

Mock Test Paper - Series II: April, 2026

Date of Paper: 8<sup>th</sup> April, 2026

Time of Paper: 2 P.M. to 5 P.M.

**FINAL COURSE: GROUP - II**

**PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION**

*Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.*

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

**Time Allowed: 3 Hours**

**Total Marks: 100 Marks**

**Division A – Multiple Choice Questions**

***Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.***

**Case Scenario I**

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

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

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

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

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

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

- Is SBI Bank required to collect tax at source on the amount remitted by Mr. Sarthak? If so, what is the amount of tax to be collected?
  - Yes; TCS of ₹ 2,000 on 29.9.2025 and TCS of ₹ 27,000 on 1.1.2026
  - Yes; TCS of ₹ 500 on 29.9.2025 and TCS of ₹ 27,000 on 1.1.2026
  - Yes; TCS of ₹ 500 on 29.9.2025 and TCS of ₹ 6,750 on 1.1.2026
  - No tax is required to be collected at source since receipts do not exceed ₹ 10 lakh
- Is PNB Bank required to collect tax at source on the amount remitted by Mr. Sarthak? If so, what is the amount of tax to be collected?
  - Yes; TCS of ₹ 7,500 on 1.7.2025; TCS of ₹ 1,750 on 11.10.2025 and TCS of ₹ 1,750 on 10.1.2026
  - Yes; TCS of ₹ 17,500 on 11.10.2025 and TCS of ₹ 17,500 on 10.1.2026
  - Yes; TCS of ₹ 1,750 on 11.10.2025 and TCS of ₹ 1,750 on 10.1.2026
  - No tax is required to be collected at source, on the remittances amount is a loan for education purpose.

3. Is tax required to be collected at source on the amount remitted for tour package to Australia by Mr. Sarthak? If so, what is the amount of tax to be collected?
- (a) Yes; TCS of ₹ 26,000
  - (b) Yes; TCS of ₹ 1,04,000
  - (c) No tax is required to be collected at source, since tour package is purchased from a foreign tour operator
  - (d) No tax is required to be collected at source, since receipt does not exceed ₹ 10 lakh
4. Does Your Own Trip require to collect tax at source on the amount received for tour package to Bali from Mr. Arun? If so, what is the amount of tax to be collected?
- (a) Yes; ₹ 2,500 is required to be collected at source
  - (b) Yes; ₹ 37,500 is required to be collected at source
  - (c) Yes; ₹ 45,000 is required to be collected at source
  - (d) No tax is required to be collected at source
5. What is the total income of Mr. Arun for the A.Y. 2026-27? Assume he has shifted out of the default tax regime u/s 115BAC.
- (a) ₹ 33,88,000
  - (b) ₹ 5,48,000
  - (c) ₹ 33,96,000
  - (d) ₹ 5,40,000
6. What would be the amount of the tax liability (computed in the most beneficial manner) of Mr. Arun for the A.Y. 2026-27?
- (a) ₹ 7,47,550
  - (b) ₹ 12,900
  - (c) ₹ 7,700
  - (d) ₹ 12,480
- (2 x 6 = 12 Marks)**

## Case Scenario II

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

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

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

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

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

7. Is the action of the Assessing Officer entering Adisha & Hotels at 11:30 pm valid?
  - (a) Not valid, since Assessing Officer entered the restaurant after the sunset.
  - (b) Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained for survey.
  - (c) Not valid, since prior permission of income-tax authority equivalent to Chief Commissioner or above is not obtained by the Assessing Officer though he entered during the hours at which such place is open for the conduct of business.
  - (d) Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above was not obtained.
  
8. Would your answer to Question no. 7 change if the Assessing Officer had surveyed Adisha & Hotels only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?

