



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) Mrs. Sandhya, aged 38 years, is engaged in the business of growing, curing, roasting, and grinding coffee in India after mixing it with chicory. During the financial year ended 31st March 2025, she earned an income of ₹6,00,000 from this business, which was her only source of income. Based on the facts given, is Mrs. Sandhya required to file a return of income for A.Y. 2025–26 under Section 139(1)?
- (a) Yes, because her total income exceeds ₹2,50,000.
(b) Yes, because income from coffee mixed with chicory is fully taxable as business income.
(c) No, because 40% of her income is taxable, which is below the basic exemption limit.
(d) No, because agricultural income is exempt in all cases.
- (ii) When an assessee has paid advance tax more than the tax due on the returned income and the return is filed before the 'due date' specified in section 139(1), the refund amount is eligible for interest @ —
- (a) 1% per month
(b) ½% per month
(c) ¾% per month
(d) 1.50% per month
- (iii) As per section 115JB, every taxpayer being a company is liable to pay MAT, if the Income tax payable on the total income, computed as per the provisions of the Income-tax Act in respect of any year is less than _____
- (a) 15.50%
(b) 18.00%
(c) 15.00%
(d) 20.00%
- (iv) Assessing Officer or the assessee, as the case may be, on receipt of notice that an appeal against the order of the Commissioner (Appeals) has been filed by the other party, may file a memorandum of cross objection with the Tribunal in Form _____ and within _____ days of receipt of notice that appeal has been filed by the other party
- (a) Form 36A; 15 days
(b) Form 36A; 45 days
(c) Form 36A; 30 days
(d) Form 36; 60 days
- (v) If the amount of income in respect of which the penalty is imposed or imposable for the relevant

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- year(s) exceeds ₹ _____, then no order reducing or waiving the penalty under section 273A(1) shall be made by the Principal Commissioner or Commissioner, except with the previous approval of the Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General, as the case may be
- (a) 1,00,000
(b) 2,00,000
(c) 5,00,000
(d) 10,00,000
- (vi) Z Ltd issues a credit note for ₹ 36,000 for brokerage payable to A, who is the son of G, managing director of the company. The purpose is to reduce Z ltd. income and increase A's income from ₹18,000 to ₹ 54,000. This is the case of
- (a) Tax Avoidance
(b) Tax Planning
(c) Tax Evasion
(d) Tax Management
- (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 rate of tax provided by the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 is
- (a) 30%
(b) 60%
(c) 50%
(d) None of the above
- (ix) For computing capital gain under Section 50B, the cost of acquisition of the undertaking is taken as:
- (a) Market value of assets
(b) Written-down value of fixed assets
(c) Net worth of the undertaking
(d) Indexed cost of acquisition
- (x) During A Co. Ltd. of Chennai and Sky Inc. of Singapore are associate enterprises. A Co. Ltd. imported 1000 television sets at ₹ 16,000 per set without any warranty period. A Co. Ltd. also imports similar TV sets from unrelated party Sign Inc. of Japan. It is imported at ₹15,000 per set with warranty time of 2 years. The cost of warranty in respect of goods imported from Sky Inc. for a period of 2 years would cost ₹ 2,000. Determine the Arm's Length Price (ALP) per television set using the Comparable Uncontrolled Price (CUP) Method.
- (a) ₹ ₹15,000 per unit
(b) ₹ 13,000 per unit
(c) ₹16,000 per unit



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- (d) ₹ 17,000 per unit
- (xi) Under the Indian Income Tax Act, an APA is valid for a period of:
- 2 consecutive assessment years
 - 3 consecutive assessment years
 - Up to 5 consecutive assessment years
 - Up to 10 consecutive assessment years
- (xii) In India, under Income-tax Act, 1961 Section 92CE, a secondary adjustment arises when a primary transfer pricing adjustment has been made and:
- the excess money is repatriated to India within 90 days
 - the excess money is not repatriated to India within 90 days
 - the primary adjustment is less than ₹1 crore
 - no primary adjustment has been made
- (xiii) The main purpose of DTAA is to:
- Increase global tax rates
 - Avoid tax evasion only
 - Avoid double taxation on the same income
 - Restrict foreign investments
- (xiv) The OECD Model Tax Convention is primarily designed for:
- Developing nations
 - Developed nations
 - Middle-income countries
 - Least developed countries
- (xv) Main objective of GAAR is to:
- Reduce tax rates
 - Prevent aggressive tax avoidance
 - Promote foreign trade
 - Encourage tax shelters

