

**Mock Test Paper - Series II: December, 2025**

**Date of Paper: 10<sup>th</sup> December, 2025**

**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 Question in Division A, working notes are not required.*

*All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

**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**

SFT Flair Trust is a business trust registered under SEBI (Real Estate Investment Trusts) Regulations, 2014. Details of its income for the previous year ended 31<sup>st</sup> March, 2025 are as follows:

- I. Rental income of ₹ 5 crores from directly owned real estate assets.
- II. Short term capital gain of ₹ 1.5 crore on sale of listed shares of XYZ Ltd., an Indian company in which SFT Flair trust holds controlling interest through holding 60% of the shareholding of XYZ Ltd. Transfer took place on 15.4.2024. STT paid both at the time of purchase and sale.
- III. Short term capital gain of ₹1 crore on sale of development properties.
- IV. Dividend of ₹ 4.5 crore from XYZ Ltd.

**Miscellaneous Information:**

SFT Flair Trust has distributed ₹ 12 crores to its resident and non-resident unit holders in the previous year 2024-25.

**From the information given above, choose the most appropriate answer of MCQs 1 to 4:-**

1. In case of distribution of rental income component to its resident and non-resident unit holders, SFT Flair Trust is liable to deduct tax at source at the rate of
  - (a) 10% under section 194-I and rates in force under section 195, respectively
  - (b) 10% and rates in force, respectively under section 194LBA

- (c) 30% and 10%, respectively under section 194LBA
- (d) 5% and 10%, respectively under section 194LBA
2. Which of the following statements is correct regarding taxability in the hands of SFT Flair Trust for short-term capital gain of ₹ 1.5 crore on sale of listed shares of XYZ Ltd. and short-term capital gain of ₹ 1 crore on sale of development properties.
- (a) Short-term capital gain on sale of listed shares is taxable @ 15% and short-term capital gain on sale of development properties is taxable at maximum marginal rate
- (b) Short-term capital gain on sale of listed shares is taxable at maximum marginal rate and short-term capital gain on sale of development properties is taxable @15%
- (c) Both the short-term capital gains are taxable at maximum marginal rate
- (d) Both the short-term capital gains are taxable @ 15%
3. Which of the following statements is correct regarding taxability in the hands of SFT Flair Trust and its unit holders in respect of Rental income of ₹ 5 crores from directly owned real estate assets:
- (a) Exempt in the hands of SFT Flair Trust and unit holders both u/s 10(23FCA).
- (b) Taxable in the hands of SFT Flair Trust and unit holders u/s 115UA(3).
- (c) Exempt in the hands of SFT Flair Trust u/s 10(23FCA) and taxable in the hands of unit holders u/s 115UA(3).
- (d) Taxable in the hands of SFT Flair Trust u/s 115UA(3) and exempt in the hands of unit holders u/s 10(23FCA).
4. Which of the following statements is correct regarding taxability in the hands of SFT Flair Trust and its unit holders in respect of dividend income if XYZ Ltd. has not opted to pay tax as per section 115BAA?
- (a) Exempt in the hands of SFT Flair Trust and unit holders both.
- (b) Taxable in the hands of SFT Flair Trust but exempt in the hands of its unit holders.
- (c) Exempt in the hands of SFT Flair Trust and taxable in the hands of unit holders.
- (d) Taxable in the hands of SFT Flair Trust and unit holders. **(2 x 4 = 8 Marks)**

## Case Scenario II

Mint (P) Ltd., Mumbai is engaged in manufacture of ceiling fans and exporting the same to various associated and other enterprises worldwide. The income tax assessment for A.Y. 2022-23 was completed by making reference to the TPO who enhanced the arm's length price of the international transaction by ₹ 855 lakhs. The company applied for APA in March 2024 which was signed in July 2024. The company also applied for rollback benefit which was agreed and signed in December 2024. If the APA is applied, the ALP determined for the A.Y.2022-23 would get enhanced by ₹ 580 lakhs as against ₹ 855 lakhs originally determined by TPO.

