

**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) What is the due date of filing the return of income in case of a company who is required to furnish a report in Form No. 3CEB under section 92E?
- (a) September 30 of the assessment year
(b) July 31 of the assessment year
(c) June 30 of relevant assessment the year
(d) November 30 of the assessment the year
- (ii) Vijay Child Welfare Trust is registered under section 12AA of the Income-tax Act. For the Assessment year 2025-2026 its income before allowing exemption under section 11 and under section 12 exceeded the maximum amount which is not chargeable to income-tax. It failed to file its return of income by 'due date' as specified under section 139(1). How much is the quantum of penalty that could be levied on the assessee for its failure to file its ITR on or before the 'due date'?
- (a) ₹100 per day for which the default continues
(b) ₹200 per day for which the default continues
(c) ₹500 per day for which the default continues
(d) ₹10,000
- (iii) During the P.Y. 2024-25, Mr. Manoj has the following income and brought forward losses:
Short-term capital gains on sale of shares: ₹1,75,000
Brought forward Long-term capital loss (AY 2022-23): ₹96,000
Brought forward Short-term capital loss (AY 2023-24): ₹42,000
Long-term capital gain u/s 112: ₹85,000
As per the provisions of the Income-tax Act, 1961, what will be the taxable capital gain in the hands of Mr. Manoj for AY 2025-26?
- (a) ₹1,33,000
(b) ₹1,75,000
(c) ₹85,000
(d) Nil
- (iv) In case of an application made by the assessee u/s 154, the income-tax authority shall rectify the order/refuse the rectification within _____ from the end of the month in which the application is received by the authority.
- (a) 4 years
(b) 2 years
(c) 1 year
(d) 6 months



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- (v) Mr. Krishna, a resident individual aged 48 years, did not furnish his return of income for A.Y. 2025-26. His total income was assessed u/s 144 at ₹12,00,000.
As per section 270A of the Income-tax Act, 1961, is penalty attracted in this case, and if so, what is the quantum of penalty leviable?
- (a) No penalty is leviable, since tax has been assessed u/s 144.
(b) Yes, penalty is leviable @50% of tax payable, i.e., ₹41,600.
(c) Yes, penalty is leviable @200% of tax payable, i.e., ₹1,66,400.
(d) No penalty, since income is below ₹15,00,000
- (vi) The Joint Commissioner of Income-tax (Appeals) is the _____ appellate authority.
- (a) First
(b) Second
(c) Third
(d) Fourth
- (vii) ICDS is applicable in case of income under the head:
- (a) Profits and gains from Business or Profession
(b) Capital Gains
(c) Income from House Property
(d) All heads of income
- (viii) The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 extends to:
- (a) Whole of India
(b) Whole of India excluding Jammu and Kashmir
(c) Whole of India excluding Jammu and Kashmir and Arunachal Pradesh
(d) None of the above
- (ix) According to sec. 2(42C), _____ means transfer, by any means, of undertaking(s) for a lump sum consideration without assigning values to the individual assets of such undertaking(s).
- (a) Amalgamation
(b) Demerger
(c) Slump Sale
(d) None of the above.
- (x) The provisions of sec. 92 will apply only if the aggregate value of specified domestic transactions entered into by the taxpayer during the year exceeds a sum of ₹ ____.
- (a) 100 crores
(b) 5 crores
(c) 10 crores
(d) 20 crores



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- (xi) Advance Pricing Agreement shall be valid for such period not exceeding _____ consecutive previous years as may be specified in the agreement.
- (a) 5
(b) 3
(c) 10
(d) 2
- (xii) B is a foreign company having permanent establishment (namely A) in India. C, a non-resident associated enterprise, has invested ₹ 900 crore through debt in A. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of A during the financial year was ₹ 150 crore. What is the amount of interest allowable in respect of the debt assuming that the debt was invested on the first day of the financial year and the rate of interest is 10% p.a.?
- (a) ₹ 45 crore
(b) ₹ 90 crore
(c) ₹ 30 crore
(d) ₹ 27 crore
- (xiii) In respect of DTAA, generally, India follows:
- (a) UN Model
(b) UK Model
(c) OECD Model
(d) US Model
- (xiv) In UN model of DTAA, there are VII chapters which contains _____ articles.
- (a) 32
(b) 31
(c) 30
(d) None of the above
- (xv) GAAR provisions shall not apply to:
- (a) an arrangement where the tax benefit in the relevant assessment year arising, in aggregate, to all the parties to the arrangement does not exceed a sum of ₹ 3 crore
(b) an arrangement where the tax benefit in the relevant assessment year arising, in aggregate, to all the parties to the arrangement does not exceed a sum of ₹5 crore
(c) an arrangement where the tax benefit in the relevant assessment year arising, in aggregate, to all the parties to the arrangement does not exceed a sum of ₹1 crore
(d) None of the above

Answer:

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



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SECTION – B

(Answer any five questions out of seven questions given. Each question carries 14 marks.)

