



FINAL EXAMINATION
MODEL QUESTION PAPER
PAPER – 15

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

DIRECT TAX LAWS AND INTERNATIONAL TAXATION

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

1) Choose the correct option:

[15 x 2 = 30]

- (i) Mr. Ram has won a lottery prize. After deduction of tax, he received ₹14 lakhs. He has spent ₹60,000 by way of purchase of lottery tickets and for collecting the prize money. The amount chargeable to tax in his hands in this regard is
- (a) ₹20 lakhs
 - (b) ₹14 lakhs
 - (c) ₹19.40 lakhs
 - (d) ₹13.40 lakhs
- (ii) Mr. Bala is using a Computer for his personal purposes, but charges as business expenditure. This is the case of ____.
- (a) Tax Planning
 - (b) Tax Avoidance
 - (c) Tax Management
 - (d) Tax Evasion
- (iii) Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2025-26 is ₹4,60,000, paid house rent at ₹12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. What is the deduction allowable to him under section 80GG for A.Y.2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?
- (a) ₹98,000
 - (b) ₹1,15,000
 - (c) ₹60,000
 - (d) ₹1,00,000
- (iv) Where unit of assessee is located in an International Financial Services Centre(IFSC) and derive its income solely in foreign exchange, then MAT is applicable @____ under section 115JB (7).
- (a) 15%
 - (b) 7%
 - (c) 18.5%
 - (d) 9%



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- (v) As per section 178(3), the _____ of a company has to intimate the tax authority before he parts with any of the assets of the company or the properties in his hands and has to set aside the amount if any intimated to him by the tax authorities.
- (a) Managing Director
 - (b) Manager
 - (c) Chartered Accountant
 - (d) Liquidator
- (vi) What is the maximum of surcharge that can be applied on individual taxpayer in respect of income by way of long-term capital gain?
- (a) 25%
 - (b) 15%
 - (c) 37%
 - (d) 10%
- (vii) Abhisek was found to be the owner of jewellery worth ₹26,60,000 during the financial year ending 31.03.2025 which was not recorded in his books of account and he could not offer satisfactory explanation of the source of income for acquiring the same. How much of income-tax is payable by Abhisek under section 115BBE (including surcharge and cess, if any) for the said jewellery?
- (a) ₹20,74,800
 - (b) ₹15,95,000
 - (c) ₹18,62,000
 - (d) ₹20,00,000
- (viii) In which financial transaction is quoting the 'Permanent Account Number' (PAN) compulsory?
- (a) Cash payment of ₹40,000 to a hotel against a bill at any one time
 - (b) Sale or purchase of any immovable property valued at ₹4,00,000
 - (c) Payment of ₹35,000 to RBI for acquiring bonds issued by it
 - (d) Payment exceeding ₹50,000 to a mutual fund for purchase of its unit
- (ix) XYZ company engaged in the business of manufacturing & Bio-technology incurs (i) expenditure on scientific research towards land ₹10 lakhs and building ₹12 lakhs; (ii) other capital expenditures ₹8 lakhs and (iii) revenue expenditure of ₹5 lakhs. The quantum of deduction under Section 35 (2AB) shall be
- (a) Nil (as the company engaged in the business of manufacturing & Bio-technology)
 - (b) ₹30 lakhs (100% of capital expenditure including cost of land & building)
 - (c) ₹25 lakhs (100% of total expenditure other than cost of land)
 - (d) ₹23 lakhs (100% of total expenditure other than cost of building)
- (x) Which section deals with methods of computation of arm's length price?
- (a) 92A
 - (b) 92C
 - (c) 92D
 - (d) 92B



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- (xi) M/s. Potato Ltd. a company having international transactions of ₹3 crores related to purchase of raw materials from its subsidiary company M/s. Tomato Inc., in USA. M/s. Potato Ltd. is required to keep and maintain certain information and documents under section 92D for period of _____ years from the end of relevant A.Y.
- (a) 5
 - (b) 6
 - (c) 10
 - (d) 8
- (xii) When interest paid by an Indian company to a foreign company being an associated enterprise, such interest must not exceed _____ % of the Indian company's earnings before interest, taxes, depreciation and amortization (EBITDA).
- (a) 10
 - (b) 20
 - (c) 30
 - (d) 40
- (xiii) If any person fails to keep and maintain any such information and document as required by sec. 92D in respect of an international transaction or specified domestic transaction, the Assessing Officer or Commissioner (Appeals) may direct that such person shall pay, by way of penalty, a sum equal to
- (a) ₹5,00,000
 - (b) 2% of the value of each international transaction or specified domestic transaction entered into by such person
 - (c) 1% of the value of each international transaction or specified domestic transaction entered into by such person
 - (d) ₹1,00,000
- (xiv) Secondary adjustment is necessary when the primary adjustment surpasses what value?
- (a) ₹50 lakhs
 - (b) ₹100 lakhs
 - (c) ₹300 lakhs
 - (d) ₹500 lakhs
- (xv) What is Berry Ratio in relation to the computation of the Arm's length price of an international transaction?
- (a) Gross profit/ Operating Expenses
 - (b) EBITDA/Shareholder's funds
 - (c) Net Profit/Gross profit
 - (d) Long term debts/Shareholders funds



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SECTION – B

Answer any 5 questions out of 7 questions given. Each question carries 14 marks.

[5 x 14 = 70]

- 2) The trading profit and loss account of Subash Trading Pvt. Ltd. having business of agricultural produce, consume items and other products for the year ended 31.03.2025 is as under.