Mint (P) Ltd. borrowed USD 100 lakhs from Triple Inc. USA on 1st July 2019 under a loan agreement approved by the Central Government. Interest is payable half yearly in foreign currency @ 4% per annum, on every half year i.e. on 31st December and 30th June. For the half year ended 31st December 2024, interest was paid on 28th February 2025 after deducting tax at source.

TT buying rate of SBI on various dates are: 31<sup>st</sup> December 2024 - 1 USD = ₹ 72; 31st January, 2025 - 1 USD = ₹ 73; 28th February, 2025 - 1 USD = ₹ 72.50; 31<sup>st</sup> March 2025-1 USD = ₹ 74.

Mint (P) Ltd. exported its products to unrelated party Finland Ltd., Canada. Mint (P) Ltd. did not maintain prescribed document and information in respect of sales made to Finland Ltd. During the financial year 2024-25, the aggregate sale made by Mint (P) Ltd. to Finland Ltd., was ₹ 12 crores.

**From the information given above, choose the most appropriate answer of MCQs 5 to 8:**

5. What is the time limit for filing the modified return of income in respect of rollback years under the APA provisions?
  - (a) Within 3 months from the end of the month in which the original APA was signed, i.e., 30th October 2024
  - (b) Within 3 months from the end of the month in which the rollback agreement was signed, i.e., 31<sup>st</sup> March 2025
  - (c) Within 6 months from the end of the financial year in which original APA was signed, i.e., 30th September 2025
  - (d) On or before the original due date of filing return of income for rollback years
6. Which of the following statements is **correct** regarding the adjustment of Arm's Length Price (ALP) for A.Y. 2022-23 based on the APA and TPO's original determination?
  - (a) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as the adjustment based on APA of ₹ 580 lakhs results in reducing the total income of the company

compared to the TPO's adjustment of ₹ 855 lakhs, thereby disqualifying rollback provisions.

- (b) ALP adjustment of ₹ 580 lakhs has to be made for A.Y. 2022-23 even though it is less than the TPO's original adjustment of ₹ 855 lakhs since it does not reduce total income as declared in the return of income.
  - (c) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as rollback provisions cannot be applied for A.Y. 2022-23.
  - (d) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as the ALP is already determined by the TPO.
7. How much is the amount of tax deductible at source by Mint (P) Ltd. on interest paid to Triple Inc. on 28th February 2025?
- (a) ₹ 7,63,776
  - (b) ₹ 7,74,384
  - (c) ₹ 7,69,080
  - (d) ₹ 61,10,208
8. How much would be the quantum of penalty leviable on Mint (P) Ltd. for failure to keep and maintain documents in respect of its transactions with Finland Ltd?
- (a) ₹ 1,00,000
  - (b) ₹ 12,00,000
  - (c) ₹ 24,00,000
  - (d) NIL

(2 x 4 = 8 Marks)

### Case Scenario III

The Assessing Officer, with prior approval of the Principal Commissioner of Income-tax, surveyed the business premises of Orion Foods Pvt. Ltd., which was within his jurisdiction, at 9:00 p.m. on 1.6.2024 for the purpose of obtaining information which may be relevant to the proceedings under the Income-tax Act, 1961. The survey operations continued till 11:05 p.m.

On 15.6.2024, the Assessing Officer entered the business premises of Horizon Appliances Ltd., which was also within his jurisdiction, at 8:25 p.m. for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961, and left the premises at 9:20 p.m. The business premises of Orion Foods Pvt. Ltd. are kept open for business every day between 10 a.m. and 10 p.m., and the business premises of Horizon Appliances Ltd. are kept open every day between 9:30 a.m. and 9:30 p.m.

In both the above cases, the Assessing Officer impounded and retained in his custody, for a period of 12 days (inclusive of holidays), the books of account and other documents inspected by him, after recording reasons for doing so. However, he did not obtain specific permission from the Principal Commissioner for this action.

In July 2024, the business premises of Vanguard Developers Ltd. were searched after following the due procedure laid down under section 132, consequent to which the Assessing Officer came into possession of certain documents showing information pertaining to shares valued at ₹34 lakhs purchased in P.Y. 2017-18 and shares valued at ₹25 lakhs purchased in P.Y. 2018-19.

