CA/CMA Final SUPER QUESTION for M/J/N/D 2026
By CA Bhanwar Borana [from Past RTP, MTP & Exams]

Question -1 Total Income of Company + Tax Liability + Alternate Tax regime U/s 115BAA/BAB [14 Marks]

RTP – Sep 25

1. The net profit of Rainbow Ltd. as per its statement of profit and loss for the year ended 31.03.2026 amounted to ₹27,22,000 after debiting/crediting following items:

(i) Payment of interest on money borrowed from bank for purchase of land ₹2,00,000. The land was meant for construction of a factory building and for which the approval from local authority is pending till 31.03.2026.

(ii) Commission of ₹1,00,000 paid in the month of February, 2026 on which tax was deducted in February, 2026 itself. Commission of ₹1,25,000 paid in the month of March, 2026 on which tax was deducted in May, 2026. Tax deducted at source on these payments was deposited to the Government on 28.09.2026.

(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 its employees.

(vii) Dividend received from P Ltd. on 10,000 equity shares of ₹10 each purchased at ₹100 per share on 10th October, 2017. The rate of dividend declared is 100%, the record date being 10th December, 2025. These shares were sold on 15.3.2026 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.

(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 2024-25 paid on 15.11.2025 ₹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 a commercial vehicle of ₹8,00,000 for the purpose of business on 21.03.2026 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. 2026-27, ignoring the provisions of section 115JB. Company is not opting for any concessional tax regimes.

Answer –

Computation of total income of Rainbow Ltd. for A.Y.2026-27

	Particulars	₹	₹
I	**Profits & Gains of Business of Profession**		
	Net Profit as per Statement of Profit & Loss		27,22,000
	Add: **Items debited but to be considered separately or to be disallowed**		
	- **Interest on money borrowed for purchase of land**	2,00,000	
	[As per section 36(1)(iii), interest on borrowed capital till the asset is put to use has to be capitalized. Hence, interest on moneys borrowed is not allowable U/S 36(1)(iii). Since it is already debited to statement of profit and loss, the same has to be reduced.]		
	- **Commission paid in February, 2026**	Nil	
	[Commission paid in February, 2026 after deduction of tax is allowable as deduction during the P.Y. 2025-26 since TDS has been deposited before the due date of filing return of income. Since commission is already debited to statement of profit and loss, no adjustment is required.]		
	- **Commission paid in March, 2026** [30% of commission paid in March 2026 on which TDS was deducted and paid in subsequent year would be disallowed during the P.Y. 2025-26 and would be allowed as deduction in the year in which such tax has been paid. Hence, 30% of commission debited to statement of profit and loss would be added back.]	37,500	
	- **Travelling expenses on foreign tour in connection with new line of business**	90,000	
	[Travelling expenses incurred on foreign tour of a director for initiating a new line of business is a capital expenditure. The same is, therefore, not deductible U/S 37(1). Since it is already debited to statement of profit and loss, the same has to be reduced.]		
	- **Interest on term loan converted into new term loan**	2,50,000	
	[U/S 43B, interest on loan due to any scheduled bank, etc. is allowed as deduction, if such interest is actually paid irrespective of the method of accounting followed by the assessee. Conversion of arrear interest into a fresh loan by a bank cannot be considered as actual payment of interest. However, the amount of funded interest (i.e., converted loan) actually paid is allowable as deduction. Hence, out of ₹3 lakhs, only ₹50,000, being the funded interest was actually paid which is allowable as deduction while		

Particulars	₹	₹
computing business income of P.Y.2025-26. The balance of ₹2,50,000 has to be added back.]		
- **Excess depreciation provided on EPABX & Mobile phones not allowable as deduction**	11,25,000	
[EPABX and mobile phones are not computers and therefore, are not entitled to depreciation @ 40%. It was so held by the Kerala High Court in *Federal Bank Ltd. v. ACIT (2011) 332 ITR 319*. Therefore, EPABX and mobile phones would be entitled to depreciation of ₹6,75,000, calculated by applying the rate of 15%, being the general rate applicable to plant and machinery, on the cost of ₹45,00,000 (₹18,00,000 × 100/40). The excess depreciation of ₹ 11,25,000 (being ₹ 18,00,000 – ₹6,75,000), debited to statement of profit and loss, has to be added back.]		
- **Contribution to S Ltd. (wholly owned subsidiary company)**	-	
[Contribution to a wholly owned subsidiary company for construction of a school for the benefit of its employees is allowable U/S 37(1).]		
- **Provision for gratuity ₹6,00,000**		
Less: **Gratuity paid ₹1,50,000** [U/S 40A(7), no deduction is allowed in respect of any provision made for the payment of gratuity to the employees on retirement or termination of employment for any reason. However, gratuity actually paid is admissible as deduction. Therefore, provision for gratuity of ₹6,00,000 is to be disallowed. Actual gratuity paid ₹1,50,000 debited to provision for gratuity account is allowable. Hence, only the net sum of ₹4,50,000 has to be added back.]	4,50,000	
- **Depreciation on commercial vehicle**	60,000	
[Depreciation on commercial vehicle has been calculated @15% and, consequently, ₹1,20,000 has been debited to statement of profit and loss. Since it was acquired in March 2026 only, 50% of normal depreciation is allowable. The excess depreciation of ₹60,000 is, hence, disallowed.]		22,12,500
		49,34,500
Less: **Items credited but to be considered separately and those not charged but to be allowed**		
- **Long term capital gain on sale of equity shares**	3,00,000	
[Taxable under the head "Capital gains"]		

	Particulars	₹	₹
	- **Bonus paid on 15.11.2025 in respect of previous year 2024-25 disallowed last year but allowable in P.Y. 2025-26** [Provision for bonus for the previous year 2024-25 would have been disallowed U/S 43B for non-payment by due date for filing of return of income for assessment year 2025-26. Payment of bonus made after the said date is allowed in the year of actual payment. However, such deduction allowable in the year of payment is subject to the provisions of section 40A(3). Hence, the sum of ₹34,000, being bonus paid by bearer cheque shall not be allowed as deduction in the year of payment.]	64,000	
	- **Dividend from P Ltd.** [Dividend is taxable under the head "Income from Other Sources"]	1,00,000	4,64,000
	Capital Gains		44,70,500
	Long term capital gain on sale of equity shares [Taxable @12.5% on sum exceeding ₹1,25,000]		
	Sale consideration [10,000 x ₹130]	13,00,000	
	Less: Cost of acquisition	11,00,000	2,00,000
	Higher of		
	- Actual cost of ₹10 lakhs [10,000 x 100]		
	- Lower of fair market value as on 31.1.2018 of ₹11 lakhs or sale consideration of ₹13 lakhs		
	Income from Other Sources		
III	Dividend from P Ltd. [Dividend is taxable under the head "Income from Other Sources"]		1,00,000
	Total Income		**47,70,500**

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2. M/s NovaMotion Vehicles Ltd. is engaged in assembling and manufacturing of automobiles and auto components in Nagpur, Maharashtra. The net profit after debit/credit of the following amounts to its Statement of Profit and Loss for the year ended 31-03-2026 was ₹8,25,00,000.

(i) Depreciation as per the Companies Act, 2013, amounting to ₹1,80,00,000.

(ii) Contributed a sum of ₹10,70,000 during the financial year 2025-26 to National Reform Party, a registered political party, by way of an account payee cheque.

(iii) Long-term capital gains of ₹6,18,000 on sale of listed equity shares on 19th September 2025, on which Securities Transaction Tax (STT) was paid both at the time of acquisition and at the time of sale.

(iv) Loss of ₹2 lakh from hedging contracts entered into for mitigating the loss arising due to fluctuation in foreign currency payment towards an imported machinery purchased from Japan for ₹65 lakhs, which was installed in the month of December 2025.

(v) The company borrowed funds from two state financial institutions ₹75.75 lakhs from Andhra

Pradesh Industrial Development Corporation Limited (APIDC) and ₹39.94 lakhs from Andhra Pradesh State Financial Corporation (APSFC). The company had accrued interest of ₹11,56,900 on these loans but did not make payments. However, while restructuring the loan facility, the company converted the interest due into equity shares allotted to the respective financial institutions on 05th March 2026.

(vi) The company had borrowed a sum of ₹6,74,00,000 from the HDFC Bank on 01.06.2025 for the purpose of acquiring machinery of the same amount. Interest on such loan is payable at 10% per annum. The interest pertaining to the period ending on 31.03.2026 remained outstanding as on that date and was subsequently paid on 01.12.2026.

(vii) On 11th November 2025, the company made a payment of ₹63,00,000 to a scientific research institution recognized and duly notified by the Central Government, having as its object the undertaking of scientific research.

(viii) The company sold auto components worth ₹18,50,000 to M/s Zenith Tech Solutions, a sole proprietorship, on 15.12.2023. On 20.01.2025, ₹11,00,000 was written off in the books as a bad debt. The sole proprietor passed away on 05.02.2026, and the company later recovered ₹9,80,000 in full and final settlement on 28.02.2026. The entire recovered amount was recorded as bad debts recovered and credited to the Statement of Profit and Loss.

Additional Information

1. Depreciation calculated as per the Income-tax Rules, 1962, amounts to ₹1,18,50,000, which includes depreciation and additional depreciation on imported machinery from Japan and machinery purchased through borrowed fund from HDFC.
2. Purchases (not debited to Statement of Profit and Loss) of ₹12,00,000 were made on 13th March 2026 from M/s GreenPower Components, a supplier registered as a micro enterprise under the MSMED Act, 2006. As per written agreement, the payment was to be made within 30 days from the date of delivery. However, the payment was made on 14th April, 2026.
3. NovaMotion installed the machinery purchased from the money borrowed from HDFC Bank Ltd. on 01-02-2026.

Compute the total income and tax liability of NovaMotion Vehicles Ltd. as per normal provisions and concessional tax regime U/s 115BAA for the assessment year 2026-27 and suggest which option is beneficial for the company. Total turnover of the company for the F.Y. 2023-24 was ₹402 crores. Ignore MAT provisions.

Answer –

Computation of Total Income of M/s NovaMotion Vehicles Ltd. for the A.Y. 2026-27 as per the normal provisions of the Act

	Particulars	Amount in ₹	
I	**Profits and gains of business and profession**		
	Net profit as per Statement of Profit and Loss		8,25,00,000
	Add: **Items debited but to be considered separately or to be disallowed**		
	(i) Depreciation as per the Companies Act, 13	1,80,00,000	
	(ii) Donation to political party [Since donation to political party is not wholly and exclusively for the purpose of business or profession, it is not allowable as deduction U/s 37. Since the amount of contribution is debited to statement of profit and loss, the same has to be added back]	10,70,000	
	(iv) Loss due to hedging contract in respect of machinery imported from Japan	2,00,000	

	Particulars	Amount in ₹	
	[Loss from hedging contracts entered for mitigating loss arising due to fluctuation in foreign currency payment towards import of machinery has to added to the actual cost of the machinery as per section 43A. Since the same is debited to statement of profit and loss, same has to be added back]		
	(v) Conversion of Interest into equity shares		
	[Conversion of outstanding interest liability into loan did not amount to actual payment. Accordingly, the amount was disallowed U/S 43B on the ground that the same was not actually paid. However, in the case of *Frontier Information Tech Ltd., Judgment,* Telangana High Court held that as the liability of the assessee to pay interest ceased to exist on issue of shares, the same would tantamount to actual payment within the meaning of section 43B. Hence, the assessee, is entitled to claim the deduction U/S 43B. Since the same is debited to statement of profit and loss, no adjustment is required]	-	
	(vi) Interest on borrowing paid to HDFC Bank Ltd. [10% x ₹674 lakhs x 10/12]	56,16,667	
	[Interest on borrowing from HDFC upto 1.2.2026, being the date when machinery is installed and put to use, is not allowable as deduction since it has to be capitalized as part of the cost of the asset. Interest for February and March 2026 is disallowed as per section 43B since it is not paid on or before the due date of filing return of income i.e., 31.10.2026. Since the entire interest has been debited to the statement of profit and loss, it has to be added back]		
	(vii) Contribution to research institution approved and notified by the Central Government for scientific research	-	
	[As per section 35(1)(ii), 100% deduction is allowed for amount paid to a research institution undertaking scientific research, if such institution is approved for this purpose and notified by the Central Government. Since the same is debited to statement of profit and loss, no adjustment is required]		<u>2,48,86,667</u>
			10,73,86,667
	Less: **Items credited but not chargeable to tax or chargeable to tax under other head of income/ expenses allowed but not debited**		