Trading Account

Particulars	₹	Particulars	₹
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight and Cartage	1,26,000		
Gross Profit	29,24,000		
	1,60,00,000		1,60,00,000

Profit and Loss Account

Particulars	₹	Particulars	₹
Bonus to Staff	47,500	Gross Profit	29,24,000
Rent of Premises	53,500	Income Tax Refund	20,000
Advertisement	5,00	Warehousing Charges	15,00,000
Bad Debts	75,000		
Interest on Loans	1,67,500		
Depreciation	71,500		
GST Demand Paid	1,08,350		
Misc. Expenses	5,25,650		
Net Profit of the year	33,90,000		
	44,44,000		44,44,000

On Scrutiny of records, the following further information and details were extracted/gathered:

- (i) There was a survey u/s 133A on the business premises on 31.03.2025 in which it was revealed that the value of closing stocks on 31.03.2024 was ₹8,75,000 and a sale of ₹75,000 made on 13.03.2025 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.03.2025 worked out at ₹12,50,000/- which was accepted to be correct and not disputed.
- (ii) Income Tax Refund includes amount of ₹5,570/- of Interest allowed thereon.
- (iii) Bonus to Staff includes an amount of ₹5,500 paid in the month of December,2024 which was provided in the books on 31.03.2024.
- (iv) Rent of premises includes an amount of ₹5,500/- incurred on repairs. The Assessee was under no obligation to incur such expenses as per rent agreement.
- (v) Advertisement expenses include an amount of ₹2,500/- paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.



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- (vi) Miscellaneous Expenses include:
- (a) Amount of ₹25,000/- paid towards penalty for non-fulfilment of delivery conditions of a contract of sale for the reason beyond control.
 - (b) Amount of ₹1,00,000/- paid to the wife of a director, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charges only ₹25,000/- for the same opinion.
 - (c) Amount of ₹1,00,000 paid to an electoral Trust by a cheque.
- (vii) GST demand paid includes and amount of ₹5,300/- charges as penalty for delayed filing of returns and ₹12,750/- towards interest for delay in deposit of tax.
- (viii) The company had made an investment of ₹25 lakhs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2024 and the income from this activity is credited in the Profit and Loss Account under the head “Warehousing Charges”.
- (ix) Depreciation under the Income Tax Act, 1961 works out at ₹65,000/-.
- (x) Interest on loans includes an amount of ₹60,000/- on which tax was not deducted.

Compute the Income chargeable to tax for A.Y.2025-26 for Subash Trading Pvt. Ltd. indicating reasons for treatment of each items. Ignore the provisions relating to minimum alternate tax & provision of section 115BAA. [14]

- 3) (a) Amar (aged 35) owns 2 residential house properties, of which, one is used for own residential purpose and the other is let out for a monthly rent of ₹50,000. He bought these houses by taking housing loan from SBI. During the financial year 2024-25, he paid interest on housing loan amounting to ₹2,50,000 each for both the houses and total principal repayment of ₹ 2,00,000. He is doing business by name Mercury Traders in which his income(computed) amounts to ₹11,80,000.

Determine his income as per section 115BAC and regular provisions. Also suggest which one should be opted by Amar for the A.Y. 2025-26. [7]

- (b) Sure Success Ltd. wants to acquire an asset costing ₹1,00,000. It has two options are available, the first one is buying the asset by taking a loan repayable in five instalments of ₹20,000 each with 14% interest per annum. The second is leasing the asset for which the annual lease rental charge is ₹30,000 up to 5 years. The lessor charges 1% as a processing fee in the first year. Assume the internal rate of return to be 10%. The present value factors are: —

Year	1	2	3	4	5
P/V Factor	.909	.826	.751	.683	.621

Assuming that the payments are made at the end of the year, suggest which alternative is better for the company. The rate of depreciation is 15% while the tax rate is 33.22%. [7]



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- 4) (a) M/s AP a wholesale enterprise, has sold one of its undertaking consisting of Machinery A (rate of depreciation 30%), Machinery X (rate of depreciation 15%), Building B (rate of depreciation 10%) for ₹15,00,000 on 1/9/2024.
- ◆ Machinery A, originally acquired for ₹5,00,000 on 1/8/2021
 - ◆ Building B acquired on 17/7/2024 for ₹4,00,000.
 - ◆ During the year, new machinery Z (15%) purchased for ₹ 5,00,000 on 7/7/2024.
- Compute depreciation for the A.Y.2025-26:
- Machinery (rate of depreciation 30%) block [WDV as on 1/4/2024 is ₹9,00,000]
 - Building (rate of depreciation 10%) block [WDV as on 1/4/2024 is ₹5,00,000]. [7]
- (b) Eoin Morgan, a foreign national and a cricketer came to India as a member of England cricket team in the year ended 31st march, 2025. He received ₹6 lakhs for a participation matches in India. He also received ₹2 lakhs for an advertisement of a brand Soap on TV. He contributed articles in a journal for which he received ₹15,000. When he stayed in India, he also won a prize of ₹10,000 from lotteries in Delhi. He has no other income in India during the year. Assume assessee opt out from section 115BAC.
- (i) Compute tax liability of Morgan for Assessment Year 2025-26.
 - (ii) Are the income specified above subject to deduction of tax at source?
 - (iii) Is he liable to file his return of income for assessment Year 2025-26?
 - (iv) What would have been his tax liability, had he been a match referee instead of a cricketer? [7]
- 5) (a) Make a comparative study of revision u/s 263 & revision u/s 264. [7]
- (b) Discuss the disclosure requirements of ICDS VII. [7]
- 6) (a) Explain briefly the different Model Tax Conventions that are currently in vogue and their significance in international taxation. [7]
- (b) Mr. Virat Pandey, aged 62 years, a resident individual furnishes the following particulars of income earned by him in India and in Canada for the previous year 2024-25. India does not have a double taxation avoidance agreement with Canada.