**From the information given above, choose the most appropriate answer of MCQs Q.9 to Q.12:**

9. Is the action of the Assessing Officer in entering the business premises of Orion Foods Pvt. Ltd. at 9:00 p.m. and continuing survey operations till 11:05 p.m. valid? Also, is the action of the Assessing Officer in entering the business premises of Horizon Appliances Ltd. at 8:25 p.m. valid?
- (a) Yes, the action of the Assessing Officer, in both cases, is valid.
  - (b) No, the action is not valid in both cases, as the Assessing Officer cannot enter the premises of Orion Ltd. and Horizon Ltd. after sunset.
  - (c) No, the action is not valid in the case of Orion Ltd., as the survey operations continued beyond business hours. However, the action of the Assessing Officer in the case of Horizon Ltd. is valid.
  - (d) The action of the Assessing Officer is valid in the case of Orion Ltd. but not in the case of Horizon Ltd.
10. Is the action of the Assessing Officer in impounding and retaining books of account and other documents of Orion Foods Pvt. Ltd. and Horizon Appliances Ltd., after recording reasons for doing so, valid, where he had not taken specific permission from the Principal Commissioner for this action?
- (a) No, the action of the Assessing Officer is not valid in the case of both Orion Ltd. and Horizon Ltd.
  - (b) Yes, the action of the Assessing Officer is valid in the case of both Orion Ltd. and Horizon Ltd.
  - (c) The action of the Assessing Officer is valid in the case of Orion Ltd. but not in the case of Horizon Ltd.

- (d) The action of the Assessing Officer is valid in the case of Horizon Ltd. but not in the case of Orion Ltd.
11. Can the Assessing Officer issue notice under section 148 to Orion Foods Pvt. Ltd. in August 2024, in respect of A.Y. 2020–21, A.Y. 2021–22, and A.Y. 2022–23, consequent to the survey conducted in the business premises of Orion Foods Pvt. Ltd.?
- (a) No, since the survey conducted is itself not valid.
- (b) Yes, he can do so; compliances stipulated under section 148A are not necessary.
- (c) Yes, he can do so, after following the compliances stipulated under section 148A.
- (d) Yes, he can do so with the prior approval of the specified authority under section 151; other compliances stipulated under section 148A are not necessary.
12. Would the action of the Assessing Officer in entering the premises of Orion Foods Pvt. Ltd. at 9:00 p.m. and impounding and retaining books of account have been valid if he had surveyed Orion Foods Pvt. Ltd. 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) Yes, the action of the Assessing Officer in entering the premises and impounding and retaining books of account would be valid.
- (b) No, the action of the Assessing Officer in entering the premises at 9:00 p.m. and impounding and retaining books of account is not valid.
- (c) The action of the Assessing Officer in entering the premises at 9:00 p.m. is valid but not the action of impounding and retaining books of account.
- (d) The action of the Assessing Officer in entering the premises at 9:00 p.m. is valid but not the action of continuing the survey beyond 10 p.m. **(2 x 4 = 8 Marks)**
13. Mr. Anjan, a property dealer, sold a flat in Mumbai, the stamp duty of which is ₹ 2 crores for ₹ 1.80 crores to his friend Mr. Ashwin, a college lecturer. Mr. Anjan had purchased the flat one year back for ₹ 1.50 crores and the stamp duty value on that date was also ₹ 1.50 crores. What are the tax implications of such sale?
- (a) ₹ 50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin
- (b) ₹ 50 lakhs would be taxable as business income in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin

- (c) ₹ 50 lakhs would be taxable as business income in the hands of Mr. Anjan and ₹ 20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin
- (d) ₹ 50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan and ₹ 20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin

**(2 Marks)**

14. Mr. Rahul, a resident individual, starts a new business on 01-11-2024 for sale of designer suits. He obtained a valid PAN in his name and registers himself on Shine.com (a Country M based website), an e-commerce operator, for sale of his products in India. Mr. Rahul sold goods worth ₹ 80 lakhs through Shine.com upto 31-03-2025. E-commerce operator credited ₹ 35 lakhs on 31.12.2024, ₹ 12 lakhs on 1.1.2025 and ₹ 18 lakhs on 28.2.2025 payable to Mr. Rahul in its books of accounts. These amounts were paid to Mr. Rahul on 15.3.2025 after deducting a commission of 10% on gross sale proceeds.