[5 x 14 = 70]

- 2) (a) Compute taxable income of a charitable trust for the A.Y. 2025-26 under the following cases:

Particulars	Case 1 (₹)	Case 2 (₹)	Case 3 (₹)
Income other than voluntary contribution	4,00,000	5,00,000	15,00,000
Voluntary contribution	1,00,000	80,000	2,00,000
Voluntary contribution in the corpus of the trust	2,00,000	1,50,000	5,00,000
Income applied for the purpose for which trust is created	4,50,000	4,93,000	2,00,000

[7]

- (b) X & Co., a firm, is engaged in the business of trading of cloth (turnover of 2024-25 being ₹1,57,80,000, out of which ₹25,00,000 has been received in account payee cheque). It wants to claim the following deductions:

Particulars	Amount (₹)
Salary and interest to partners [as permitted by sec. 40(b)]	60,000
Salary to employees	4,90,000
Depreciation	2,70,000
Cost of materials used	1,20,90,000
Other expenses	13,45,000
Total	1,42,55,000
Net profit (₹ 1,57,80,000 – ₹ 1,42,55,000)	15,25,000

Determine the net income of X & Co. for the assessment year 2025-26 assuming that

- (i) taxable interest income is ₹90,000;
(ii) Long term capital gain is ₹1,40,000; and
(iii) the firm is eligible for a deduction of ₹15,000 Under Sec. 80G.

[7]

Answer:

- (a) Computation of taxable income of the charitable trust for the A.Y 2025-26

Particulars	Amount (₹)		
	Case 1	Case 2	Case 3
Income other than voluntary contribution	4,00,000	5,00,000	15,00,000
Add: Voluntary contribution	1,00,000	80,000	2,00,000
Total income of the trust	5,00,000	5,80,000	17,00,000
Less: 15% Free accumulation	(75,000)	(87,000)	(2,55,000)
Balance	4,25,000	4,93,000	14,45,000
Less: Income exempted to the extent applied for the purpose	4,25,000	4,93,000	2,00,000
Total Income	Nil	Nil	12,45,000

Note: Contribution in the corpus of the trust shall not be treated as income of the trust.



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- (b) Since turnover from business does not exceed ₹2 crore, hence sec. 44AD is applicable. However, income computed as per provision other than provision of sec. 44AD is less than estimated income, hence, the firm may be assessed for such lesser income provided following conditions are satisfied –

- A. Maintain books of account as prescribed u/s 44AA; and
B. Get accounts audited u/s 44AB.

Where it maintains accounts and gets it audited:

Computation of total income of X & Co. for the A.Y. 2025-26

Particulars	Amount (₹)
Profits and gains of business or profession: Income from cloth business	15,25,000
Capital gains: Long term capital gain	1,40,000
Income from Other Sources: Interest Income	90,000
Gross Total Income	17,55,000
Less: Deduction u/s 80G	15,000
Total Income	17,40,000

It is assumed that all the expenditures are allowed.

Where it does not maintain account or fails to get accounts audited:

Computation of total income of X & Co. for the A.Y.2025-26

Particulars	Details (₹)	Amount (₹)
Profits and gains of business or profession		
Income from cloth business (being 6% of ₹ 25,00,000)	1,50,000	
Income from cloth business (being 8% of ₹ 1,32,80,000)	10,62,400	12,12,400
Capital gains: Long term capital gain		1,40,000
Income from Other Sources: Interest Income		90,000
Gross Total Income		14,42,400
Less: Deduction u/s 80G		15,000
Total Income		14,27,400

- 3) (a) Mr. A owned two residential house for his own residential purpose, details of which are as follows–

Particulars	House 1 (₹)	House 2 (₹)
Gross Annual value	4,00,000	5,00,000
Municipal tax (paid)	2,000	10,000
Interest on loan taken for construction of house	20,000	25,000

On 1/4/2024, Mr. A gifted ₹25,00,000 to her wife. Out of such money, she acquired a house property for her own residential purpose. The new house has a gross municipal value of ₹2,50,000. She paid a corporation tax of ₹2,000. Compute income from house property of Mr. & Mrs. A. (Assume that Mrs. A does not own any other property). Assume that he has opted for the old tax regime. [7]



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(b) A business entity requires ₹50 lakhs for expansion of business. The entity has two options

Particulars	Option 1	Option 2	Option 3
	₹	₹	₹
Equity Share of ₹10 each	40,00,000	30,00,000	30,00,000
12% Debentures	10,00,000	10,00,000	20,00,000
18% Loan from Bank		10,00,000	

Expected rate of return is 15% (before tax). Tax Rate is 31.2% (including Cess).