Particulars	Amount (₹)
Gross Salary in India	6,25,000
Professional Income received in Country Canada	4,80,000
Dividend Income in Country Canada	88,000
Rent from House Property Situated in Country Canada	1,80,000
Interest Income on FDR's with Bank of Baroda, Pune Branch	62,000
Paid interest on Housing Loan to Punjab National Bank, Pune branch for the residential property, where he and his family resides	1,80,000
Investment in Public Provident Fund	1,20,000
Medical Insurance Premium paid for himself	35,000

Assume the tax rate in Country Canada is 12%.

Compute the total income and tax liability of Mr. Virat Pandey for the Assessment Year 2025-26 as per default tax regime u/s 115BAC. [7]



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- 7) (a) AB Ltd. is an Indian Company in which Oceania Ltd., a US company, has 32% shareholding and voting power. Following transactions were effected between these two companies during the financial year 2024-25.
- (i) AB Ltd. sold 1,00,000 pieces of T-shirts at \$3 per T-shirt to Oceania Ltd., The identical T-Shirts were sold to unrelated party at \$4 per T-Shirt.
 - (ii) AB Ltd. borrowed \$2,00,000 from a foreign lender based on the guarantee of Oceania Ltd. for this AB Ltd. paid \$10,000 as guarantee fee to Oceania Ltd. To an unrelated party for the same amount of loan, Oceania Ltd. collected \$8,000 as guarantee fee.
 - (iii) AB Ltd. paid \$15,000 to Oceania Ltd. for getting various potential customers details to improve its business. Oceania Ltd. provided the same service to unrelated parties for \$12,000.
 - (iv) Assume the rate of exchange as 1\$ = ₹84

AB Ltd. is located in a Special Economic (SEZ) and its income before transfer pricing adjustments for the year ended 31st March, 2025 was ₹1,200 lakhs.

Compute the adjustments to be made to the total income of AB Ltd. State whether it can claim deduction u/s 10AA for the income enhanced by applying transfer pricing provisions. [7]

- (b) Babusan (P) Ltd. is a Subsidiary of Robert LLC of USA. On 1st June, 2024 Babusan (P) Ltd. borrowed ₹2500 lakhs from Robert LLC for which interest is payable at 6% per annum. There is no other borrowing made by Babusan (P) Ltd.

The Net profit of Babusan (P) Ltd. for the year ended 31st March, 2025 was ₹95 lakhs after deduction of the following: (i) Depreciation ₹50 lakhs; (ii) Provision for Income-tax ₹20 lakhs; (iii) Amortisation of preliminary expenditure ₹10 lakhs; and (iv) Interest on loan borrowed from Robert LLC.

Explain thin capitalization's applicability and compute the amount of interest eligible for deduction and/or liable for disallowance in the case of Babusan (P) Ltd. Also state the consequence of interest disallowance. [7]

- 8) Present your answer for the following situations under the headings:

- (i) Issue Involved
- (ii) Provision Applicable
- (iii) Analysis & Conclusion

- (a) Mr. Rajesh Filled his Income-tax Return for A.Y. 2023-24 on July 25, 2023. He declared a total income of ₹15,05,000.

Total Income includes interest from Public Provident Fund (PPF) ₹62,530 and long-term capital gains on agricultural land exempt u/s 10(37). Both these incomes were disclosed in the schedule of exempt income.

Mr. Rajesh also found that by mistake he failed to claim the current year business loss in the income-tax return amounting to ₹3,37,000 which he is entitled to claim.

In due course of time, the above Income-tax Return got processed u/s 143 (1) and both the above exemptions for interest on Public Provident Fund and long-term capital gains on agricultural land were denied. Intimation was served to Mr. Rajesh and a demand of tax was raised.



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For all the above mistakes in the return he filed a revised return u/s 139 (5) but time limit for e-verification of revised return had lapsed and the same became invalid.

Assessee filed for rectification u/s 154 which was also rejected by the Assessing Officer. Is the Assessing Officer bound to accept the request of Mr. Rajesh? [7]

- (b) Jobo (P) Ltd., an Indian Company earned fee for technical services from Power Inc., a company resident in USA amounting to ₹2 crores. The company paid ₹30 lakhs as federal taxes in USA. During the course of assessment proceedings in India, the Assessing Officer allowed the foreign tax credit to the extent of ₹20 lakhs only from Income tax payable in India by Jobo (P) Ltd. The company accepted the non-allowance of Foreign tax credit to the extent of ₹10 lakhs, however it wants to claim deduction of the disallowed portion of foreign tax as business expenditure deductible from its income chargeable to tax in India.

Discuss the correctness of the assessee's claim. [7]

**DIRECT TAX LAWS AND INTERNATIONAL TAXATION****Time Allowed: 3 Hours****Full Marks: 100**

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SECTION – A (Compulsory)**1) Choose the correct option:****[15 x 2 = 30]**

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Answer:

i	ii	iii	iv	v	vi	vii	viii	ix	x	xi	xii	xiii	xiv	xv
a	d	c	d	d	b	a	d	c	b	d	c	b	b	a



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SECTION – B

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- (ix) Depreciation under the Income Tax Act, 1961 works out at ₹65,000/-.
- (x) Interest on loans includes an amount of ₹60,000/- on which tax was not deducted.