	Particulars	Amount in ₹	
	(iii) Long-term capital gain on sale of equity shares	6,18,000	
	[Long-term capital gain on sale of equity shares is taxable under the head "Capital Gains". Since the same has been credited to Statement of Profit and loss, it has to be deducted while computing business income]		
	(viii)Bad debt recovered	7,50,000	
	[The excess amount recovered i.e., ₹2,30,000 (₹9,80,000 over ₹7,50,000, being the amount due of ₹18,50,000 *less* bad debt allowance of ₹11,00,000) will be taxable as business income U/s 41(4). Since entire amount of ₹9.80 lakhs is credited to the profit and loss account, ₹7,50,000 has to be reduced]		13,68,000
			10,60,18,667
	***Add/Less*: As per details in Additional Information**		
	1. Depreciation as per Income- tax Rules, 1962	1,18,50,000	
	2. Amount paid for Purchase made with M/s GreenPower Components (MSMED)	-	
	[As per section 43B(h), no deduction shall be allowed for any sum payable by an assessee to a micro or small enterprise unless such sum is paid within the time specified in the written agreement. However, deduction is allowed in that previous year in which such sum is actually paid.		
	In this case, the actual date of payment is 14.04.2026 i.e. after 30 days from 13th March 2026. Hence, purchase of ₹12 lakhs shall not be allowed as deduction in the P.Y. 2025-26. Since the same is not debited to the profit and loss account, no adjustment is required]		1,18,50,000
	Profits and gains from business or profession		**9,41,68,667**
II	**Capital Gains**		
	Long-term capital gain on listed equity shares	6,18,000	6,18,000
Gross Total Income			**9,47,86,667**
***Less:* Deduction under Chapter VI-A**			
Deduction U/S 80GGB			10,70,000
[Donation to political party is allowable as deduction to NovaMotion Vehicles Ltd.]			
Total Income			**9,37,16,667**
Total Income (rounded off)			**9,37,16,670**

Computation of Tax Liability of M/s NovaMotion Vehicles Ltd. for A.Y. 2026-27

	Amount in ₹
Tax on LTCG @12.5% U/s 112A on ₹4,93,000, being the LTCG in excess of ₹1,25,000	61,625
Tax @ 30% on ₹9,30,98,670	2,79,29,601
	2,79,91,226
Add: Surcharge @ 7%, since total income exceed ₹1 crore but does not exceed ₹10 crores	19,59,386
	2,99,50,612
Add: Health and education cess @4%	11,98,024
Tax liability	**3,11,48,636**
Tax liability (rounded off)	**3,11,48,640**

Computation of Total Income of M/s NovaMotion Vehicles Ltd. for the A.Y. 2026-27 as per section 115BAA

Particulars	Amount in ₹	
Gross Total Income under regular provisions of the Act		9,47,86,667
***Add:* Contribution to research institution approved and notified by the Central Government for scientific research** [Deduction in respect of this contribution is not allowed U/S 115BAA]	63,00,000	
***Add:* Additional Depreciation**		
- Imported Machinery from Japan @10% of ₹67,00,000 (₹65,00,000 + ₹2,00,000 of loss on hedging contract) [only 50% of the 20% is allowable since machinery is put to use for less than 180 days]	6,70,000	
- Machinery purchased from fund borrowed from HDFC bank @10% of ₹7,18,93,333 [₹6,74,00,000 + ₹44,93,333 (₹6,74,00,000 x 10% x 8/12) being the interest till Machinery put to use]. [only 50% of the 20% is allowable since machinery is put to use for less than 180 days]	71,89,333	
		1,41,59,333
Gross Total Income		**10,89,46,000**
***Less:* Deduction under Chapter VI-A**		
Deduction U/S 80GGB in respect of donation to political party is not allowable U/S 115BAA]		-
Total Income		**10,89,46,000**

Computation of Tax Liability of M/s NovaMotion Vehicles Ltd. for the A.Y. 2026-27 as per section 115BAA

	Amount in ₹
Tax on LTCG @12.5% U/s 112A on ₹4,93,000, being the LTCG in excess of ₹1,25,000	61,625

	Amount in ₹
Tax @ 22% on ₹10,83,28,000	2,38,32,160
	2,38,93,785
Add: Surcharge @ 10%	23,89,379
	2,62,83,164
Add: Health and education cess @4%	10,51,327
Tax liability	**2,73,34,491**
Tax liability (rounded off)	**2,73,34,490**

Since tax liability as per the regular provisions of the Act is higher than the tax liability under the provisions of section 115BAA, it would be beneficial for NovaMotion Vehicles Ltd. to opt for section 115BAA. However, once option has been exercised, it cannot be subsequently withdrawn.

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3. M/s Strong Private Limited is a domestic company engaged in the business of manufacturing steel. The statement of Profit and Loss for the previous year ended 31st March, 2026 shows a net profit of ₹85.20 lakhs after debiting and crediting the following items:

(a) Depreciation charged on property, plant and equipment -₹10,15,000.

(b) Employer's contribution to EPF of ₹8 lakhs together with similar amount of employees' contribution for the month of March, 2026 was remitted on 20th July, 2026.

(c) Contribution of ₹1.50 lakhs to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority

(d) Advertisement expenses include an amount of ₹55,000 paid by way of an account payee cheque for advertisement published in the souvenir issued by a political party on which appropriate tax was deducted.

(e) The company has made provision for Gratuity based on actuarial valuation of ₹5 lakhs. Actual gratuity paid amounting to ₹1,20,000 during financial year 2025-26 was debited to provision of Gratuity Account.

(f) Opening stock is overvalued by ₹10,35,000 and closing stock is also overvalued ₹8,85,000.

(g) Dividend from a foreign company in which the company holds 30% equity share capital - ₹3 lakhs

(h) Profit from the transfer of units of equity oriented funds - ₹7 lakhs. These units were acquired by company 2 years ago for ₹4 lakhs. STT has been paid on both purchase and transfer of such units.

(i) The company lost cash of ₹5,00,000 due to theft when it was withdrawn from the bank and taken to administrative office. It is not insured and hence, fully charged as revenue expenditure.

Additional Information:

(i) Depreciation on tangible fixed assets as per Income-tax Rules, 1962 - ₹8,50,000. This amount does not include depreciation on any assets which were acquired during the year.

(ii) The company acquired a power generating plant on 01.07.2025 for ₹25 lakhs. The payment for the plant was from:

Date	Particulars	₹
1.06.2025	Advance payment for the plant (Paid in cash)	3,00,000
15.06.2025	Grant received from the State Government	7,00,000
01.07.2025	Remaining payment for the plant (through banking channel)	15,00,000

(iii) The company paid ₹85,000 in cash to M/s Naveen Traders, a medium enterprise, on April 15, 2025 for purchase of raw material on March 31, 2025. There was no written agreement between the parties. The expenditure was allowed as deduction on due basis.

(iv) A regular supplier of raw materials agreed for settlement of ₹14 lakhs instead of ₹18 lakhs for poor quality of material supplied during the last year.

(v) The company distributed dividend of ₹1.50 lakh on 15th October, 2026 to its shareholders.

(vi) The company has not entered into any international transaction during the P.Y. 2025-26. Turnover of the company for previous year 2023-24 was ₹350 crores.

Compute the total income and tax liability of M/s Strong Private Limited for assessment year 2026-27 giving brief reasons/explanations for the treatment of each item under regular provisions of the Income-tax Act, 1961. Ignore MAT.

Will it be beneficial for the company to opt for the concessional rates in assessment year 2026-27 instead of paying tax under regular provisions of the Income-tax Act, 1961.

Answer –

Computation of total income of M/s Strong Private Limited for the A.Y. 2026-27 under regular provisions of the Act

	Particulars	Amount in ₹	
I	**Profits and gains of business and profession**		
	Net profit as per Statement of profit and loss		85,20,000
	***Add:* Items debited but to be considered separately or to be disallowed**		
	(a) Depreciation as per books	10,15,000	
	(b) Employee's contribution to EPF	8,00,000	
	[Since employee's contribution to EPF has not been deposited on or before the due date under the PF Act, the same is not allowable as deduction U/S 36(1)(va). Since the same has been debited to statement of profit and loss, it has to be added back while computing business income.		
	(b) Employer's contribution to EPF	-	
	[As per section 43B, employer's contribution to EPF is allowable as deduction since the same has been deposited on or before the due date of filing return of income U/S 139(1). Since the same has been debited to statement of profit and loss, no further adjustment is required.]		
	(c) Contribution to National Laboratory	-	
	[Contribution to National laboratory for scientific research qualifies for deduction U/S 35(2AA). Since the same has been debited to the statement of profit and loss, no adjustment is required.]		
	(d) Advertisement expenses	55,000	
	[The amount of ₹55,000 paid for advertisement in the souvenir issued by a political party attracts disallowance U/S 37(2B). Since the expenditure has been debited to statement of profit and loss, the		

	Particulars	Amount in ₹	
	same has to be added back while computing business income. However, such expenditure is eligible for deduction U/s 8DGGB]		
	(e) Provision for gratuity	3,80,000	
	[Provision of ₹5 lakhs for gratuity based on actuarial valuation is not allowable as deduction as per section 40A(7). However, actual gratuity of ₹1,20,000 paid is allowable as deduction. Hence, the difference is added back]		
	(f) Overvaluation of Opening and Closing stock	1,50,000	
	[The difference between ₹10,35,000, being overvaluation in opening inventory - ₹8,85,000 being cost included in closing inventory is added back]		
	(i) Loss of cash in transit	-	
	[Since the loss is due to theft which took place when cash was withdrawn from bank and taken to administrative office, it is incidental to business and thus, allowable as revenue expenditure. Since the same has already been charged as revenue expenditure, no further adjustment is required]		
	AI. (iii) Expenditure pertaining to last year paid in cash	85,000	
	[Since the expenditure was allowed on due basis in last year and the payment exceeding ₹10,000 is made in cash in a day, the ₹85,000 will be deemed as income U/S 40A(3A) in P.Y. 2025-26.]		
	AI. (iv) Waiver of liability	4,00,000	
	[Amount waived by the supplier of raw materials is a deemed income U/S 41(1), as the expenditure was allowed as deduction in the last year and there is a benefit by way of remission or cessation of a trading liability]		28,85,000
			1,14,05,000
	***Less:* Items credited but chargeable to under another head/expenses tax allowed but not debited**		
	(g) Dividend received from foreign company		
	[Dividend received from foreign company is taxable under the head "Income from other sources". Since the said dividend has been credited to the statement of profit and loss, the same has to be deducted while computing business income.]	3,00,000	
	(h) Profit on sale of units of the equity oriented fund	7,00,000	
	[Profit on sale of units of the equity oriented fund is taxable under the head "Capital Gains". Since the profit on sale of shares has been credited to the statement of profit and loss, the same has to be deducted while computing business income.]		10,00,000

	Particulars	Amount in ₹	
	Less: Depreciation as per Income-tax Rules, 1962		1,04,05,000
	- Depreciation given in the question	8,50,000	
	- Depreciation on power generation plant		
	Normal Depreciation [₹15,00,000 x 15%] (₹25,00,000 - ₹3,00,000 - ₹7,00,000 = ₹15,00,000)	2,25,000	
	- Additional Deprecation [₹15,00,000 x 20%]	3,00,000	13,75,000
	[As per second proviso to section 43(1), any amount more than ₹10,000 paid in a single day to a single person otherwise by account payee cheque or account payee bank draft or electronic clearing system then it should not be part of actual cost, so advance paid to supplier is not part of actual cost. As per E*xplanation 10* of section 43(1), Government grant related to acquisition of asset shall be reduced while calculating actual cost]		
			90,30,000
II	**Capital Gain**		
	Long term capital gain on sale of units of the equity oriented fund [Since units were held for more than 12 months]		
	Full value of consideration	11,00,000	
	Less: Cost of acquisition	4,00,000	7,00,000
III	**Income from Other Source**		
	Dividend received from foreign company		3,00,000
	Gross Total Income		**1,00,30,000**
	Less: Deduction under Chapter VI-A		
	Deduction U/s 80GGB [Contribution to Political party]		55,000
	Deduction U/s 80M in respect of inter corporate dividends [Since M/s Strong Private Limited distributed dividend after the due date, being the date one month prior to the date for furnishing return of income specified U/s 139(1), no deduction will be allowed during the P.Y. 2025-26		-
	Total Income		**99,75,000**

Computation of tax liability as per normal provisions of the Act

Particulars	Amount (₹)
Tax on long-term capital gains in excess of ₹1.25 lakhs @12.5% U/s 112A [₹5,75,000 x 12.5%]	71,875
Tax on business income @25% of ₹92,75,000 [since the turnover for the previous year 2023-24 does not exceeds ₹400 crores]	23,18,750
	23,90,625

Add: Health and education cess @4%	95,625
Tax liability	**24,86,250**

Computation of total Income of M/s Strong Private Limited chargeable to tax for the A.Y. 2026-27 under concessional regime U/s 115BAA

Particulars	Amount (₹)
Total Income under regular provisions of the Act	99,75,000
Add: Additional depreciation on plant [Not allowable U/s 115BAA]	3,00,000
Add: Contribution to National Laboratory [Deduction U/s 35(2AA) is not allowable U/s 115BAA	1,50,000
Add: Deduction under Chapter VI-A	
U/S 80GGB [Not allowable U/S 115BAA]	55,000
Total Income as per section 115BAA	**1,04,80,000**
Computation of tax liability	
Tax on long-term capital gains in excess of ₹1.25 lakh @12.5% U/s 112A [₹5,75,000 x 12.5%]	71,875
Tax on other income of ₹97,80,000 @ 22%	21,51,600
	22,23,475
Add: Surcharge @ 10%	2,22,348
	24,45,823
Add: Health and education cess @4%	97,833
Tax liability	**25,43,656**
Tax liability (Rounded off)	**25,43,660**

Since the tax liability of M/s Strong Private Limited computed under regular provisions of the Act is lower than the tax liability computed U/S 115BAA, it is beneficial for M/s Strong Private Limited not to opt for the special provisions U/S 115BAA for A.Y.2026-27.

