PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

The provisions of direct tax laws, as amended by the Finance (No. 2) Act, 2024 and the significant notifications and circulars issued upto 30.06.2025, are relevant for January 2026 examination. The relevant assessment year is A.Y.2025-26. The November, 2024 edition of the Study Material contains the provisions of direct tax laws as amended by the Finance (No. 2) Act, 2024 and notifications and circulars issued upto 31.10.2024. The said study material has to be read along with the Statutory Update containing notifications and circulars issued upto 30.06.2025 but not covered in the study material webhosted at https://resource.cdn.icai.org/87575bos-aps947-statutory-fnl-jan2026.pdf and Judicial Update for January, 2026 Examination webhosted at https://resource.cdn.icai.org/88219bos-aps2300-judicial-update-final-p2026.pdf

QUESTIONS

Case Scenario I

Mr. Rohan Mehta is a property dealer and also engaged in the business of constructing apartments. A search under section 132 in the business premise of Mr. Rohan was conducted on 10th December 2024. The last of the authorisations was executed on 18th December 2024. The following facts were discovered during the search proceedings –

- Cryptocurrency of ₹ 50 lakhs acquired in the F.Y. 2021-22 and
- Jewellery worth ₹ 30 lakhs acquired in the F.Y. 2023-24.

Out of this, Rohan could explain source of only ₹ 20 lakhs invested in crypto currency and jewellery worth ₹ 10 lakhs purchased via NEFT payment.

Further, books of account revealed an unexplained expenditure of ₹ 15 lakhs incurred during the F.Y. 2022-23 towards foreign travel of family members. No proper source was explained. Loose papers indicated receipt of ₹ 40 lakhs in cash for sale of flats during the F.Y. 2020-21. This amount was not recorded in the books of account.

It has come to the notice of the Assessing Officer that the assessment for A.Y. 2023-24 was pending under section 143(3) on the date of initiation of the search. The Assessing Officer issued a notice under section 158BC for furnishing a return within 60 days. However, Mr. Rohan Mehta furnished the return after the expiry of 60 days. The Assessing Officer, after considering evidence, determined total income of ₹ 1.05 crore and proceeded to levy tax at the rate applicable along with surcharge and cess. He also levied interest @2% of tax on undisclosed income for every month or part of the month for the period after the expiry of 60 days and ending on the date of completion of assessment under section 158BC.

On 12.3.2025, Mr. Jeevan and Mr. Shivam purchased an apartment from Mr. Rohan Mehta for ₹ 70 lakhs (₹ 35 lakhs each). The stamp duty value of the apartment is ₹ 48 lakhs. The consideration amount includes ₹ 2 lakhs towards car parking and ₹ 50,000 towards maintenance fees.

On 20.3.2025, ABC Pvt. Ltd. bought back 50,000 shares including 500 shares from Mr. Jeevan for ₹ 1250 per share. Mr. Jeevan acquired these shares for ₹ 200 per share in the year 2018.

From the information given above, choose the most appropriate answer of MCQs 1 to 5:

1. Whether any tax is required to be deducted on purchase of apartment by Mr. Jeevan and Mr. Shivam?

   (a) No, tax is not deductible as the consideration payable by each of them is less than ₹ 50 lakhs.

   (b) Yes, tax is deductible @1% on consideration payable (excluding car parking and maintenance fees) by Mr. Jeevan and Mr. Shivam

   (c) No, tax is not deductible as the stamp duty value of the apartment is less than ₹ 50 lakhs.

   (d) Yes, tax is deductible @1% on consideration payable (including car parking and maintenance fees) by Mr. Jeevan and Mr. Shivam

2. What will be considered as the "block period" for the purpose of section 158B in this case?

   (a) A.Y. 2019-20 to 2024-25 and from 01.04.2024 to 10.12.2024

   (b) A.Y. 2018-19 to 2023-24 and from 01.04.2024 to 18.12.2024

   (c) A.Y. 2019-20 to 2024-25 and from 01.04.2024 to 18.12.2024

   (d) A.Y. 2018-19 to 2023-24 and from 01.04.2024 to 10.12.2024

3. With respect to block assessment, Mr. Rohan Mehta received the following different opinions:

   (i) Pending assessment for A.Y. 2023-24 under section 143(3) on the date of initiation of search shall abate.

   (ii) Pending assessment for A.Y. 2023-24 under section 143(3) on the date on initiation of search shall continue and be completed under the said section only.

   (iii) The total income of ₹1.05 crore shall be taxable at normal slab rates of A.Y. 2025-26.

   (iv) The total income of ₹1.05 crore shall be taxable @ 60% plus surcharge and cess.

   (v) Penalty under section 270A shall be applicable in respect of undisclosed income.

   You are required to choose the correct statements:

   (a) (i), (iii) & (v)

   (b) (ii), (iii) & (v)

   (c) (i) & (iv)

   (d) (i), (iv) & (v)

4. Whether the interest levied by the Assessing Officer in respect of undisclosed income assessed for the block period is correct?

   (a) Yes, interest @2% of tax on undisclosed income can be levied for every month or part of the month for the period after the expiry of

60 days and ending on the date of completion of assessment under section 158BC

(b) No, interest @1.5% of tax on undisclosed income can be levied for every month or part of the month for the period after the expiry of 60 days and ending on the date of completion of assessment under section 158BC.

(c) No, interest @1% of tax on undisclosed income can be levied for every month or part of the month for the period after the expiry of 60 days and ending on the date of completion of assessment under section 158BC.

(d) No, interest @1.5% of tax on undisclosed income can be levied for every month or part of the month for the period after the expiry of 60 days and ending on the date of furnishing the return of income for the block period.

