Mock Test Paper - Series II: April, 2026

Date of Paper: 8th April, 2026

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 Questions in Division A, working notes are not required.

All questions relate to Assessment Year 2026-27, unless stated otherwise in the question.

Time Allowed: 3 Hours **Total Marks: 100 Marks**

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

Mr. Arun, an Indian citizen got a job offer from M/s Moon Star Inc., a Dubai-based company of AED 10,500 per month. He left for Dubai on 29.3.2025 and joined M/s Moon Star Inc. on 1st April 2025. He returned to India on 15.12.2025 on leaves for 15 days. On 23.12.2025, he went on 7 days tour to Bali with his wife and son. Thereafter, he directly went to Dubai with his wife and son. On 16.12.2025, he purchased a tour package for Bali from Your Own Trip, an Indian tour operator for which he paid ₹ 7,50,000 towards flight tickets and hotel accommodation. During F.Y. 2025-26, he has business income of ₹ 4,20,000 from a retail shop in India and interest on fixed deposit and savings account with Canara Bank of ₹ 1,20,000 and ₹ 8,000, respectively. He is not liable to pay any tax in Dubai. Assume 1 AED = ₹ 23.

His best friend Mr. Sarthak furnished the following information for the previous year 2025-26:

Particulars	Amount (₹)
Amount remitted to his elder son Manan, who is pursuing two-year MBA Program from Atlanta University, Australia	
- Out of own savings through SBI Bank, an authorized dealer under Liberalized Remittance Scheme (LRS) of the RBI	
• towards tuition fees on 5.7.2025	3,50,000
• to meet day to day expenses for study purposes	

- 10.5.2025	1,20,000
- 29.9.2025	90,000
- 01.1.2026	1,35,000
- Through PNB Bank, an authorized dealer under Liberalized Remittance Scheme (LRS) out of	
• loan (towards tuition fees) on	
- 11.10.2025	3,50,000
- 10.01.2026	3,50,000
• Own savings (to meet day to day expenses) on 1.7.2025	4,50,000
To complete the formalities of admission, Mr. Sarthak visited the Australia from 10.4.2025 to 13.4.2025 for which he purchased a tour package from M/s 3 Trip Travel, a foreign tour operator and remits money under LRS on 5.4.2025. International travel tickets and hotel accommodation are included in the said package.	5,20,000

Mr. Sarthak has furnished undertakings containing the details of earlier remittances to SBI bank and PNB bank. He has also furnished his PAN to the authorized dealers and to the seller of overseas tour program package.

From the information given above, choose the most appropriate answer to the MCQs 1 to 6:

1. Is SBI Bank required to collect tax at source on the amount remitted by Mr. Sarthak? If so, what is the amount of tax to be collected?

   (a) Yes; TCS of ₹ 2,000 on 29.9.2025 and TCS of ₹ 27,000 on 1.1.2026

   (b) Yes; TCS of ₹ 500 on 29.9.2025 and TCS of ₹ 27,000 on 1.1.2026

   (c) Yes; TCS of ₹ 500 on 29.9.2025 and TCS of ₹ 6,750 on 1.1.2026

   (d) No tax is required to be collected at source since receipts do not exceed ₹ 10 lakh

2. Is PNB Bank required to collect tax at source on the amount remitted by Mr. Sarthak? If so, what is the amount of tax to be collected?

   (a) Yes; TCS of ₹ 7,500 on 1.7.2025; TCS of ₹ 1,750 on 11.10.2025 and TCS of ₹ 1,750 on 10.1.2026

   (b) Yes; TCS of ₹ 17,500 on 11.10.2025 and TCS of ₹ 17,500 on 10.1.2026

   (c) Yes; TCS of ₹ 1,750 on 11.10.2025 and TCS of ₹ 1,750 on 10.1.2026

   (d) No tax is required to be collected at source, on the remittances amount is a loan for education purpose.

3. Is tax required to be collected at source on the amount remitted for tour package to Australia by Mr. Sarthak? If so, what is the amount of tax to be collected?

   (a) Yes; TCS of ₹ 26,000

   (b) Yes; TCS of ₹ 1,04,000

   (c) No tax is required to be collected at source, since tour package is purchased from a foreign tour operator

   (d) No tax is required to be collected at source, since receipt does not exceed ₹ 10 lakh

4. Does Your Own Trip require to collect tax at source on the amount received for tour package to Bali from Mr. Arun? If so, what is the amount of tax to be collected?

   (a) Yes; ₹ 2,500 is required to be collected at source

   (b) Yes; ₹ 37,500 is required to be collected at source

   (c) Yes; ₹ 45,000 is required to be collected at source

   (d) No tax is required to be collected at source

5. What is the total income of Mr. Arun for the A.Y. 2026-27? Assume he has shifted out of the default tax regime u/s 115BAC.

   (a) ₹ 33,88,000

   (b) ₹ 5,48,000

   (c) ₹ 33,96,000

   (d) ₹ 5,40,000

6. What would be the amount of the tax liability (computed in the most beneficial manner) of Mr. Arun for the A.Y. 2026-27?

   (a) ₹ 7,47,550

   (b) ₹ 12,900

   (c) ₹ 7,700

   (d) ₹ 12,480 **(2 x 6 = 12 Marks)**

Case Scenario II

The Assessing Officer surveyed Adisha & Hotels, which was within his jurisdiction, at 11:30 p.m. on 15.8.2025 for the purpose of obtaining information which may be relevant to the proceedings under the Income-tax Act, 1961. The restaurant is kept open for business every day between 11 a.m. and 12 a.m.

On 25.8.2025, the Assessing Officer entered Anay & Hotels which was also within his jurisdiction at 9:15 p.m. for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. This Restaurant is kept open for business every day between 7:00 am to 10:30 pm.

In both the above cases, the Assessing Officer impounded and retained in his custody for a period of 13 days (exclusive of 3 holidays), books of account and other documents inspected by him, after recording reasons for doing so. The Assessing Officer, however, did not take prior permission from income-tax authority equivalent to Chief Commissioner or above for doing so.

The owners of these restaurants claim that the Assessing Officer could not enter the restaurants after sunset and take away with him the books of account kept at the restaurants. The owners also claimed that the Assessing Officer ought to have obtained the prior approval of income-tax authority equivalent to Chief Commissioner or above before entering the restaurants.

Based on the facts of the above case scenario, choose the most appropriate answer to Q. 7 to Q. 11 below:

7. Is the action of the Assessing Officer entering Adisha & Hotels at 11:30 pm valid?

   (a) Not valid, since Assessing Officer entered the restaurant after the sunset.

   (b) Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained for survey.

   (c) Not valid, since prior permission of income-tax authority equivalent to Chief Commissioner or above is not obtained by the Assessing Officer though he entered during the hours at which such place is open for the conduct of business.

   (d) Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above was not obtained.