JAN 26 Exams

4. M Automobile Ltd. (M Auto) is engaged in the manufacture of automobile spare parts at Lucknow. In June 2025, M Auto established a new unit at Patna for the manufacture of automobile accessories. Separate books of accounts are being maintained for both the businesses.

Statement of Profit & Loss (of Lucknow unit) for the financial year ended on 31.03.2026 shows a profit (before depreciation) of ₹50 lakhs after the debit/ credit of following items:

(a) Commission of ₹2,50,000/- was paid to Robert, a non-resident, who does not have any office or permanent establishment in India. The payment was made without deducting tax at source.

(b) A standard warranty is provided at the time of sale, under which the product would be replaced free of charge, in case of any manufacturing defect detected within the stipulated time. Provision for warranty@ 0.5% of sales, amounting to ₹5,00,000 was made during the year.

(c) The assessee contributed ₹6,00,000/- (20% of the basic salary) to the account of employees under National Pension Scheme.

(d) The company issued 10,000 debentures during the year out of which 2000 were convertible in to shares after a period of 5 years. Expenditure incurred on issue of the said debentures during the financial year was ₹3,50,000.

(e) The company's branch office was located in an old building taken on rent under an agreement with the lessor. During the FY, with the consent of the lessor, the old building was demolished and a new office building was constructed on the same site at a cost of ₹20,00,000/-. Under an agreement, the company was permitted to re-occupy the newly constructed office building for a further period of 20 years at the same rent.

Additional information:

(i) During the financial year 2025-26, M Auto entered into an agreement with Garg Auto Ltd. As per the agreement, Garg Auto Ltd. has agreed not to engage in the manufacturing of automobile spare parts at Lucknow. On 1.05.2025, the assesse paid ₹12 lakhs without deduction of tax at source as non-compete fee to Garg Auto Ltd.

(ii) Net profit (before depreciation) from the business of automobile accessories of Patna unit was ₹25 lakhs for the financial year.

(iii) Details of plant and machinery (rate of depreciation 15%) owned by the assessee -

Lucknow unit:

Opening WDV as on 1.04.2025 was ₹14,75,000.

All the machines were sold in March 2026 for ₹15,00,000.

Patna unit:

Old machinery purchased in June 2025 for ₹10,00,000.

New machinery purchased in August 2025 for ₹6,00,000.

Assume, the company does not own any other fixed asset.

Plot of land purchased by the company in FY 2010-11 was compulsorily acquired by the State Government on 10.12.2022. Original compensation awarded was ₹10 lakh, out of which ₹8 lakhs were received on 10.04.2024 and the balance 2 lakhs on 1.10.2024.

On an appeal made by the assessee, the Court awarded an additional compensation of ₹7 lakhs. Out of this, ₹4 lakhs were received on 14.10.2024 and ₹3 lakhs were received on 1.02.2026. The Court further awarded an interest on additional compensation amounting to ₹12 lakhs, the same was received on 20.03.2026.

Compute the total income and tax liability of M Auto for the assessment year 2026-27 under the regular provision of the Income-tax Act applying and explaining the relevant provisions in brief, assuming that the assessee has not opted for any concessional tax rates under special provisions of the Income-tax Act, 1961.

Total turnover of the company for the financial year 2022-23 and 2023-24 was ₹300 crores and ₹350 crores respectively. Ignore the provisions of MAT.

Would it be beneficial for M Auto to opt for beneficial tax rates for financial year 2025-26. Support your view with necessary explanations

Answer –

Computation of Total Income and tax liability of M Automobile Ltd. for the A.Y. 2026-27 under regular provisions of the Act

	Particulars	₹	
I	**Profits and gains of business or profession**		
	Profit (before depreciation) as per the Statement of profit and loss of Lucknow unit		50,00,000
	***Add:* Items debited but to be considered separately or to be disallowed**		
	(i) Commission to Robert, a non-resident without deducting TDS	Nil	
	[Commission to a non-resident who does not have any office or PE in India is not chargeable to tax in India if the services are performed outside India. In such case, the obligation to deduct tax does not		

	Particulars	₹	
	arise. Since the same has been debited to the statement of profit and loss, no adjustment is required to be made]		
	(ii) Provision for warranty	Nil	
	The provision is allowed as deduction, if there is present obligation as a result of past event, it is reasonably certain that an outflow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate can be made of the obligation. In the present case, assuming that these conditions are satisfied, provision for warranty is allowable as deduction. Since the same has been debited to the Statement of Profit and loss, no adjustment is required to be made.		
	(iii) Contribution towards employees' pension scheme	1,80,000	
	Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction. Accordingly, ₹1,80,000, being 6% of ₹6,00,000/20% is disallowed.]		
	(iv) Expenditure on issue of debentures including convertible debentures	Nil	
	The expenditure incurred on the issue and collection of debentures would be treated as revenue expenditure even in case of convertible debentures, i.e., the debentures which had to be converted into shares at a later date5. Since the same has been debited to the Statement of Profit and loss, no adjustment is required to be made.		
	(v) Expenditure on construction of new building		
	Cost of repairs to the premises occupied by the assessee as a lessee is allowed as deduction other than of capital in nature. Since it has been debited to the statement of profit and loss, the same has to be added back while computing business income	20,00,000	21,80,000
			71,80,000
	AI(i) Payment of non-compete fee without deduction of tax at source		
	[Non-compete fees is in the nature of revenue expenditure. Since TDS U/s 194J has not been deducted on non-compete fee paid to Garg Auto Ltd., 30% of ₹12 lakhs would be disallowed U/S 40(a)(ia). However, as the amount is not debited in the Statement of Profit and loss, only ₹8,40,000 is allowed as deduction]		8,40,000

	Particulars	₹	
	Note – Alternatively, if the non-compete fees is in the nature of capital, then depreciation needs to be computed on the said expenditure.		
	Profit (before depreciation) as per the Statement of Profit and Loss of Lucknow Unit		63,40,000
	Profit (before depreciation) as per the Statement of Profit and loss of Patna unit		25,00,000
			88,40,000
	***Less:* Depreciation as per the Income-tax Rules, 1962**		
	Depreciation on construction of new building [M Auto is eligible for depreciation on construction of new building not owned by it but in respect of which it holds a leasehold right. ₹2,00,000, being 10% of ₹20 lakh is allowed as deduction assuming it was put to use for more than 180 days]	2,00,000	
	Depreciation on Plant & Machinery		
	Opening WDV as on 1.4.2025	14,75,000	
	Add: Old machinery (Patna Unit) in June 2025	10,00,000	
	Add: New machinery (Patna Unit) in August 2025	6,00,000	
	Less: Sales Consideration of machinery of Lucknow unit	15,00,000	
		15,75,000	
	Depreciation @15% on ₹15,75,000	2,36,250	
	Additional depreciation on new machinery @20% (Patna unit)	1,20,000	
			5,56,250
	Note – *If non-compete fees is in the capital nature, then depreciation of ₹3,00,000 being @ 25% on ₹12,00,000 is allowable.*		
			82,83,750
II	**Long-term capital gain on enhanced compensation**		
	Compensation received [Taxable in the year of receipt]	3,00,000	
	Less: Cost of acquisition	-	-
	Long-term capital gain [Since plot of land was held for more than 24 months]		**3,00,000**
III	**Income from Other Sources**		
	Interest on enhanced compensation	12,00,000	
	Less: 50% of interest	6,00,000	
			6,00,000
	Gross Total Income/Total Income		**91,83,750**

	Particulars	₹	
	Tax on ₹91,83,750		
	Tax on LTCG of ₹3 lakhs @20% [Since transfer takes place before 23.7.2024]	60,000	
	Tax on balance income of ₹88,83,750 @25%, since total turnover for P.Y. 2023-24 does not exceed ₹400 crores	22,20,938	
			22,80,938
	Add: HEC @4%		91,238
	Tax liability		**23,72,176**
	Tax liability (rounded off)		**23,72,180**

Computation of total income and tax liability of M Auto for the A.Y. 2026-27 U/S 115BAA

Particulars	₹	₹
Total Income as per regular provisions of the Act		91,83,750
Add: Additional depreciation		1,20,000
Total Income as per section 115BAA		**93,03,750**
Tax on ₹93,03,750		
Tax on LTCG of ₹3 lakhs @20% [Since transfer takes place before 23.7.2024]	60,000	
Tax on balance income of ₹90,03,750 @22%	19,80,825	
		20,40,825
Add: Surcharge **@10%**		2,04,083
		22,44,908
Add: HEC @4%		89,796
Tax liability		**23,34,704**
Tax liability (Rounded off)		**23,34,700**
Since the tax liability of M Auto U/S 115BAA is lower than the tax liability computed under regular provisions of the Act, it would be beneficial for it to opt for section 115BAA for A.Y. 2026-27.		

MTP SEP 25

5. M/s. Zenpack Manufacturing Pvt. Ltd., an Indian company engaged in the manufacture of eco-friendly packaging products, operates a production facility in Indore, Madhya Pradesh. For the financial year ended 31^{st} March 2026, the company has reported a net profit of ₹68,50,000 in its Profit and Loss Account after considering the following items:

(a) Depreciation as per the Companies Act: ₹59,00,000

(b) Loss of ₹19,00,000 arising from destruction of old machinery by fire. Scrap value of ₹9,10,000 was realised on 31st August 2025. The insurance claim was rejected on grounds of negligence.

(c) Tax demand of ₹8,40,000 (including cess of ₹33,600) relating to A.Y. 2023-24 was paid during F.Y. 2025-26 upon completion of assessment in September 2025.

(d) Power subsidy of ₹17,00,000 received from the Central Government during F.Y. 2025-26 to be adjusted against electricity bills of F.Y. 2024-25. This amount was not credited to income for F.Y. 2024-25.

(e) Interest income of ₹7,50,000 earned on margin money deposits for securing bank guarantees (included in the P&L Account).

(f) Raw material of ₹14,00,000 (including ₹2,75,000 GST with no ITC) used exclusively for in-house R&D, debited to the P&L.

(g) Interest payment of ₹18,00,000 made to Yulong Materials Ltd., China (a non-resident with no PE in India) as on 15th July 2025, without deduction of TDS. (loan amount utilised in India)

(h) Dividend of ₹3,33,000 received from a foreign company (in which Zenpack holds 29% of equity share capital). Expenses of ₹19,000 (other than interest) were incurred to earn such income.

(i) Interest expense of ₹15,00,000 for a loan took from PNB Bank relating to F.Y. 2025-26 was discharged through issue of 7.5% debentures in March 2026.

Additional Information:

1. Depreciation allowable as per Income-tax Act, 1961: ₹43,20,000 (including scrap value adjustment but not on assets mentioned in 2,3 and 4 below)
2. A printer (integral to the packaging plant and qualifying for additional depreciation) was installed on 1st May 2025 at a cost of ₹ 92,50,000.
3. Another specified printer was installed on 23rd October 2025 for ₹26,34,000.
4. The following assets were acquired after 30th October 2025:
   (a) Lorries for transport to depots – ₹85,00,000
   (b) Machinery imported from Hungary – ₹1,35,00,000 (arrived on 30th March 2026, installed on 10th April 2026)

All other fixed assets (except the Hungarian machine) were installed and put to use before 31st March 2026.

The turnover of the company for F.Y. 2023–24 was ₹415 crores. The company has not opted for section 115BAA/115BAB, and you may ignore the provisions of MAT for this question.

Compute the Total Income and Tax Payable of M/s. Zenpack Manufacturing Pvt. Ltd. for the Assessment Year 2026-27, clearly stating the brief reasons for treatment of each of the above adjustments.

