enterprise located in a jurisdiction and carries on business through that website.

(3) Imposition of a final withholding tax on certain payments for digital goods or services provided by a foreign e-commerce provider or imposition of equalisation levy on consideration for certain digital transactions received by a non-resident from a resident or from a non-resident having permanent establishment in other contracting state.

6. (a) Advance ruling pronounced by Board for Advance Rulings is not binding on SR Enterprises Pvt. Ltd. Section 245W provides that the applicant who is aggrieved by any ruling pronounced or order passed by the Board for Advance Rulings may appeal to the High Court against such ruling. He has to do so within sixty days from the date of the communication of that ruling or order, in the prescribed form and manner.

Accordingly, if SR Enterprises Pvt. Ltd. is aggrieved by the advance ruling pronounced by BAR, it can file an appeal before the High Court on or before 29th June 2025. The High Court can grant extension of a further period of 30 days for filing the appeal, if it is satisfied, on an application made by SR Enterprises Pvt. Ltd. in this behalf, that it was prevented by sufficient cause from presenting the appeal within the 60 days period as specified above.

(b) M/s Apex Metals Pvt. Ltd. has tried to take advantage of tax provisions by diverting profits from DTA unit to SEZ unit. This is not the intention of the SEZ legislation.

However, such tax avoidance is specifically dealt with through the provisions contained in section 10AA(9), as per which provisions of section 80-IA(8) would get attracted in such a case.

Further, if the aggregate of such transactions entered into in the relevant previous year exceed the threshold of ₹ 20 crore, domestic transfer pricing regulations under section 92BA would be attracted.

Thus, in this case, due to application of specific anti-avoidance provisions, no tax benefit can be derived by M/s Apex Metals Pvt. Ltd. by transferring the products from DTA unit to SEZ unit at less than fair market value.

Hence, the revenue need not invoke GAAR in such a case, though GAAR and SAAR can co-exist as per clarification given in the CBDT Circular.

(c) As per section 44AB, every person carrying on business or profession is required to get his accounts audited before the "specified date" by a Chartered Accountant, if the total sales, turnover or gross receipts in business exceeds ₹ 1 crore in any previous year.

However, tax audit is not required in case of such person carrying on business whose total sales, turnover or gross receipts in business ≤ ₹ 10 crore in the relevant previous year (P.Y.), if -

- aggregate cash receipts including amount received for sales, turnover, gross receipts in the relevant previous year ≤ 5% of such receipts; and
- aggregate cash payments including amount incurred for expenditure in the relevant P.Y. ≤ 5% of such payments

In this case, the percentage of cash receipts of ₹ 22 lakhs to aggregate receipts of ₹ 5.12 crore is 4.30% and the percentage of cash payments of ₹ 28 lakhs to aggregate payments of ₹ 5.50 crore is 5.09%.

Since the cash payments made during the year exceed 5% of aggregate payments, M/s Gupta Electronics is required to get its accounts audited under section 44AB and furnish audit report before the specified date, irrespective of the fact that its turnover does not exceed ₹ 10 crores and its cash receipts do not exceed 5% of total receipts.

Further, particulars of each receipt in an amount exceeding the limit specified in section 269ST i.e., ₹ 2 lakhs, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person, during the previous year, where such receipt is otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account is to be reported in Form 3CD.

In this case, M/s PQR Traders made payment of ₹ 2.5 lakhs by account payee cheque and the balance of ₹ 1 lakh in cash in aggregate during the P.Y. 2024-25 to M/s Gupta Electronics. Since the amount received in cash by M/s Gupta Electronics is less than ₹ 2 lakhs and the transaction is not covered u/s 269ST, there is no need to report this transaction in the tax audit report of M/s Gupta Electronics by his Chartered Accountant.