8. Would your answer to Question no. 7 change if the Assessing Officer had surveyed Adisha & Hotels 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) The action of Assessing Officer is not valid, since he entered the place after sunset and permission of income-tax authority equivalent to Chief Commissioner or above is not obtained.

(b) The action of Assessing Officer is valid, since he entered the place during the hours at which such place is open for conduct of business and permission of Chief Commissioner or above authorities not required to be obtained.

(c) The action of Assessing Officer is not valid, since he has not obtained the permission of Chief Commissioner.

(d) The action of Assessing Officer is not valid, since he entered the place after 10 pm.

9. Is the action of the Assessing Officer entering Anay & Hotels at 9:15 pm valid?

(a) Not valid, since Assessing Officer entered the restaurant after the sunset.

(b) Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained.

(c) Not valid, since prior permission of Chief Commissioner or above is not obtained by the Assessing Officer though he entered the place during the hours at which such place is open for the conduct of business.

(d) Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above is not obtained.

10. Is the action of the Assessing Officer in impounding and retaining in his custody books of account and other documents of Adisha & Hotels, after recording reasons for doing so, valid if prior permission from income-tax authority equivalent to Chief Commissioner or above has been taken only for the purpose of survey and not for retaining books of accounts etc.?

(a) The action of Assessing Officer is not valid, since prior approval of Chief Commissioner or above authority is not obtained for retaining the impounded books of account etc.

(b) The action of Assessing Officer is valid.

(c) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts for period exceeding 15 days (inclusive of holidays) without prior approval of Chief Commissioner or above authority.

(d) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents for a period exceeding 10 days (exclusive of holidays).

11. Would your answer to Question no. 10 change if the Assessing Officer had surveyed Adisha & Hotels 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) The action of Assessing Officer is not valid, since prior approval of Commissioner or above is not obtained for retaining impounded books of Accounts.

(b) The action of Assessing Officer is valid.

(c) The action of Assessing Officer is not valid, since he cannot impound or retain books of accounts or other documents.

(d) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents for a period exceeding 10 days.

(2 x 5 = 10 Marks)

12. Mr. Raghav, a retail trader, sold a residential house to Mr. Varun, a wholesale trader for ₹ 50 lakhs on 1.2.2026, when the stamp duty value was ₹ 70 lakhs. The agreement was, however, entered into on 1.8.2025 when the stamp duty value was ₹ 55 lakhs. Mr. Raghav had received a down payment of ₹ 5 lakhs by a crossed cheque from Mr. Varun on the date of agreement. Mr. Raghav has purchased the building for ₹ 32 lakhs on 17.8.2024.

What is the amount of income chargeable to tax in the hands of Mr. Raghav in respect of the transaction of sale of residential house to Mr. Varun and under which head is it taxable?

(a) ₹ 18 lakh is taxable as short-term capital gains

(b) ₹ 23 lakh is taxable as short-term capital gains

(c) ₹ 38 lakh is taxable as short-term capital gains

(d) ₹ 18 lakh is taxable as his business income **(2 Marks)**

13. Mr. Karan, Managing Director of Kalyan Metals Private Ltd, holds 70% of its paid up capital of ₹ 20 lakhs. The balance as at 31.03.2025 in General Reserve was ₹ 7 lakhs. The company on 01.04.2025 gave an interest-free loan of ₹ 8.50 lakhs to its Supervisor having salary of ₹ 15,500 p.m., who in turn on 25.04.2025, advanced the said amount of loan so taken from the company to Mr. Karan. What amount would be treated as deemed dividend u/s 2(22)(e) of the Income-tax Act, 1961?

(a) NIL

(b) ₹ 7,00,000

(c) ₹ 8,50,000

(d) ₹ 4,90,000 **(2 Marks)**

14. Mr. Beenu Sharma, furnishes the following particulars for the previous year 2025-26. What would be the amount of deduction allowable under section 35 for A.Y.2026-27, while computing his income under the head "Profits and gains of business or profession", if he is paying tax under default tax regime under section 115BAC?

Particulars	₹
Amount paid to IIT, Delhi for an approved scientific research programme	1,50,000
Amount paid to RM Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	3,00,000
Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business (a) Revenue expenditure on scientific research (b) Capital expenditure (including cost of acquisition of land ₹ 8,00,000) on scientific research	 3,00,000 9,50,000

(a) ₹ Nil

(b) ₹ 4,50,000

(c) ₹ 16,00,000

(d) ₹ 9,00,000 **(2 Marks)**

15. Mr. Sujay, a resident Indian aged 68 years, has income of ₹ 48 lakhs under the head “Profits and gains of business or profession”. One of his businesses is eligible for deduction @100% of profits under section 80-IB for A.Y. 2026-27. The profit from such business included in the business income is ₹ 20 lakhs. What would be the tax liability (computed in the most beneficial manner) of Mr. Sujay, assuming that he has no other income during the P.Y.2025-26.

(a) ₹ 6,52,500

(b) ₹ 11,75,200

(c) ₹ 9,23,520

(d) ₹ 6,76,000 **(2 Marks)**

Division B – Descriptive Questions

*Question No. **1** is compulsory*

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

1. SH Ltd. is a listed company located in Delhi. It is engaged in multiple activities at different locations. Books of account are maintained by each unit separately. The head office maintains books relating to common transactions. All the accounts are consolidated and the return of income is filed at Delhi.

   The following information is furnished unit wise for the year ended 31st March, 2026:

   (a) **Chemical manufacturing unit, Hissar:** The Company has reported Net Profit of ₹ 300 lakhs in the books of account of the said business unit. It entered into an agreement for use of know-how owned by a renowned scientist. The amount of royalty payable during the previous year 2025-26 was ₹ 40 lakhs. The company deducted tax at source on the amounts paid upto November, 2025 and omitted to deduct tax at source on the royalty of ₹ 10 lakhs due for the period from November, 2025 to March, 2026. The payee admitted the royalty income fully, paid tax and filed his return of income before the "due date" specified in section 139(1).

   The company paid ₹ 1,68,00,000, being 15% of basic salary *plus* DA of the employees in notified pension scheme and the amount so paid is debited as expenditure in the books of account.

   (b) **Furniture manufacturing unit, Faridabad:** The Company has a manufacturing unit at Faridabad. It reports a Net Profit of ₹ 90 lakhs as per books of account of the unit. It bought a trademark from Mr. Yellow for ₹ 25 lakhs on 01-06-2025 which is charged as expenditure in the books of account.

   The unit paid ₹ 3 lakhs as interest on loan taken from a non-resident Indian. The tax was deducted at source in March, 2026 but it was remitted only on 06-05-2026.

   The company paid ₹ 7 lakhs, being the amount of income-tax payable by the employees on non-monetary perquisites provided by the company. This amount is debited in the books of account as expenditure.