Required:

1. Calculate the profit after tax in Option 1.
2. Calculate the profit after tax in Option 2.
3. Calculate the profit after tax in Option 3.
4. Advise which financing option is the most beneficial for the business entity. [7]

Answer:

(a) Computation of income from house property of Mr. A for the A.Y. 2025-26

Particulars	Amount (₹)
Self-occupied house properties	
Net Annual Value	Nil
Less: Deduction u/s	
24(b) Interest on loan [₹25,000 + ₹20,000]	45,000
	(45,000)
Add: Income of Mrs. A clubbed u/s 64(1)(iv)	Nil
Income from house property	(45,000)

Computation of income from house property of Mrs. A for the A.Y. 2025-26

Particulars	Amount (₹)
Self-occupied house	
Net Annual Value	Nil
Less: Deduction u/s	
24(b) Interest on loan	Nil
	Nil
Less: Income clubbed u/s 64(1)(iv) with the income of Mr. A	Nil
Income from house property	Nil

(b) Calculation of Profit after Tax:

Particulars	Option 1	Option 2	Option 3
Share Capital (₹)	40,00,000	30,00,000	30,00,000
12% Debentures (₹)	10,00,000	10,00,000	20,00,000
18% loan from Bank (₹)	—	10,00,000	



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EBIT (₹)	7,50,000	7,50,000	7,50,000
Cost to Company:			
Debenture Interest (₹)	1,20,000	1,20,000	2,40,000
Interest on loan from Bank (₹)	—	1,80,000	—
Net Profit before tax and dividend (₹)	6,30,000	4,50,000	5,10,000
Tax Payable @ 31.2% (₹)	1,96,560	1,40,400	1,59,120
Profit after tax (₹)	4,33,440	3,09,600	3,50,880
Return on capital	10.84%	10.32%	11.70%

Option 3 is better as in this option return on capital is maximum.

- 4) (a) M/s S & Co., a sole proprietary concern is converted into a company, Sid Co. Ltd. with effect from November 29, 2024. The written down value of assets as on April 1, 2024 are as follows:

Items	Rate of Depreciation	WDV as on 1 April, 2024
Building	10%	₹3,50,000
Furniture	10%	₹50,000
Plant & Machinery	15%	₹2,00,000

Further, on 15-10-2024, M/s S & Co. purchased a plant for ₹1,00,000 (rate of depreciation 15%). After conversion, the company added another plant worth ₹50,000 (rate of depreciation 15%). Compute the depreciation available to (i) M/s S & Co, and (ii) Sid Co. Ltd. for the A.Y. 2025-26.

[7]

- (b) The following data is furnished by Mr. Anand, a non-resident and a person of Indian Origin, for the financial year ended 31-3-2025:

(A)	
Long-term capital gains arising on transfer of foreign exchange asset on 21.7.2024 (computed)	₹5,50,000
Expenditure wholly and exclusively incurred in connection with such transfer (not considered above)	₹80,000
Interest on Government Securities	₹85,000
Interest on Deposits with public limited companies	₹2,60,000
(B)	
Savings and Investments	
Investment in notified savings certificates referred to in section 10 (4B) on 30.3.2025	₹1,00,000
Investment in shares of Indian public limited companies on 31.12.2025	₹4,00,000
(C)	
Tax deducted at source	₹1,91,000

Compute balance tax payable/refund due for the assessment year 2025-26 in accordance with special provision applicable to non-residents. Assume assessee opted out from section 115BAC.

[7]



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Answer:

- (a) Computation of depreciation on assets if there were no succession

Particulars	Building	Furniture	Plant & Machinery
Rate of depreciation	10%	10%	15%
W.D.V. as on 1/4/2024 (₹)	3,50,000	50,000	2,00,000
Add: Purchase during the year (₹)	Nil	Nil	1,00,000*
	3,50,000	50,000	3,00,000
Less: Sale during the year (₹)	Nil	Nil	Nil
	3,50,000	50,000	3,00,000
Depreciation (₹)	35,000	5,000	37,500

It is assumed that the assessee is not entitled for additional depreciation.

* Without considering assets acquired after succession. **[(₹2,00,000 × 15%) + (₹1,00,000 × 15% × ½)]

Allocation of depreciation between sole proprietary concern and the successor company

The depreciation is to be allocated in the ratio of number of days the assets were used by the sole proprietary concern and the successor company.