Answer –

Computation of Total Income and Tax Payable by M/s Zenpack Manufacturing Pvt. Ltd. for the A.Y. 2026-27

	Particulars	Amount (in ₹)	
I	**Profits and gains of business and profession**		
	Net profit as per profit and loss account		68,50,000
	***Add:* Items debited but to be considered separately or to be disallowed**		
	(a) Depreciation as per Companies Act	59,00,000	
	(b) Loss due to destruction of machinery by fire Loss of ₹19 lakhs due to destruction of old machinery caused by fire is not deductible since it is capital in nature. Since the loss has been debited to profit and loss account, the same is required to be added back while computing business income.	19,00,000	
	(c) Tax paid (including surcharge and cess) Tax paid including surcharge and cess is not allowed	8,40,000	

Particulars		Amount (in ₹)	
	while computing business income U/S 40(a)(ii). Since the tax paid has been debited to profit and loss account, the same is required to added back while computing business income]		
	(f) Purchase price of raw material for in- house research		
	Purchase price of raw material used for the purpose of in-house research and development qualifies for 100% deduction U/s 35(2AB) or 35(1)(i). GST on which ITC is not admissible is an expense and can be claimed as deduction U/S 37. As the amount has already been debited to profit and loss account, no further adjustment is necessary.	Nil	
	(g) Payment to Yulong Materials Ltd. for Interest		
	Disallowance @ 100% would be attracted U/S 40(a)(i) for non-deduction of TDS on payment for Interest to Yulong Materials Ltd.	18,00,000	
	Since the payment has been debited to profit and loss account, the same is required to added back while computing business income as payment made before 1st August 2025.		
	(h) Expenses on earning dividend income The allowability or otherwise of expenses on dividend income has to be considered while computing income under the head "Income from other sources". Since the same has been debited to the profit and loss account, it has to be added back while computing business income]	19,000	
	(i) Interest settled by issuing debentures		
	As per section 43B, conversion of interest into a debenture shall not be deemed as actual payment, and hence would not be allowed as deduction. Since the interest has been debited to the profit and loss account, it has to be added back while computing business income]	15,00,000	1,19,59,000
			1,88,09,000
	Less: **Items credited but not taxable or chargeable to tax under another head**		
	(b) Scrap value of machinery	9,10,000	
	Scrap value of machinery, being capital in nature, has to be reduced from WDV of machinery. Since the same has been credited to the profit and loss account, it has to be deducted while computing business income.		
	(d) Power Subsidy received from Central Government	Nil	

Particulars		Amount (in ₹)	
	As per ICDS VII, Government grant (subsidy) which is receivable as compensation for expenses or losses incurred in a previous financial year shall be recognised as income of the period in which it is received. Since the subsidy is received in the P.Y. 2025-26, it would be taxable in P.Y. 2025-26. Since such subsidy has been credited to profit and loss account, no further adjustment is required.		
	(e) Interest on margin money deposited with Bank	Nil	
	Interest income received on funds kept as margin money for obtaining the bank guarantee would be taxable under the head "Profits and gains of business or profession". Since such interest has already been credited to profit and loss account, no further adjustment is required.		
	(h) Dividend received from foreign company Dividend received from foreign company is taxable under "Income from other sources". Since the same has been credited to the profit and loss account, it has to be deducted while computing business income.	3,33,000	12,43,000
			1,75,66,000
	***Less:* Depreciation as per Income-tax Act, 1961**		
	Normal depreciation		
	- Depreciation on assets other than on printers, machinery & lorries stated in AI (2), (3) & (4)	43,20,000	
	- On Printer [92,50,000 x 15%]	13,87,500	
	- On Printer installed on 23rd October 2025 [26,34,000 x 15% x 50%]	1,97,550	
	- On Lorries for transporting goods to sales depots [85,00,000 x 15% x 50%, since it is used for less than 180 days]	6,37,500	
	- On Machine imported from Hungary [Nil, since it is not installed in P.Y. 2025-26]	Nil	65,42,550
	Additional depreciation		
	- On Printer [92,50,000 x 20%]	18,50,000	
	- On Printer installed on 23rd October 2025 [26,34,000 x 20% x 50%]	2,63,400	21,13,400
			89,10,050
II	**Income from Other Sources**		
	Dividend received from foreign company [Dividend received from a foreign company is chargeable to tax under the head" Income from other sources".		3,33,000

Particulars		Amount (in ₹)	
	₹15,000, being an expense other than interest payment is not allowable as deduction from dividend income.]		
	Gross Total Income/Total Income		**92,43,050**
	Computation of Tax payable		
	Tax on ₹92,43,050 @30% (since the turnover exceed ₹400 crores in the F.Y. 2023-24)		27,72,915
	Add: Health and Education cess @ 4%		1,10,917
	Tax Payable		**28,83,832**
	Tax Payable (Rounded off)		**28,83,830**

Question -2(a) Capital Gain, Buyback, Dividend, FIRM, AOP, BOI & SEZ [8 Marks]
MTP SEP-25

1. The profit and loss account of the Disha Darpan & Associates, a partnership firm, showed a net profit of ₹95 lakhs after debiting/crediting of the following items:

(i) Interest on capital @13% - ₹9,75,000.

(ii) Interest on loan taken from one of the partners @17% - ₹2,55,000.

(iii) Royalty of ₹5 lakhs paid to partner X, who is a professional script writer, for use of his scripts as per agreement between the firm and X. The same is authorized by partnership deed.

(iv) Depreciation as per books of accounts - ₹2,18,990

(v) A building purchased in the year 2022 having a WDV as on 1.4.2025 of ₹37.83 lakhs was sold on 05.11.2025 for ₹87 lakhs. The differential amount was credited to profit and loss account. The building was the only asset in the block.

Additional Information:

(a) The firm has four partners. Only 2 are working partners. Partnership deed authorises payment of interest to partners in the range of 12% - 16% and also payment of remuneration to all the four partners @ ₹35,000 per month. Remuneration paid to partners not debited to P & L A/c.

(b) It applied for establishing a unit in SEZ and the letter of approval was granted on 30.3.2023. However, it started the operation of SEZ only on 15.10.2023. The total turnover, export turnover and net profit for the year ended 31.3.2026 were ₹220 lakhs, ₹70 lakhs and ₹12.5 lakhs, respectively. The net profit is included in the profit of ₹95 lakhs mentioned above.

(c) Out of the amount received from sale of building, the firm invested ₹26 lakhs on 3.5.2026 in 5-years specified bonds of the National Highways Authority of India. The bonds were issued on 31.5.2026.

(d) Depreciation as per Income-tax Rules, 1962 is ₹27,000 excluding depreciation on assets mentioned in (e) and (f) below.

(e) WDV of Car as on 1.4.2025 (purchased and put to use on 1.1.2022) of ₹9,70,000.

(f) Cost of second hand machinery (purchased and put to use on 09.11.2025) - ₹55,000

Compute the total income of the firm for the A.Y. 2026-27 giving reasons/explanations for the treatment of each item under the normal provisions of the Act.

Answer –

Computation of Total Income of M/s Disha Darpan & Associates, a partnership firm, for the A.Y. 2026-27

	Particulars	Amount (in ₹)

	Particulars	Amount (in ₹)	
I	**Profits and gains of business and profession**		
	Net profit as per profit and loss account		95,00,000
	Add: **Items debited but to be considered separately or to be disallowed**		
	(1) Interest to partners on capital	75,000	
	[As per section 40(b), interest to partners authorized by the partnership deed is allowable as deduction subject to a maximum of 12% p.a.] [₹9,75,000 x 1%/13%]		
	(2) Interest on loan taken from partner	75,000	
	[As per section 40(b), interest to partners authorized by the partnership deed is allowable as deduction subject to a maximum of 12% p.a., whether it is interest on partner's capital or loan] [₹2,55,000 x 5%/17%]		
	(3) Royalty paid to partner X	5,00,000	
	[Any remuneration, by whatever name called, paid to a working partner is subject to the limits specified U/S 40(b)(v). Therefore, the royalty of ₹5 lakhs paid to partner X must also adhere to these limits and should be added back while computing book profits.]		
	(4) Depreciation as per books of account	2,18,990	8,68,990
			1,03,68,990
	Less: **Items credited but chargeable to tax under another head/expenses allowed but not debited**		
	1. Profit on sale of building		
	[Capital gain on sale of building is taxable under the head "Capital Gains".		
	Since such gains has been credited to profit and loss account, the same has to be deducted while computing business income]	49,17,000	49,17,000
			54,51,990
	Less: **Depreciation as per the Income-tax Rules, 1962**	27,000	
	- Depreciation on Motor car [₹9,70,000 x 15%]	1,45,500	
	- Machinery [₹55,000 x 15% x 50%, since purchased and put to use for less than 180 days]	4,125	1,76,625
	Book Profit		52,75,365
	Less: Salary to working partners		

	Particulars	Amount (in ₹)	
	(i) As per limits given U/S 40(b)		
	On first ₹6,00,000 @90%	5,40,000	
	On the balance of ₹46,75,365 @ 60%	28,05,219	
		33,45,219	
	(ii) Salary actually paid to working partners [₹35,000 x 12 x 2] + Royalty to Partner A [5,00,000]	13,40,000	
	Deduction allowed being (i) or (ii) whichever is less		
			13,40,000
			39,35,365
II	**Capital Gains**		
	Short term capital gain on sale of building forming part of block of asset [Since building was the only asset in the block]		
	Full value of consideration	87,00,000	
	Less: Cost of acquisition [WDV as on 1.4.2025]	37,83,000	
		49,17,000	
	Less: Exemption U/S 54EC [Investment in bonds of NHAI]	26,00,000	23,17,000
	[Available against depreciable asset, being a building held for more than 24 months and the payment for bonds has been made within six months from the date of transfer, exemption U/s 54EC would be available even if the allotment of bonds was made after the expiry of the six months*]		
	Gross Total Income		62,52,365
	***Less:* Deduction U/S 10AA**		-
	[Deduction U/s 10AA is not available since approval was granted after 31.3.2020 and it started its operation after 31st March, 2021]		
	Total Income		**62,52,365**
	Total Income (Rounded off)		**62,52,370**

*Hindustan Unilever Ltd. v. DCIT (2010) 325 ITR 102 (Bom.)

MTP SEP - 25

2. TrueValue Pvt. Ltd. was converted into a Limited Liability Partnership (LLP), named TrueValue LLP, on 1st October 2025. The following details pertain to TrueValue Pvt. Ltd. as on 31st March 2026:

1. Brought forward business loss from P.Y. 2021-22: ₹65 lakhs
2. Written down value (WDV) of assets under the Income-tax Act, 1961:
    - Plant and Machinery (15%): WDV ₹28 lakhs (Market value ₹27 lakhs)
    - Plant and Machinery (35AD deduction claimed): Cost ₹67 lakhs
    - Building (10%): WDV ₹64 lakhs (Market value ₹95 lakhs)
3. Land (acquired in 2015): Cost ₹90 lakhs (Market value ₹140 lakhs)

4. Expenditure on voluntary retirement scheme (VRS) incurred during P.Y. 2023-24: ₹34 lakhs. Deduction of ₹6.8 lakhs each has already been allowed for P.Y. 2023-24 and P.Y. 2024-25 U/S 35DDA.
5. Unadjusted MAT Credit U/S 115JAA: ₹9.2 lakhs
6. Unabsorbed depreciation: ₹75 lakhs

Assuming that the conversion complies with all the prescribed conditions U/S 47(xiiib), explain the tax treatment of each of the above items in the hands of TrueValue LLP post-conversion.

Answer -

Tax treatment in the hands of TrueValue LLP on conversion of TrueValue Pvt. Ltd. into TrueValue LLP

(i) Business loss of ₹65 lakhs (relating to P.Y. 2021-22)

As per section 72A(6A), the business loss of ₹65 lakhs of TrueValue Pvt. Ltd. would be deemed to be the loss of TrueValue LLP for P.Y. 2025-26 and it would be able to set off and carry forward such loss.

However, if subsequent to the conversion, TrueValue LLP fails to fulfill any of the conditions mentioned in section 47(xiiib), the set-off of business loss so made in any previous year would be deemed to be the income chargeable to tax in the year in which such conditions are not complied with.

Further, as per section 72A(6B), where business reorganisation is carried out on or after 01.04.2025 then accumulated losses of the predecessor entity shall be carried forward in the hands of the successor entity for not more than eight assessment years immediately succeeding the assessment year for which such loss was first computed for original predecessor entity.

Accordingly, the carry forward is for 8 assessment years subsequent to the assessment year 2022-23.

(ii) Depreciation and written down value of assets

In case of conversion of TrueValue Pvt. Ltd. into TrueValue LLP, depreciation on assets shall be apportioned between the company and LLP in the ratio of the number of days for which the assets were used by them.

Total Depreciation

Plant and machinery (15%) = ₹28 lakhs x 15% = ₹4,20,000

Building (10%) = ₹64 lakhs x 10% = ₹6,40,000

In the hands of TrueValue LLP (for 182 days)

Plant and machinery (15%) = ₹4,20,000 x 182/365 = ₹2,09,425

Building (10%) = ₹6,40,000 x 182/365 = ₹3,19,123

WDV in the hands of TrueValue LLP

As per section 43(6), the actual cost of the block of assets in the hands of TrueValue LLP shall be the WDV of the block of assets as in the case of TrueValue Pvt. Ltd. on the date of conversion.

WDV of P & M (15%) = ₹28 lakhs – ₹2,09,425 (₹4,20,000 x 182/365) = ₹25,90,575

WDV of Building (10%) = ₹64 lakhs – ₹3,19,123 (₹6,40,000 x 182/365) = ₹60,80,877

Actual cost of Plant and machinery on which deduction has been allowed or is allowable to the assessee U/S 35AD would be 'NIL' in the hands of TrueValue Pvt. Ltd. and TrueValue LLP.