Compute the Income chargeable to tax for A.Y.2025-26 for Subash Trading Pvt. Ltd. indicating reasons for treatment of each items. Ignore the provisions relating to minimum alternate tax & provision of section 115BAA. [14]

Answer:

Computation of Total Income chargeable to tax of Subash Trading Pvt. Ltd. for the A.Y. 2025-26

	₹
Net Profit as per Profit and Loss Account	33,90,000
Add: Expenditure Disallowed/items considered separately	
(i) Difference in the valuable of stocks (Note 1)	3,75,000
(ii) Advertisement in the souvenir of Political Party (The amount of ₹2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance u/s 37 (2B). However, such expenditure falls within the meaning assigned to “contribute” u/s 293A of the Companies act, 1956, and is hence eligible for deduction u/s 80GGB)	2,500
(iii) Payment made to the wife of a Director (It has been assumed that ₹25,000/- is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge ₹25,000/- for the same opinion and therefore, the balance ₹75,000/- has been disallowed)	75,000
(iv) Payment made to electoral trust by cheque (Payment to an electoral trust qualifies for deduction u/s 80GGB since the payment is made by way of a cheque)	1,00,000
(v) Penalty levied by the Sales Tax Department	5,300



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(The interest of ₹12,750/- paid on the delayed deposit of GST is for breach of contract and hence is allowable as deduction. However, penalty of ₹5,300/- for delay of filing of returns is not allowable since it is for breach of law)	
(vi) Depreciation as per books	71,500
(vii) 30% of interest paid on loan without deduction of Tax at Source not allowable as per section 40 (a) (ia) (₹60,000×30%)	18,000
	40,37,300
Less: Income Allowed/items considered separately	
Income tax refund and interest	20,000
Depreciation allowable as per Income Tax Act, 1961	65,000
Income from specified business (warehousing charges)	15,00,000
Income from Business (other than specified business)	24,52,300
Income from Specified Business	
Income from specified business	₹15,00,000
Less: Deduction u/s 35AD @100% of ₹25 Lakhs	<u>₹25,00,000</u> (₹10,00,000)
Loss from Specified business to be carried forward as per section 73A	
Income from Other Sources	
Interest on Income Tax Refund	5,570
Gross Total Income	24,57,870
Less: Deduction u/s 80GGB	
Contribution to Political Party (The amount of ₹2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance u/s 37 (2B). However, such expenditure falls within the meaning assigned to “contribute” u/s 293A of the Companies act, 1956, and is hence eligible for deduction u/s 80GGB)	2,500
Contribution to Electoral Trust (Payment to an electoral trust qualifies for deduction u/s 80GGB since the payment is made by way of a cheque)	1,00,000
Total Income	23,55,370

Note:

1. Revised Trading Account

Particulars	₹	Particulars	₹
Opening Stock	8,75,000	Sales (₹1,55,50,000+ ₹75,000)	1,56,25,000
Purchases	1,25,75,000	Closing Stock	12,50,000
Freight and Cartage	1,26,000		
Gross Profit	32,99,000		
	1,68,75,000		1,68,75,000

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The difference of gross profit of ₹32,99,000 – ₹29,24,000 = ₹3,75,000/- is to be added as income of the business for the year

2. Bonus for previous year 2023-24 paid after the due date for filing return for that year would have been disallowed u/s 43B for the F.Y. 2023-24. However, when the same has been paid in December, 2024 it should be allowed as deduction in the F.Y. 2024-25 (A.Y. 2025-26). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
3. The penalty of ₹25,000/- paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.

- 3) (a) Amar (aged 35) owns 2 residential house properties, of which, one is used for own residential purpose and the other is let out for a monthly rent of ₹50,000. He bought these houses by taking housing loan from SBI. During the financial year 2024-25, he paid interest on housing loan amounting to ₹2,50,000 each for both the houses and total principal repayment of ₹ 2,00,000. He is doing business by name Mercury Traders in which his income(computed) amounts to ₹11,80,000.

Determine his income as per section 115BAC and regular provisions. Also suggest which one should be opted by Amar for the A.Y. 2025-26. [7]

- (b) Sure Success Ltd. wants to acquire an asset costing ₹1,00,000. It has two options are available, the first one is buying the asset by taking a loan repayable in five instalments of ₹20,000 each with 14% interest per annum. The second is leasing the asset for which the annual lease rental charge is ₹30,000 up to 5 years. The lessor charges 1% as a processing fee in the first year. Assume the internal rate of return to be 10%. The present value factors are: —

Year	1	2	3	4	5
P/V Factor	.909	.826	.751	.683	.621

Assuming that the payments are made at the end of the year, suggest which alternative is better for the company. The rate of depreciation is 15% while the tax rate is 33.22%. [7]

Answer:

- (a) Total income and tax payable as per normal provisions (Old regime)

	₹	₹
Income from House property (Let out)		
Rent Received	6,00,000	
Less: u/s 24(a) Standard Deduction @30%	1,80,000	
Less: u/s 24(b) Interest on Loan	2,50,000	
		1,70,000
Income from House property (Self-occupied)		



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Rent Received	Nil	
Less: u/s 24(b) Interest on Loan	2,00,000	
		(2,00,000)
Loss from house property		(30,000)
Income from Business – Mercury Traders (computed)		11,80,000
Gross Total Income		11,50,000
Less: Deduction under section 80C in respect of housing loan principal repaid		1,50,000
Total income		10,00,000
Computation of tax liability:		
Tax on 10,00,000	1,12,500	
Add: Cess @4%	4,500	
Total tax payable as per normal provisions	1,17,000	

Computation of total income and tax payable as per section 115BAC

	₹	₹
Income from house property (let out) as computed above (There would be no deduction on account of interest on loan under section 24(b) under default tax regime under section 115BAC in respect of the property referred to in section 23(2) i.e., self-occupied)		1,70,000
Income from business		11,80,000
Total income as per section 115BAC		13,50,000
Computation of tax liability:		
Tax on 13,50,000	1,10,000	
Add Cess @4%	4,400	
Total tax payable as per section 115BAC	1,14,400	

Conclusion: Since, the total tax payable is higher in normal provision, the assessee Amar should opt section 115BAC.