5. What are the tax implications of buy back of shares in the hands of Mr. Jeevan?

(a) Long-term capital gain of ₹5,25,000 would be taxable in the hands of Mr. Jeevan

(b) Long-term capital loss of ₹ 1,00,000 and deemed dividend of ₹ 6,25,000 would arise in the hands of Mr. Jeevan

(c) ABC Pvt. Ltd. is liable to pay additional income-tax on buy back of shares. Consequently, income arising on buy back of shares would be exempt in the hands of Mr. Jeevan

(d) Long-term capital gain of ₹ 4,00,000 as well as deemed dividend of ₹ 6,25,000 would be taxable in the hands of Mr. Jeevan.

Case Scenario II

Mr. Amit Verma, a person of Indian origin, resides in Dubai. However, in order to expand his consultancy profession, he keeps on visiting India frequently. He visits India for 90 days, 65 days, 70 days and 80 days during the last four financial years preceding the financial year 2024-25. During F.Y. 2024-25, he stayed in India for 135 days. During his stay in India, he earned income of ₹ 9,00,000 from his consultancy profession, dividend income of ₹ 2,15,000 and ₹ 18,00,000 as rentals from a property in Mumbai. He earned ₹ 23,50,000 as consultancy income from Dubai but not liable to tax in Dubai. He spent ₹ 2,400 to earn dividend income and ₹ 2,50,000 for consultancy profession in India.

For convenient travel in India, he purchased a car on 15.5.2024 worth ₹ 11 lakh from M/s Fine Car Dealers, Mumbai. He also purchased equity share of Reliance Ltd. for ₹ 4,25,000 on 5th May 2024 and sold on 24th December 2024 for ₹ 6,15,000. Securities Transaction Tax (STT) was paid both at the time of purchase and sale of such shares.

While collecting information for filing his Income-tax Return for A.Y. 2025-26 on 15th July 2025, Mr. Amit Verma noticed that he had failed to claim a refund of ₹ 10,000, representing tax deducted at source (TDS) by his client, M/s Arora and Arora Associates, during the previous year 2022-23. He, then, approached a tax consultant, Mr. Jagat, to file an updated return for F.Y. 2022-23. Mr. Jagat assured him that the entire amount of TDS can be claimed by filing an updated return.

Note – Mr. Amit Verma is paying tax as per the default tax regime for the A.Y. 2025-26.

From the information given above, choose the most appropriate answer of MCQs 6 to 10:

6. What will be residential status of Mr. Amit for A.Y. 2025-26?

   (a) Non-resident (NR)

   (b) Resident and ordinarily resident (ROR)

   (c) Resident but not ordinarily resident (RNOR)

   (d) Deemed resident.

7. What will be the TDS/TCS implication on purchase of car by Mr. Amit in the F.Y. 2024-25?

   (a) No TDS/TCS applicable on purchase of car as Mr. Amit is a non-resident.

   (b) No TDS/TCS applicable on purchase of car as Mr. Amit is a deemed resident.

   (c) Tax is required to be collected at source @1% on the value of car exceeding ₹ 10 lakhs

(d) Tax is required to be collected at source @1% on ₹ 11 lakhs since value of car exceeds ₹ 10 lakhs.

8. What would be the total income of Mr. Amit for A.Y. 2025-26?

(a) ₹ 23,15,000

(b) ₹ 23,12,600

(c) ₹ 46,62,600

(d) ₹ 52,02,600

9. Compute tax liability of Mr. Amit for the A.Y. 2025-26. Ignore TCS/TDS if any collected or deducted while computing tax liability:

(a) ₹ 3,57,260

(b) ₹ 3,99,880

(c) ₹ 3,47,880

(d) ₹ 3,57,760

10. Can Mr. Amit file an updated return for the F.Y. 2022-23 on 5th April 2025 to claim refund of tax deducted at source?

(a) No, updated return cannot be furnished for the purpose of claiming refund even if 24 months have not elapsed from the end of the assessment year.

(b) Yes, updated return can be furnished to claim the refund arising on account of tax deducted at source.

(c) No, updated return cannot be furnished as 24 months have elapsed from the end of the financial year 2022-23.

(d) Yes, updated return can be furnished to claim the refund arising on account of tax deducted at source as 24 months have not elapsed from the end of the assessment year.

11. On 2.2.2025, Global Private Limited, buys product from Fintech Solutions, unit located in the International Financial Services Centre (IFSC) worth ₹ 63 Lakh. Turnover of Fintech Solutions and Global Private Limited for the F.Y. 2023-24 was ₹ 11.5 crores and ₹ 15.5 crores, respectively.

From the above facts, which of the following options is true?

(a) Fintech Solutions is required to collect tax at source @0.1% on ₹ 13 lakhs.

(b) Fintech Solutions is not required to collect tax at source on sale to Global Private Limited, since tax is required to be deducted by Global Private Limited.

(c) Tax is required to be deducted at source by Global Private Limited, @0.1% on the amount exceeding ₹ 50 lakhs.

(d) Tax is required to be deducted at source by Global Private Limited, @0.1% on the entire amount of ₹ 63 lakhs.

12. ABC Ltd. was merged with XYZ Ltd. pursuant to an order of the High Court dated 10th August 2026. XYZ Ltd. had already filed its return of income for A.Y. 2025-26 under section 139(1) before the date of the order. On the date of High Court order, the assessment for A.Y. 2025-26 was pending under section 143(3). Which of the following are the compliance obligations on the successor entity and what is the fate of pending assessment pursuant to merger:

(i) The Assessing Officer will proceed to complete the assessment of A.Y. 2025-26, in line with the order of reorganisation and the modified return.

(ii) XYZ Ltd. has to furnish a modified return, within six months from the end of August 2026.