On 31.3.2025, remaining amount of ₹ 15,00,000 were directly credited in Mr. Rahul bank account by the buyers. Who is liable to deduct tax at source on the above transactions? When and what amount of tax is deductible?

- (a) Shine.com is required to deduct tax at source of ₹ 35,000, ₹ 12,000, ₹ 18,000 and ₹ 15,000 on 31.12.2024, 1.1.2025, 28.2.2025 and on 31.3.2025, respectively.
- (b) Shine.com is required to deduct tax at source of ₹ 3,500, ₹ 1,200, ₹ 1,800 and ₹ 1,500 on 31.12.2024, 1.1.2025, 28.2.2025 and on 31.3.2025, respectively.
- (c) Shine.com is required to deduct tax at source of ₹ 80,000 on 15.3.2025.
- (d) Shine.com is required to deduct tax at source of ₹ 65,000 on 15.3.2025.

**(2 Marks)**

15. Mr. Sarthak set-up a three-star hotel "Lake View" in Bhopal on 16.5.2009 and another three-star hotel "Sea View" in Mumbai on 1.4.2012. His brother Mr. Akhand is in the business of building and operating hospitals. He has set-up hospital "Heartline" (with 50 beds capacity) in Mumbai which begins to operate on 1.8.2008 and another hospital "Fitcare" (with 120 beds capacity) in Bhopal which begins to operate on 15.5.2016. For the previous year, 2024-25, Mr. Sarthak has profit from hotel "Lake View" of ₹ 95 lakhs and loss from hotel "Sea View" of ₹ 35 lakhs. Mr. Akhand has profit from Hospital "Heartline" of ₹ 54 lakhs and loss from hospital "Fitcare" of ₹ 25 lakhs for the P.Y. 2024-25. What would be the profits and gains from business or profession of

Mr. Sarthak and Mr. Akhand and also determine the loss to be carried forward, if both of them opt out to pay tax as per section 115BAC?

- (a) Business income of ₹ 60 lakhs in the hands of Mr. Sarthak and amount to be carried forward would be Nil. Business income of ₹ 54 lakhs in the hands of Mr. Akhand and ₹ 25 lakhs loss to be carried forward.
- (b) Business income of ₹ 95 lakhs in the hands of Mr. Sarthak and ₹ 35 lakhs loss to be carried forward. Business income of ₹ 29 lakhs in the hands of Mr. Akhand and no amount to be carried forward.
- (c) Business income of ₹ 60 lakhs in the hands of Mr. Sarthak and amount to be carried forward would be Nil. Business income of ₹ 29 lakhs in the hands of Mr. Akhand and no amount to be carried forward.
- (d) Business income of ₹ 95 lakhs in the hands of Mr. Sarthak and ₹ 35 lakhs loss to be carried forward. Business income of ₹ 54 lakhs in the hands of Mr. Akhand and ₹ 25 lakhs to be carried forward. **(2 Marks)**

### **Division B – Descriptive Questions**

#### **Question No. 1 is compulsory.**

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

1. The net profit of Peacock Ltd. as per its statement of profit and loss for the year ended 31.03.2025 amounted to ₹ 27,22,000 after debiting/ crediting following items:
  - (i) Payment of interest on money borrowed from bank for purchase of new Machinery from Australia ₹ 2,00,000. The machinery could not be imported in India due pending approvals from authorities till 31.03.2025.
  - (ii) Commission of ₹ 1,00,000 paid in the month of February, 2025 on which tax was deducted in February, 2025 itself. Commission of ₹ 1,25,000 paid in the month of March, 2025 on which tax was deducted in May, 2025. Tax deducted at source on these payments was deposited to the Government on 28.09.2025.
  - (iii) Travelling expenses of ₹ 90,000 on a foreign tour of a director for negotiating collaboration with a foreign manufacturer for initiation of new line of business.
  - (iv) As part of the restructuring of its debt, the company has converted arrears of interest of ₹ 3,00,000 on term loan into a new term loan with a revised repayment schedule. The company has paid ₹ 50,000 towards such funded interest during the year. ₹ 3,00,000 is debited to statement of profit and loss.