(b) Alternative I: Acquire the Asset by taking a Bank Loan

Year	Instalment (a)	Interest (b)	Depreciation (c)	Tax Benefit (d)=(b+c)×33.22%	Net Outflow (a+b-d)	PV factor	Total PV
1	20,000	14,000	15,000	9,634	24,366	.909	22,151
2	20,000	11,200	12,750	7,956	23,244	.826	19,210
3	20,000	8,400	10,838	6,391	22,009	.751	16,536
4	20,000	5,600	9,212	4,921	20,679	.683	14,124
5	20,000	2,800	7,830	3,531	19,269	.621	11,965
Total Present Value of net cash flows							83,985

It is assumed that salvage value is Nil after 5 years.



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Alternative II: Acquire Asset on Lease Basis

Year	Lease (a)	Tax Benefit (b)	Net Outflow (a-b)	PV factor	Total PV
0	1,000	332	668	1	668
1	30,000	9,966	20,034	.909	18,211
2	30,000	9,966	20,034	.826	16,557
3	30,000	9,966	20,034	.751	15,052
4	30,000	9,966	20,034	.683	13,683
5	30,000	9,966	20,034	.621	12,440
Total Present Value of net cash flows					76,611

Suggestion: The present value of net cash flows is lower in Alternative II; hence it is suggested to acquire the asset on lease basis.

- 4) (a) M/s AP a wholesale enterprise, has sold one of its undertaking consisting of Machinery A (rate of depreciation 30%), Machinery X (rate of depreciation 15%), Building B (rate of depreciation 10%) for ₹15,00,000 on 1/9/2024.

- ◆ Machinery A, originally acquired for ₹5,00,000 on 1/8/2021
- ◆ Building B acquired on 17/7/2024 for ₹4,00,000.
- ◆ During the year, new machinery Z (15%) purchased for ₹5,00,000 on 7/7/2024.

Compute depreciation for the A.Y. 2025-26:

- Machinery (rate of depreciation 30%) block [WDV as on 1/4/2024 is ₹9,00,000]
- Building (rate of depreciation 10%) block [WDV as on 1/4/2024 is ₹5,00,000]. [7]

- (b) Eoin Morgan, a foreign national and a cricketer came to India as a member of England cricket team in the year ended 31st march, 2025. He received ₹6 lakhs for a participation matches in India. He also received ₹2 lakhs for an advertisement of a brand Soap on TV. He contributed articles in a journal for which he received ₹15,000. When he stayed in India, he also won a prize of ₹10,000 from lotteries in Delhi. He has no other income in India during the year. Assume assessee opt out from section 115BAC.

- (i) Compute tax liability of Morgan for Assessment Year 2025-26.
- (ii) Are the income specified above subject to deduction of tax at source?
- (iii) Is he liable to file his return of income for assessment Year 2025-26?
- (iv) What would have been his tax liability, had he been a match referee instead of a cricketer?

[7]

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Particulars	Machinery (30%)	Building (10%)
W.D.V as on 1/4/2024	9,00,000	5,00,000
Add: Purchase during the year	Nil	4,00,000
	9,00,000	9,00,000
Less: Sale under slump sale (Working)	1,71,500	4,00,000
	7,28,500	5,00,000
Depreciation	2,18,550	50,000

Working: Written down value of the asset sold under slump sale:

Particulars	Machinery A	Building B
Original cost of asset sold under slump sale	5,00,000	4,00,000
Less: Depreciation (notional) that would have been allowable if the asset is only asset in the relevant block. * Depreciation ₹1,50,000 (for 2021-22) + ₹1,05,000 (for 2022-23) + ₹73,500 (for 2023-24)	3,28,500*	Nil
Written Down Value of the asset sold under slump sale	1,71,500	4,00,000

(b) (i) Computation of tax liability of Eoin Morgan for the A.Y. 2025-26

Particulars	₹	₹
Income taxable u/s 115BBA		
Income from participation in matches in India	6,00,000	
Advertisement of a brand Soap on TV	2,00,000	
Contribution of articles in journals	15,000	
Income taxable u/s 115BB		
Income from lotteries	10,000	
Total income	8,25,000	
Tax @20% u/s 115 BBA on ₹8,15,000		1,63,000
Tax @30% u/s 115 BB on income of ₹10,000 from lotteries		3,000
		1,66,000
Add: HEC@4%		6,640
Total tax liability of Morgan for the A.Y.2025-26		1,72,640

- (ii) Yes, the above income is subject to tax deduction at source. Income referred to in section 115BBA (i.e., ₹8,15,00, in this case) is subject to tax deduction at source @20% u/s 194E. Eoin Morgan is

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a non-resident, the amount of tax to be deducted calculated at the prescribed rates mentioned above, would be increased by HEC @ 4%.