(iii) The pending assessment will abate on passing of High Court order.

(iv) XYZ Ltd. has to furnish a modified return, within six months from the date of 10th August 2026.

Choose the correct option:

(a) (i) & (iii)

(b) (i) & (iv)

(c) (i) & (ii)

(d) (ii) & (iii)

13. M/s NovaMotion Vehicles Ltd. is engaged in assembling and manufacturing of automobiles and auto components in Nagpur, Maharashtra. The net profit after debit/credit of the following amounts to its Statement of Profit and Loss for the year ended 31-03-2025 was ₹ 8,25,00,000.

(i) Depreciation as per the Companies Act, 2013, amounting to ₹1,80,00,000.

(ii) Contributed a sum of ₹ 10,70,000 during the financial year 2024-25 to National Reform Party, a registered political party, by way of an account payee cheque.

(iii) Long-term capital gains of ₹ 6,18,000 on sale of listed equity shares on 19th September 2024, on which Securities Transaction Tax (STT) was paid both at the time of acquisition and at the time of sale.

(iv) Loss of ₹ 2 lakh from hedging contracts entered into for mitigating the loss arising due to fluctuation in foreign currency payment towards an imported machinery purchased from Japan for ₹ 65 lakhs, which was installed in the month of December 2024.

(v) The company borrowed funds from two state financial institutions ₹ 75.75 lakhs from Andhra Pradesh Industrial Development Corporation Limited (APIDC) and ₹ 39.94 lakhs from Andhra Pradesh State Financial Corporation (APSFC). The company had accrued interest of ₹ 11,56,900 on these loans but did not make payments. However, while restructuring the loan facility, the company converted the interest due into equity shares allotted to the respective financial institutions on 05th March 2025.

(vi) The company had borrowed a sum of ₹ 6,74,00,000 from the HDFC Bank on 01.06.2024 for the purpose of acquiring machinery of the same amount. Interest on such loan is payable at 10% per annum. The interest pertaining to the period ending on 31.03.2025 remained outstanding as on that date and was subsequently paid on 01.12.2025.

(vii) On 11th November 2024, the company made a payment of ₹ 63,00,000 to a scientific research institution recognized and duly notified by the Central Government, having as its object the undertaking of scientific research.

(viii) The company sold auto components worth ₹ 18,50,000 to M/s Zenith Tech Solutions, a sole proprietorship, on 15.12.2022. On 20.01.2024, ₹ 11,00,000 was written off in the books as a bad debt. The sole proprietor passed away on 05.02.2025, and the company later recovered ₹ 9,80,000 in full and final settlement on 28.02.2025. The entire recovered amount was recorded as bad debts recovered and credited to the Statement of Profit and Loss.

Additional Information

1. Depreciation calculated as per the Income-tax Rules, 1962, amounts to ₹ 1,18,50,000, which includes depreciation and additional depreciation on imported machinery from Japan and machinery purchased through borrowed fund from HDFC.

2. Purchases (not debited to Statement of Profit and Loss) of ₹ 12,00,000 were made on 13th March 2025 from M/s GreenPower Components, a supplier registered as a micro enterprise under the MSMED Act, 2006. As per written agreement, the payment was to be made within 30 days from the date of delivery. However, the payment was made on 14th April 2025.

3. NovaMotion installed the machinery purchased from the money borrowed from HDFC Bank Ltd. on 01-02-2025.

Compute the total income and tax liability of NovaMotion Vehicles Ltd. as per normal provisions and concessional tax regime u/s 115BAA for the assessment year 2025-26 and suggest which option is beneficial for the company. Total turnover of the company for the F.Y. 2022-23 was ₹ 402 crores. Ignore MAT provisions.

14. Examine and discuss each of the independent cases of the following Charitable Trusts registered under section 12AB as per the relevant provisions of the Income-tax Act, 1961 for the A.Y. 2025-26:

(i) Yashoda Green Charitable Trust having its main object as "advancement of object of general public utility" provide electrical scooter to the various corporate employees of Cyber Hub Gurugram for their daily commute. With this business activity, it generates receipts of ₹ 45 lakh, which has been applied for the object of general public utility. The total receipts for the F.Y. 2024-25 of Yashoda Green Charitable Trust was ₹ 190 Lakh.

(ii) 'Samarth' a Charitable Trust, a vocational training institute offers certificate courses in sewing, handloom weaving, and handicrafts. It operates a clothing shop at the entrance of the training institute. The shop derived income of ₹ 40 lakh in the F.Y. 2024-25 and the income completely applied towards the object of trust providing training. The trust maintains separate books of accounts for the shop.

(iii) "Light of Hope" Charitable Trust having objective of providing 'clean drinking water' started its welfare activities in 2019 by providing clean water to some villages of Uttar Pradesh. In August 2024, a similar objective trust named 'Water for All' was formed by a group of people in Jharkhand. They also provide clean drinking water to villagers on a small scale. "Light of Hope" offers the "Water for All" trust to merge with them so that they can scale the benefits and share resources. However, they are concerned about the exit tax levied at the time of merger of trusts.

15. In respect of the following independent case scenarios, you are required to discuss the provisions related to tax deducted at source for the year ended on 31st March, 2025:

1. Mr. Ramesh is a distributor of lottery tickets in Mumbai for Golden Lottery Agency. Golden Lottery Agency is a very old Lottery Agency since 1975, it has a turnover of ₹ 98 Lakh during the F.Y. 2023-24. Mr. Ramesh earned commission income of ₹ 18,000 on 15.07.2024, and ₹ 40,000 on 15.11.2024.