- (v) On EPABX and mobile phones (exclusively used for business purpose) purchased during the year, depreciation amounting to ₹ 18 lakhs was claimed at 40% treating them as computers.
- (vi) ₹ 5,00,000, being contribution to S Ltd. (wholly owned subsidiary company) for construction of a school for the benefit of employees of Peacock Ltd.
- (vii) Dividend received from P Ltd. on 10,000 equity shares of ₹ 10 each purchased at ₹ 100 per share on 10<sup>th</sup> October, 2017. The rate of dividend declared is 100%, the record date being 10<sup>th</sup> December, 2024. These shares were sold on 15.3.2025 at ₹ 130 per share. Long term capital gain of ₹ 3 lakhs is credited in statement of profit and loss. Fair market value of shares as on 31.1.2018 is ₹ 110. STT paid both at the time of purchase and sale.
- (viii) Provision for gratuity based on actuarial valuation ₹ 6,00,000 was debited to statement of profit and loss. Actual gratuity paid ₹ 1,50,000 was debited to provision for gratuity account.

**Other information:**

- 1) Provision for bonus for the year 2023-24 paid on 15.11.2024 ₹ 98,000. It is inclusive of payment by bearer cheque of ₹ 34,000 to one employee.
- 2) The company has purchased and put to use another new machinery of ₹ 8,00,000 from ABC Ltd., an Indian Company for the purpose of business on 21.03.2025 and calculated depreciation@15% for the full year. Depreciation debited to the statement of profit and loss is calculated on all other assets as per the rates prescribed in the Income-tax Act, 1961.

Compute the total income of the company chargeable to tax for the A.Y. 2025-26, ignoring the provisions of section 115JB. Company is not opting for any concessional tax regimes.

**(14 Marks)**

- 2. (a) M/s Silver Green is a Limited Liability Partnership firm (LLP) consisting of three partners J, K and L. Mr. J and Mr. K are working partners as per deed. Partnership deed authorizes interest to partners @14% p.a. The deed also authorizes remuneration to the working partners @₹ 75,000 per month.

It has a unit in SEZ which started its operations w.e.f. 01.06.2019. Its total turnover, export turnover and net profits for the F.Y. 2024-25 are ₹ 120 lakhs, ₹ 90 lakhs and ₹ 24 lakhs, respectively. The unit fulfills all the conditions of section 10AA of Income-tax Act, 1961.

The firm has commenced the operations of a warehousing facility for storage of sugar on 01.05.2024. It incurred capital expenditure of ₹ 60 lakhs on purchase of land and construction of building during the period January 2024 to April 2024 (It includes ₹ 35 lakhs for cost of land) for such warehouse. This expenditure has been capitalized in the books of accounts, but no depreciation has been charged on the same. The warehousing facility fulfills all the conditions of section 35AD.

Profits from operation of warehousing facility are ₹ 30 lakhs, before considering deduction u/s 35AD, for the F.Y. 2024-25 and after debiting the following items:

- |    |                                   |                 |
|----|-----------------------------------|-----------------|
| 1. | Interest on capital @14%          | ₹ 11,48,000     |
| 2. | Salary credited to all 3 partners | ₹ 9,00,000 each |

(i) Compute the total income and income tax liability of the firm M/s Silver Green for the A.Y. 2025-26 giving explanations for each item. (Ignore AMT provisions)

(ii) Assuming that the LLP filed its return of income for A.Y. 2025-26 in December, 2025 i.e. after the due date of filing return of income as prescribed under the Act, Will it make any impact on deduction under section 10AA or deduction u/s 35AD for A.Y. 2025-26? (No need to recompute total income and tax liability). **(8 Marks)**

(b) Mr. James, a non-resident and a person of Indian origin (aged 49 years), furnished following information for the previous year ended 31<sup>st</sup> March, 2025:

Particulars	Amount in (₹)
Sale proceeds of listed equity shares in A Limited, an Indian company on 31.05.2024	6,00,000
Cost of acquisition (in convertible foreign exchange) of equity shares of A Limited acquired on 01.06.2020	1,10,000
Expenditure wholly and exclusively incurred in connection with transfer of listed equity shares of A Limited	50,000
Interest on Government Securities (net of TDS) (Acquired in convertible foreign exchange)	81,000
Interest on deposits with public limited companies (Gross) (Acquired in convertible foreign exchange) Expenditure incurred in earning such income ₹ 7,500	3,25,000

Interest on deposits held with Private limited companies (Gross) (These deposits were made when Mr. James was resident in India out of his taxable income in India during F.Y. 2014-15)	5,55,000
Fresh Investment in shares of Indian public limited companies on 11.11.2024	2,20,000

You are required to compute the total income and tax liability of Mr. James for assessment year 2025-26 in accordance with special provisions prescribed under chapter XII-A applicable to non-residents and other provisions of the Act. Mr. James has opted to shift out of default tax regime provided under section 115BAC(1A). He has no other income. Ignore the effect of first proviso to section 48.

(Cost Inflation Index F.Y. 2020-21: 301, F.Y. 2024-25: 363) **(6 Marks)**

3. (a) Examine and discuss each of the following independent cases of charitable trust/institutions based on the relevant provisions of Income-tax Act, 1961 for the assessment year 2025-26.
- (i) M/s Covid Care Foundation, a trust registered u/s 12AB of the Income-tax Act, 1961, runs a hospital. During the financial year 2023-24, it received a voluntary contribution of ₹ 95 lakhs with a specific direction that it should form part of the corpus of the trust. The trust invested such amount in the shares of M/s Active Care Ltd., a public sector company.
- On March 31, 2025, due to disinvestment by the Government, M/s Active Care Ltd. ceases to be a public sector company.
- (ii) M/s Heart Care Foundation, a trust registered u/s 12AB of the Income-tax Act, 1961, which runs a hospital also paid consultancy fees ₹ 1,00,000 to Mr. Sachin, a doctor on 31.08.2024. The trust did not deduct the TDS on consultancy fees paid to doctors. The accountant of the trust claims that the trust is not liable to tax audit under section 44AB (being a trust), therefore it is out of the purview of section 194J. **(4 Marks)**
- (b) The following trusts claim that anonymous donations received by them during the financial year 2024-25 are not liable to tax under section 115BBC:
- (i) A charitable trust referred to in section 11 which applied the entire amount of anonymous donations for purposes of the trust during the relevant financial year.

- (ii) A trust established wholly for religious purposes which applied 85% of the amount of anonymous donations for the purposes of the objects of the trust during the relevant financial year.

Examine the validity of the claim made by the trusts. **(4 Marks)**

- (c) Mr. Ashu, an individual resident in India, aged 25 years furnished the following information for the year ended 31.3.2025:

He earned royalty income of ₹18 lakhs from QR Corp. of Country Y for writing articles in journals and newspapers during FY 2024-25. He received only ₹13.60 lakhs in the previous year, with the balance outstanding as on 31.03.2025. He follows cash system of accounting for royalty income.

He also earned gross rental income of ₹3.60 lakhs from a house property in Country Y. Municipal taxes paid on the property amounted to ₹12,000, which are not deductible in Country Y. No DTAA exists between India and Country Y. All incomes in Country Y are taxed at 15%.

Additionally, dividend of ₹ 5.50 lakhs (gross) received from N Ltd., an Indian company. On 01.04.2024, he availed an educational loan from a bank for his son's MBA course. Annual repayment of loan and interest amounted to ₹ 1.40 lakhs and ₹ 0.36 lakhs, respectively.