Answer:

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

SECTION – B

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

[5 x 14 = 70]

- 2) (a) A public charitable trust registered under section 12AB, for the previous year ending 31.3.2025, derived gross income of ₹ 21 lakhs, which consists of the following:



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| | (₹ in Lacs) |
|---------------------------------------------------------|-------------|
| Income from properties held by trust (net) | 12 |
| Income (net) from business (incidental to main objects) | 4 |
| Voluntary contributions from public | 5 |

The trust applied a sum of ₹11.60 lacs towards charitable purposes during the year which includes repayment of loan taken for construction of orphanage ₹3.60 lacs. The entire expenditure incurred on construction of orphanage was allowed as application of income in the P.Y. 2020-21.

Compute the taxable income of the trust for the assessment year 2025-26.

[7]

(b) Uttar and Dakshin, partners of PP Traders, furnishes the following details –

Profit and loss account for the year ended 31-3-2025

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|----------------------------------|-------------|----------------------|-------------|
| Bonus paid to employee | 50,000 | Gross Profit | 20,00,000 |
| Interest on loan taken from bank | 45,000 | Interest on drawings | |
| Other Expenses | 40,000 | Uttar | 2,000 |
| Salary to partners | | Dakshin | 3,000 |
| Uttar | 4,88,000 | | |
| Dakshin | 9,76,000 | | |
| Interest on capital @ 15% | | | |
| Uttar | 4,500 | | |
| Dakshin | 6,000 | | |
| Depreciation | 40,000 | | |
| Net profit | 3,55,500 | | |
| | 20,05,000 | | 20,05,000 |

Additional information

1. Depreciation for the year allowed u/s 32 is ₹30,000.
2. During the last year, firm has incurred loss of ₹ 17,00,000 (which includes unabsorbed depreciation of ₹1,00,000).
3. Interest on loan taken from bank is yet to be paid.

Compute total income of firm.

[7]

Answer:

(a) Computation of taxable income of public charitable trust

| Particulars | Amount |
|---------------------------------------------------------|-----------|
| Income from property held under trust (net) | 12,00,000 |
| Income (net) from business (incidental to main objects) | 4,00,000 |



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| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Voluntary contributions from public (Voluntary contribution made with a specific direction towards corpus are alone to be excluded under section 11(1)(d). In this case, there is no such direction and hence, included.) | 5,00,000 |
| | 21,00,000 |
| Less: 15% of the income eligible for retention / accumulation without any conditions | 3,15,000 |
| | 17,85,000 |
| Less: Amount applied for the objects of the trust | |
| (i) Amount spent for charitable purposes (₹15,25,000 - ₹ 3,25,000) | 12,00,000 |
| (ii) Repayment of loan for construction of orphan home (See Note below) | - |
| Taxable Income | 5,85,000 |

Note - As per Explanation 4(ii) to section 11(1), any application of income for charitable or religious purposes out of loans or borrowings in the year of utilization shall not be treated as application of income. Such expenditure will be treated as application in the year in which the loan is repaid.

However, the fourth proviso to Explanation 4(ii) provides that this rule shall not apply to loans or borrowings taken on or before 31.03.2021. In such cases, the earlier practice continues, i.e., the expenditure incurred out of such loans was allowed as application in the year of utilization itself.

In the present case, the expenditure on construction of the orphanage was allowed as application in P.Y. 2020-21. Therefore, repayment of the loan during the current year will not again qualify as application of income, as that would amount to a double deduction.