2. Smart Switch Pvt. Ltd., an emerging fintech start-up based in Bengaluru, operates a digital platform for trading in various crypto currencies. The company has recently gained popularity among young investors due to its user-friendly app and attractive promotional offers. On 01st November 2024, Mr. Adesh, an IT professional working in Gurugram invested a sum of ₹ 1,00,000 in Picto Coins, a cryptocurrency. On 15th December 2024, he transferred entire Picto Coins and earned profit of ₹ 3,47,504.

16. The Assessing Officer with the prior approval of the Principal Commissioner of Income-tax directed M/s. Greenfield Textiles Ltd. to get its accounts audited under section 142(2A) of the Income-tax Act, 1961, on account of the complexity of the accounts and furnish report of such audit. For this purpose, a Chartered Accountant was nominated by the Principal Commissioner of Income-tax to carry out the audit. The assessee company was willing to produce its records and extend full cooperation in getting the audit conducted. However, the nominated Chartered Accountant, without any valid reasons, refused to undertake the audit of the assessee's accounts. The Assessing Officer treated the matter as non-compliance of the directions issued under section 142(2A) by the assessee and proceeded to complete the assessment under section 144(1)(b) by way of best judgment assessment.

    In the light of the above facts, examine whether the assessee can be held liable for failure to comply with the direction of the Principal Commissioner and whether the action of the Assessing Officer in proceeding with a best judgment assessment is valid, referring to the relevant provisions of the Income-tax Act, 1961 and judicial pronouncement.

17. M/s. Sunrise Trading Co., a partnership firm engaged in wholesale trading of electronics, filed its return of income for A.Y. 2025-26 declaring a total income of ₹ 40 lakhs. The income of the firm is determined as ₹ 42 lakhs under section 143(1)(a). On scrutiny assessment u/s 143(3), the Assessing Officer determined the total income at ₹ 58 lakhs by making certain additions and disallowances (not on account of misreporting).

    The Assessing Officer, being satisfied that there was under-reporting of income, initiated penalty proceedings u/s 270A.

You are required to compute the amount of penalty u/s 270A of the Income-tax Act,1961 and state whether M/s Sunrise Trading Co. can file an application for grant of immunity from imposition of penalty. Also specify the conditions to be satisfied for filing such application.

18. Delta Global Inc., a foreign company, operates a branch in India. For the financial year ending on 31st March 2025 (A.Y. 2025-26), head office incurred certain administrative expenses outside India and allocated ₹ 1,85,00,000 to the Indian branch. The adjusted total income of the A.Y. 2025-26 is a loss of ₹ 25,20,200. The assessable total income and other details for the preceding three previous years relevant to the assessment years are as follows:

Particulars	A.Y. 2022-23	A.Y. 2023-24	A.Y. 2024-25
Assessable Total Income	18,00,000	28,00,000	41,00,000
Depreciation	10,00,000	12,00,000	18,00,000
Unabsorbed Depreciation	12,00,000	18,00,000	22,00,000
Deduction under Chapter VI-A	21,00,000	29,00,000	34,00,000
Brough forward Short-term capital loss	2,00,000	-	1,00,000
Long-term capital loss	5,00,000	2,00,000	-
Brought forward Speculative Losses	2,00,000	17,00,000	15,00,000
Expenditure incurred on Voluntary Retirement [1/5 of total expenditure]	4,00,000	12,00,000	18,00,000
Head Office Exp.	1,45,00,000	1,60,00,000	1,80,00,000

You are required to compute the amount of head office expenditure deductible under section 44C for the assessment year 2025-26. Assume Delta Global Inc do not have POEM in India.

19. Examine the following transactions and discuss whether the transfer price declared by the following assessees, who have exercised a valid

option for application of safe harbour rules, can be accepted by the Income-tax Authorities –

	Assessee	International transaction	Aggregate value of transactions entered into in the P.Y.2024-25	Declared Operating Profit Margin	Operating Expense
(1)	TechMitra Solutions Ltd., an Indian company	Provision of system support services to BlueOrbit Systems Inc., which hold 30% voting power in TechMitra Solutions Ltd.	₹ 99 crore	₹ 8 crore	₹ 50 crore
(2)	NextEra Systems India Ltd., an Indian company	Provision of data processing services with the use of information technology to NeuroCore Technologies Inc., its foreign subsidiary.	₹ 265 crore	₹ 45 crore	₹ 225 crore
(3)	Pragati & Co., a partnership firm registered under the Partnership Act, 1932	Provision of contract R & D services relating to development of internet technology, to Stratosphere Innovations Inc., a foreign firm, which holds 12% interest in Pragati & Co.	₹ 175 crore	₹ 50 crore	₹ 250 crore

In all the above cases, it may be assumed that the Indian entity which provides the services assumes insignificant risk. It may also be assumed that the foreign entities referred to above are non-resident in India.

Would your answer change, if in any of the cases mentioned above, the foreign entity is located in a notified jurisdictional area?

20. Ms. Ritika aged 30 years, a resident individual, started a business of printing mobile skins and covers in India and abroad. She frequently visits Country Z to serve her overseas clients. The following particulars are furnished for the Financial Year 2024-25:

1. Receipts from selling of phone skins and covers:
   - In India – ₹ 12,45,50,780
   - In Country Z – ₹ 15,50,000
2. Expenses incurred in earning the above income:
   - In India – ₹ 10.20 crores
   - In Country Z – ₹ 9 lakh
3. Rent received from a commercial property situated in Country Z – ₹ 65,000 per month.
4. Expenses incurred for earning such rental income in Country Z – ₹1,50,000.

Additional Information:

(i) In Country Z, all income are taxed at a flat rate of 25% after deduction of all expenses.