- (a) The action of Assessing Officer is not valid, since he entered the place after sunset and permission of income-tax authority equivalent to Chief Commissioner or above is not obtained.
  - (b) The action of Assessing Officer is valid, since he entered the place during the hours at which such place is open for conduct of business and permission of Chief Commissioner or above authorities not required to be obtained.
  - (c) The action of Assessing Officer is not valid, since he has not obtained the permission of Chief Commissioner.
  - (d) The action of Assessing Officer is not valid, since he entered the place after 10 pm.
9. Is the action of the Assessing Officer entering Anay & Hotels at 9:15 pm valid?
- (a) Not valid, since Assessing Officer entered the restaurant after the sunset.
  - (b) Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained.
  - (c) Not valid, since prior permission of Chief Commissioner or above is not obtained by the Assessing Officer though he entered the place during the hours at which such place is open for the conduct of business.
  - (d) Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above is not obtained.
10. Is the action of the Assessing Officer in impounding and retaining in his custody books of account and other documents of Adisha & Hotels, after recording reasons for doing so, valid if prior permission from income-tax authority equivalent to Chief Commissioner or above has been taken only for the purpose of survey and not for retaining books of accounts etc.?
- (a) The action of Assessing Officer is not valid, since prior approval of Chief Commissioner or above authority is not obtained for retaining the impounded books of account etc.
  - (b) The action of Assessing Officer is valid.
  - (c) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts for period exceeding 15 days (inclusive of holidays) without prior approval of Chief Commissioner or above authority.

- (d) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents for a period exceeding 10 days (exclusive of holidays).
11. Would your answer to Question no. 10 change if the Assessing Officer had surveyed Adisha & Hotels only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?
- (a) The action of Assessing Officer is not valid, since prior approval of Commissioner or above is not obtained for retaining impounded books of Accounts.
- (b) The action of Assessing Officer is valid.
- (c) The action of Assessing Officer is not valid, since he cannot impound or retain books of accounts or other documents.
- (d) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents for a period exceeding 10 days.

**(2 x 5 = 10 Marks)**

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

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

- (a) ₹ 18 lakh is taxable as short-term capital gains
- (b) ₹ 23 lakh is taxable as short-term capital gains
- (c) ₹ 38 lakh is taxable as short-term capital gains
- (d) ₹ 18 lakh is taxable as his business income
- (2 Marks)**
13. Mr. Karan, Managing Director of Kalyan Metals Private Ltd, holds 70% of its paid up capital of ₹ 20 lakhs. The balance as at 31.03.2025 in General Reserve was ₹ 7 lakhs. The company on 01.04.2025 gave an interest-free loan of ₹ 8.50 lakhs to its Supervisor having salary of ₹ 15,500 p.m., who in turn on 25.04.2025, advanced the said amount of loan so taken from the company to Mr. Karan. What amount would be treated as deemed dividend u/s 2(22)(e) of the Income-tax Act, 1961?

- (a) NIL
- (b) ₹ 7,00,000
- (c) ₹ 8,50,000
- (d) ₹ 4,90,000

**(2 Marks)**

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

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

- (a) ₹ Nil
- (b) ₹ 4,50,000
- (c) ₹ 16,00,000
- (d) ₹ 9,00,000

**(2 Marks)**

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

- (a) ₹ 6,52,500
- (b) ₹ 11,75,200
- (c) ₹ 9,23,520
- (d) ₹ 6,76,000

**(2 Marks)**

## Division B – Descriptive Questions

Question No. 1 is compulsory

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

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

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

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

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

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

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

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

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

is ₹ 220 lakhs (after deducting depreciation on Building of ₹ 25 lakhs and Plant and Machinery of ₹ 45 lakhs).

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

**Additional information:**

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

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

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

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

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

Items debited to Statement of Profit and Loss:

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

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

Items credited to Statement of Profit and Loss:

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

**Other Information:**

- (i) Provision for income-tax includes ₹ 55,000 of interest payable on income-tax.
- (ii) Depreciation includes ₹ 2,50,000 on account of revaluation of fixed assets.
- (iii) Depreciation as per Income-tax Rules is ₹ 3,80,000.
- (iv) Brought forward loss of ₹ 11 lakhs include unabsorbed depreciation of ₹ 5 lakhs.
- (v) The AOP, of which the company is a member, has paid tax at maximum marginal rate.