(b) Working 1 Computation of remuneration allowed to the partners

| Particulars | Details | Amount |
|---------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Profits and gains of business or profession | | |
| Net profit as per Profit & loss account | | 3,55,500 |
| Add: Expenditure disallowed but debited in P/L A/c | | |
| Salary to partners | 14,64,000 | |
| Interest on capital (in excess of 12%) [(₹ 4,500 + ₹ 6,000)/15 × 3] | 2,100 | |
| Depreciation | 40,000 | |
| Interest on loan taken from bank is disallowed u/s 43B | 45,000 | 15,51,100 |
| | | 19,06,600 |
| Less: Expenditure allowed but not debited in P/L A/c | | |
| Depreciation | | 30,000 |
| | | 18,76,600 |
| Less: Unabsorbed Depreciation (allowed to the extent that the remaining book profit is not less than brought forward business losses) | | 1,00,000 |
| Book profit | | 17,76,000 |
| Remuneration paid to the partners (being minimum of the following) | | |
| Actual remuneration | 14,64,000 | |
| Maximum remuneration u/s 40(b) [₹6,00,000 × 90% + ₹11,76,600 × 60%] | 12,45,960 | 12,45,960 |

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Computation of total income of PP Traders for A.Y. 2025-26

| Particulars | Amount |
|---------------------------------------------------------------------------------------------------------|-----------|
| Book Profit before adjusting unabsorbed depreciation | 18,76,600 |
| Less: Salary to partner (as computed above) | 12,45,960 |
| | 6,30,640 |
| Less: Brought forward business loss | 6,30,640 |
| Total Income | Nil |
| Remaining brought forward loss ₹10,69,360 & unabsorbed depreciation ₹1,00,000 shall be carried forward. | |

3) (a) Babloo, an Indian resident aged 34 years started his retail trade business from 01.04.2024. He gives the following information to you relating to FY 2024-25:

(i) Net profit as per Profit & Loss account ₹ 51,70,000

(ii) Net profit includes gross rent received from let-out property ₹ 1,20,000.

(iii) Interest debited to Profit & Loss A/c includes interest on loan taken for the purchase of let-out house property ₹ 2,20,000.

Additional information (Not passed through Profit & Loss A/c):

(i) Deposit in PPF ₹ 2,00,000

(ii) Medical Insurance Premium paid for self and spouse ₹ 30,000.

Compute total income and tax payable by Babloo for the Assessment Year 2025-26 under both, default as well as normal regime and suggest which option is better.

[7]

(b) P Ltd. owns two undertakings. Undertaking-A is eligible for deduction u/s 80-IA and Undertaking-B are not eligible for such deduction. The date of commencement of operation in both the undertaking is 14th September, 2024. The profits earned by both the undertaking are as under:

| Previous Year | Undertaking-A (₹ in Lakhs) | Undertaking-B (₹ in Lakhs) |
|---------------|----------------------------|----------------------------|
| 2024-25 | (-) 6 | (-) 4 |
| 2025-26 | (-) 4 | 10 |
| 2026-27 | 5 | 9 |
| 2027-28 | 8 | 6 |
| 2028-29 | 9 | (-) 3 |

Calculate total income of P Ltd. for last three assessment years.

[7]

Answer:

(a) Computation of total income and tax payable of Babloo for the AY 2025-26

| Particulars | Default regime | Normal regime |
|---------------|----------------|---------------|
| | ₹ | ₹ |
| Rent received | 1,20,000 | |



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| Less: Standard deduction @ 30% | 36,000 | |
| Interest on loan | 2,20,000 | |
| Loss from house property (Loss is not eligible for set off under default regime) | Nil | (1,36,000) |
| Income from PGBP | | |
| Net profit as per P/L A/c | 51,70,000 | |
| Add: Interest on loan taken for let out property | 2,20,000 | |
| Less: Gross rent received, not being business income | (1,20,000) | |
| Income from Business | 52,70,000 | 52,70,000 |
| Less: Deduction under Chapter VI-A | Nil | |
| Deduction u/s 80C (restricted to ₹ 1,50,000) (Deposit in PPF is assumed to be made for self, his spouse or any child) | | 1,50,000 |
| Deduction u/s 80D (restricted to ₹ 25,000) (It is assumed that the premium has been paid by any permissible mode, other than cash) | | 25,000 |
| Total income | 52,70,000 | 49,59,000 |
| Tax on total income | 12,71,000 | 13,00,200 |
| Add: Surcharge @ 10% | 1,27,100 | Nil |
| Add: Cess @ 4% | 55,924 | 52,008 |
| Tax liability | 14,54,024 | 13,52,208 |
| Tax liability (rounded off) | 14,54,020 | 13,52,210 |
| Conclusion: Normal i.e. old regime is beneficial since the tax payable is lower. | | |