(ii) Business Expansion in India:

- In F.Y. 2024-25, Ms. Ritika expanded her mobile accessories business by opening a large manufacturing unit in Pune.
- She hired the following new employees for unit of Pune:
  - 18 employees on 01.05.2024 having salary of ₹ 23,300 each

- 22 employees on 01.06.2024 having salary of ₹ 24,500 each
- 15 employees on 01.11.2024 having salary of ₹ 24,700 each

(**Note -** All employees participate in recognized provident fund and payment to all employees are made by NEFT. Such expenses are already included in the expenditure given above in relation to business in India)

(iii) India does not have any DTAA with Country Z.

(iv) Ms. Ritika is paying tax as per the default tax regime u/s 115BAC(1A).

You are required to compute the total income and net tax liability of Ms. Ritika chargeable to tax in India for A.Y. 2025-26.

SUGGESTED ANSWERS

MCQ No.	**Most Appropriate Answer**
1.	**(d)**
2.	**(c)**
3.	**(c)**
4.	**(b)**
5.	**(b)**
6.	**(a)**
7.	**(d)**

MCQ No.	**Most Appropriate Answer**
8.	**(a)**
9.	**(d)**
10.	**(a)**
11.	**(a)**
12.	**(c)**

13. Computation of Total Income of M/s NovaMotion Vehicles Ltd. for the A.Y. 2025-26 as per the normal provisions of the Act

	Particulars	Amount in ₹	
I	**Profits and gains of business and profession**		
	Net profit as per Statement of Profit and Loss		8,25,00,000
	Add: **Items debited but to be considered separately or to be disallowed**		
	(i) Depreciation as per the Companies Act, 2013	1,80,00,000	
	(ii) Donation to political party [Since donation to political party is not wholly and exclusively for the purpose of business or profession, it is not allowable as deduction u/s 37. Since the amount of contribution is debited to statement of profit and loss, the same has to be added back]	10,70,000	
	(iv) Loss due to hedging contract in respect of machinery imported from Japan [Loss from hedging contracts entered for mitigating loss arising due to fluctuation in foreign currency payment towards import of machinery has to added to the actual cost of the machinery as per section 43A. Since the same is debited	2,00,000	

	to statement of profit and loss, same has to be added back]			
	(v) Conversion of Interest into equity shares [Conversion of outstanding interest liability into loan did not amount to actual payment. Accordingly, the amount was disallowed under section 43B on the ground that the same was not actually paid. However, in the case of *Frontier Information Tech Ltd. v DCIT (ITA 239/2008, Judgment,* Telangana High Court held that as the liability of the assessee to pay interest ceased to exist on issue of shares, the same would tantamount to actual payment within the meaning of section 43B. Hence, the assessee, is entitled to claim the deduction under section 43B. Since the same is debited to statement of profit and loss, no adjustment is required]	-		
	(vi) Interest on borrowing paid to HDFC Bank Ltd. [10% x ₹ 674 lakhs x 10/12] [Interest on borrowing from HDFC upto 1.2.2025, being the date when machinery is installed and put to use, is not allowable as deduction since it has to be capitalized as part of the cost of the asset. Interest for	56,16,667		

	February and March 2025 is disallowed as per section 43B since it is not paid on or before the due date of filing return of income i.e., 31.10.2025. Since the entire interest has been debited to the statement of profit and loss, it has to be added back]		
	(vii) Contribution to research institution approved and notified by the Central Government for scientific research	-	
	[As per section 35(1)(ii), 100% deduction is allowed for amount paid to a research institution undertaking scientific research, if such institution is approved for this purpose and notified by the Central Government. Since the same is debited to statement of profit and loss, no adjustment is required]		2,48,86,667
			10,73,86,667
	***Less:* Items credited but not chargeable to tax or chargeable to tax under other head of income/expenses allowed but not debited**		
	(iii) Long-term capital gain on sale of equity shares	6,18,000	
	[Long-term capital gain on sale of equity shares is taxable under the head "Capital Gains". Since		

	the same has been credited to Statement of Profit and loss, it has to be deducted while computing business income]		
	(viii) Bad debt recovered [The excess amount recovered i.e., ₹ 2,30,000 (₹ 9,80,000 over ₹ 7,50,000, being the amount due of ₹ 18,50,000 *less* bad debt allowance of ₹ 11,00,000) will be taxable as business income u/s 41(4). Since entire amount of ₹ 9.80 lakhs is credited to the profit and loss account, ₹ 7,50,000 has to be reduced]	7,50,000	13,68,000
			10,60,18,667
	***Add/Less*: As per details in Additional Information**		
	1. Depreciation as per Income-tax Rules, 1962	1,18,50,000	
	2. Amount paid for Purchase made with M/s GreenPower Components (MSMED) [As per section 43B(h), no deduction shall be allowed for any sum payable by an assessee to a micro or small enterprise unless such sum is paid within the time specified in the written agreement. However, deduction is allowed in that previous year in which such sum is actually paid.	-	

	In this case, the actual date of payment is 14.04.2025 i.e. after 30 days from 13th March 2025. Hence, purchase of ₹ 12 lakhs shall not be allowed as deduction in the P.Y. 2024-25. Since the same is not debited to the profit and loss account, no adjustment is required]		1,18,50,000
	Profits and gains from business or profession		**9,41,68,667**
II	**Capital Gains**		
	Long-term capital gain on listed equity shares	6,18,000	6,18,000
Gross Total Income			**9,47,86,667**
***Less:* Deduction under Chapter VI-A**			
Deduction under section 80GGB [Donation to political party is allowable as deduction to NovaMotion Vehicles Ltd.]			10,70,000
Total Income			**9,37,16,667**
Total Income (rounded off)			**9,37,16,670**