(iii) Cost of land acquired in 2015 at ₹90 lakhs (Market value ₹140 lakhs)

The cost of acquisition of land in the hands of TrueValue LLP would be the cost for which TrueValue Pvt. Ltd. acquired it, i.e., ₹90 lakhs.

(iv) Expenditure on voluntary retirement benefit of ₹34 lakhs

As per section 35DDA, in case of conversion of TrueValue Pvt. Ltd. into TrueValue LLP, deduction would be available to TrueValue LLP for the remaining periods from the previous year in which conversion took place. Since deduction of ₹6.8 lakhs each has been claimed by TrueValue Pvt Ltd.

in P.Y. 2023-24 and P.Y. 2024-25, TrueValue LLP would be eligible for deduction of ₹6.8 lakhs each for the remaining three previous years, namely P.Y.2025-26, P.Y.2026-27 and P.Y.2027-28 U/S 35DDA

(v) Unadjusted MAT credit U/s 115JJAA of ₹9.2 lakhs

As per section 115JAA(7), in case of conversion of TrueValue Pvt. Ltd. into TrueValue LLP, the credit for MAT paid by TrueValue Pvt. Ltd. cannot be availed by the successor LLP i.e., TrueValue LLP.

(vi) Unabsorbed depreciation of ₹75 lakhs

As per section 72A(6A), TrueValue LLP would be able to carry forward and set-off the unabsorbed depreciation of ₹75 lakhs of TrueValue Pvt. Ltd.

However, if subsequent to the conversion, TrueValue LLP fails to fulfill any of the conditions mentioned in section 47(xiiib), the set-off of depreciation so made in any previous year would be deemed to be the income chargeable to tax in the year in which such conditions are not complied with.

MTP JAN 26

3. 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. 2025-26 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 01.05.2025. It incurred capital expenditure of ₹60 lakhs on purchase of land and construction of building during the period January 2025 to April 2025 (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. 2025-26 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. 2026-27 giving explanations for each item. (Ignore AMT provisions)

(ii) Assuming that the LLP filed its return of income for A.Y. 2026-27 in December, 2026 i.e. after the due date of filing return of income as prescribed under the Act, Will it make any impact on deduction U/S I0AA or deduction U/s 35AD for A.Y. 2026-27? (No need to recompute total income and tax liability).

Answer-

Computation of Total income and tax liability of M/s Silver Green for A.Y. 2026-27

Particulars	₹	₹
Profits and gains of business or profession		
Unit in SEZ		24,00,000
Profit from operation of warehousing facility	30,00,000	
Add: Interest on capital @14%	11,48,000	
Salary credited to all partners [₹9,00,000 x 3]	27,00,000	
	68,48,000	
Less: Deduction U/S 35AD	25,00,000	

Particulars	₹	₹
[Capital expenditure incurred prior to commencement of business and capitalised in the books of account excluding the expenditure incurred for cost of land] [₹60 lakhs – ₹35 lakhs]		43,48,000
		67,48,000
Less: Interest to partners on capital [Maximum interest@12% is allowed as per section 40(b)] [₹11,48,000/14%*12%]		9,84,000
Book profits		**57,64,000**
Less: Partners' remuneration allowable U/S 40(b)(v)		
(i) As per limit prescribed in section 40(b)		
On first ₹6,00,000 Higher of ₹3,00,000 or 90% of ₹6 lakhs	5,40,000	
On the balance ₹51,64,000 @60%	30,98,400	
	36,38,400	
(ii) Remuneration actually paid or payable to working partners [₹9,00,000 x 2]	18,00,000	
Whichever is less is allowed		18,00,000
PGBP/Gross total income		**39,64,000**
Less: Deduction U/s 10AA [₹24 lakhs x 90 lakhs/120 lakhs x 50%, since this is the seventh year]		9,00,000
Total income		30,64,000
Computation of tax liability		
Tax @ 30% on ₹30,64,000		9,19,200
Add: Health and Education cess @ 4%		36,768
Tax liability		9,55,968
Tax liability (Rounded off)		**9,55,970**

(ii) As per proviso to section 10AA(1), no deduction U/S 10AA shall be allowed to an assessee who does not furnish a return of income on or before the 'due date' specified in section 139(1).

However, there is no such condition for claiming deduction u/s 35AD.

Since M/s Silver Green files its return of income for A.Y. 2026-27 in December, 2026 i.e., after the due date of filing return of income, it cannot claim deduction U/S 10AA in respect of profits derived from unit in SEZ. It will be eligible to claim the deduction U/S 35AD

SEP 25 Exams

4. Mr. Shivansh purchased 11,000 equity shares of ₹10 each of M/s ABC Ltd. on 08.03.2007 at a premium of ₹40 per share. On 07.10.2025, the Company buy-backs 1,000 equity shares held by Shivansh at a price of ₹550 per share.

M/s ABC Ltd. distributed its assets to shareholders on its liquidation on 15.11.2025. Shivansh received ₹100 per share in cash and one plot of land in consideration of remaining 10,000 shares. The book value and fair market value of such land on 15.11.2025 was ₹45 lakhs and ₹60 lakhs respectively. On this date, M/s ABC Ltd. has equity share capital of ₹10,00,000 (1,00,000 equity shares of ₹10 each) and accumulated profits of ₹80,00,000.

Cost Inflation Index: 2025-26: 376, 2006-07: 122

Compute income chargeable in respect of following in the hands of Mr. Shivansh assuming he has not opted tax regime U/s 115BAC for the A.Y. 2026-27:

(1) On buyback of 1,000 equity shares; and

(2) Capital Gains chargeable on liquidation.

Answer –

Computation of income chargeable in the hands of Mr. Shivansh for A.Y. 2026-27

		Amount (₹)
(1) On buyback of 1,000 equity shares M/s ABC Ltd. by Capital Gains		
Full Value of consideration	Nil	
Less: Cost of Acquisition [1000 x ₹50]	50,000	
Long-term capital loss [can be set off against long term capital gain on liquidation of company]	50,000	
Income from Other Sources		
Dividend [1,000 x ₹550]		5,50,000
The sum paid by M/s ABC Ltd., a domestic company for purchase of its own shares would be treated as dividend and taxable under the head "Income from Other Sources" in the hands of Mr. Shivansh. No deduction for expenses would be available against such dividend income		
(2) Capital gains chargeable on liquidation		
Capital Gains		
Full value of the consideration		62,00,000
Cash (10,000 shares x ₹100 per share)	10,00,000	
Market value of land on the date of distribution	60,00,000	
	70,00,000	
Less: Deemed Dividend [₹8 lakhs (₹80 lakhs/1 lakhs x 10,000), being the share of Mr. Shivansh in accumulated profits of ₹80 lakhs would be deemed as dividend]	8,00,000	
Less: Cost of acquisition [10,000 x ₹50 (₹10+₹40)]		5,00,000
Long-term capital gain		**57,00,000**

Question -2(b) NR & NRI Taxation, 44C Branch Exps, FII Taxation [6 Marks]

RTP JAN 26

1. Delta Global Inc., a foreign company, operates a branch in India. For the financial year ending on 31st March 2026 (A.Y. 2026-27), head office incurred certain administrative expenses outside India and allocated ₹1,85,00,000 to the Indian branch. The adjusted total income of the A.Y. 2026-27 is a loss of ₹25,20,200. The assessable total income and other details for the preceding three previous years relevant to the assessment years are as follows:

Particulars	A.Y. 2023-24	A.Y. 2024-25	A.Y. 2025-26
Assessable Total Income	18,00,000	28,00,000	41,00,000
Depreciation	10,00,000	12,00,000	18,00,000
Unabsorbed Depreciation	12,00,000	18,00,000	22,00,000
Deduction under Chapter VI-A	21,00,000	29,00,000	34,00,000
Brough forward Short- term capital loss	2,00,000	-	1,00,000
Long-term capital loss	5,00,000	2,00,000	-
Brought forward Speculative Losses	2,00,000	17,00,000	15,00,000
Expenditure incurred on Voluntary	4,00,000	12,00,000	18,00,000

Particulars	A.Y. 2023-24	A.Y. 2024-25	A.Y. 2025-26
Retirement [1/5 of total expenditure]			
Head Office Exp.	1,45,00,000	1,60,00,000	1,80,00,000

You are required to compute the amount of head office expenditure deductible U/S 44C for the assessment year 2026-27. Assume Delta Global Inc do not have POEM in India.

Answer –

Section 44C restricts the allowability of the head office expenses to the extent of lower of an amount equal to 5% of the adjusted total income (where the adjusted total income is a loss, 5% of the average adjusted total income) or the amount actually incurred as is attributable to the business of the assessee in India.

Allowable Head Office Expense U/s 44C will be lower of

- 5% of Average Adjusted Total Income ₹12,41,667 (i.e. ₹2,48,33,333 x 5%) [Refer Note Below]
- Actual Expenditure ₹1,85,00,000

Hence, allowable Head Office expense would be ₹12,41,667.

Note – Since adjusted total income for the A.Y. 2026-27 is a loss, deduction with respect to head office expenses will be computed on the basis of the average adjusted total income.

Computation of Average Adjusted Total Income

Particulars	A.Y. 2023-24	A.Y. 2024-25	A.Y. 2025-26
Total Income	18,00,000	28,00,000	41,00,000
Add: Adjustments not allowed while computing adjusted total income			
Current year depreciation	-	-	-
Unabsorbed depreciation	12,00,000	18,00,000	22,00,000
Deduction under Chapter VI-A	21,00,000	29,00,000	34,00,000
Brought forward Short- term capital loss	2,00,000	-	1,00,000
Long-term capital loss [No adjustment is required while computing adjusted total income]	-	-	-
Brought forward speculative business loss	2,00,000	17,00,000	15,00,000
Expenditure on Voluntary Retirement Scheme [Only 1/5 is allowable as deduction. Thus, no adjustment is needed]	-	-	-
Head Office Expenses	1,45,00,000	1,60,00,000	1,80,00,000
Adjusted Total Income	**2,00,00,000**	**2,52,00,000**	**2,93,00,000**

Average of Adjusted Total Income:

₹2,00,00,000 + ₹2,52,00,000 + ₹2,93,00,000/3 = ₹2,48,33,333

RTP MAY 26

2. Lime Inc is a company incorporated under the laws of Country X. The value of its global assets are ₹510 crores. The value of assets in India are ₹256 crores. Its turnover during the P.Y. 2025-26 is Country X $ equivalent to ₹900 crores. Out of 10 board meetings held during the F.Y.2025-26, only 4 meetings are held in India. The key management and commercial decisions for conduct of the company's business as a whole are, however, made by the directors located in India at the meetings held in India. Your client, Hide Rise Ltd, an Indian company, wishes to remit an amount towards professional fees to Lime Inc. on which tax is required to be deducted in India.

Determine the residential status of Lime Inc. for A.Y.2026-27 under the Income-tax Act, 1961. Advise Hide Rise Ltd as to whether tax on fees for professional services paid to Lime Inc. has to be deducted U/S 194J or section 195.

Answer –

In the given case, Lime Inc. is a company incorporated under the laws of Country X. It is a foreign company under the Income-tax Act, 1961. However, the said company shall be considered to be resident in India if its place of effective management is in India.

In this case, the company does not satisfy the active business outside India test since 50% of its assets are located in India. Therefore, since it has failed the active business outside India test on account of 50% of its assets being located in India, the persons who take key management and commercial decisions for conduct of the company's business as a whole and the place where the decisions are made are the key factors in determining whether the POEM of the company is in India. The facts of the case clearly state that the key management decisions and commercial decisions for conduct of the company's business as a whole are made by the directors located in India and at the meetings held in India.

Therefore, the POEM of Lime Inc. is in India in the P.Y.2025-26, irrespective of the fact that majority of the board meetings are held outside India.

Section 194J applies when professional fees are being paid to a resident, whereas section 195 applies when payments are made to a non-corporate non-resident or a foreign company. Section 194J is income specific and section 195 is payee specific. CBDT *vide Notification No. 29/2018, dated 22nd June, 2018* has clarified that where more than one provision of Chapter XVII-B of the Act applies to the foreign company as resident as well as a foreign company, the provision applicable to the foreign company alone shall apply.

Hence, Hide Rise Ltd shall deduct tax U/S 195 while making payment of fees for professional services to Lime Inc., a foreign company resident in India.

MTP SEP 25

3. EcoPack Solutions Pvt. Ltd., an Indian company, is engaged in the manufacture of eco-friendly packaging materials, with its manufacturing facility located in Gujarat, India. EcoPack Solutions Pvt. Ltd. is a wholly owned subsidiary of GreenCore Global Ltd., a company incorporated in Country Zeta.

Ownership Structure of GreenCore Global Ltd.:

- Lucas Pereira and Daniel Zhang, both citizens and tax residents of Country Omega, each held 50% of the equity share capital of GreenCore Global Ltd.
- In April 2017, both Lucas and Daniel had invested the equivalent of INR 150 crores each in GreenCore Global Ltd.