Compute minimum alternate tax under section 115JB of the Income-tax Act, 1961, for A.Y. 2026-27, assuming that Gautam Ltd. is not required to comply with the Indian Accounting Standards. **(8 Marks)**

- (b) Orange Ltd., a non-resident Japanese company, has the following incomes in India during the year ended on 31.03.2026:
  - (i) Dividend income of ₹ 12,50,000 from RST Ltd., an Indian company listed on recognized stock exchange.
  - (ii) 8% debentures of ₹ 20,00,000 received from MT Ltd., an Indian Company, on October 1, 2025, in consideration of providing technical knowhow (date of payment of interest being March 31 every year).
  - (iii) Dividend of ₹ 5,50,000 on Global Depository Receipts of TY Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of shares of the company and purchased by Orange Ltd. in foreign currency through an approved intermediary.
  - (iv) Business Income of ₹ 8,00,000 from a unit established at Madurai.

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

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

**(6 Marks)**

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

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

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

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

You are required to compute the total income of the Charitable trust for the A.Y. 2026-27.

**(8 Marks)**

- (b) (i) Sintheta Limited, a company incorporated in Mauritius, has a branch office in Chennai opened in April, 2025. The Indian branch has filed return of income for assessment year 2026-27 disclosing income of ₹ 65 lakhs. It paid tax at the rate applicable to domestic company i.e. 30% plus higher education cess@4% on the basis of paragraph 2 of Article 24 (Non-Discrimination) of the Double Taxation Avoidance Agreement between India and Mauritius, which reads as follows:
- "The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities in the same circumstances."
- However, the Assessing Officer computed tax on the Indian branch at the rate applicable to a foreign company i.e. 35% plus higher education cess@4%.
- Is the action of the Assessing Officer in accordance with law? **(4 Marks)**
- (ii) The Income-tax Act, 1961 provides for taxation of a certain income earned in India by Mr. Xavier, a non-resident. The Double Taxation Avoidance Agreement, which applies to Mr. Xavier provides for taxation of such income in the country of residence. Is Mr. Xavier liable to pay tax on such income earned by him in India? Examine. **(2 Marks)**
4. (a) Examine the obligation of Tax Deduction at source/Tax Collection at source in the following cases keeping in view the provisions of the Income-tax Act, applicable for Assessment Year 2026-27:
- (i) Ram (aged 35 years) is working with BCD Ltd. He is entitled to a salary of ₹ 85,000 per month w.e.f. 1.4.2025. He has a house property which is self-occupied. He paid an interest of ₹ 1,95,000 on loan during the previous year 2025-26. The loan was taken for construction of house. He has notified his employer BCD Ltd. that there will be a loss of ₹ 1,95,000 in respect of this house property for financial year ended 31.3.2026. Ram declared that he has exercised option to shift out of default regime of section 115BAC. **(3 Marks)**
- (ii) On 20.6.2025, Mr. Shyam, a resident, made three separate transactions for acquiring house property at Mumbai from Mr. Manoj for a consideration of ₹ 90 lakhs, an urban plot in Kolkata from Mr. Chetan for a sum of ₹ 49,50,000 and rural agricultural land from Mr. Dheeraj for a consideration

of ₹ 60 lakhs. Stamp duty value of house property, plot and rural agricultural land is ₹ 95 lakhs, ₹ 48 lakhs and ₹ 65 lakhs, respectively.

**(3 Marks)**

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

**(2 Marks)**

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

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

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

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

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

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

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

Can Mr. Vivek file an application before the DRC?

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

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

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

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

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

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

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

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

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

- (i) Seeta Ltd., an Indian company has 2 manufacturing units, unit R in the Special Economic Zone (SEZ) and unit P in non-SEZ. Manufacturing activities are carried out in unit P while unit R only does the packaging of the goods manufactured by unit P. In its books of accounts, it shows the manufacturing to be carried out in unit R and claims allowable deductions.
- (ii) Veer Ltd., an Indian company has 2 manufacturing units, unit S in the Special Economic Zone (SEZ) and unit L in non-SEZ. It transfers the goods manufactured by unit L to unit S at a price significantly lower than the market value of the goods and thus becomes eligible for higher deductions.

**(4 Marks)**

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

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