   (c) **Fertilizer producing unit, Surat:** The Company established a fertilizer producing unit in Surat, Gujarat which become operational in July, 2025. It has acquired a Land for ₹ 1 crore and put up a Building for ₹ 2.50 crores and installed new Plant and Machinery for ₹ 3 crores. The Net Profit as per books of account of the unit is ₹ 220 lakhs (after deducting depreciation on Building of ₹ 25 lakhs and Plant and Machinery of ₹ 45 lakhs).

(d) **Warehousing facility for storage of edible oils at Rohtak:** It established a warehousing facility for storage of edible oils from 01-08-2025. It made investments such as cost of Land ₹ 2 crores, Building ₹ 3 cores and Plant and Machinery (new) ₹ 5 crores. The Net Profit as per books (without deducting depreciation) was ₹ 70 lakhs.

Additional information:

The company mobilized capital during the previous year 2025-26 by public issue of shares. The application money was kept in bank pending allotment of shares. The interest income from the said deposit of ₹ 3,20,000 is credited to general reserve.

The company declared interim dividend @10% of share capital being ₹ 40 lakhs in December, 2025. It has 27% shareholding in ABC Inc., Singapore from whom it received ₹ 56 lakhs as dividend in February, 2025. Both dividend received and paid were credited and debited, respectively, in the Consolidated Statement of Profit and Loss.

The total turnover of the company for previous year 2023-24 was ₹ 390 crores and for financial year 2024-25 was ₹ 405 crores. The company has MAT credit of ₹ 20 lakhs of the assessment year 2018-19. The book profit (computed) for the assessment year 2026-27 is ₹ 520 lakhs.

Compute the total income of the company and optimum income-tax liability for the assessment year 2026-27. Assume company have not yet opted for concessional tax regime. Your answer must give reasons for treatment of each item given above and also for the tax liability. **(14 Marks)**

2. (a) Gautam Ltd., a domestic company, provides the following information of its Statement of Profit and Loss for the year ended on 31/03/2026. It earned profit of ₹ 20 lakhs after debiting/crediting of the below items:

Items debited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Provision for the loss of subsidiary	1,70,000
2.	Provision for doubtful debts	1,75,000
3.	Provision for income-tax	2,05,000
4.	Provision for gratuity based on actuarial valuation	3,00,000
5.	Depreciation	4,60,000

6.	Interest to financial institution (unpaid before filing of return)	2,00,000
7.	Penalty for infraction of law	1,50,000

Items credited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Profit from unit established in 2019 in special economic zone	6,00,000
2.	Share in income of an AOP as a member	2,00,000
3.	Income from units of UTI	1,75,000

Other Information:

(i) Provision for income-tax includes ₹ 55,000 of interest payable on income-tax.

(ii) Depreciation includes ₹ 2,50,000 on account of revaluation of fixed assets.

(iii) Depreciation as per Income-tax Rules is ₹ 3,80,000.

(iv) Brought forward loss of ₹ 11 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. 2026-27, assuming that Gautam Ltd. is not required to comply with the Indian Accounting Standards. **(8 Marks)**

(b) Orange Ltd., a non-resident Japanese company, has the following incomes in India during the year ended on 31.03.2026:

(i) Dividend income of ₹ 12,50,000 from RST Ltd., an Indian company listed on recognized stock exchange.

(ii) 8% debentures of ₹ 20,00,000 received from MT Ltd., an Indian Company, on October 1, 2025, 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 TY Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of shares of the company and purchased by Orange Ltd. in foreign currency through an approved intermediary.

(iv) Business Income of ₹ 8,00,000 from a unit established at Madurai.

(v) Income by way of royalty (other than referred to in section 44DA) amounting to ₹ 10,00,000, from ZX Ltd., an Indian company, in pursuance of an agreement approved by Central Government. As per DTAA between the two countries, such royalty is taxable @22%.

With brief reasons for the treatment of the above incomes, you are required to compute the tax liability of Orange Ltd. for the Assessment Year 2026-27.

(6 Marks)

3. (a) A public charitable trust engaged in "Relief of Poor" and registered under section 12AB, for the previous year ending 31.3.2026, derived gross income of ₹ 114.50 lacs, which consists of the following:

Particulars	Amount in ₹
Income from properties held by trust	1,10,00,000
Accrued Interest on FDR [FDR was made in financial year 2023-24 for investment under section 11(5) with regard to amount set apart in terms of Section 11(2)]	4,50,000

During the financial year, the trust applied the following sum towards charitable purposes, as per the objects of the trust:

- Electricity bill amounting to ₹ 80,000 paid on 18.04.2025 pertaining to March 2025. The trust follows the mercantile system of accounting.
- Amount of ₹ 4,72,000 (including GST of ₹ 72,000) paid to M/s. MNO and Co., an event management company, for advertising and organising a fundraising programme at Delhi. The full amount of ₹ 4,72,000 was remitted without deducting tax at source to M/s. MNO and Co. through RTGS on 1.3.2026.
- ₹ 5,00,000 paid to M/s Satyam, another charitable trust having same objects, by way of donation (other than corpus donation).
- ₹ 75,48,000 towards day-to-day operations of the trust.
- The trust given a sum of ₹ 8 lacs as corpus to another trust registered u/s 12AB in F.Y. 2024-25.

You are required to compute the total income of the Charitable trust for the A.Y. 2026-27. **(8 Marks)**

(b) (i) Sintheta Limited, a company incorporated in Mauritius, has a branch office in Chennai opened in April, 2025. The Indian branch has filed return of income for assessment year 2026-27 disclosing income of ₹ 65 lakhs. It paid tax at the rate applicable to domestic company i.e. 30% plus higher education cess@4% on the basis of paragraph 2 of Article 24 (Non-Discrimination) of the Double Taxation Avoidance Agreement between India and Mauritius, which reads as follows:

"The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities in the same circumstances."

However, the Assessing Officer computed tax on the Indian branch at the rate applicable to a foreign company i.e. 35% plus higher education cess@4%.

Is the action of the Assessing Officer in accordance with law? **(4 Marks)**

(ii) The Income-tax Act, 1961 provides for taxation of a certain income earned in India by Mr. Xavier, a non-resident. The Double Taxation Avoidance Agreement, which applies to Mr. Xavier provides for taxation of such income in the country of residence. Is Mr. Xavier liable to pay tax on such income earned by him in India? Examine. **(2 Marks)**

4. (a) Examine the obligation of Tax Deduction at source/Tax Collection at source in the following cases keeping in view the provisions of the Income-tax Act, applicable for Assessment Year 2026-27:

(i) Ram (aged 35 years) is working with BCD Ltd. He is entitled to a salary of ₹ 85,000 per month w.e.f. 1.4.2025. He has a house property which is self-occupied. He paid an interest of ₹ 1,95,000 on loan during the previous year 2025-26. The loan was taken for construction of house. He has notified his employer BCD Ltd. that there will be a loss of ₹ 1,95,000 in respect of this house property for financial year ended 31.3.2026. Ram declared that he has exercised option to shift out of default regime of section 115BAC. **(3 Marks)**

(ii) On 20.6.2025, Mr. Shyam, a resident, made three separate transactions for acquiring house property at Mumbai from Mr. Manoj for a consideration of ₹ 90 lakhs, an urban plot in Kolkata from Mr. Chetan for a sum of ₹ 49,50,000 and rural agricultural land from Mr. Dheeraj for a consideration of ₹ 60 lakhs. Stamp duty value of house property, plot and rural agricultural land is ₹ 95 lakhs, ₹ 48 lakhs and ₹ 65 lakhs, respectively.