- (b) In the given case, the entire loss of the undertaking A has been set-off under Sections 70 & 72 till the A.Y 2027-28

| Assessment Year | Unit A | Unit B | GTI | Carried forward losses |
|-----------------|--------|--------|-----|------------------------|
| 2025-26 | -6 | -4 | Nil | -10 |
| 2026-27 | -4 | 10 | Nil | -4 |
| 2027-28 | 5 | 9 | 10 | Nil |
| 2028-29 | 8 | 6 | 14 | Nil |
| 2029-30 | 9 | -3 | 6 | Nil |

There is no loss brought forward for earlier years for the Assessment Year 2028-29 and subsequent year. However, to compute profit eligible for tax holidays u/s 80-IA, it is assumed that the undertaking is the only unit owned by P. Ltd. Consequently, deduction u/s 80-IA is as under:

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Computation of Total Income

| Particulars | A.Y. 2027-28 | A.Y. 2028-29 | A.Y. 2029-30 |
|--------------------------------------------|--------------|--------------|--------------------------|
| Profit from Unit A | 5 | 8 | 9 |
| Add: Profit from Unit B | 9 | 6 | -3 |
| Gross Total Income (a) | 14 | 14 | 6 |
| Less: Deduction u/s 80-IA | | | |
| Current year profit of Unit A | 5 | 8 | 9 |
| Less: Notional B/F loss from earlier years | -10 | -5 | Nil |
| Balance | -5 | 3 | 9 |
| Deduction U/S 80-IA @ 100% (b) | Nil | 3 | 6 (Restricted to GTI) |
| Total Income [(a)-(b)] | 14 | 11 | Nil |

- 4) (a) Smile Ltd. is a wholly-owned subsidiary company of Happy Ltd., an Indian company. Smile Ltd. owns Plant-A and Plant-B (depreciation rate 40%, depreciated value of the block ₹ 3,00,000 on 1st April, 2024). Plant-B was purchased and put to use on 10th November, 2022 (cost being ₹ 70,000). Plant-B is transferred by Smile Ltd. To Happy Ltd. on 14th December, 2024 for ₹ 20,000. It is put to use by Happy Ltd. on the same day. Happy Ltd. Owns Plant-C on 1st April, 2024 (depreciation rate 40%, depreciated value ₹ 60,000). Calculate the amount of depreciation in the hands of Smile Ltd. and Happy Ltd. for the assessment year 2025-26.

[7]

- (b) Anthony, a non-resident Indian, acquired 1,000 shares in A Ltd. (an Indian Company) for ₹ 20,000 by utilizing foreign currency (SGP \$) on 18/08/2024. On 16/09/2024, Anthony sold such shares for ₹ 45,000 and utilized the proceeds in acquisition of 500 shares of B Ltd. (an Indian Company) after paying expenditure on transfer on 13/9/2024 ₹ 5,000. Compute capital gain liability in the previous year 2024-25.

| Date | Buying rate ₹ | Selling rate ₹ |
|------------|------------------|-------------------|
| 18/08/2024 | 45 | 46 |
| 13/09/2024 | 48 | 50 |
| 16/09/2024 | 46 | 48 |

[7]

Answer:

- (a) Depreciation in the hands of Smile Ltd. for the assessment year 2025-26

| Particulars | Amount (₹) |
|-----------------------------------------------------------------------|------------|
| Depreciated value of the Plant A and B on 1 st April, 2024 | 3,00,000 |
| Less: Plant B transferred to Happy Ltd | 20,000 |
| WDV as on 31 st March, 2025 | 2,80,000 |
| Depreciation for the block P.Y.2024-25 | 1,12,000 |
| WDV at the end of the year | 1,38,000 |

Depreciation in the hands of Happy Ltd. for the assessment year 2025-26



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| Particulars | Amount (₹) |
|----------------------------------------------------------------|------------|
| Depreciated value of the block on 1 st April, 2024 | 60,000 |
| Add: Actual Cost of Plant B acquired from Smile Ltd (See Note) | 33,600 |
| WDV as on 31 st March, 2025 | 93,600 |
| Depreciation on transferred asset [₹ 33,600* ½ * 40%] | 6,720 |
| Other Asset @ 40% of ₹ 60,000 | 24,000 |
| Total Depreciation | 30,720 |