Computation of Tax Liability of M/s NovaMotion Vehicles Ltd. for A.Y. 2025-26

	Amount in ₹
Tax on LTCG @12.5% u/s 112A on ₹ 4,93,000, being the LTCG in excess of ₹ 1,25,000	61,625
Tax @ 30% on ₹ 9,30,98,670	2,79,29,601
	2,79,91,226
Add: Surcharge @ 7%, since total income exceed ₹ 1 crore but does not exceed ₹ 10 crores	19,59,386
	2,99,50,612

Add: Health and education cess @4%	11,98,024
Tax liability	**3,11,48,636**
Tax liability (rounded off)	**3,11,48,640**

Computation of Total Income of M/s NovaMotion Vehicles Ltd. for the A.Y. 2025-26 as per section 115BAA

Particulars		Amount in ₹
Gross Total Income under regular provisions of the Act		9,47,86,667
***Add:* Contribution to research institution approved and notified by the Central Government for scientific research** [Deduction in respect of this contribution is not allowed under section 115BAA]	63,00,000	
***Add:* Additional Depreciation**		
- Imported Machinery from Japan @10% of ₹ 67,00,000 (₹ 65,00,000 + ₹ 2,00,000 of loss on hedging contract) [only 50% of the 20% is allowable since machinery is put to use for less than 180 days]	6,70,000	
- Machinery purchased from fund borrowed from HDFC bank @10% of ₹ 7,18,93,333 [₹ 6,74,00,000 + ₹ 44,93,333 (₹ 6,74,00,000 x 10% x 8/12) being the interest till Machinery put to use]. [only 50% of the 20% is allowable since machinery is put to use for less than 180 days]	71,89,333	1,41,59,333
Gross Total Income		**10,89,46,000**

Less: **Deduction under Chapter VI-A** **Deduction under section 80GGB** in respect of donation to political party is not allowable under section 115BAA]		-
Total Income		**10,89,46,000**

Computation of Tax Liability of M/s NovaMotion Vehicles Ltd. for the A.Y. 2025-26 as per section 115BAA

	Amount in ₹
Tax on LTCG @12.5% u/s 112A on ₹ 4,93,000, being the LTCG in excess of ₹ 1,25,000	61,625
Tax @ 22% on ₹ 10,83,28,000	2,38,32,160
	2,38,93,785
Add: Surcharge @ 10%	23,89,379
	2,62,83,164
Add: Health and education cess @4%	10,51,327
Tax liability	**2,73,34,491**
Tax liability (rounded off)	**2,73,34,490**

Since tax liability as per the regular provisions of the Act is higher than the tax liability under the provisions of section 115BAA, it would be beneficial for NovaMotion Vehicles Ltd. to opt for section 115BAA. However, once option has been exercised, it cannot be subsequently withdrawn.

14. (i) If a trust having its main object as advancement of any other object of general public utility, derives income from an activity in the nature of trade during a financial year, it will lose its charitable status if aggregate receipts from such activity is 20% or more of the total receipts of the trust in that year even if it applies such income for its main object.

In the present case, receipts from the business of providing electrical scooters to various corporate employees i.e., ₹ 45 lakhs exceed 20% of total receipts of ₹ 190 lakhs (i.e., ₹ 38 lakhs) during the previous year 2024-25. Accordingly, Yashoda Green Charitable trust would lose its charitable status for the P.Y. 2024-25 and would not be eligible for the exemption under section 11 and 12.

(ii) The trust objective of providing training falls within the meaning of "education" is a charitable purpose as per section 2(15). The trust in the given case runs a clothing shop business, whose income is applied towards the objectives of the trust. In this case, the business income from the clothing shop will be eligible to avail exemption in respect of profits and gains of business, if such business is incidental to the attainment of the objectives of the trust and separate books of account are maintained in respect of such business.

Therefore, in the given case, the profit from the business shall be eligible for exemption under section 11, assuming that the said business is incidental to the attainment of the objects of the trust and books of account for such business activity is maintained separately.

(ii) W.e.f. A.Y. 2025-26, new section 12AC has been inserted to provide that where a trust or institution approved under section 10(23C) or registered under section 12AB, as the case may be, merges with another trust or institution, the exit tax provisions contained in Chapter XII-EB i.e., exit tax would not apply if –

- the other trust or institution has same or similar objects.
- the other trust or institution is approved under section 10(23C) or registered under section 12AB; and
- the said merger fulfils the conditions as may be prescribed.

In the present case, since the both the trust has similar objects, the exit tax under Chapter XII-EB would not be applied, assuming the both the trust are registered and fulfills the conditions as prescribed.

15. 1. As per section 194G, any person responsible for paying to any person, who is or has been stocking, distributing, purchasing or selling lottery tickets, any income by way of commission, remuneration or prize (by whatever name called) on lottery tickets in an amount exceeding ₹ 15,000 shall deduct income-tax thereon at the rate of 5%.

W.e.f. 01st October 2024, the rate of TDS has been reduced from 5% to 2%.

Tax is required to be deducted at source @ 5% or 2%, as the case may be even if turnover of the agency does not exceed ₹ 1 crore for the F.Y. 2023-24.

Accordingly, in the present case, tax of ₹ 900 i.e., @5% of ₹ 18,000 is required to be deducted at source on 15.07.2024, since amount of commission exceed ₹ 15,000. Further, tax of ₹ 800 i.e., @2% of 40,000 is required to be deducted on 15.11.2024.

2. Section 194S requires any person who is responsible for paying to any resident any sum by way of consideration for transfer of a virtual digital asset to deduct tax at source @1% of such sum.

The deduction is to be made at the time of credit of consideration to the account of the resident or at the time of payment of such sum by any mode, whichever is earlier.

Hence, Smart Switch Pvt. Ltd. is required to deduct tax at source @1% of ₹ 4,47,504, being the amount of consideration for transfer of virtual digital asset. Accordingly, tax of ₹ 4,475 is required to be deducted at source.