(3 Marks)

(iii) Mr. Arvind has been running a sole proprietary business with turnover of ₹ 202 lakhs for the F.Y.2024-25. He pays a monthly rent of ₹ 25,000 for the office premises to Mr. Rajesh, the owner of building and an individual.

(2 Marks)

(b) (i) ABC Ltd., operating in India, is the dealer for the goods manufactured by Ben Ltd. of Japan. Ben Ltd. owns 55% shares of ABC Ltd. and out of 7 directors of the company, 4 were appointed by them. The Assessing Officer, after verification of international transactions of ₹ 300 lakhs of ABC Ltd. for the relevant year and by noticing that the company had failed to maintain the requisite records and had also not obtained the accountants report, adjusted its income by making an addition of ₹ 30,00,000 to the declared income and also issued a show cause notice to levy various penalties. ABC Ltd seeks your expert opinion. **(4 Marks)**

(ii) RST Inc, a US company having its place of effective management also in the USA, has advanced a loan equivalent to ₹ 170 crores to Shiva Ltd., an Indian company on 10-4-2025. The total book value of assets of Shiva Ltd. is ₹ 300 crores. The market value of the assets, however, is ₹ 320 crores. Shiva Ltd. repaid ₹ 30 crores before 31-3-2026. Examine with reasons whether the two enterprises can be deemed to be associated enterprises under the Indian transfer pricing regulations. **(2 Marks)**

5. (a) Attempt any **one** out of sub-part (i) or (ii) of the following:

(i) In case of an assessee, the Assessing Officer passed an order u/s 143(3) on 15/12/2023. CIT passed the order u/s 263 on 26.03.2026 holding that the said assessment order passed u/s 143(3) was erroneous and prejudicial to the interests of the revenue. CIT set aside the assessment order and directed the AO to make fresh assessment after conducting necessary enquiries. The AO issued notice u/s 142(1) to the assessee on 06.05.2026 for making fresh assessment.

The assessee contended that it had come to know about the revision order only when he received notice u/s 142(1) dated 06.05.2026. The copy of the order passed by CIT u/s 263 was supplied to him on 29.05.2026 on the request made to the Assessing Officer by him after receipt of notice u/s 142(1). Hence, the revision order is beyond the period of limitation u/s 263(2).

Your answer should cover issue involved, provision applicable and Analysis & Conclusion. **(4 Marks)**

(ii) Mr. Vivek furnished his return of income for A.Y.2025-26 declaring total income of ₹ 28,00,000. He received an assessment order under section 143(3) on 26.11.2026 enhancing the total income for the A.Y.2025-26 by ₹ 5,00,000. He is aggrieved by the said order and is desirous of knowing whether he can file an application before the Dispute Resolution Committee (DRC). He informs you that no order of detention has been made and no prosecution proceedings have been initiated or instituted against him under any law for the time being in force. However, penalty under section 271D has been levied on him for failure to comply with the provisions of section 269SS.

Can Mr. Vivek file an application before the DRC?

(I) If yes, what is the time limit for making an application to DRC against such order under the Income-tax Act, 1961. He is also keen to know, whether, in case he is aggrieved by the order passed by the DRC, can he file appeal against such order of DRC?

(II) Would your answer be different, if assessment order is based on information received under a DTAA with Country M? **(4 Marks)**

(b) Rahul, an Indian citizen, left India and settled in United Kingdom from 10.4.2016. He had never left India previously since April, 2008. He acquired a property worth ₹ 200 lakhs in his name in the financial year 2013-14 at Malaysia. The Assessing Officer came to know of this in March, 2026 based on the investigation made by Enforcement Directorate in some other person's case.

The Assessing Officer, having recorded some concrete evidences against Rahul, issued a notice under section 10 of the Black Money and Imposition of Tax Act, 2015 on 27.3.2026. Mr. Rahul's counsel contended that since Mr. Rahul is not a resident in the financial year 2025-26, a notice under section 10 could not be issued to him.

Is the issue of notice on Rahul under section 10 of the Black Money Act, 2015 tenable in law? Examine. **(4 Marks)**

(c) Explain the nexus approach recommended by OECD in BEPS Action Plan 5 which has been adopted in the Income-tax Act, 1961. **(6 Marks)**

6. (a) Anahita Ltd., an Indian company engaged in producing electrical equipment, during the financial year 2025-26, paid interest of ₹ 95 lakhs to Giggle Inc. (a non-resident associated enterprise) on loan borrowed from it. On 01-04-2025,

Anahita Ltd. also borrowed ₹ 5 crores from J Plc. at the interest rate of 10% per annum. J Plc. is a foreign company in which Anahita Ltd. holds 20% voting power. Giggle Inc. deposited ₹ 2 crores with J Plc. According to Anahita Ltd, since the interest paid to non-resident associated enterprise does not exceed ₹ 1 crore in the F.Y. 2025-26, the provisions of section 94B are not applicable in its case. As per the opinion of the tax auditor, the interest of ₹ 20 lakhs (i.e., 10% of ₹ 2 crore) also has to be considered for the purpose of section 94B. Anahita Ltd. contended that Giggle Inc. has not deposited a corresponding and matching amount of ₹ 5 crores with J Plc. and hence, the provisions of section 94B will not be attracted in this case. Examine the reporting requirement, if any, of the tax auditor in this case. **(6 Marks)**

(b) Critically examine the following cases and discuss whether the provisions of General Anti-avoidance Rules (GAAR) can be invoked in these cases?

(i) Seeta Ltd., an Indian company has 2 manufacturing units, unit R in the Special Economic Zone (SEZ) and unit P in non-SEZ. Manufacturing activities are carried out in unit P while unit R only does the packaging of the goods manufactured by unit P. In its books of accounts, it shows the manufacturing to be carried out in unit R and claims allowable deductions.

(ii) Veer Ltd., an Indian company has 2 manufacturing units, unit S in the Special Economic Zone (SEZ) and unit L in non-SEZ. It transfers the goods manufactured by unit L to unit S at a price significantly lower than the market value of the goods and thus becomes eligible for higher deductions.