Note: Actual Cost of Plant B in the hands of Happy Ltd.

| Particulars | Amount (₹) |
|------------------------------------------------------------------|------------|
| Actual Cost of Plant B in the hands of Smile Ltd on Nov 10, 2022 | 70,000 |
| Less: Depreciation for P.Y 2022-23 (1/2 of 40% of ₹70,000) | 14000 |
| Balance on April 1, 2023 | 56,000 |
| Less: Depreciation for the P.Y.2023-24 | 22,400 |
| Balance on April 1, 2024 | 33,600 |

- (b) Since the assessee is a non-resident and shares of an Indian company were acquired by utilizing foreign currency, hence, first proviso to sec. 48 and Rule 115A shall be applicable on the above transactions.

Computation of capital gain for the A.Y. 2025-26

| Particulars | Working | Rate applied | Amount ₹ | Amount ₹ |
|-------------------------------|-----------------|-------------------------------|-------------|-------------|
| Sale consideration | ₹ 45,000/₹ 47 | Average rate as on 16/09/2024 | | \$957.4 |
| Less: Expenditure on transfer | ₹ 5,000/₹ 47 | Average rate as on 16/09/2024 | | \$106.4 |
| Net Sale consideration | | | | \$851.0 |
| Less: Cost of acquisition | ₹ 20,000/₹ 45.5 | Average rate as on 18/08/2024 | \$439.6 | |
| Less: Cost of improvement | | | Nil | \$439.6 |
| Short term Capital Gain | | | | \$411.4 |
| Short term capital gain | \$411.4 × ₹ 46 | Buying rate as on 16/09/2024 | | ₹ 18,924 |

- 5) (a) Discuss the difference between revision under Section 263 and Section 264 of the Income-tax Act. [7]

- (b) Explain the key provisions and disclosures of ICDS I relating to Accounting Policies. [7]

Answer:

(a)

| Basis | Sec. 263 | Sec. 264 |
|-------|----------|----------|
|-------|----------|----------|

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|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 an appeal, i.e., doctrine of partial merger is applicable | Revision u/s 264 is not possible on any issue if an appeal has been filed, 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 |
| Time limit for passing a revisional order | 2 years from the end of the financial year in which the order sought to be revised was passed. | Where the authorities act on his own motion: within 1 year from the date of original order. Where the application is made by the assessee: within 1 year from the end of the financial year in which such application is made. |
| 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) ICDS I: Accounting Policies

Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs and income of the business, profession or vocation.

The treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form.

Marked to market loss or an expected loss shall not be recognised unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

Fundamental Accounting Assumptions:

The fundamental accounting assumptions i.e., Going Concern, Consistency and Accrual are assumed as followed. No specific disclosure is required, if these assumptions are followed, however, if such assumption are not followed, the fact shall be disclosed.

Change in Accounting Policies:

An accounting policy shall not be changed without reasonable cause.

Disclosure of Accounting Policies:

- All significant accounting policies adopted by a person shall be disclosed.
- Any change in an accounting policy which has a material effect shall be disclosed (with quantum of the effect, if ascertainable). Where such amount is not ascertainable, the fact shall be indicated.
- Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.

6) (a) Explain the provisions of Section 92CD relating to the effect to an Advance Pricing Agreement (APA).



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[7]

(b) Amar, an individual, resident of India, receives the following payments after TDS during the previous year 2024- 25:

| | | |
|------|---------------------------------|----------|
| (i) | Professional fees on 17.08.2024 | 2,40,000 |
| (ii) | Professional fees on 04.03.2025 | 1,60,000 |

Both the above services were rendered in country X on which TDS of ₹ 50,000 and ₹ 30,000 respectively have been deducted. He had incurred an expenditure of ₹ 2,40,000 for earning both these receipts / incomes. His income from other sources in India is ₹ 5,00,000 and he has made payment of ₹ 70,000 towards LIC. Compute the tax liability of Amar and also the relief u/s 91, if any, for A.Y.2025-26.