On 1st June 2025, Lucas and Daniel sold their entire shareholding in GreenCore Global Ltd. to Mr. Arjun Das, a resident of Country Omega, for a consideration equivalent to INR 400 crores each, based on a mutually agreed fair market valuation.

GreenCore Global Ltd. follows the calendar year as its accounting period (i.e., January to December).

The relevant extract of the balance sheet of GreenCore Global Ltd. as on 31st December 2024, 1st June 2025 and 31st December 2025 are as follows:

Particulars	As at 31st December 2024 (in INR crores)	As on 1st June 2025 (in INR crores)	As on 31st December 2025 (in INR crores)
Details GreenCore Global Ltd. Regarding			
Book value of assets	2000	2600	3000
Liabilities	600	500	700
Fair Market Value of assets (without reduction of liabilities)	1600	2200	1900
Details regarding investment in EcoPack Solutions Pvt. Ltd.			
Cost of acquisition	300	300	300
Book value of assets in balance sheet of EcoPack Solutions Pvt. Ltd.	700	1100	960
Liabilities	300	400	500
Fair market value of assets in balance sheet of EcoPack Solutions Pvt. Ltd. (without reduction of liabilities)	700	1200	1200

Determine whether the income arising from the transfer of shares of GreenCore Global Ltd. is chargeable to tax in India in the hands of Lucas Pereira and Daniel Zhang for the Assessment Year 2026–27.

Assume that there is no Double Taxation Avoidance Agreement (DTAA) between India and Country Zeta, and between India and Country Omega.

Answer –

Capital gain arising in the hands of Lucas Pereira and Daniel Zhang from transfer of a capital asset situated in India would be deemed to accrue or arise in India. Shares of GreenCore Global Ltd., Country Zeta, shall be deemed to be situated in India if those shares derive directly or indirectly, its value substantially from assets located in India.

Shares of GreenCore Global Ltd. would be deemed to derive its value substantially from the assets located in India, if on the specified date, the fair market value of Indian assets (without reduction of liabilities) i.e., fair market value of assets of EcoPack Solutions Pvt. Ltd. –

- exceeds ₹10 crores; and
- represents at least 50% of the value of all the assets owned by GreenCore Global Ltd.

Specified date would be the date of transfer i.e., 1.6.2025 since book value of the assets of GreenCore Global Ltd. on the date of transfer i.e., 2,600 crores exceed the book value of the assets as on the last balance sheet date preceding the date of transfer i.e., 2,000 crores by at least 15%.

Shares of GreenCore Global Ltd. derives its value substantially from assets located in India since the fair market value of assets located in India (without reduction of liabilities) on 1.6.2025, being the specified date i.e., 1200 crores exceed ₹10 crores and represents more than 50% i.e., 54.545% of the fair market value of assets of GreenCore Global Ltd. i.e., ₹2,200 crores.

Hence, the shares of GreenCore Global Ltd. would be deemed to be a capital asset situated in India and the capital gains from the transfer of shares of GreenCore Global Ltd. by Lucas Pereira and Daniel Zhang would be deemed to accrue or arise in India. Accordingly, the capital gains arising from transfer of shares of GreenCore Global Ltd. would be taxable in the hands of Lucas Pereira and Daniel Zhang in India as per Income-tax Act, 1961.

JAN 26 Exams

4. Mr. Manoj, aged 47 years born in India, left for employment in United States in October, 2010. Since, then he is staying in USA and his wife is residing at Delhi. After FY 2010-11, Mr. Manoj never stayed for more than 30 days in India in any financial year. He remitted $40,000 in joint bank account (maintained with his wife) at Punjab National Bank, Delhi branch on 10th April, 2011. His wife invested in his (Manoj's) name ₹13 lakhs in the listed shares of a domestic company on 20th April, 2012. The consideration for the purchase of shares was paid in USD and the value as translated in INR terms. On 2nd March, 2026, these shares were sold for ₹15 lakhs. STT was paid both at the time of purchase and sale.

On 10th March, 2026, Manoj acquired a vacant land from Tulsi Foundations, a welfare trust registered U/s 12AB of the Act, for ₹30 lakhs when the Stamp Duty Value (guideline value) of the said land was ₹40 lakhs. He has following incomes during the financial year 2025-26 -

- dividend of ₹55,000/- from X Ltd., an Indian company.
- interest of ₹20,000 credited to his NRE account with State Bank of India, Delhi branch.
- royalty of ₹2,00,000 (gross) received for authoring a book on literature, from a publication house at Delhi.

During the financial year, he paid a premium of ₹2,00,000/- on his life insurance policy in India.

Compute the total income and net tax liability of Mr. Manoj for the assessment year 2026-27 assuming that he has opted out from the default tax regime. (Ignore the provisions of Chapter XII-A).

Average of telegraphic buying and selling rates of 1USD in Indian Rupees:

• 20th April 2012 - ₹60; 2nd March 2026 - ₹75

Cost inflation indices: F.Y. 2012-13 - ₹200; F.Y: 2025-26 - ₹376

Answer-

Computation of total income and net tax liability of Mr. Manoj for the A.Y. 2026-27

Mr. Manoj is a non-resident for the A.Y. 2026-27 since he never stayed for more than 30 days in India in any financial year after F.Y.2010-11.

Particulars		(₹)	(₹)
Capital Gains			
Long term capital gain on sale of listed shares of a Domestic Company			
Full value of consideration		15,00,000	
Less: Cost of Acquisition [Assuming that the fair market value as on 31.1.2018 is the same. Further, no indexation and foreign currency fluctuations will be allowed while computing LTCG U/s 112A]		13,00,000	
Higher of			
- Actual cost	13,00,000		
- Lower of			
- Fair market value on 31.1.2018	13,00,000		
- Full value of consideration	15,00,000		
Long-term capital gain			2,00,000
Income from Other Sources			
Difference between actual consideration and stamp duty value on purchase of vacant land will not be taxable U/s 56(2)(x), since the same is received from a trust registered U/s 12AB		Nil	
Dividend from X Ltd.		55,000	

Particulars	(₹)	(₹)
Interest credited to NRE Account with SBI, Delhi Branch – exempt	Nil	2,55,000
Royalty for authoring a book on literature	2,00,000	
Gross Total Income		4,55,000
Less: Deduction U/S 80C in respect of life insurance premium restricted to		1,50,000
Total Income		**3,05,000**
Computation of tax payable		
Tax on Dividend @ 20%		11,000
Tax on Long-term capital gains@12.5% on ₹75,000 exceeding ₹1,25,000		9,375
Tax on other income of ₹50,000 at slab rate, since it is less than the basic exemption limit of ₹2,50,000		Nil
		20,375
Add: Health and education cess@4%		815
Tax Liability		**21,190**

Note – Question states that Mr. Manoj's wife invested in her husband's name in listed shares of a domestic company. Long term capital gain on sale of listed shares on which STT has been paid at the time of purchase and sale, is calculated U/S 112A.

On transfer of listed shares acquired before 1.2.2018, the Fair Market Value as on 31.1.2018 is required. However, this information is not given in the question. On account of absence of this information, the above solution is given on the assumption that the fair market value as on 31.1.2018 is same as the actual cost of ₹13 lakhs

SEP 25 RTP

5. DiamondLux BV is a foreign company incorporated in Belgium. It is engaged in diamond mining and trading of raw diamonds. It sells raw diamonds globally. During the P.Y. 2025-26, it sold raw diamonds to Indian buyers in Special Notified Zone (SNZ) in Surat, Gujarat for ₹100 crores. An exhibition was taken place in Special Notified Zone (SNZ) in Surat, Gujarat for display of uncut and unassorted diamonds. DiamondLux BV has income of ₹10 crores from activity of display of uncut and unassorted diamond in that exhibition. DiamondLux BV wants to exercise the option to apply for safe harbour rules. It wants to declare profits of ₹3 crores from trading of raw diamonds to Indian buyers and profit of ₹2 crores from display of diamonds in Special Notified Zone (SNZ) in Surat.

Whether DiamondLux BV is eligible to opt for the Safe Harbour Rules. If yes, can it declare profit of ₹3 crores and ₹2 crores from trading of raw diamonds to Indian buyers and from display of diamonds, respectively under safe harbour rules?

Answer –

Section 92CB(1) provides that the determination of income referred to in section 9(1)(i) shall be subject to safe harbour rules. Safe harbour means circumstances in which the income tax authorities shall accept the transfer price declared by the assessee. Section 92CB(2) empowers the CBDT to prescribe such safe harbour rules or circumstances under which the transfer price declared by the assessee shall be accepted by the Income-tax Authorities.

Accordingly, in exercise of the powers conferred by section 92CB read with section 295 of the

Income-tax Act, 1961, the CBDT has, vide *Notification No.124/2024 dated 29.11.2024*, prescribed the safe harbour rules for income referred to in section 9(1)(i) chargeable to tax under the head "Profits and gains of business or profession".

DiamondLux BV is a foreign company engaged in the business of diamond mining, hence, it is an eligible assessee as per Rule 10TI and can apply for safe harbour rules.

An eligible business, for this purpose, means a business of selling raw diamonds in any notified special zone as referred to in clause (e) of *Explanation 1* to section 9(1)(i). Accordingly, display of uncut and unassorted diamonds is not an eligible business and DiamondLux BV cannot declare profits from such display under safe harbour rules.

Moreover, in case of a foreign company which is engaged in the business of mining of diamonds, no income shall be deemed to accrue or arise in India to it through or from the activities which are confined to display of uncut and unassorted diamonds in any notified special zone. Hence, profit of ₹2 crores from display of diamonds in Special Notified Zone (SNZ) in Surat shall not be deemed to accrue or arise in India and not taxable in India.

As per Rule 10TIA, if an eligible assessee declares 4% or more of the gross receipts as profits and gains of the eligible business chargeable to tax under the head "Profits and gains of business or profession", the option for safe harbour exercised by such eligible assessee in any relevant previous year shall be accepted by the income-tax authorities.

During the P.Y. 2025-26, DiamondLux BV wants to declare ₹3 crores from trading of raw diamonds to Indian buyers which is only 3% of gross receipts of ₹100 crores. Hence, the option for safe harbour exercised by DiamondLux BV in P.Y. 2025-26 shall not be accepted by the income-tax authorities as the same is not in accordance with the circumstance mentioned in Rule 10TIA.

MTP JAN 26

6. Mr. James, a non-resident and a person of Indian origin (aged 49 years), furnished following information for the previous year ended 31st March, 2026:

Particulars	Amount in (₹)
Sale proceeds of listed equity shares in A Limited, an Indian company on 31.05.2025	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 pubic 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 11.11.2025	2,20,000

You are required to compute the total income and tax liability of Mr. James for assessment year 2026-27 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 U/S 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. 2025-26: 376)

Answer –

Computation of total income and tax liability of Mr. James for A.Y. 2026-27 as per Chapter

XII-A and other provisions of the Income-tax Act, 1961

Particulars		Amount (₹)	Amount (₹)
Capital Gains			
<u>Long term capital gain on sale of listed equity shares of A Ltd.</u>			
Full value of consideration		6,00,000	
Less: Expenditure on Transfer		50,000	
Net consideration		5,50,000	
Less: Cost of Acquisition [Indexation benefit is not available]		1,10,000	
		4,40,000	
Less: Exemption U/S 115F [4,40,000 x 2,20,000/ 5,50,000]		1,76,000	
Income from Other Sources			2,64,000
Interest on Government Securities [₹81,000/79.20% x 100%]		1,02,273	
Interest on deposits with public limited companies	3,25,000		
Less: Expenses incurred [Not allowed U/S 115D]	NIL		
		3,25,000	
Interest on deposits with private limited companies		5,55,000	
			9,82,273
Gross total income/ Total income			12,46,273
Total income (Rounded off)			**12,46,270**
Computation of gross tax payable			
Tax on LTCG of ₹2,64,000 @12.5%		33,000	
Tax on investment income of ₹4,27,273@20% [₹1,02,273 + ₹3,25,000]		85,455	
Tax on other income of ₹5,55,000 at slab rate		23,500	
			1,41,955
Add: Health and education cess@4%			
			5,678
Gross tax payable			**1,47,633**
Gross tax payable (Rounded off)			**1,47,630**

SEP 25 Exams

7. M/s Bittu Inc. (a notified Foreign Institutional Investor "FII"), has furnished following details regarding its income for the financial year 2025-26:

Short Term Capital Gains:

Sale proceeds on sale of equity shares of Company 'A' : ₹16,90,000
(Sold on 10.02.2026)
Cost of acquisition (Purchased on 08.09.2025) : ₹6,00,000
STT paid both at the time of purchase and sale
Sale proceeds on sale of equity shares of Company 'B' : ₹11,50,000
(Sold on 29.12.2025)
Cost of acquisition (Purchased on 24.05.2025) : ₹5,65,000
(STT not paid on shares of Company 'B')

Long Term Capital Gains:
Sale proceeds on sale of securities on 13.01.2026 : ₹55,00,000
Purchase cost of securities on 18.06.2015 : ₹29,00,000

Cost inflation index:
Financial year 2015-16: 254, 2025-26: 376

Income on securities:
Interest received from an Indian Company on
investment in rupee denominated bonds : ₹18,50,000
(Issued on 25.06.2020)
Dividend income from Indian Companies : ₹2,25,000
Interest on other securities of Indian Companies : ₹8,00,000
Compute the total income and tax liability of M/s Bittu Inc. for the assessment year 2026-27.