Compute the total income and net tax liability of Mr. Ashu for the Assessment Year 2025-26. Assume that Mr. Ashu opt out of default tax regime under section 115BAC. **(6 Marks)**

4. (a) Examine the applicability of tax deducted at source/tax collected at source and calculate the amount of TDS as per the provisions applicable for A.Y. 2025-26
- (i) Mr. Shubham purchased scrap of ₹ 55 lakhs from Mr. Rajkumar for the purpose of his manufacturing unit and credited him in books of account. Mr. Shubham furnished a certificate to Mr. Rajkumar that the scrap shall be utilized for manufacturing process carried on by him and shall not be used for trading purposes. Mr. Shubham made the payment of ₹ 45 lakhs during the F.Y 2024-25 to Mr. Rajkumar. Assume turnover of both Mr. Shubham and Mr. Rajkumar from the business carried on by them exceeds ₹ 10 crores in the financial year 2023-24. **(4 Marks)**
- (ii) Vinayak Hospitals Pvt. Ltd. has recently been accorded recognition by several insurance companies to admit and treat patients on cashless hospitalization basis. Payment to the assessee hospital will be made by Third Party Administrators (TPA) who will process the claims of the patients

admitted and make payments to the various hospitals including the assessee. All TPAs are corporate entities. The assessee wants to know whether the TPAs are bound to deduct tax at source under section 194J or under section 194C. Examine. **(4 Marks)**

- (b) Vega Ltd., an Indian Company, is engaged in manufacturing activities by importing raw material from Solaris Inc. of UK. Solaris Inc. has a total loan of 1 million pounds from XYZ Bank of UK. Out of that, Vega Ltd. guarantees 20% of total borrowings in case of any default made by Solaris Inc.

During the financial year 2024-25, Vega Ltd. imported goods for ₹ 60 crores from Solaris Inc. Solaris Inc. supplied similar raw materials to unrelated parties with a mark-up of 20%, whereas, for Vega Ltd. it provided a mark-up of 25%. Vega Ltd. was allowed to use the brand name of Solaris Inc., without any payment and whereas the unrelated parties cannot use such brand name in India. The annual cost of brand value is ₹ 100 Lakhs. Vega Ltd. was allowed credit period of 2 months, whereas for the unrelated parties, Solaris Inc. allowed only 1 month as credit period. The interest cost may be taken as 12% per annum and the purchases were uniform throughout the year.

The Assessing Officer referred the matter to Transfer Pricing Officer (TPO) for determination of Arm Length Price (ALP).

You are required to

- (i) Compute the ALP and the adjustments to be made to the income of Vega Ltd.
- (ii) What is the due date for Vega Ltd. for furnishing audit report u/s 92E?
- (iii) What amount of penalty is leviable on Vega Ltd., if it fails to furnish audit report u/s 92E? **(6 Marks)**

5. (a) Answer **any two out of** the following sub-parts viz (i), (ii) and (iii):

- (i) Mr. Arjun, a resident individual, electronically filed his income tax return for AY 2024-25 on 30.07.2024, disclosing full interest income of ₹ 25 lakhs received from M/s Rajesh Finance Pvt. Ltd., Delhi (deductor), and claimed TDS credit accordingly.

However, the tax department disallowed the TDS credit, pursuant to intimation issued u/s 143(1). The application filed under section 154 was also rejected for the reason that TDS credit is not reflected in Form 26AS and consequently, the said tax was recovered from the assessee itself. Advice, Mr. Arjun, on the basis of latest Court rulings, whether the

department can recover tax due from him. Discuss the relevant Provisions and give conclusion.

- (ii) ABC Software Solutions Pvt. Ltd., a domestic company engaged in software development at an IT park and employing 700 staff, deducted TDS aggregating ₹1.10 crores on salaries, contractual payments and other sums up to 31.03.2025 for AY 2025-26.

In March 2025, the assessee deposited part of the TDS being ₹ 38 lakhs and balance of ₹ 72 lakhs was deposited later in July 2025. However, the Additional Commissioner of Income Tax issued a show cause notice proposing to levy penalty under section 271C of the Income-tax Act 1961 of the amount equal to TDS and also levied penal interest under section 201(1A) of the Income-tax Act, 1961. Feeling aggrieved and dissatisfied with the levy of interest/penalty under the Income tax Act, 1961 on late deposit of TDS, the company has approached you. Examine. Your answer should cover issue involved, provision applicable, analysis and conclusion.