[7]

Answer:

(a) Effect to Advance Pricing Agreement [Sec. 92CD]:

- Where any person has entered into an agreement and prior to the date of entering into the agreement, any return of income has been furnished u/s 139 for any assessment year relevant to a previous year to which such agreement applies, such person shall furnish, within a period of 3 months from the end of the month in which the said agreement was entered into, a modified return in accordance with and limited to the agreement.
- Save as otherwise provided in this section, all other provisions of this Act shall apply accordingly as if the modified return is a return furnished u/s 139.
- If the assessment or reassessment proceedings for an assessment year relevant to a previous year to which the agreement applies have been completed before the expiry of period allowed for furnishing of modified return, the Assessing Officer shall, in a case where modified return is filed, pass an order modifying the total income of the relevant assessment year determined in such assessment or reassessment, as the case may be having regard to and in accordance with the agreement.
- Where the assessment or reassessment proceedings for an assessment year relevant to the previous year to which the agreement applies are pending on the date of filing of modified return, the Assessing Officer shall proceed to complete the assessment or reassessment proceedings in accordance with the agreement taking into consideration the modified return so furnished.
- The order shall be passed within a period of 1 year from the end of the financial year in which the modified return is furnished.
- The period of limitation as provided in sec. 153, 153B or 144C for completion of pending assessment or reassessment proceedings shall be extended by a period of 12 months.
- The assessment or reassessment proceedings for an assessment year shall be deemed to have been completed where:
 - (a) an assessment or reassessment order has been passed; or
 - (b) no notice has been issued u/s 143(2) till the expiry of the limitation period provided under that sub-section.

(b) Computation of total income and tax liability of Mr. Amar for the A.Y. 2025-26

| Particulars | Amount | Amount |
|-------------|--------|--------|
|-------------|--------|--------|

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| Income from profession from foreign | 4,80,000 | |
| Less: Expenses | 2,40,000 | 2,40,000 |
| Income from profession in India | | 5,00,000 |
| Gross Total Income | | 7,40,000 |
| Less: Deduction u/s 80C | | NA |
| Total income | | 7,40,000 |
| Tax on above | | 24,000 |
| Add: Health & Education cess | | 960 |
| Tax and cess payable | | 24,960 |
| Average rate of tax [$\frac{\text{₹ } 24,960}{\text{₹ } 7,40,000} \times 100$] | | 3.37% |
| Rate of tax in Country X | | 16.67% |
| Relief u/s 91 [3.37%* of ₹ 2,40,000] | | 8,088 |
| Tax payable (Rounded off u/s 288B) | | 16,870 |

*Relief u/s 91 is available at a lower rate i.e., 3.37%

7. (a) J Inc. of Korea and CD Ltd, an Indian Company are associated enterprises. CD Ltd manufactures Cell Phones and sells them to J.K.& F Inc., a Company based in Nepal. During the year CD Ltd. supplied 2,50,000 Cellular Phones to J Inc. Korea at a price of ₹ 3,000 per unit and 35,000 units to JK & F Inc. at a price of ₹ 5,800 per unit. The transactions of CD Ltd with JK & F Inc. are comparable subject to the following considerations: Sales to J Inc. are on FOB basis, sales to JK & F Inc. are CIF basis. The freight and insurance paid by J Inc. for each unit @ ₹ 700. Sales to JK & F Inc. are under a free warranty for Two Years whereas sales to J Inc. are without any such warranty. The estimated cost of executing such warranty is ₹ 500. Since J Inc.'s order was huge in volume, quantity discount of ₹ 200 per unit was offered to it. Compute the Arm's Length Price and the subsequent amount of increase in the Total Income of CD Ltd, if any.

[7]

- (b) Discuss the provisions relating to secondary adjustments.

[7]

Answer:

- (a) Computation of Arm's Length Price of Products sold to J Inc. Korea by CD Ltd

| Particulars | ₹ | ₹ |
|-------------------------------------------------------------|-----|---------|
| Price per Unit in a Comparable Uncontrolled Transaction | | 5,800 |
| Less: Adjustment for Differences - | | |
| (a) Freight and Insurance Charges | 700 | |
| (b) Estimated Warranty Costs | 500 | |
| (c) Discount for Voluminous Purchase | 200 | (1,400) |
| Arms's Length Price for Cellular Phone sold to J Inc. Korea | | 4,400 |

Computation of Increase in Total Income of CD Ltd

| Particulars | ₹ |
|----------------------------------------------------|---------|
| Arm's Length Price per Unit | 4,400 |
| Less: Price at which actually sold to J Inc. Korea | (3,000) |



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| | |
|---------------------------------------------------------|-------------|
| Increase in Price per Unit | 1,400 |
| No. of Units sold to J Inc. Korea | 2,50,000 |
| Increase in Total Income of CD Ltd (2,50,000 × ₹ 1,400) | ₹ 35 Crores |

- (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.