16. As per section 142(2A) of the Income-tax Act, 1961, the Assessing Officer, with the prior approval of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, may direct the assessee to get the accounts audited by a Chartered Accountant nominated by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, if he is of the opinion that it is necessary in view of the complexity of the accounts.

Further, as per section 144(1)(b), if the assessee fails to comply with the directions issued under section 142(2A), the Assessing Officer is empowered to make a best judgment assessment.

In the present case, the Assessing Officer with prior approval of Principal Commissioner of Income-tax directed M/s. Greenfield Textiles Ltd. to get its accounts audited by a Chartered Accountant under section 142(2A). The assessee expressed its willingness to cooperate and produce the necessary records. However, the nominated Chartered Accountant, without valid reasons, refused to undertake the audit.

The issue under consideration is whether the assessee can be held liable for non-compliance of the direction and whether the Assessing Officer was justified in making a best judgment assessment.

The Supreme Court in *Swadeshi Polytex Ltd. v. ITO [1983] 144 ITR 171* held that if, for a frivolous reason, the nominated Chartered Accountant declines to audit the accounts, the assessee cannot be held responsible for non-compliance. The assessee cannot be penalized for something beyond its control. Consequently, there is no default on the part of the assessee so as to attract section 144(1)(b). The Court, therefore, set aside the best judgment assessment and directed the authority to appoint another Chartered Accountant within one month to carry out the audit.

Applying the rationale of the above ruling on the case in hand, M/s Greenfield Textiles Ltd. cannot be said to have defaulted in complying with the direction issued under section 142(2A). Hence, the action of the Assessing Officer in making a best judgment assessment under section 144(1)(b) is **not valid.**

17. In the present case, M/s. Sunrise Trading Co.'s total income was determined as ₹42 lakhs under section 143(1)(a), whereas the Assessing Officer, after making certain additions and disallowances, assessed the income at ₹ 58 lakhs. Thus, there is under-reported income of ₹ 16 lakhs. As per section 270A, penalty is leviable for under-reporting of income at the rate of 50% of the tax payable on such under-reported income.

Tax payable on under-reported income = (₹ 16,00,000 x 30%) + HEC @4% = 4,99,200

Hence, penalty u/s 270A would be 50% of ₹ 4,99,200 = ₹ 2,49,600

M/s Sunrise Trading Co. can make an application to the Assessing Officer for grant of immunity from imposition of penalty under section 270A, if it -

(i) pays the tax and interest payable as per the order of assessment under section 143(3), within the period specified in such notice of demand; and

(ii) does not prefer an appeal against such assessment order.

Such application can be made within one month from the end of the month in which the order of assessment is received.

18. Section 44C restricts the allowability of the head office expenses to the extent of lower of an amount equal to 5% of the adjusted total income (where the adjusted total income is a loss, 5% of the average adjusted total income) or the amount actually incurred as is attributable to the business of the assessee in India.

Allowable Head Office Expense u/s 44C will be lower of

- 5% of Average Adjusted Total Income ₹ 12,41,667 (i.e. ₹ 2,48,33,333 x 5%) [Refer Note Below]
- Actual Expenditure ₹ 1,85,00,000

Hence, allowable Head Office expense would be ₹ 12,41,667.

Note – Since adjusted total income for the A.Y. 2025-26 is a loss, deduction with respect to head office expenses will be computed on the basis of the average adjusted total income.

Computation of Average Adjusted Total Income

Particulars	A.Y. 2022-23	A.Y. 2023-24	A.Y. 2024-25
Total Income	18,00,000	28,00,000	41,00,000
Add: Adjustments not allowed while computing adjusted total income			
Current year depreciation	-	-	-
Unabsorbed depreciation	12,00,000	18,00,000	22,00,000
Deduction under Chapter VI-A	21,00,000	29,00,000	34,00,000
Brought forward Short-term capital loss	2,00,000	-	1,00,000

Long-term capital loss [No adjustment is required while computing adjusted total income]	-	-	-
Brought forward speculative business loss	2,00,000	17,00,000	15,00,000
Expenditure on Voluntary Retirement Scheme [Only 1/5 is allowable as deduction. Thus, no adjustment is needed]	-	-	-
Head Office Expenses	1,45,00,000	1,60,00,000	1,80,00,000
Adjusted Total Income	**2,00,00,000**	**2,52,00,000**	**2,93,00,000**

Average of Adjusted Total Income:

₹ 2,00,00,000 + ₹ 2,52,00,000 + ₹ 2,93,00,000/3 = ₹ 2,48,33,333

19. (1) BlueOrbit Systems Inc. held 30% voting power in TechMitra Solutions Ltd. which is not less than 26% of the voting power in BlueOrbit Systems Inc. Hence, BlueOrbit Systems Inc. and TechMitra Solutions Ltd. are deemed to be associated enterprises. Therefore, provision of system support services by TechMitra Solutions Ltd., an Indian company, to BlueOrbit Systems Inc., a foreign company, is an international transaction between associated enterprises, and consequently, the provisions of transfer pricing are attracted in this case.

System support services falls within the definition of "software development services", and hence, is an eligible international transaction. Since, TechMitra Solutions Ltd. is providing software development services to a non-resident associated enterprise and has exercised a valid option for safe harbour rules, it is an eligible assessee.

Since the value of international transactions entered does not exceed ₹ 100 crore, TechMitra Solutions Ltd. should have declared an operating profit margin of not less than 17% in relation to operating expense, to be covered within the safe harbour rules. However, since TechMitra Solutions Ltd. has declared an operating profit margin of only 16% (i.e. 8/50 x 100), the same is not in accordance with the circumstance mentioned in Rule 10TD. Hence, it is not binding on the income-tax authorities to accept the transfer price declared by TechMitra Solutions Ltd.