- (iii) Suchitra Ltd. filed its return of income under section 139(1) on 15<sup>th</sup> September, 2023 for A.Y. 2023-24. The return was found to be defective, and an intimation was issued on 10<sup>th</sup> May, 2024, directing the assessee to rectify the defects within 15 days. The defects were rectified on 19<sup>th</sup> May, 2024. The return was processed, and intimation was sent on 15<sup>th</sup> July, 2024. Subsequently, the Assessing Officer issued a notice under section 143(2) on 21<sup>st</sup> June, 2025.

CA. of Suchitra Ltd. contended that the notice was barred by limitation since it was issued beyond the permissible time limit. Examine the validity of the notice issued under section 143(2) by the Assessing Officer.

**(4 x 2 = 8 Marks)**

- (b) What is meant by Digital economy? What are the taxation issues in E-Commerce? List out the OECD recommendations under Action Plan 1 which deals with the digital economy? **(6 Marks)**

6. (a) The Indian branch of F Inc., Country J, conducted transactions worth ₹ 600 crores with SR Enterprises Pvt. Ltd., Hyderabad, during FY 2024-25. SR Enterprises applied for an advance ruling in January 2025 to determine the tax implications for both itself and the non-resident F Inc. The Board for Advance Rulings (BAR) accepted the application and pronounced its ruling on 30.04.2025 and said ruling was communicated to SR Enterprises Pvt. Ltd. on the same date. SR Enterprises Pvt. Ltd. was, however, not satisfied with said ruling. State whether the advance

ruling pronounced by BAR is binding on SR Enterprises Pvt. Ltd. Is there any remedy available to SR Enterprises Pvt. Ltd. if it is aggrieved with the said ruling? Examine. **(4 Marks)**

- (b) M/s Apex Metals Pvt. Ltd., an Indian-incorporated entity, establishes two manufacturing units for steel containers - one in a Special Economic Zone (SEZ) and one in a Domestic Tariff Area (DTA). The DTA unit supplies containers to the SEZ unit at below fair market value. The SEZ unit performs only minimal processing on these containers before sales. This arrangement shifts substantial profits to the SEZ unit, enabling larger tax deductions. Such DTA-to-SEZ transfers account for 15% of the SEZ unit's total sales. Can provisions of GAAR be invoked?

**(4 Marks)**

- (c) Mr. Rajesh, proprietor of M/s. Gupta Electronics, trades in smartphones. For FY 2024-25, his turnover and total receipts total ₹ 5,12,00,000. He collected ₹22,00,000 in cash from sundry debtors, with the balance of ₹ 4.90 crore received via online banking before 31.03.2025. He also made a total business payment of ₹ 5,50,00,000 against purchase of goods, rent; salary and other business expenses during the previous year 2024-25, out of which total cash payments amounted to ₹ 28,00,000 and remaining all kind of payments made through online banking channel. No other amount received or paid during the year on business account. He has no other business in his name.

Is Mr. Rajesh mandatorily required to audit the books of M/s. Gupta Electronics for AY 2025-26 under Section 44AB of the Income-tax Act, 1961? Discuss the applicability.

Assuming Mr. Rajesh is required to get his accounts audited and in the light of the Tax Audit applicability u/s 44AB of the Act, Also discuss whether the following issue need to be reported by the Chartered Accountant of Mr. Rajesh in the tax audit report as applicable for A.Y. 2025-26 u/s 44AB in relation to Tax audit of M/s. M/s. Gupta Electronics in view of section 269ST. You need to give the relevant provisions of law in support of your answer.

M/s. Gupta Electronics issued an invoice of ₹ 3,50,000 to M/s. PQR Traders for sale of mobiles on 10.02.2025. M/s. PQR Traders made payment of ₹ 2,50,000 through account payee cheque. The balance of ₹ 1,00,000 has been paid on 10 different dates in cash, through payment of ₹ 10,000 on each day before 31.03.2025.

Ignore the Clause numbers given in Form 3CD prescribed for Tax Audit Report u/s 44AB for such reporting. **(6 Marks)**