- (iii) Section 115BBA provides that if the total income of the non-resident sportsman comprises of only income referred to in that section and tax deductible at source has been fully deducted, it shall not be necessary for him to file his return of income. However, in this case, Mr. Morgan has income from lotteries as well. Therefore, he cannot avail the benefit of exemption from filing of return of income as contained in section 115BBA. Hence, he would be liable to file his return of income for A.Y.2025-26.
- (iv) The Calcutta High Court in Indcom v CIT (TDS) (2011) has held that ‘matches referee’ would not fall within the meaning of “sportsmen” to attract the provision of section 115BBA. Therefore, although the payments made to non-resident ‘match referee’ are “income” which has accrued and arisen in India, the same are not taxable under the provisions of section 115BBA. They are subject to the normal rates of tax.

Particulars	₹	₹
Tax @30% 115BB on winning of ₹10,000 from lotteries		3,000
Tax on ₹8,15,000 at the rates in force		
Upto ₹2,50,000	Nil	
₹2,50,000 – ₹5,00,000 @5%	12,500	
₹5,00,000 – ₹8,15,000 @20%	63,000	75,500
		78,500
Add: HEC @4%		3,140
Tax Liability		81,640

- 5) (a) **Make a comparative study of revision u/s 263 & revision u/s 264.** [7]
- (b) **Discuss the disclosure requirements of ICDS VII.** [7]

Answer:

(a)

Basis	Section 263	Section 264
Which order can be revised	Order, which is prejudicial to the interest of revenue.	Order, which is prejudicial to the interest of assessee.
Proceedings at the motion of	At the own motion of the authorities.	At the own motion of the authorities or on the application of the assessee.
Scope	Revision is possible of the issues which have not been considered and decided in	Revision u/s 264 is not possible on any issue if an appeal has been filed,

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	an appeal, i.e., doctrine of partial merger is applicable	i.e., doctrine of total merger is applicable
Time limit for application	Assessee does not apply	Within 1 year from the date on which the order in question was communicated to the assessee
Fee	Not Applicable	₹500 where the application for revision is made by the assessee.
Appeal against order	Appeal can be filed to the Tribunal	No appeal can be filed
Beneficial to	Revenue	Assessee

(b) Following disclosure shall be made in respect of Government grants (ICDS VII):

- nature and extent of Government grants recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets during the previous year;
- nature and extent of Government grants recognised during the previous year as income;
- nature and extent of Government grants not recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets and reasons thereof; and
- nature and extent of Government grants not recognised during the previous year as income and reasons thereof.

6) (a) Explain briefly the different Model Tax Conventions that are currently in vogue and their significance in international taxation. [7]**(b) Mr. Virat Pandey, aged 62 years, a resident individual furnishes the following particulars of income earned by him in India and in Canada for the previous year 2024-25. India does not have a double taxation avoidance agreement with Canada.**

Particulars	Amount (₹)
Gross Salary in India	6,25,000
Professional Income received in Country Canada	4,80,000
Dividend Income in Country Canada	88,000
Rent from House Property Situated in Country Canada	1,80,000
Interest Income on FDR's with Bank of Baroda, Pune Branch	62,000
Paid interest on Housing Loan to Punjab National Bank, Pune branch for the residential property, where he and his family resides	1,80,000
Investment in Public Provident Fund	1,20,000
Medical Insurance Premium paid for himself	35,000

Assume the tax rate in Country Canada is 12%.

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Compute the total income and tax liability of Mr. Virat Pandey for the Assessment Year 2025-26 as per default tax regime u/s 115BAC. [7]

Answer:

(a) Presently, the following are the model tax conventions which are in vogue –

a. Organisation for Economic Co-operation and Development (OECD) Model

The emergence of present form of OECD Model Convention can be traced back to 1927, when the Fiscal Committee of the League of Nations prepared the first draft of Model Form applicable to all countries. Since then, it has been revised several times and the latest being in the year 2017. OECD Model is essentially a model treaty between two developed nations. This model advocates residence principle, that is to say, it lays emphasis on the right of state of residence to tax the income.

b. United Nations (UN) Model

In 1968, the United Nations set up an Adhoc Group of Experts from various developed and developing countries to prepare a draft model convention between developed and developing countries. In 1980, this Group finalized the UN Model Convention in its present form. It has further been revised a number of times, the recent ones being in the year 2021. It gives more weight to the source principle as against the residence principle of the OECD Model. UN Model is designed to encourage flow of investments from the developed countries to developing countries. It takes into account sharing of tax-revenue with the country providing capital. Most of India's tax treaties are based on the UN Model.

c. US Model

The US Model convention was first published in 1976 and revised several times. US model is used by the United States while entering into tax treaties with various country.

(b) Computation of Total Income of Mr. Virat Pandey for A.Y. 2025-26

Particulars	₹	₹
Income from salaries [Standard deduction of ₹75,000 allowable]		5,50,000
Income from House Property		
Annual value of self-occupied property in India	Nil	
Less: Interest on housing loan [not allowable, since he opts for section 115BAC]	<u>Nil</u>	
	Nil	
Annual value of house property in Canada [Rental income from property in Canada*]	1,80,000	
Less: Deduction u/s 24 (a) @30% (allowable in respect of let out property)	<u>54,000</u>	1,26,000
Profits and gains form business or profession		
Professional income from Canada		4,80,000
Income from Other Sources		



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Dividend from Canada		88,000
Interest on FDRs with Bank of Baroda		<u>62,000</u>
Gross Total Income		13,06,000
Less: Deduction u/s 80C in respect of investment in PPF and deduction u/s 80D in respect of medical insurance premium [not deduction is allowable under these sections, since he opts for section 115BAC]		Nil
Total Income		<u>13,06,000</u>

*In the absence of any information relating to fair rent, municipal value and standard rent, rental income assumed to be GAV.