(4 Marks)

(c) The Indian branch of Dhanush Co. Ltd, Country K has carried out some transactions with Light Co. Ltd, Bengaluru in the financial year 2025-26. The value of the transaction is ₹ 600 crores. Light Co. Ltd. applied for advance ruling in January, 2026 to know exactly the tax consequences of its transactions with the non-resident Dhanush Co. Ltd., Country K, both for itself and on non-resident. Application for ruling is accepted by Board for Advance Rulings (BAR). On 30.4.2026, BAR pronounced its ruling and said ruling was communicated to Light Co. Ltd. on the same date. Light Co. Ltd. was, however, not satisfied with said ruling.

State whether the advance ruling pronounced by BAR is binding on Light Co. Ltd. Is there any remedy available to Light Co. Ltd. if it is aggrieved with the said ruling? Examine. **(4 Marks)**

Mock Test Paper - Series II: April, 2026

Date of Paper: 8th April, 2026

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.	(c)		9.	(b)
2.	(d)		10.	(b)
3.	(a)		11.	(c)
4.	(d)		12.	(c)
5.	(d)		13.	(b)
6.	(c)		14.	(b)
7.	(c)		15.	(c)
8.	(a)			

1. Computation of total income and tax liability of SH Ltd. for A.Y. 2026-27 under the regular provisions of the Act

Particulars	₹	₹
Profits and gains of business or profession		
Net profit from Chemical manufacturing unit, Hissar	3,00,00,000	
***Add:* Items debited but to be disallowed**		
- **Royalty on which tax is not deducted**	3,00,000	
[30% of ₹ 10 lakhs, being payment of royalty without deduction of tax would be disallowed under section 40(a)(ia) while computing the business income of A.Y.2026-27. However, since the payee has admitted the income, paid tax and filed his return of income before due date, the same would be allowable in the P.Y. 2026-27 relevant to A.Y.2027-28, being the year in which tax was deducted and paid]		

- **Employer's contribution to notified pension scheme** [As per section 36(1)(iva), employer's contribution to the account of an employee under a Pension Scheme as referred to in section 80CCD would be allowed as deduction while computing business income only to the extent of 14% of salary and DA of the employee in the previous year. Therefore, ₹ 11,20,000 representing the excess 1% (i.e., ₹ 1,68,00,000 x 1%/15%) debited to profit and loss account has to be added back while computing business income]	11,20,000	
		3,14,20,000
Net profit from Furniture manufacturing unit, Faridabad	90,00,000	
Add: **Items debited but to be disallowed or to be treated separately**		
- **Trademark** [Trademark is an intangible asset which is eligible for depreciation as per section 32. Since purchase cost of trademark has been debited to profit and loss account, the same has to be added back while computing business income]	25,00,000	
- **Interest on loan taken from a non-resident** [No disallowance under section 40(a)(i) is attracted in respect of interest, since tax has been deducted during the P.Y. 2025-26 and remitted on or before the due date of filing of return of income for A.Y. 2026-27]	NIL	
- **Income-tax paid on non-monetary perquisites** [As per section 40(a)(v), tax paid by employer on non-monetary perquisites is not allowable as deduction. Since the same has been debited to profit and loss account, the same has to be added back while computing business income]	7,00,000	
	1,22,00,000	
Less: Depreciation on trademark u/s 32 [₹ 25 lakhs x 25%]	6,25,000	
		1,15,75,000
Net profit from Fertilizer producing unit, Surat	2,20,00,000	

***Add:* Items debited but to be disallowed or to be treated separately**			
- Depreciation on building of ₹ 25 lakhs and on plant and machinery of ₹ 45 lakhs		70,00,000	
[As per section 35AD, no deduction would be allowed under any other section in any previous year in respect of capital expenditure referred to in section 35AD. Hence, depreciation on building and plant and machinery is not allowable as deduction and the same has to be added back.]			
		2,90,00,000	
***Less*:** Deduction u/s 35AD [Since fertilizer unit commenced operation on or after 1.4.2011, it is a specified business eligible for 100% deduction u/s 35AD in respect of capital expenditure. However, deduction is not available on expenditure incurred on acquisition of land. Deduction u/s 35AD is ₹ 5.50 crores, being ₹ 2.50 crore on building and ₹ 3 crores on plant and machinery. Since it is more beneficial for the company to claim deduction u/s 35AD, it is assumed that the company has opted to claim such deduction.]		5,50,00,000	
As per section 73A, loss from the specified business u/s 35AD can be set-off only against profits from another specified business. Since there is no other specified business, such loss has to be carried forward to A.Y. 2027-28.		(2,60,00,000)	
Net profit from Warehousing facility for storage of edible oils at Rohtak		70,00,000	
***Less:* Depreciation u/s 32**			
On building of ₹ 3 crores@10%	30,00,000		
On Plant & machinery of ₹ 5 crores@15%	75,00,000	1,05,00,000	
As per section 70(1), Business loss from one source is allowed to be set off from other source under the same head.			(35,00,000)
Net profit of SH Ltd.			**3,94,95,000**
***Add:* Interest on share application money deposited in bank**			-
[The interest on share application money deposited in a bank is not liable to be taxed, as the deposit was not for making additional income but to comply with the statutory			

requirement. The interest accrued on such deposit is merely incidental. The interest is eligible for set-off against share issue expenses.[1]]		
		3,94,95,000
Income from Other Sources		
Dividend from ABC Inc., a foreign company		56,00,000
Gross Total Income		**4,50,95,000**
Less: Deduction under section 80M [In respect of inter-corporate dividends to the extent of dividend distributed by it one month prior to the date for filing return of income u/s 139(1)]		40,00,000
Total Income		**4,10,95,000**
Computation of tax liability under the regular provisions of the Act		
Tax liability on ₹ 4,10,95,000@25% [Since the turnover of the company for the previous year 2023-24 does not exceed ₹ 400 crores]		1,02,73,750
Add: Surcharge @ 7%, since the total income of the company > ₹ 1 crore but ≤ ₹ 10 crores		7,19,163
		1,09,92,913
Add: Health and education cess @ 4%		4,39,717
Tax liability		**1,14,32,630**

Computation of tax liability of SH Ltd. for the A.Y. 2026-27 under section 115JB

Particulars	₹
Minimum Alternate Tax @15% on book profit of ₹ 5,20,00,000	78,00,000
Add: Surcharge@7%, since the book profit of the company > ₹ 1 crore but ≤ ₹ 10 crores	5,46,000
	83,46,000
Add: Health and Education cess@4%	3,33,840
Tax liability under section 115JB	**86,79,840**