Calculation of allowable depreciation to sole proprietary concern

Particulars	Amount (₹)
Depreciation on assets held as on 01/04/2024	
Assets are used by sole proprietary concern from 1/4/2024 to 28/11/2024 i.e. 242 days, hence depreciation shall be allowed for 242 days	
- Building (₹35,000 × 242/365)	23,205
- Furniture (₹5,000 × 242/365)	3,315
- Plant and Machinery (₹30,000 × 242/365)	19,890
Depreciation on newly acquired assets	
New asset has been used by it from 15/10/2024 to 28/11/2024 i.e. 45 days, hence depreciation shall be allowed for 45 days	
- Plant and Machinery (₹7,500 × 45/168)	2,009
Depreciation allowable u/s 32	48,419

Calculation of allowable depreciation to successor company

Particulars	Amount (₹)
Depreciation on assets held by sole-proprietary concern as on 01/04/2024	
Asset of sole proprietary concern used by the successor company from 29/11/2024 to 31/3/2025 i.e. 123 days, hence depreciation shall be allowed for 123 days	
- Building (₹35,000 × 123/365)	11,795
- Furniture (₹5,000 × 123/365)	1,685
- Plant and Machinery (₹30,000 × 123/365)	10,110



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Depreciation on assets acquired by sole-proprietary concern during the year	
New asset has been used by it from 29/11/2024 to 31/03/2025 i.e. 123 days, hence depreciation shall be allowed for 123 days	
- Plant and Machinery ($\text{₹}7,500 \times 123/168$)	5,491
After conversion	
Depreciation in respect of plant purchased by the successor company is fully allowable in the hands of successor company [50% of 15% on ₹50,000].	3,750
Total Depreciation	32,831

(b) **Computation of tax payable/refund due to Mr. Anand for A.Y. 2025-26**

Particulars	₹	₹
Capital Gains:		
Long-term capital gains on transfer of foreign exchange asset on 21.7.2024	5,50,000	
Less: Expenditure wholly and exclusively incurred with such transfer	80,000	4,70,000
Less: Exemption u/s 115F		
Investment of ₹1,00,000 in notified saving certificates referred to in section 10(4B) on 30.3.2025 [Investment in notified saving certificates referred to in section 10(4B) is to be made within six months after the date of transfer i.e. on or before 21.1.2025. Since investment is made after 21.1.2025, no exemption would be allowed]	Nil	
Investment of ₹4,00,000 in shares of Indian Public Limited Companies on 31.12.2025 [Investment in specified assets, being shares in an Indian company is to be made within six months after the date of transfer i.e., on or before 21.1.2025. Since investment is made after 21.1.2025, no exemption would be allowed]	Nil	Nil
		4,70,000
Income from other sources		
Investment Incomes		
Interest on Government Securities	85,000	
Interest on deposits with public limited companies	2,60,000	3,45,000
Total Income		8,15,000
Tax liability [applying the special provision under Chapter XII-A]		
Tax@20% on investment income = 20% of ₹3,45,000	69,000	
Tax@10% on long-term capital gains = 10% of ₹4,70,000	47,000	1,16,000
Add: Health and education cess@4%		4,640
Tax liability		1,20,640
Less: TDS		1,91,000
Refund due		70,360



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- 5) (a) Briefly explain the remedial measures and time limit to the assessee who is aggrieved of the following:
- (i) Order passed under section 143(3) by the Assessing Officer.
 - (ii) Order passed under section 263 by the Commissioner of Income-tax.
 - (iii) Order passed under section 254 by ITAT. [7]
- (b) Mr. Gugu (age 77) was the Senior Officer of Rx Motors (P) Ltd. at Gujrat. He retired in June, 2009 and left India permanently in January, 2012. It came to the notice of the Joint Director of Income-tax (Investigation) in June, 2024 that Mr. Gugu had accumulated assets during the previous year 2008-09 exceeding ₹500 lakhs outside India (consisting of residential apartments and deposits in banks) which were not disclosed for income-tax purposes up to the assessment year 2012-13 for which the return of income was filed in India. Mr. Gugu was served with a notice under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 in August, 2024.
- Mr. Gugu is of the opinion that since 10 years have elapsed from the last assessment year in which he was assessed in India, no proceedings could be initiated against him under the Income-tax Act, 1961 and the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015. Mr. Gugu is a non-resident for the assessment year 2024-25.
- Discuss the liability of Mr. Gugu under the Black Money law and state the procedure and methodology for determination of the value of undisclosed asset outside after evaluating the validity of the contentions raised by him. [7]

Answer:

- (a) (i) **Order passed under section 143(3) by the Assessing Officer:**
- An assessee, aggrieved by the order passed under section 143(3) by the Assessing Officer, can file an appeal before the Joint Commissioner (Appeals)* under section 246 or the Commissioner of Income tax (Appeals) under section 246(A)(1).
- The time limit for filing appeal is within 30 days of the date of service of the notice of demand relating to the assessment.
- However, where the assessee does not want to prefer an appeal, then he can move a revision petition before the Principal Commissioner or Commissioner of Income Tax under section 264.
- The time limit is within one year from the date on which the order was communicated to him or the date, on which he otherwise came to know of it, whichever is earlier.
- (ii) **Order passed under section 263 by the Commissioner of Income-tax**
- An assessee aggrieved by the order passed under section 263 by the Commissioner of Income-tax can file an appeal to the Income-tax Appellate Tribunal under section 253(1)(c).
- The time limit is within 60 days of the date on which the order sought to be appealed against is communicated to the assessee.

**DIRECT TAX LAWS AND INTERNATIONAL TAXATION****(iii) Order passed by ITAT under section 254**

An assessee aggrieved by the order passed under section 254 by the Income-tax Appellate Tribunal can file an appeal before the High Court under section 260A.

The time limit is within 120 days from the date of receipt of order of Income Tax Appellate Tribunal.

However, such appeal can be filed only where the order gives rise to a substantial question of law.

(b) The contention of Mr. Gugu that proceedings under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (“Black Money Act”) are barred by limitation is not tenable.**1. Validity of contention**

- The time limitation under the Income-tax Act, 1961 does not apply to the Black Money Act.
- There is no time limit for initiation of proceedings under the Black Money Act.
- Therefore, proceedings can be initiated against Gugu even though 10 years have elapsed from the last assessment year in which he was assessed in India.

2. Taxability under Black Money Act

- As per section 3, every assessee is liable to tax @ 30% in respect of his undisclosed foreign income and asset of the previous year.
- Undisclosed foreign asset is taxable in the previous year in which such asset comes to the notice of the Assessing Officer.
- In this case, the assets came to the notice of the Joint Director of Income-tax (Investigation) in June 2024 and notice was served in August 2024. Hence, such assets are taxable in P.Y. 2024-25 (A.Y. 2025-26).

3. Residential status and meaning of assessee

- Though Gugu is a non-resident in P.Y. 2024-25, he was a resident in P.Y. 2008-09, the year in which he acquired the undisclosed foreign assets.
- Section 2(2) of the Black Money Act includes within the definition of *assessee* a non-resident or not ordinarily resident who was resident in India in the year of acquisition of the undisclosed foreign asset.
- Accordingly, Gugu is an assessee under the Black Money Act, even though he is a non-resident in 2024-25.

4. Valuation of undisclosed asset

- The relevant valuation date is 01.04.2024 (the first day of the previous year in which it comes to the notice of the AO).
- As per Rule 3 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Rules, 2015:
 - Residential apartments abroad → Higher of (i) cost of acquisition, and (ii) fair market value in the open market on valuation date.
 - Bank deposits abroad → Aggregate of all deposits made since the date of opening of the account, excluding redeposits out of withdrawals.

**DIRECT TAX LAWS AND INTERNATIONAL TAXATION****5. Penalty provisions**

- In addition to tax @ 30%, Gugu is liable to penalty under section 41 of the Act, equal to three times the tax payable.

Conclusion:

Mr. Gugu's plea of limitation is invalid. He is liable to pay tax @30% on the FMV of undisclosed foreign assets as on 01.04.2024, being the year of discovery, along with penalty equal to three times the tax. Valuation shall be done as per Rule 3 of the Black Money Rules, 2015.

- 6) (a) Describe the methods of Bilateral relief in Double Taxation Avoidance Agreements (DTAAs) and briefly explain how unilateral relief is provided in the Income-tax Act, 1961. [7]

- (b) Ankit (Age 53 years) is the CFO of Bharat India Ltd. since 01.04.2020. his income in India consists of

- (i) Salary (before standard deduction) of ₹25.25 lakhs;
- (ii) Interest in respect of self-occupied property of ₹1,80,000;
- (iii) Interest of bank fixed deposits ₹1,50,000.

He has the following income for the year ended 31st March 2025 in Country 'A'.

- (i) Income from business in Country A = USD 25,000;
- (ii) Rent from house property in Country A = USD 4,500;
- (iii) Municipal taxes in respect of the above house (Not allowed as deduction in Country A) = USD 450;
- (iv) Dividend from shares held in Country 'A' where dividend was declared and paid in March, 2025 = USD 10,000;
- (v) Short term capital gain of USD 5,000 on sale of shares of companies registered in Country 'A' and sale proceeds were credited in bank account outside India on 28.03.2025.