Computation of Tax Liability of Mr. Virat Pandey for A.Y.2025-26

Particulars	₹	₹
Upto ₹3,00,000	Nil	
₹3,00,000 – ₹7,00,000 [i.e. ₹4,00,000@5%]	20,000	
₹7,00,001 – ₹10,00,000 [i.e. ₹3,00,000@10%]	30,000	
₹10,00,001 – ₹12,00,000 [i.e. ₹2,00,000 @15%]	30,000	
₹12,00,001 – ₹13,06,000 [i.e. ₹1,06,000 @20%]	<u>21,200</u>	1,01,200
Add: Health & Education Cess @ 4%		<u>4,048</u>
		1,05,248
Less: Deduction u/s 91		
Average rate of tax in India = ₹1,05,248×100/ ₹13,06,000 = 8.0588%		
Rate of tax in Canada = 12%		
Doubly taxed income = ₹1,26,000 + ₹4,80,000 + ₹88,000 = ₹6,94,000		
Lower of the Indian rate of tax and Canada rate of tax is 8.0588%, which has to be applied on doubly taxed income of ₹6,94,000 [8.0588%× ₹6,94,000]		55,928
Tax Payable		<u>49,319</u>
Tax Payable (rounded off)		49,320

7. (a) AB Ltd. is an Indian Company in which Oceania Ltd., a US company, has 32% shareholding and voting power. Following transactions were effected between these two companies during the financial year 2024-25.
- AB Ltd. sold 1,00,000 pieces of T-shirts at \$3 per T-shirt to Oceania Ltd., The identical T-Shirts were sold to unrelated party at \$4 per T-Shirt.
 - AB Ltd. borrowed \$2,00,000 from a foreign lender based on the guarantee of Oceania Ltd. for this AB Ltd. paid \$10,000 as guarantee fee to Oceania Ltd. To an unrelated party for the same amount of loan, Oceania Ltd. collected \$8,000 as guarantee fee.
 - AB Ltd. paid \$15,000 to Oceania Ltd. for getting various potential customers details to improve its business. Oceania Ltd. provided the same service to unrelated parties for \$12,000.
 - Assume the rate of exchange as 1\$ = ₹84

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AB Ltd. is located in a Special Economic (SEZ) and its income before transfer pricing adjustments for the year ended 31st March, 2025 was ₹1,200 lakhs.

Compute the adjustments to be made to the total income of AB Ltd. State whether it can claim deduction u/s 10AA for the income enhanced by applying transfer pricing provisions. [7]

- (b) Babusan (P) Ltd. is a Subsidiary of Robert LLC of USA. On 1st June, 2024 Babusan (P) Ltd. borrowed ₹2500 lakhs from Robert LLC for which interest is payable at 6% per annum. There is no other borrowing made by Babusan (P) Ltd.

The Net profit of Babusan (P) Ltd. for the year ended 31st March, 2025 was ₹95 lakhs after deduction of the following: (i) Depreciation ₹50 lakhs; (ii) Provision for Income-tax ₹20 lakhs; (iii) Amortisation of preliminary expenditure ₹10 lakhs; and (iv) Interest on loan borrowed from Robert LLC.

Explain thin capitalization's applicability and compute the amount of interest eligible for deduction and /or liable for disallowance in the case of Babusan (P) Ltd. Also state the consequence of interest disallowance. [7]

Answer:

- (a) AB Ltd, the Indian company and Oceania Ltd., the US company are deemed to be associated enterprises as per section 92 A (2) (a), since Oceania Ltd. holds shares carrying not less than 26% of the voting power in AB Ltd.

As per Explanation to section 92B, the transactions entered into between these two companies for sale of product, lending or guarantee and provision of services relating to market research are included within the meaning of "international transaction".

Accordingly, transfer pricing provisions would be attracted and the income arising from such international transactions have to be computed having regard to the arm's length price. In this case, from the information given the arm's length has to be determined taking the comparable uncontrolled price method to be the most appropriate method.

Accordingly, transfer pricing provisions would be attracted and the income arising from such international transactions have to be computed having regard to the arm's length price. In this case, from the information given the arm's length has to be determined taking the comparable uncontrolled price method to be the most appropriate method.

Particulars		₹ in lakhs
Amount by which total income of AB Ltd. is enhanced on account of adjustment in the value of international transactions:		
(i)	Difference in price of T-Shirt @\$1 each for 1,00,000 pieces sold to Oceania Ltd. (\$1 × 1,00,000 × 84)	84.00
(ii)	Difference for excess payment of guarantee fee to Oceania Ltd. for loan borrowed from foreign lender (\$2,000×84)	1.68
(iii)	Difference for excess payment for services to Oceania Ltd. (\$3,000×84)	2.52



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AB Ltd. cannot claim deduction u/s 10AA in respect of ₹88.2 lakhs, being the amount of income by which the total income is enhanced by virtue of the first proviso section 92C (4). Assume income increased by AO.	88.2
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(b) Thin capitalization:

As per section 94B where an Indian company being the borrower incurs any expenditure by way of interest to the AEs exceeding ₹100 lakhs which is deductible in computing income under the head “Profits and gains of business or profession” in respect of any debt issued by a non-resident being an associated enterprise of such borrower, the interest to the extent it exceeds 30% of EBITDA is not eligible for deduction.