- 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) Sun bright Ltd., an Indian company furnished the following particulars of its income for the previous year 2024-25. Calculate its total income and income tax liability for the assessment year 2025-26:

| | |
|------------------------------------|----------|
| | ₹ |
| Income from business | 5,00,000 |
| Dividend received during the year: | |
| — from Indian company | 20,000 |



DIRECT TAX LAWS AND INTERNATIONAL TAXATION

— from foreign company 5,000

Gains from transfer of capital assets:

— short term capital gains 25,000

— long term capital gains 50,000

Agricultural income in India 35,000

Additional information:

(i) Business expenses already charged from business income include ₹ 10,000 revenue expenditure and ₹ 30,000 capital expenditure on family planning programme for employees.

(ii) Company has debited following donations in the profit and loss account of the business of company.

- PM Care Fund: ₹ 50,000.

[7]

(b) Discuss the concept of Specified Domestic Transactions (SDT) under Section 92BA of the Income-tax Act, 1961, along with the types of transactions covered and the threshold for applicability of transfer pricing provisions. [7]

Answer:

(a) Computation of Total Income of Sun Bright Ltd. for the Assessment Year 2025-26

| Particulars | Amount | Amount |
|------------------------------------------------------------------|--------|----------|
| Income from Business | | |
| Profit as per Profit & Loss A/c | | 5,00,000 |
| Add: Disallowed Expenditure | | |
| (i) Donation | 75,000 | |
| (ii) Capital Expenditure on Family Planning (₹ 30,000 - ₹ 6,000) | 24,000 | 99,000 |
| | | 5,99,000 |
| Capital Gain | | |
| - Long term | 50,000 | |
| - Short term | 25,000 | 75,000 |
| Income from Other Sources | | |
| Dividend from: | | |
| - Indian Company | 20,000 | |
| - foreign Company* | 5,000 | |
| Agricultural Income | Exempt | 25,000 |
| Gross Total Income | | 6,99,000 |
| Less: Deduction u/s | | |
| - 80G (Donation) | | 50,000 |
| Total Income | | 6,49,000 |

**DIRECT TAX LAWS AND INTERNATIONAL TAXATION**

Computation of Tax Liability

| Particulars | Tax on LTCG | Other Income |
|------------------------------|-------------|--------------|
| Total Income | 50,000 | 5,99,000 |
| Rate | 12.5% | 30% |
| Tax | 6,250 | 1,79,700 |
| Total tax | | 1,85,950 |
| Surcharge | | Nil |
| Tax including surcharge | | 1,85,950 |
| Health & Education Cess @ 4% | | 7,438 |
| Total tax (Rounded Off) | | 1,93,390 |

* It is assumed that foreign company is not a specified foreign company u/s 115BBD.

- (b) Specified Domestic Transaction (SDT) refers to certain domestic related-party transactions which are required to be carried out at Arm's Length Price (ALP) to prevent profit shifting between taxable units and tax-exempt/deduction-claiming units within India.

As per Section 92BA, Specified Domestic Transaction includes the following transactions, not being international transactions:

- i. any transaction referred to in sec. 80A;
- ii. any transfer of goods or services referred to in sec. 80-IA (8);
- iii. any business transacted between the assessee and other person as referred to in sec. 80-IA (10);
- iv. any transaction, referred to in any other section under Chapter VI-A or sec. 10AA, to which provisions of sec. 80-IA (8) or (10) are applicable; or
- v. any business transacted between the persons referred to in sec. 115BAB (4);
- vi. any business transacted between the assessee and other person⁴ as referred to in sec. 115BAE (4);
- vii. any other transaction as may be prescribed, and where the aggregate of such transactions entered into by the assessee in the previous year exceeds a sum of ₹ 20 crore.