Answer-

Computation of total income of M/s Bittu Inc., a notified FII, for A.Y. 2026-27

Particulars	₹	₹
Capital Gains		
Short-term capital gains on sale of STT paid equity shares of Company "A"		
Sale consideration	16,90,000	
Less: Cost of acquisition	6,00,000	10,90,000
Short-term capital gains on sale on STT not paid equity shares of Company "B"		
Sale consideration	11,50,000	
Less: Cost of acquisition	5,65,000	5,85,000
Long-term capital gains on sale of securities		
Sale consideration	55,00,000	
Less: Cost of acquisition [Benefit of indexation is not allowable]	29,00,000	26,00,000
Income from Other Source		
Interest received from an Indian company on investment in rupee denominated bonds [18,50,000/79.20x100]	23,35,859	
Interest on other securities	8,00,000	
Dividend from Indian companies	2,25,000	33,60,859
Total Income		**76,35,859**
Total Income (Rounded off)		**76,35,860**

Computation of tax liability of M/s Bittu Inc. for A.Y.2026-27

	₹
Tax @ 20% on interest on securities, dividend and rupee denominated bonds =20% x ₹33,60,859	6,72,172
Tax @ 12.5% on LTCG on sale of securities= 12.5% x ₹26,00,000 ***Note –** Alternatively, if it is assumed that the LTCG on sale of securities ₹ 26,00,000 is covered u/s 112A, the same will be eligible for exemption of ₹1,25,000 and the balance is liable to tax @12.5%*	3,25,000
Tax @ 20% on short-term capital gains on sale of STT paid equity shares of Company "A" = 20% of ₹10,90,000	2,18,000
Tax @ 30% on short-term capital gains on sale of STT not paid equity shares of Company "B" = 30% of ₹5,85,000	1,75,500
	13,90,672
Add: Surcharge @ 10% [Since the total income exceeds ₹50 lakhs but does not exceed ₹1 crore]*	1,39,067
	15,29,739
Add: HEC@4%	61,190
Tax liability	**15,90,929**
Tax liability (rounded off)	**15,90,930**

* *Surcharge would not be levied if it is assumed that M/s Bittu Inc. is a foreign company*

Question -3(a) Trust Taxation & Business Trust [8 Marks]
JAN 26 MTP

1. Lotus Welfare Foundation, a charitable trust registered U/S 12AB, derived income from property held under trust of ₹650 lakh during the P.Y. 2025-26. During the year, the trust decided to pay an amount of ₹80 lakh to another registered charitable trust, Harmony Educational Trust, which is also registered U/S 12AB.

How much of the amount paid by Lotus Welfare Foundation will be considered as application of income for charitable purposes, if such contribution is given—

(i) with a direction that the amount shall be used for general charitable purposes and not as corpus; and

(ii) with a specific direction that the amount shall form part of the corpus of Harmony Educational Trust.

Also, examine the conditions that Harmony Educational Trust must satisfy for not including the amount received from Lotus Welfare Foundation (given with a specific direction to form part of its corpus) in its total income.

Answer –

(i) As per *Explanation* 4(iii) to Section 11(1), only 85% of the amount paid to Harmony Educational Trust (other than for corpus) is considered as an application of income. Accordingly, ₹68 lakh will be treated as an application of income for charitable purposes.

(ii) As per *Explanation 2* to Section 11(1), any contribution made by one trust to another trust or institution (even if registered U/S 12AB or Section 10(23C)(iv)/(v)/(vi)/(via)) with a direction that such amount shall form part of corpus is **not** considered as an application of income for charitable purposes. Therefore, the ₹80 lakhs given for corpus will **not** be treated as an application of income for Lotus Welfare Foundation.

As per section 11(1)(d), an amount received by a fund/ trust/ institution etc. would not be included in the total income, if such amount is received with a specific direction that it shall form part of the corpus and the said corpus contribution is invested in any of the modes specified U/S 11(5).

JAN 26 MTP

2. SDP Foundation is a charitable trust registered U/S 12AB engaged in the activity of providing old-age homes to senior citizens. The total receipts of the trust for the financial year 2025-26 was ₹145 lakhs. This receipt of ₹145 lakhs includes a voluntary contribution received from Mr. Karan, a resident individual, amounting to ₹1,20,000. During F.Y. 2025-26, out of the total receipts, the trust gave an unsecured loan of ₹5 lakhs to Mr. Karan at an interest rate of 12% p.a. The scheduled banks charge interest at the rate of 11.50% for a similar kind of loan. The trust has always applied 85% of the total receipts for its objects. Discuss the implications in the hands of the trust as per the provision of the Income-tax Act, 1961.

Answer –

As per section 13(2), if any part of the income or the property of the trust or institution is or continues to be lent to any "specified person" referred to in section 13(3) for any period during the previous year without either adequate security or adequate interest or both, such income or property is to be deemed to have been used or applied for the benefit of a person referred to in section 13(3).

In the present case, Mr. Karan has made contribution of ₹1,20,000 which exceeds the limit of ₹1,00,000 to SDP Foundation, he would fall within the category of persons specified U/S 13(3).

SDP Foundation trust gave loan of ₹5 lakhs out of the income of the trust without any security to Mr. Karan though rate of interest i.e., 12% is higher than the market rate of 11.50%, such income/loan amount of ₹5 lakhs is deemed to have been used or applied for the benefit of Mr. Karan, being a person specified U/s 13(3). By virtue of section 13(1)(c), the provisions of section 11 or 12 would not apply to such income to exclude from the total income of the P.Y. 2025-26.

Consequently, the income of ₹5 lakhs would be considered as specified income U/s 115BBI and be taxable @30%.

Further, in terms of section 271AAE, penalty of ₹5 lakhs would also be leviable, calculated at 100% of income provided as a benefit, where the violation is noticed for the first time during any previous year.

MTP JAN 26

3. 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 2026-27.

(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 2024-25, 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, 2026, 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 31.08.2025. 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 U/S 44AB (being a trust), therefore it is out of the purview of section 194J

Answer –

(i) Voluntary contribution of ₹95 lakhs received with a specific direction that it should form part of the corpus of the trust, would be eligible for exemption, since investment in shares of M/s Active Care Ltd. a public sector company is permissible mode of investment U/S 11(5).

However as per provisions of section 11(5), where an investment is made in the shares of any public sector company and such public sector company ceases to be a public sector company, the investment so made shall be deemed to be an investment made for a period of three years from the date of such cessation.

Therefore, it would continue to be eligible for exemption for a period of 3 years from the cessation date i.e., 31.3.2026 on which M/s Active Care Ltd., ceases to be a public sector company due to the disinvestment

(ii) A trust is required to deduct tax at source U/s 194J even if it is not subjected to tax audit U/s 44AB. Moreover, as per Explanation 3 to section 11(1), where tax has not been deducted at source on any expenditure, 30% of disallowance of expenditure for non-deduction of tax at source U/S 40(a)(ia) would mutatis mutandis apply to a trust in determining application of income.

Accordingly, ₹30,000 being 30% of ₹1,00,000 would not be treated as application of income for non-deduction of tax at source on the consultancy fees paid to Mr. Sachin by M/s Covid Care Foundation.

SEP 25 Exams

4. A public charitable trust engaged in "Relief of Poor" and registered U/S 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 U/S 11(5) with regard to amount set apart in terms of Section 11(2)]	4,50,000

During the financial year, the trust applied a sum of ₹86 lacs towards charitable purposes, as per the objects of the trust, which includes:

- 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. XYZ and Co, an event management company, for advertising and organising a fundraising programme at Delhi. The full amount of ₹4,72,000 was remitted to M/s. XYZ and Co through RTGS on 1.3.2026.
- ₹5,00,000 paid to M/s Parivartan, another charitable trust having same objects, by way of donation (other than corpus donation).

Additional information

The trust received a sum of ₹8 lacs as corpus donation for constructing a playground for poor children in F.Y. 2024-25. It spent ₹8 lacs in F.Y. 2025-26 for constructing the same.

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

Answer –

Computation of total income of charitable trust for the A.Y.2026-27

Particulars	₹	₹
Income from properties held by trust	1,10,00,000	
Add: Accrued interest on FDR	4,50,000	
		1,14,50,000
Less: 15% of income eligible for being set apart without any condition		17,17,500
		97,32,500
Less: Amount applied for charitable purposes		
- Electricity bill of ₹80,000 pertaining to March 2025 [Treated as application as payment is made in P.Y.	80,000	

Particulars	₹	₹
2025-26]		
- Payment to event management company [₹1,20,000 (i.e. @ 30% of ₹4,00,000 being the amount excluding GST of ₹72,000) is not considered as application on account of non-deduction of TDS. Accordingly, ₹3,52,000 [₹4,72,000 – ₹1,20,000] would be allowed as application.	3,52,000	
- Donation to another charitable trust having same objects (other than corpus) [85% of amount contributed would be treated as application]	4,25,000	
- Other application [₹ 86 lakhs – ₹80,000 – ₹4,72,000 – ₹5,00,000]	75,48,000	
- Amount spent on construction of playground [Any application made from corpus donation, being exempt income shall not be treated as application of income]	Nil	**84,05,000**
Total Income of the trust		**13,27,500**

Note – (Alternative Presentation)

Computation of total income of charitable trust for the A.Y.2026-27

Particulars	₹	₹
Income from properties held by trust	1,10,00,000	
Add: Accrued interest on FDR	4,50,000	
		1,14,50,000
Less: 15% of income eligible for being set apart without any condition		17,17,500
		97,32,500
Less: Amount applied for charitable purposes		
Total amount spent	86,00,000	
Less: Amount not considered as applied		
- Electricity bill of ₹80,000 pertaining to March 2025 [Treated as application as payment is made in P.Y. 2025-26, hence no adjustment is required]	Nil	
- Payment to event management company [₹1,20,000 (i.e. @ 30% of ₹4,00,000, being the amount excluding GST of ₹72,000) is not considered as application on account of non-deduction of TDS]	1,20,000	
- Donation to another charitable trust having same objects (other than corpus) [85% of amount contributed would be treated as application and balance 15% is not considered as application (15% of ₹5,00,000).	75,000	
Amount applied for charitable purposes		**84,05,000**
- Amount spent on construction of playground [Any application made from corpus donation, being exempt income shall not be treated as application		Nil

Particulars	₹	₹
of income]		
Total Income of the trust		**13,27,500**

RTP JAN 26

5. Examine and discuss each of the independent cases of the following Charitable Trusts registered U/S 12AB as per the relevant provisions of the Income-tax Act, 1961 for the A.Y. 2026-27:

(i) Yashoda Green Charitable Trust having its main object as "advancement of object of general public utility" provide electrical scooter to the various corporate employees of Cyber Hub Gurugram for their daily commute. With this business activity, it generates receipts of ₹45 lakh, which has been applied for the object of general public utility. The total receipts for the F.Y. 2025-26 of Yashoda Green Charitable Trust was ₹190 Lakh.

(ii) 'Samarth' a Charitable Trust, a vocational training institute offers certificate courses in sewing, handloom weaving, and handicrafts. It operates a clothing shop at the entrance of the training institute. The shop derived income of ₹40 lakh in the F.Y. 2025-26 and the income completely applied towards the object of trust providing training. The trust maintains separate books of accounts for the shop.

(iii) "Light of Hope" Charitable Trust having objective of providing 'clean drinking water' started its welfare activities in 2019 by providing clean water to some villages of Uttar Pradesh. In August 2025, a similar objective trust named 'Water for All' was formed by a group of people in Jharkhand. They also provide clean drinking water to villagers on a small scale. "Light of Hope" offers the "Water for All" trust to merge with them so that they can scale the benefits and share resources. However, they are concerned about the exit tax levied at the time of merger of trusts.

Answer –

(i) If a trust having its main object as advancement of any other object of general public utility, derives income from an activity in the nature of trade during a financial year, it will lose its charitable status if aggregate receipts from such activity is 20% or more of the total receipts of the trust in that year even if it applies such income for its main object.

In the present case, receipts from the business of providing electrical scooters to various corporate employees i.e., ₹45 lakhs exceed 20% of total receipts of ₹190 lakhs (i.e., ₹38 lakhs) during the previous year 2025-26. Accordingly, Yashoda Green Charitable trust would lose its charitable status for the P.Y. 2025-26 and would not be eligible for the exemption U/S 11 and 12.

(ii) The trust objective of providing training falls within the meaning of "education" is a charitable purpose as per section 2(15). The trust in the given case runs a clothing shop business, whose income is applied towards the objectives of the trust. In this case, the business income from the clothing shop will be eligible to avail exemption in respect of profits and gains of business, if such business is incidental to the attainment of the objectives of the trust and separate books of account are maintained in respect of such business.