	₹ in lakhs
Interest paid to AE	125.00
EBITDA	300.00
Interest payment limited to 30% of EBITDA	90.00
Excess interest liable for disallowance (₹125 lakhs minus ₹90 lakhs)	35.00
The disallowed portion of interest is eligible for carry forward for 8 assessment years immediately succeeding the assessment year 2025-26	

8. Present your answer for the following situations under the headings:

- (i) Issue Involved**
- (ii) Provision Applicable**
- (iii) Analysis & Conclusion**

- (a) Mr. Rajesh Filled his Income-tax Return for A.Y. 2023-24 on July 25, 2023. He declared a total income of ₹15,05,000.**

Total Income includes interest from Public Provident Fund (PPF) ₹62,530 and long-term capital gains on agricultural land exempt u/s 10(37). Both these incomes were disclosed in the schedule of exempt income.

Mr. Rajesh also found that by mistake he failed to claim the current year business loss in the income-tax return amounting to ₹3,37,000 which he is entitled to claim.

In due course of time, the above Income-tax Return got processed u/s 143 (1) and both the above exemptions for interest on Public Provident Fund and long-term capital gains on agricultural land were denied. Intimation was served to Mr. Rajesh and a demand of tax was raised.

For all the above mistakes in the return he filed a revised return u/s 139 (5) but time limit for e-verification of revised return had lapsed and the same became invalid.

Assessee filed for rectification u/s 154 which was also rejected by the Assessing Officer. Is the Assessing Officer bound to accept the request of Mr. Rajesh? [7]

- (b) Jobo (P) Ltd., an Indian Company earned fee for technical services from Power Inc., a company resident in USA amounting to ₹2 crores. The company paid ₹30 lakhs as federal taxes in USA. During the course of assessment proceedings in India, the Assessing Officer allowed the foreign**

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tax credit to the extent of ₹20 lakhs only from Income tax payable in India by Jobo (P) Ltd. The company accepted the non-allowance of Foreign tax credit to the extent of ₹10 lakhs, however it wants to claim deduction of the disallowed portion of foreign tax as business expenditure deductible from its income chargeable to tax in India.

Discuss the correctness of the assessee's claim.

[7]

Answer:

- (a) **Issue Involved:** The issue under consideration is whether a rectification application before the Assessing Officer u/s 154 can be filed to rectify a mistake
- for denial of exemption in respect of interest on PPF and Long-term Capital Gains on agricultural land u/s 10 (37) while processing returns u/s 143 (1) which was disclosed by the assessee in the Schedule of exempt income of ITR and
 - to claim a business loss which the assessee failed to claim in the return filed by him.

Provisions Applicable: As per section 154 with a view to rectifying any mistake apparent from the record an income-tax authority may inter alia amend any order passed by it under the provisions of this Act or amend any intimation or deemed intimation u/s 143 (1).

Analysis and Conclusion:

The jurisdiction of any authority under the Act to make an order u/s 154 depends upon the existence of a mistake apparent on the face of the record. As per section 154, an income-tax authority can rectify mistake which is committed in the intimation passed u/s 143 (1) or an order passed under the Act.

In the present case, denial of exemption while processing the return u/s 143 (1) in respect of interest from Public Provident Fund (PPF) and LTCG on agricultural land exempt u/s 10 (37) are mistakes apparent from record.

However, mistake to claim current year business loss in the return of income cannot be said to be mistake apparent from records, since current year business loss not forming part of intimation as Mr. Rajesh failed to claim the business loss in the ITR filed by him.

Moreover, the assessing authority has no power to entertain a claim for deduction made after filing return of income otherwise than by way of a revised return.

Accordingly, the Assessing Officer is bound to accept the request of Mr. Rajesh for rectification only in respect of exemption of interest on PPF and LTCG u/s 10 (37) and not in respect of claim for business loss.

- (b) (i) **Issue Involved**

Whether tax paid in foreign country for which foreign tax credit under section 90 or section 91 of the Income-tax Act not allowed by the Assessing Officer can be claimed as business expenditure?

**DIRECT TAX LAWS AND INTERNATIONAL TAXATION****(ii) Provisions applicable**

Section 2(43) of the Income-tax Act defines “tax” to mean income-tax chargeable under the provisions of the Income-tax Act, 1961.

Section 40(a) (ii) of the Income-tax Act disallows any tax paid on the income of the assessee. Explanation 1 to section 40(a)(ii) provides that whenever an assessee is eligible for relief under section 90 or section 91 of the Act, the sum paid on account of any rate or tax levied shall also be liable for disallowance under section 40(a)(ii). In other words, if it is not eligible for section 90 or section 91 relief it is not liable for disallowance under section 40(a) (ii).

(iii) Analysis & Conclusion

The occasion to insert Explanation 1 to section 40(a)(ii) arose as assessee were claiming to be entitled to obtain necessary credit to the extent of tax paid abroad under section 90 or section 91 of the Income-tax Act, 1961, and also

Claim the benefit of tax paid abroad as business expenditure on account of it not being covered by section 40(a) (ii).

The Bombay High Court in the case of Reliance Infrastructure Ltd. v CIT (2016) 390 ITR 271 (Bom) held that section 91 excludes taxes on income which is deemed to accrue or arise in India. However, where the income does not accrue or arise in India the tax paid thereon is not hit by section 40(a) (ii).

So, that much of tax to the extent not covered by section 40(a)(ii) is eligible for deduction as business expenditure.

Thus, the assessee’s contention is tenable in law.