India has DTAA with Country 'A' and the tax paid in Country 'A' is eligible for tax credit in India. The fiscal year for income-tax is the same both in Indian and Country 'A'. Rate of tax is 20% in Country 'a' in respect of all incomes. Income-tax was paid by Ankit on 25.05.2025 for the incomes of the year ended 31st March 2025 in Country 'A'.

Compute the total income and net tax liability of Ankit for the A.Y. 2025-26. Assume Ankit pays tax u/s 115BAC.

The TT buying rate of 1 USD on various dates: 29.02.2025 = ₹70; 28.03.2025 = ₹71; 31.03.2025 = ₹72; 30.04.2025 = ₹74; and 25.05.2025 = ₹75. [7]

Answer:

- (a) Methods of Bilateral relief in Double Taxation Avoidance Agreements (DTAAs)

Bilateral Relief: In cases where there is DTAA between two tax jurisdictions, Bilateral relief is provided.

There are two ways by which the jurisdictions may agree to provide relief from double taxation viz.

Exemption method and Credit method.



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Exemption Method:

In this method, one country provides an exemption to such type of income, which is generally the country of residence.

- (i) Full Exemption Method: Under this method, income earned in the State of source is fully exempt in the State of residence.
- (ii) Exemption with progression: Under this method, income from the State of source is considered by the State of residence only for rate purposes.

Credit Method:

In this method, the taxpayer remains liable in the country of residence on his / its global income. However, as far as the quantum of tax liabilities is concerned, credit or deduction for tax paid in the source country is given by the country of residence against its domestic law as if the foreign tax were paid to the country of residence itself.

- (i) Full credit:
Total tax paid in the State of source is allowed as credit against the tax payable in country of residence.
- (ii) Ordinary Credit:
State of residence allows credit of tax paid in the State of source restricted to the part of income-tax which is attributable to the income taxable in the State of residence.
- (iii) Tax Sparing:
State of residence allows credit for deemed tax paid on income which is otherwise exempt from tax in the country of source.
- (iv) Underlying tax credit:
Credit is allowed to resident not only for the taxes withheld against the dividend income but also for the taxes paid on the underlying profits out of which dividend is paid by a company in the overseas jurisdiction. However, underlying credit may only apply if satisfaction of substantial shareholding requirement is met.

Unilateral method of relief provided in the Income-tax Act, 1961:

Section 91 of the Income-tax Act contains unilateral relief where there is no DTAA between India and foreign jurisdiction.

If any person resident in India proves that his income which accrued or arose outside India and he has paid tax thereon he shall be entitled to the deduction from the Indian income-tax payable of a sum calculated on such doubly taxed income at the Indian rate of tax or the rate of tax in the said foreign country whichever is lower or at the Indian rate if both the rates are equal.

Indian rate of tax means the rate determined by dividing the amount of Indian income-tax (including surcharge and cess) by the total income. Such rate is applied on the foreign income by way of relief under section 91.

**DIRECT TAX LAWS AND INTERNATIONAL TAXATION**

(b) Computation of total income of Ankit for A.Y. 2025-26 as per section 115BAC:

Since Mr. Ankit is a resident in India for the P.Y.2024-25, his global income would be subject to tax in India. Therefore, income earned by him in country A would be taxable in India.

Particulars	₹	₹
Salaries		
Salaries form Bharat India Ltd.	25,25,000	
Less: Standard deduction u/s 16(ia)	75,000	24,50,000
Income from house property		
Let out property in Country A		
Gross Annual Value*	USD 4,500	
Less: Municipal taxes	USD 450	
Net Annual Value	USD 4,050	
Less: Deduction u/s 24 – 30% of NAV	USD 1,125	
	UDS 2,835	
[\$ 2,835 x 72, being the last day of previous year i.e., 31.3.2025 as per Rule 115]	2,04,120	
Self-occupied property in India		
Loss form self-occupied property [Interest u/s 24(b) is not allowable in respect of self-occupied property u/s 115BAC]	-	2,04,120
Profits and gains from business or profession		
Income from business in Country A		18,00,000
[\$ 25,000 x 72, being the last day of previous year i.e., 31.3.2025 as per Rule 115]		
Capital Gains		
Short term capital gains on sale of shares of companies registered in Country A [\$ 5,000 x 70, being the last day of the month immediately preceding the month in which the shares are transferred i.e., 29.2.2025 as per Rule 115]		3,50,000
Income from Other Sources		
Interest on bank fixed deposits	1,50,000	
Dividend from shares held in Country A	7,00,000	
[\$10,000 x 70, being the last day of the month immediately preceding the month in which the dividend is declared i.e., 29.2.2025 as per Rule 115]		8,50,000
Gross Total Income /Total Income		<u>56,54,120</u>

* Rental Income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.