[1] *CIT v. Sree Rama Multi Tech Ltd. [2018] 403 ITR 426 (SC)*

Since the regular income-tax liability is more than the minimum alternate tax liability, SH Ltd. is liable to pay tax under normal provisions of the Act.	
Tax liability under the regular provisions of the Income-tax Act, 1961	1,14,32,630
Less: MAT Credit of A.Y. 2018-19	20,00,000
	94,32,630
Note - *SH Ltd. is eligible for concessional rate under section 115BAA, @25.168% i.e., tax@22% plus surcharge@10% plus HEC@4% subject to tax at the rates mentioned in the said sections in Chapter XII. In case SH Ltd. opted for concessional rate of tax u/s 115BAA, it would not be eligible for deduction u/s 35AD in respect of fertilizer producing unit, however, it can claim depreciation u/s 32 on building and plant and machinery. In that case, its total income u/s 115BAA would be -*	

Particulars	₹
Profit from Chemical manufacturing unit, Hissar	3,14,20,000
Profit from Furniture manufacturing unit, Faridabad	1,15,75,000
Profit from Fertilizer producing unit, Surat	2,20,00,000
Profit from Warehousing facility for storage of edible oils at Rohtak	(35,00,000)
	6,14,95,000
Dividend from ABC Inc., a foreign company	56,00,000
Gross Total Income	6,70,95,000
Less: Deduction under section 80M [In respect of inter-corporate dividends to the extent of dividend distributed by it one month prior to the date for filing return of income u/s 139(1)]	40,00,000
Total Income	6,30,95,000
Tax liability under section 115BAA (22% + surcharge 10% + HEC 4%) = 25.168% on ₹ 6,30,95,000	
Tax liability	1,58,79,750

Suggestion to SH Ltd.

SH Ltd. should not opt for section 115BAA for assessment year 2026-27, since the tax liability under section 115BAA is higher under the regular provisions of the Act and section 115JB.

2. (a) **Computation of "Book Profit" for levy of MAT under section 115JB for A.Y. 2026-27**

Particulars	₹	₹
Net Profit as per Statement of Profit and Loss		20,00,000
Add: Net profit to be increased by the following amounts as per *Explanation 1* to section 115JB(2):		
- **Provision for the loss of subsidiary**	1,70,000	
- **Provision for doubtful debts,** being the amount set aside as provision for diminution in the value of any asset	1,75,000	
- **Provision for income-tax** [As per *Explanation 2* 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]	2,05,000	
- **Depreciation**	4,60,000	10,10,000
		30,10,000
Less: Net profit to be decreased by the following amounts as per *Explanation 1* to section 115JB:		
- **Share in income of an AOP as a member** [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]	2,00,000	
- **Income from units in UTI** [Income from units in UTI not to be reduced while computing the book profits,	-	

	since the same is taxable in the hands of unitholders]		
-	**Depreciation** other than depreciation on revaluation of assets (₹ 4,60,000 – ₹ 2,50,000)	2,10,000	
-	**Unabsorbed depreciation or brought forward business loss**, whichever is less, as per the books of account. Lower of unabsorbed depreciation ₹ 5,00,000 and brought forward business loss ₹ 6,00,000 as per books of accounts has to be reduced while computing the book profit]	5,00,000	9,10,000
Book Profit			**21,00,000**

Computation of MAT liability under section 115JB

Particulars	₹
15% of book profit	3,15,000
Add: Health & education cess@4%	12,600
Minimum Alternate Tax liability	**3,27,600**

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) Computation of total income and tax liability of Orange Ltd., a non-resident German company, for the A.Y. 2026-27

Particulars	₹
Profits and gains from business or profession	
Business Income from a unit established at Mumbai	8,00,000
Income from other sources	
- Dividend income from RST 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 TY Ltd. an Indian company, issued under a scheme of Central Government against the initial issue of TY Ltd. and purchased in foreign currency by Orange Ltd.	5,50,000
- Royalty income received from ZX Ltd. an Indian company in pursuance of an agreement approved by Central Government	10,00,000
Gross Total Income/ Total income	**56,80,000**
Computation of tax liability	
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
	15,13,000
Add: Health and education cess@4%	60,520
Tax liability	**15,73,520**

3. (a) Computation of total income of charitable trust for the A.Y.2026-27

Particulars	₹	₹
Income from properties held by trust	1,10,00,000	
Add: Accrued interest on FDR	4,50,000	
		1,14,50,000
Less: 15% of income eligible for being set apart without any condition		17,17,500
		97,32,500
Less: Amount applied for charitable purposes		
- Electricity bill of ₹ 80,000 pertaining to March 2025 [Treated as application as payment is made in P.Y. 2025-26]	80,000	
- Payment to event management company [₹ 1,20,000 (i.e. @ 30% of ₹ 4,00,000 being the amount excluding GST of ₹ 72,000) is not considered as application on account of non-deduction of TDS. Accordingly, ₹ 3,52,000 [₹ 4,72,000 – ₹ 1,20,000] would be allowed as application.	3,52,000	
- Donation to another charitable trust having same objects (other than corpus) [85% of amount contributed would be treated as application]	4,25,000	
- Other application	75,48,000	
- Corpus donation to another charitable trust shall not be allowed as application of income.	Nil	
		84,05,000
Total Income of the trust		**13,27,500**

(b) (i) Under section 90(2), where the Central Government has entered into an agreement for avoidance of double taxation with the Government of any country outside India or specified territory outside India, as the case may be, then, in relation to the assessee to whom such agreement applies, the provisions of the Income-tax Act, 1961 shall apply to the extent they are more beneficial to the assessee. Thus, in view of paragraph 2 of Article 24

(Non-discrimination of the DTAA, it appears that the Indian branch of Sintheta Limited, incorporated in Mauritius, is liable to tax in India at the rate applicable to domestic company (30%), which is lower than the rate of tax applicable to a foreign company (35%).

However, *Explanation 1* to section 90 clarifies that the charge of tax in respect of a foreign company at a rate higher than the rate at which a domestic company is chargeable, shall not be regarded as less favourable charge or levy of tax in respect of such foreign company. Therefore, in view of this *Explanation*, the action of the Assessing Officer in levying tax@35% on the Indian branch of Sintheta Ltd. is in accordance with law.

(ii) Section 90(2) makes it clear that where the Central Government has entered into a Double Taxation Avoidance Agreement with a country outside India, then in respect of an assessee to whom such agreement applies, the provisions of the Act shall apply to the extent they are more beneficial to the assessee. This means that where the DTAA has been entered, the assessee can opt to be governed by the provisions of DTAA if the provisions are beneficial in comparison to provisions of Act.

However, as per section 90(4), the assessee, in order to claim relief under the agreement, has to obtain a certificate [Tax Residence Certificate (TRC)] from the Government of that country, declaring the residence of the country outside India. Further, he also has to provide the following information in Form No. 10F:

(i) Status (individual, company, firm etc.) of the assessee;

(ii) PAN of the assessee, if allotted;

(iii) Nationality (in case of an individual) or country or specified territory of incorporation or registration (in case of others);

(iv) Assessee's tax identification number in the country or specified territory of residence and in case there is no such number, then, a unique number on the basis of which the person is identified by the Government of the country or the specified territory of which the assessee claims to be a resident;

(v) Period for which the residential status, as mentioned in the certificate referred to in section 90(4) or section 90A(4), is applicable; and

(vi) Address of the assessee in the country or specified territory outside India, during the period for which the certificate, as mentioned in (v) above, is applicable.