(2) Since NeuroCore Technologies Inc., is a foreign subsidiary of NextEra Systems India Ltd., an Indian company, both are associated enterprises. Data processing services with the use of information technology falls within the definition of "information technology enabled services", and is hence, an eligible international transaction. Since NextEra Systems India Ltd. is providing data processing services to a non-resident associated enterprise and has exercised a valid option for safe harbour rules, it is an eligible assessee.

Since the aggregate value of transactions entered in the F.Y. 2024-25 exceeds ₹ 100 crore but does not exceed ₹ 300 crore, NextEra Systems India Ltd. should have declared an operating profit margin of not less than 18% in relation to operating expense, to be covered within the scope of safe harbour rules. In this case, since NextEra Systems India Ltd. has declared an operating profit margin of 20% (i.e. 45/225 x 100), the same is in accordance with the circumstance mentioned in Rule 10TD. Hence, the income-tax authorities shall accept the transfer price declared by NextEra Systems India Ltd. in respect of such international transaction.

(3) Stratosphere Innovations., a foreign firm holds 12% interest in Pragati & Co., an Indian firm. Therefore, the condition of one enterprise, being a foreign firm, holding not less than 10% interest in another enterprise, being an Indian firm, is satisfied. Hence,

Stratosphere Innovations. and Pragati & Co. are deemed to be associated enterprises. Therefore, provision of contract R & D services relating to development of internet technology by Pragati & Co., an Indian firm, to Stratosphere Innovations, a foreign firm, is an international transaction between associated enterprises, and consequently, the provisions of transfer pricing are attracted in this case.

Development of internet technology falls within the meaning of "contract R&D services wholly or partly relating to software development", and hence, is an eligible international transaction. Since Pragati & Co., an Indian firm is providing contract R & D services to a non-resident associated enterprise and has exercised a valid option for safe harbour rules, it is an eligible assessee.

Since the value of the international transaction does not exceed ₹ 300 crore, Pragati & Co. should have declared an operating profit margin of not less than 24% in relation to operating expense, to be covered within the safe harbour rules. However, since Pragati & Co. has declared an operating profit margin of only 20% (50/250 x 100), the same is not in accordance with the circumstance mentioned in Rule 10TD. Hence, it is not binding on the income-tax authorities to accept the transfer price declared by Pragati & Co.

The safe harbour rules shall not apply in respect of eligible international transactions entered into with an associated enterprise located in a notified jurisdictional area. Therefore, if in any of the cases mentioned above, the foreign entity is located in a NJA, the safe harbour rules shall not be applicable, irrespective of the operating profit margin declared by the assessee.

20. Computation of total income and net tax liability of Ms. Ritika for A.Y. 2025-26 as per the default tax regime under section 115BAC

Particulars	₹	₹
Income from House Property		
Rent Received in Country Z [₹ 65,000 x 12]	7,80,000	
Less: Deduction under section 24(a) @30%	2,34,000	5,46,000

Profit and Gains of Business or Profession		
Sales in India	12,45,50,780	
Less: Expenses	10,20,00,000	2,25,50,780
Sales in Country Z	15,50,000	
Less: Expenses	9,00,000	6,50,000
Gross Total Income		**2,37,46,780**
Less: Deduction u/s 80JJAA is permissible even if paying tax under default tax regime [(₹ 23,300 x 18 x 11) + (₹ 24,500 x 22 x 10)] x 30% [15 employees employed for a period of less than 240 days during the P.Y. 2024-25 not considered as additional employee for deduction u/s 80JJAA for the said previous year]		30,01,020
Total Income		**2,07,45,760**
Tax on Total Income		
[1,40,000 + 1,92,45,760 x 30%]		59,13,728
Add: Surcharge @25% since total income exceed ₹ 2 crores		14,78,432
		73,92,160
Less: Marginal Relief **(Refer Working Note 1 Below)**		1,02,900
		72,89,260
Add: Health and Education Cess @4%		**2,91,570**
		75,80,830
Less: Deduction u/s 91 **(Refer Working Note 2 below)**		2,99,000
Net Tax Liability		**72,81,830**

Working Notes

1. Computation of Marginal Relief

Particulars	Amount (₹)
(A) Tax on total income ₹ 2,07,45,760 plus surcharge @25%	73,92,160
(B) Tax computed on total income of ₹ 2 crore *plus* surcharge @15%	65,43,500
(C) Total Income ₹ 2,07,45,760 - ₹ 2,00,00,000	7,45,760
(D) Income-tax computed on total income of ₹ 2 crores plus excess of total income over ₹ 2 crores	**72,89,260**
Marginal relief (A) – (D)	**1,02,900**
Alternative Method	
(A) Tax on total income ₹ 2,07,45,760 plus surcharge @25%	73,92,160
(B) Tax computed on total income of ₹ 2 crore *plus* surcharge @15%	65,43,500
(C) Excess Tax payable (A) – (B)	8,48,660
Marginal Relief [₹ 8,48,660 – ₹ 7,45,760, being the amount of income in excess of ₹ 2 crores]	1,02,900

2. Computation of Relief u/s 91

Particulars	Amount (₹)
Average rate of tax in India (₹ 75,80,830/ ₹ 2,07,45,760) x 100	36.54%
Average rate of Tax in Country Z	25%
Doubly Taxed Income pertaining to Country Z ₹ 5,46,000 + ₹ 6,50,000 = ₹ 11,96,000	11,96,000
Deduction u/s 91 = Lower of average rate of tax in India and Country Z x Double Taxed Income = [25% x ₹ 11,96,000]	2,99,000