**DIRECT TAX LAWS AND INTERNATIONAL TAXATION**

Computation of Net tax liability of Ankit for A.Y.2025-26

Particulars	Amount (₹)	Amount (₹)
Upto ₹3,00,000	Nil	
₹3,00,001 – ₹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 – ₹15,00,000 [i.e., 3,00,000@20%]	60,000	
₹15,00,001 – ₹56,54,120 [i.e., 41,54,120@30%]	12,46,236	13,86,236
Add: Surcharge @10% [Since total income exceed ₹50 lakhs but does not exceed ₹1 crore]		1,38,624
		15,24,860
Add: Health & Education Cess@4%		60,994
		15,85,854
Less: Foreign tax credit, being lower of -		
- Tax payable in India @28.04% on ₹30,54,120, being income form house property of ₹2,04,120, business income of ₹18,00,000 plus capital gains of ₹3,50,000 plus dividend income of ₹7,00,000 [i.e., ₹15,85,854/₹56,54,120 x 100] = 28.04%	8,56,375	
- Tax paid in Country A@20% [₹44,500@20% x 74, being the rate on 30.4.2025, being the last day of the month immediately preceding the month in which tax is paid i.e., May 2025]	6,58,600	
		6,58,600
Net tax liability		9,27,254
Net tax liability (Rounded off)		9,27,250

7. (a) Compute ALP through following information:

- A Ltd. is a distributor of IT products.
- A Ltd. purchases these products from its related party, P Ltd.
- A Ltd. also trades in laptops manufactured by X Ltd.
- P Ltd as well as X Ltd would supply the warranty replacements free of cost to A Ltd.
- Other details are as under:

Particulars	P Ltd (AE)	X Ltd
Purchase price of A Ltd.	INR 15,000	INR 22,000
Sale price of A Ltd	INR 18,000	INR 26,000
Other expenses incurred by A Ltd	INR 500	INR 700

[7]

- (b) Discuss the cases where an assessee shall make a secondary adjustment in the context of transfer pricing. [7]



DIRECT TAX LAWS AND INTERNATIONAL TAXATION

Answer:**(a)** Computation of gross profit margin on unrelated transaction

Particulars	Amount (₹)
Sale price of laptop in India	26,000
Expenses incurred by A Ltd	700
Net Sale proceeds of laptop in India [A]	25,300
Purchase price [B]	22,000
Gross profit [A - B]	3,300
GP on sale (%)	12.69%

Computation of arm's length price

Particulars	Amount (₹)
Sales price of desktop in India	18,000
Less: Expenses incurred by A ltd	500
Less: Arm's length resale margin @ 12.69% of sale	2,284
Arm's length purchase price	15,216
Purchase price paid to AE	15,000

Thus, no adjustment is required.

- (b)** “Secondary adjustment” means an adjustment in the books of account of the assessee and its associated enterprise to reflect that the actual allocation of profits between the assessee and its associated enterprise are consistent with the transfer price determined as a result of primary adjustment, thereby removing the imbalance between cash account and actual profit of the assessee.

The provisions are enumerated here-in-below:

- Where a primary adjustment to transfer price:
 - i. has been made suo motu by the assessee in his return of income;
 - ii. made by the Assessing Officer has been accepted by the assessee;
 - iii. is determined by an advance pricing agreement entered into by the assessee u/s 92CC on or after 01-04- 2017;
 - iv. is made as per the safe harbour rules framed u/s 92CB; or
 - v. is arising as a result of resolution of an assessment by way of the mutual agreement procedure under an agreement entered into u/s 90 or 90A for avoidance of double taxation, - the assessee shall make a secondary adjustment.

Exception: Nothing contained in this section shall apply, if:

- i. the amount of primary adjustment made in any previous year does not exceed ₹ 1 crore; or
- ii. the primary adjustment is made in respect of an assessment year commencing on or before 01-04-2016.

**DIRECT TAX LAWS AND INTERNATIONAL TAXATION**

- Where, as a result of primary adjustment to the transfer price, there is an increase in the total income or reduction in the loss, as the case may be, of the assessee, the excess money (or part thereof) which is available with its associated enterprise, if not repatriated to India within the time as may be prescribed, shall be deemed to be an advance made by the assessee to such associated enterprise and the interest on such advance, shall be computed in such manner as may be prescribed [Sec. 92CE(2)]
 - Excess money means the difference between the arm's length price determined in primary adjustment and the price at which the international transaction has actually been undertaken;
 - Primary adjustment to a transfer price, means the determination of transfer price in accordance with the arm's length principle resulting in an increase in the total income or reduction in the loss, as the case may be, of the assessee;
 - Excess money (or part thereof) may be repatriated from any of the associated enterprises of the assessee which is not a resident in India.