However, the assessee may not be required to provide the information or any part thereof, if the information or the part thereof, as the case may be, is already contained in the TRC referred to in section 90(4) or section 90A(4).

The Supreme Court has held, in *CIT v. P.V.A.L. Kulandagan Chettiar (2004) 267 ITR 654,* that in case of any conflict between the provisions of the Double Taxation Avoidance Agreement and the Income-tax Act, 1961, the provisions of the Double Taxation Avoidance Agreement would prevail over those of the Income-tax Act, 1961. Mr. Xavier is, therefore, not liable to pay tax on the income earned by him in India provided he submits the Tax Residence Certificate obtained from the government of the other country and provides such other documents and information as may be prescribed.

4. **(a)** (i) 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. Ram has submitted a declaration of opt out of section 115BAC and also notified his employer BCD Ltd. of loss from self-occupied house property, the employer has to take the same into consideration for deduction of tax at source.

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

Particulars		**₹**
Income under the head salaries (₹ 85,000 x 12)	10,20,000	
Less: Standard deduction under section 16(ia)	50,000	
	9,70,000	
Income under the head "house property"	(1,95,000)	

Gross total income	7,75,000	
Less: Deduction under Chapter VI-A	Nil	
Total Income	7,75,000	
Tax on ₹ 7,75,000	67,500	
Add: Health and Education cess@4%	2,700	
Tax to be deducted at source	**70,200**	**70,200**

(ii) Since the consideration and stamp duty value for transfer of house property in Mumbai both are not less than ₹ 50 lakhs, Mr. Shyam, being the transferee, is required to deduct tax @1% under section 194-IA on ₹ 95 lakhs, being higher of stamp duty value and the amount of consideration for transfer of property, at the time of credit to the transferor account or payment, whichever is earlier.

Mr. Shyam is not required to deduct tax as source under section 194-IA from the consideration of ₹ 49,50,000 paid to Mr. Chetan for transfer of urban plot, since the consideration and stamp duty value, both are less than ₹ 50 lakhs.

Mr. Shyam is also not required to deduct tax at source under section 194-IA for transfer of rural agricultural land, since the same is specifically excluded from the scope of immovable property for the purpose of tax deduction under section 194-IA.

(iii) Section 194-IB requires any person, being individual or HUF, other than those whose total sales, gross receipts or turnover from the business or profession exceeds ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession, in the financial year immediately preceding the financial year in which such rent was credited or paid, responsible for paying to a resident any income by way of rent, to deduct income tax at the rate of 2%.

Under this section, the tax has to be deducted at source only if the amount of such rent exceeds ₹ 50,000 for a month or part of month during the previous year.

In the given scenario, the amount of rent paid per month is ₹ 25,000 which does not exceed the threshold limit of ₹ 50,000 p.m. Hence, TDS shall not be deductible by Mr. Arvind.

(b) (i) The facts of the case indicate that ABC Ltd. and Ben Ltd. of Japan are associated enterprises since Ben Ltd. holds 55% shares of ABC Ltd. and has appointed more than half of the board of directors of ABC Ltd. Since

Ben Ltd. is a non-resident, any transaction between ABC Ltd. and Ben Ltd. would fall within the meaning of “international transaction” under section 92B. Therefore, the income arising from such transactions have to be computed having regard to the arm’s length price.

The action of the Assessing Officer in making addition to the declared income and issuing show cause notice for levy of various penalties is correct since ABC Ltd. had committed defaults, as listed hereunder, in respect of which penalty, as briefed hereunder, is imposable -

(I) Failure to report any international transaction or any transaction, deemed to be an international transaction or any specified domestic transaction, to which the provisions of Chapter X applies, would attract penalty @ 200% of the amount of tax payable since it is a case of misreporting of income referred under section 270A(9) read with section 270A(8).

(II) Failure to maintain the requisite records as required under section 92D in relation to international transaction makes it liable for penalty under section 271AA which will be 2% of the value of each international transaction.

(III) Failure to furnish report from an accountant as required under section 92E makes it liable for penalty under section 271BA i.e., a fixed penalty of ₹ 1 lakh.

The Assessing Officer shall give an opportunity of heard to the assessee with a notice as to why the arm’s length price should not be determined on the basis of material or information or document in the possession of the Assessing Officer.

Note: It is assumed that ABC Ltd. has not entered into an APA and has also not opted to be subject to Safe Harbour Rules.

(ii) RST Inc, a foreign company, has advanced loan of ₹ 170 crores to Shiva Ltd., an Indian company, which amounts to 56.67% of book value of assets of Shiva Ltd. Since the loan advanced by RST Inc. is 51% or more of the book value of assets of Shiva Ltd., RST Inc. and Shiva Ltd. are deemed to be associated enterprises under the Indian transfer pricing regulations.

The deeming provisions would be attracted even if there is a repayment of loan during the same previous year which brings down the said percentage below 51%.

5. (a) (i) **Issue Involved:** The issue under consideration is whether the revision order which is passed within 2 years from the end of the financial year in which order sought to be revised was passed but received by the assessee thereafter, is considered as beyond the period of limitation prescribed under section 263(2).

Provision applicable: As per section 263(2), no revision order shall be <u>made</u> after the expiry of two years from the end of the financial year in which the order sought to be revised was passed.

Analysis: Sub-section (2) of section 263 mandates that no revision order shall be "made" after the expiry of two years from the end of the financial year in which the order sought to be revised was passed. The word used is "made" and not the order "received" by the assessee. The provisions of the statute are to be read as they are and nothing is to be added or taken away from the provisions of the statute. Therefore, once it is established that the order under section 263 was made or passed within the period of two years from the end of the financial year in which the order sought to be revised was passed, such an order cannot be said to be beyond the period of limitation prescribed under section 263(2).

Conclusion: In the present case, revision order under section 263 was passed on 26.3.2026 before the expiry of two years i.e., 31.3.2026 from the end of the F.Y. 2023-24 in which assessment order u/s 143(3) was passed. Thus, the revision order is within the period of limitation prescribed under section 263(2).

Note *– The facts given in the question are similar to the facts in CIT v. Mohammed Meeran Shahul Hameed (2021) 438 ITR 288 (SC). The above answer is based on the rationale of the Apex Court ruling in the said case.*

(ii) Dispute Resolution Committee (DRC) would resolve dispute in the case of a person who opts for dispute resolution under Chapter XIX-AA in respect of dispute arising from any variation in the specified order in his case and who fulfils the specified conditions. Specified order includes an assessment order passed under section 143(3), where the aggregate sum of variations made *vide* such order does not exceed ₹ 10 lakh; the total income as per such return furnished by the assessee for the assessment year relevant to such order does not exceed ₹ 50 lakhs and such order is not based on search or requisition or survey or any information received under a DTAA.

Accordingly, in the present case, Mr. Vivek can file an application before DRC, since the assessment order received on 26.11.2026 is a specified order and he satisfies the specified conditions on account of no order of detention being made and no prosecution proceedings being initiated or instituted against him. Non-levy of penalty under income-tax law is not a specified condition, therefore, the levy of penalty under section 271D on him does not result in non-compliance with the specified condition. Mr. Vivek has to file an application for resolution of dispute in the prescribed form on or before 25.12.2026 i.e., within one month from the date of receipt of the specified order.

However, once a modified order is passed by the DRC, no appeal or revision would lie against such order.

If assessment order is based upon the information received under a DTAA entered with India, Mr. Vivek, will not be eligible to make an application before DRC, since it is not a specified order.

(b) Every assessee would be liable to tax@30% in respect of his undisclosed foreign income and asset of the previous year. Undisclosed foreign asset would be liable to tax in the previous year in which such asset comes to the notice of the Assessing Officer.

The term "assessee" defined under section 2(2) of the Black Money Act includes a person being a resident in India within the meaning of section 6 of the Income-tax Act, 1961 in the relevant previous year; or being a non-resident or not ordinarily resident in India within the meaning of section 6(6) of the Income-tax Act, 1961 in the relevant previous year, who was resident in India in the previous year in which the undisclosed asset located outside India was acquired.

Since Mr. Rahul left India and settled in United Kingdom from 10.4.2016 and has not visited India at any time thereafter, he would be **non-resident in India in the previous year 2025-26** in which notice is issued. However, he was resident and ordinarily resident in India in the financial year 2013-14 when he acquired the property at Malaysia. Accordingly, the issue of notice on Mr. Rahul under section 10 of the Black Money Act, 2015, is tenable in law.

(c) In India, the Finance Act, 2016 has introduced a concessional taxation regime for royalty income from patents for the purpose of promoting indigenous research and development and making India a global hub for research and development. The purpose of the concessional taxation regime is to encourage entities to retain and commercialise existing patents and for developing new innovative patented products. Further, this beneficial taxation regime will incentivise entities to locate the high-value jobs associated with the development, manufacture and exploitation of patents in India.

The nexus approach has been recommended by the OECD under BEPS Action Plan 5. This approach requires attribution and taxation of income arising from exploitation of Intellectual property (IP) in the jurisdiction where substantial research and development (R & D) activities are undertaken instead of the jurisdiction of legal ownership. Accordingly, section 115BBF has been inserted in the Income-tax Act, 1961 to provide that where the total income of the eligible assessee (being a person resident in India who is the true and first inventor of the invention and whose name is entered in the patent register as the patentee in accordance with the Patents Act, 1970 and includes every such person, being the true and the first inventor of the invention, where more than one person is registered as patentee under Patents Act, 1970 in respect of that patent.) includes any income by way of royalty in respect of a patent developed and registered in India, then such royalty shall be taxable at the rate of 10% (plus applicable surcharge and cess). For this purpose, developed means atleast 75% of the expenditure should be incurred in India by the eligible assessee for any invention in respect of which patent is granted under the Patents Act, 1970.

6. (a) Section 94B provides that where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise.

In this case, the debt issued by J Plc. is ₹ 5 crores and the deposit made by the associated enterprise; Giggle Inc. with J Plc. is ₹ 2 crores. Since the deposit is not of a matching amount, Anahita Ltd. contends that provisions of section 94B will not be attracted in respect of interest payable by it to J Plc. The tax auditor is of the opinion that interest on ₹ 2 crores amounting to ₹ 20 lakhs will have to be considered for the purpose of section 94B.

Accordingly, the interest payable/paid by Anahita Ltd. to non-resident associated enterprises during the year would be ₹ 115 lakhs and hence, the provisions of section 94B would be attracted, since the same exceeds the threshold of ₹ 1 crore. This appears to be the legislative intent, since otherwise it is possible to escape the application of this provision even by depositing a marginally lower amount than the loan taken.

Clause 30B(a) of Form 3CD requires the tax auditor to state whether the assessee has incurred expenditure during the previous year by way of interest or of similar nature exceeding ₹ 1 crore as referred to in section 94B(1).

As per the Guidance Note on Tax Audit, the tax auditor may have a difference of opinion with regard to the particulars furnished by the assessee. These differences are to be reported in para 3 of Form No. 3CA or para 5 of Form 3CB.

If there is any difference in the opinion of the tax auditor and that of the assessee in respect of any information furnished in Form No. 3CD by the assessee, the tax auditor may consider stating both the viewpoints and also the relevant information related to matter in order to enable the tax authority to take a decision in the matter.

Therefore, the tax auditor has to report the difference of opinion appropriately as an observation in para 3 of Form No. 3CA or para 5 of Form No. 3CB as the case may be.

Accordingly, in this case, the tax auditor may state both the viewpoints in Clause 30B as well as report the difference of opinion appropriately as an observation in Form 3CA to enable the tax authority to take a decision in the matter.

(b) (i) In the present case, Seeta Ltd., an Indian company has 2 manufacturing units, unit R in the SEZ and unit P in non-SEZ. Though unit R only does the packaging of goods manufactured by unit P, the company, in its books of account, shows the goods manufactured by unit P as manufacture of goods by unit R to enjoy exemption under section 10AA. This is a case of misrepresentation of facts by showing manufacture of non-SEZ unit as manufacture of SEZ unit. Hence, this is an arrangement of tax evasion and not tax avoidance.

Tax evasion, being unlawful, can be dealt with directly by establishing correct facts. GAAR provisions need not be invoked in such a case.

(ii) In this case, goods manufactured by unit L, a non-SEZ unit, being a non-eligible business, are transferred to unit S, a SEZ unit, being an eligible business, at a price significantly lower than the market value of the goods to claim higher deduction under section 10AA in respect of unit S.

As there is no misrepresentation of facts or false submissions, it is not a case of tax evasion. The company has tried to take advantage of tax provisions by diverting profits from non-SEZ unit to SEZ unit. However, this is not the intention of the legislation.

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 exceeded the threshold of ₹ 20 crore, domestic transfer pricing regulations under section 92BA would be attracted. 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) Advance ruling pronounced by Board for Advance Rulings is not binding on Light Co. 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 Light Co. Ltd. is aggrieved by the advance ruling pronounced by BAR, it can file an appeal before the High Court on or before 29th June 2026. 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 Light Co. Ltd. in this behalf, that it was prevented by sufficient cause from presenting the appeal within the 60 days period as specified above.