8. (a) The net profit of Renuka Ltd., an Indian company, as per its profit and loss account prepared as per the Income-tax Act, 1961 is ₹ 90,00,000 after debiting and crediting following items:

	(₹)
Provision for income-tax	5,00,000
Provisions for deferred tax	3,00,000
Proposed dividend	7,50,000
Depreciation including depreciation on revaluation of assets ₹ 20,00,000 debited to profit and loss account	60,00,000
Profit from industrial unit in SEZ area	80,000
Provision for permanent diminution in the value of investments	70,000

Compute tax liability under section 115JB for the assessment year 2025-26.

[7]

- (b) Discuss the conditions which needs to be satisfied for Deemed to be Associated Enterprises.

[7]

Answer:

- (a) Computation of Book Profit for the purpose of Sec. 115JB:

Particulars	Details (₹)	Amount (₹)
Net profit as per books of accounts		90,00,000
Add:		
Provision for income tax	5,00,000	
Provisions for deferred tax	3,00,000	
Provision for permanent diminution in the value of investments	70,000	
Proposed dividend	7,50,000	



DIRECT TAX LAWS AND INTERNATIONAL TAXATION

Depreciation	60,00,000	76,20,000
		1,66,20,000
Less:		
Depreciation (without considering depreciation on revaluation)	40,00,000	
Profit from industrial unit in SEZ area	Nil	40,00,000
Book Profit		1,26,20,000

Computation of Tax Liability under section 115JB:

Particulars	Amount (₹)
Book profit u/s 115JB	1,26,20,000
15% of book profit	18,93,000
Add: Surcharge [As total income exceeds ₹ 1,00,00,000/-]	1,32,510
Tax & Surcharge	20,25,510
Add: Health & Education Cess @ 4%	81,020
Tax Liability u/s 115JB	21,06,530

The tax liability u/s 115JB is required to be compared with tax liability calculated on income calculated as per other provisions of the Act.

- (b) Two enterprises shall be deemed to be associated enterprises if, at any time during the previous year fulfill any of the following conditions (if one of following conditions are not satisfied, then mere participation in management or control or capital of the other enterprise, etc. shall not make them associate):
1. one enterprise holds (directly or indirectly) shares carrying not less than 26% of the voting power (i.e., equity shares in case of company) in the other enterprise; or
 2. any person or enterprise holds (directly or indirectly) shares carrying not less than 26% of the voting power in each of such enterprises; or
 3. the manufacture or processing of goods or articles or business carried out by one enterprise is wholly (not partially) dependent on the use of know-how, patents, copyrights, trade-marks, licences, franchises or any other business or commercial rights of similar nature, or any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process, of which the other enterprise is the owner or in respect of which the other enterprise has exclusive rights; or
 4. 90% or more of the raw materials and consumables required for the manufacture or processing of goods or articles carried out by one enterprise, are supplied by the other enterprise or by persons specified by the other enterprise, and the prices and other conditions relating to the supply are influenced by such other enterprise; or
 5. the goods or articles manufactured or processed by one enterprise, are sold to the other enterprise or to persons specified by the other enterprise, and the prices and other conditions relating thereto are influenced by such other enterprise; or



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6. where one enterprise is controlled by an individual, the other enterprise is also controlled by such individual or his relative or jointly by such individual and relative of such individual; or
7. where one enterprise is controlled by a Hindu undivided family, the other enterprise is controlled by a member of such Hindu undivided family, or by a relative of a member of such Hindu undivided family, or jointly by such member and his relative; or
8. where one enterprise is a firm, association of persons or body of individuals, the other enterprise holds not less than 10% interest in such firm, association of persons or body of individuals; or
9. a loan advanced by one enterprise to the other enterprise constitutes not less than 51% of the book value of the total assets of the other enterprise; or
10. one enterprise guarantees not less than 10% of the total borrowings of the other enterprise; or
11. more than $\frac{1}{2}$ of the board of directors or members of the governing board, or one (not $\frac{1}{2}$ of total number of executive director) or more executive directors or executive members of the governing board of one enterprise, are appointed by the other enterprise; or
12. more than $\frac{1}{2}$ of the directors or members of the governing board, or one or more of the executive directors or members of the governing board, of each of the two enterprises are appointed by the same person or persons; or
13. there exists between the two enterprises, any relationship of mutual interest, as may be prescribed.