Therefore, in the given case, the profit from the business shall be eligible for exemption U/S 11, assuming that the said business is incidental to the attainment of the objects of the trust and books of account for such business activity is maintained separately.

(iii) W.e.f. A.Y. 2025-26, new section 12AC has been inserted to provide that where a trust or institution approved U/S 10(23C) or registered U/S 12AB, as the case may be, merges with another trust or institution, the exit tax provisions contained in Chapter XII-EB i.e., exit tax would not apply if—

- the other trust or institution has same or similar objects.

- the other trust or institution is approved U/S 10(23C) or registered U/S 12AB; and
- the said merger fulfils the conditions as may be prescribed.

In the present case, since the both the trust has similar objects, the exit tax under Chapter XII-EB would not be applied, assuming the both the trust are registered and fulfills the conditions as prescribed.

RTP MAY 26

6. Examine the following independent case scenarios of charitable trust/institutions based on the provisions of the Income-tax Act, 1961:

(i) Sahitya charitable trust, having its main object as medical relief, earned the following income during the P.Y.2025-26:

Particulars		Amount in ₹
(i)	Income from tax free bonds issued by Indian Railway Finance Corporation Ltd. (IRFCL)	1,10,000
(ii)	Agricultural income	4,25,000

The trust claims exemption U/S 10(1) and 10(15) in respect of its agricultural income, and interest income, respectively, without complying with the conditions laid down U/S 11.

(ii) "Vidya Jyoti Educational Trust" registered U/S 12AB owns a building used for educational activities. During the year, one floor was given on rent to a private coaching institute owned by the wife of the founder of the trust. The trust charged rent of ₹ 20,000 per month, whereas similar properties in the same locality fetch rent of ₹70,000 per month. The trust justified the lower rent on the ground that the coaching institute supports educational objectives.

(iii) "Aarogya Welfare Charitable Trust" is registered U/S 12AB and is engaged in providing free medical facilities. During the Previous Year 2025-26, Mr. Karan contributed ₹75,000. Further, he had contributed ₹9,50,000 up to 31.3.2025. During the same year, the trust sold old hospital furniture to Mr. Karan for ₹1,20,000. The fair market value of the furniture was ₹2,80,000. The trust claims that since Mr. Karan's donation during the current year does not exceed ₹1 lakh, he should not be treated as a specified person.

Answer –

(i) Section 11(7) provides that where a trust has been granted registration U/S 12AB and the registration is in force for a previous year, then, such trust cannot claim any exemption under any provision of section 10 [other than exemption of agricultural income U/S 10(1)].

Therefore, a charitable trust cannot claim exemption U/S 10(15) in respect of interest income, since it has voluntarily opted for the special dispensation U/Ss 11 to 13, and consequently has to be governed by the provisions of these sections. However, it can claim exemption U/S 10(1) in respect of agricultural income, since section 11(7) provides an exception in respect of such income.

Therefore, the claim of Sahitya charitable trust, as regards exemption U/S 10(15), is not correct.

(ii) As per section 13(3), a relative (wife, in this case) of the founder is regarded as a specified person, and therefore any use or application of the income or property of the trust for her benefit attracts examination U/S 13. Further, section 13(2)(b) provides that where any land, building or other property of the trust is made available for the use of a specified person without charging adequate rent or compensation, such use shall be deemed to be application of trust property for the benefit of that person.

In the present case, the trust has charged rent of ₹20,000 per month whereas the prevailing market rent for similar properties is ₹70,000 per month, which clearly indicates that the rent charged is not adequate. Consequently, the provisions of section 13(1)(c) become applicable and such part of income or property would not be eligible for exemption and would be taxed U/S 115BBI at 30%. Further, to avoid income of the trusts or institutions to be used for the benefit of specified persons U/S 13(3), penalty is leviable under 271AAE on the amount of income provided as a benefit.

(iii) Mr. Karan's status has to be examined with reference to section 13(3)(b), which provides that any person whose contribution during the relevant previous year exceeds ₹1 lakh, or whose aggregate contribution up to the end of the relevant previous year exceeds ₹10 lakh, shall be treated as a specified person.

In the present case, although Mr. Karan contributed only ₹75,000 during the Financial Year 2025-26, his aggregate contribution to the trust amounts to ₹10,25,000, which exceeds the prescribed aggregate limit of ₹10 lakh. Therefore, he qualifies as a person referred to in section 13(3), and any use or application of the income or property of the trust for his direct or indirect benefit will attract the provisions of section 13(1)(c).

During the year, the trust sold hospital furniture to Mr. Karan for ₹1,20,000 against a fair market value of ₹2,80,000. Since the property has been sold for inadequate consideration to a specified person, the transaction falls within the scope of section 13(2)(f), which deems such arrangements as application of trust property for the benefit of a specified person.

As a result, the provisions of section 13(1)(c) become applicable and such part of income or property would not be eligible for exemption and would be taxed U/S 115BBI at 30%. Further, to avoid income of the trusts or institutions to be used for the benefit of specified persons U/S 13(3), penalty is leviable under 271AAE on the amount of income provided as a benefit.

RTP SEP - 25

7. Shaanti Foundation, a Charitable institution registered U/S 12AB is engaged in preservation of forests. The accountant of the institution provides the following details of the institution to you as a Chartered Accountant. Examine and discuss the treatment of each of the independent situations in the hands of the Charitable institution for the P.Y. 2025-26 as per provisions of Income-tax Act, 1961. Your answer should be followed with reasons:

(i) The institution follows mercantile system of accounting and during the previous year 2025-26, has incurred Electricity expenses amounting to ₹1,20,000 for the period pertaining to the year 2025-26. The Electricity expenses was actually paid on 15th April 2026 through an account payee cheque. In which year, such expenditure will be treated as application of income of the Shaanti Foundation?

(ii) The Foundation was cultivating 15 acres of agriculture land. From agricultural operations, it earned ₹10,00,000 during the previous year 2025-26. Whether exemption U/S 10(1) will be available to Shaanti Foundation on such income?

(iii) Shaanti Foundation has earned rental income for the P.Y. 2025-26 amounting to ₹4,00,000. It received ₹3,00,000 upto 31st December, 2025 of such income. However, the balance of ₹1,00,000 was received on 31st August, 2026. Upto what period the institution can apply the same amount towards the objects of the institution? The institution has exercised the relevant option in this regard.

Answer –

(i) As per *Explanation* to section 11, any sum payable by any trust or institution shall be treated as application of income only in the previous year when such sum is actually paid by it. This is irrespective of the previous year in which the liability to pay such sum was incurred or method of accounting regularly employed by it. Thus, expenditure is allowed as application only when the payment is actually made and not when the liability is incurred.

In the present case, though the Shaanti Foundation follows mercantile system of accounting, electricity expenses of ₹1,20,000 incurred during the P.Y. 2025-26 would be allowable as application of income only in the P.Y. 2026-27 as actual payment is made on 15th April, 2026.

(ii) As per section 11(7), where a trust or an institution has been granted registration for purposes of availing exemption U/S 12AB, such trust or institution cannot claim any exemption under any provision of section 10 [other than exemption of agricultural income U/S 10(1)].

Accordingly, agricultural income of ₹10,00,000 would be exempt U/S 10(1) in the hands of

Shaanti Foundation registered U/S 12AB.

(iii) In case a trust is unable to apply the minimum of 85% of its income during the previous year from the reason that the whole or any part of the income has not been received during that year, the period of application is extended to cover the previous year in which the income is actually received or the previous year immediately following the previous year in which the income was received.

Accordingly, in the present case, income of ₹1,00,000 which was received on 31st August, 2026 can be applied during the P.Y. 2026-27, being the year in which such amount is received or in the P.Y. 2027-28, being the P.Y. immediately following the P.Y. 2026-27.

RTP MAY 26

8. Mr. Ricardo, a non-resident holding 10% of the units of a REIT, earned the following income distributed by the REIT during the P.Y.2025-26:

(i) Rental Income from real estate property owned by REIT 2,51,000

(ii) Interest Income of REIT from Grey Ltd. 86,000

(iii) Dividend Income of REIT from Grey Ltd. 42,000

He acquired units in the REIT at an issue price of ₹15 lakhs. He does not have any other income during the year. During the P.Y. 2025-26, apart from interest, rental income, dividend income and the income taxable in the hands of REIT, ₹2 crore also distributed to its unit holders.

Grey Ltd. is an Indian company in which the REIT holds controlling interest. The REIT holds 100% of shareholding of Grey Ltd. Grey Ltd. does not exercise option U/S 115BAA.

Examine whether the above components of the income distributed by REIT would be chargeable to tax in the hands of Mr. Ricardo. Also, examine whether the REIT is required to deduct tax at source on such income distributed to Mr. Ricardo.

Would your answer change if Grey Ltd. exercises option U/S 115BAA for A.Y.2026-27?

Answer –

The REIT enjoys pass-through status in respect of rental income from real estate asset owned by it directly, interest income and dividend from special purpose vehicle, (i.e., Grey Ltd., in this case, since it is an Indian company in which REIT holds controlling interest). Therefore, rental income from real estate asset owned by it directly and interest income is taxable in the hands of the unit holders. In respect of dividend income from special purpose vehicle, REIT enjoys pass-through status. However, if SPV is not opting for the provisions of section 115BAA, the dividend income component would be exempt in the hands of the unit holder. If the SPV is exercising the option U/S 115BAA, dividend income component would be taxable in the hands of unit holder. Any specified sum received by a unitholder from a RIET would be chargeable to tax in the hands of unitholder as "Income from other sources".

(1) **Rental income component of income distributed by REIT**: The distributed income or any part thereof, received by Ricardo from the REIT, which is in the nature of income by way of renting or leasing or letting out any real estate asset owned directly by such REIT is deemed income of the unit-holder as per section 115UA(3). Accordingly, ₹2,51,000 would be deemed income of Ricardo as per section 115UA(3). The REIT has to deduct tax at source U/S 194LBA@31.2% (being the rate in force) in case of distribution to Ricardo, being a non-resident.

(2) **Interest component of income distributed by REIT**: Interest component of income received from a special purpose vehicle, Grey Ltd., in this case, and distributed to a unit holder is taxable in the hands of the unit holder. Accordingly, such interest component of ₹86,000 is taxable in the hands of Ricardo. The REIT has to deduct tax at source U/S 194LBA @5.2%, on ₹86,000, since Ricardo is a non-resident.

(3) **Dividend component of income distributed by REIT**: By virtue of section 10(23FD), ₹42,000, being the dividend component of income distributed to Ricardo would be exempt in his hands. Therefore, there is no liability on the REIT to deduct tax at source on the dividend component of income distributed by it to Mr. Ricardo.

However, if Grey Ltd. has exercised option U/S 115BAA, then, the dividend income distributed by it would be subject to tax in the hands of the unitholders. Accordingly, ₹42,000 is taxable in the hands of Mr. Ricardo. The REIT has to deduct tax at source@10.4% on ₹42,000, since Mr. Ricardo is a non-resident.

(4) **Specified sum distributed by the REIT:** Any sum other than interest, dividend received from SPV, rental income and income which are chargeable to tax in the hands of REIT, would be chargeable to tax U/S 56(2)(xii) in the hands of unitholders as income from other sources. Accordingly, in the present case, ₹5,00,000 [₹20 lakhs, being 10% of ₹2 crores *Less* ₹ 15 lakhs, being the issue price of units held by Mr. Ricardo would be taxable as Income from other sources. On such sum, no tax is required to be deducted at source by the REIT.

Question -3(b) DTAA [6 Marks]

RTP SEP-25

1. Ms. Kanika Tondon is a popular Indian pop singer. She has business interest in Country X and Y as well. She is a resident in India for the A.Y. 2026-27.

The details of income earned by Ms. Kanika Tondon from India as well as Country X and Country Y with which India does not have any DTAA, during the P.Y. 2025-26 are as under:

Type of Income	India	X	Y
	(₹ in crores)		
Income from house property (Computed)	4.3	(1.3)	-
Business/Professional income:			
Singing profession	9	-	2
From being the owner of cricket team Delhi Super Players	5.5	-	-
Other business		7.2	2.9
Share income from partnership firm (not evidenced by an instrument in writing)		4.8	-
Agricultural income	1.5	-	1.2

Ms. Kanika has deposited ₹1.5 lakhs in PPF and paid Life Insurance premium of ₹1 lakh.

In Country X, share income is not exempt and loss from house property is not eligible for being set off against other income. In Country Y, agricultural income is chargeable to income-tax.

In Country X, Ms. Kanika has paid income-tax of ₹2.16 crores and in Country Y ₹2.44 crores on the total income earned in those countries.

Compute the net tax liability of Ms. Kanika for the A.Y.2026-27, assuming that she is paying tax under default tax regime U/S 115BAC.

Answer –

Computation of net tax liability of Ms. Kanika Tondon for A.Y.2026-27

	Particulars	₹	₹
I	**Income from house property**		
	Income from house property in India	4,30,00,000	
	Less: Loss from house property in Country X	1,30,00,000	3,00,00,000
II	**Profits and gains of business or profession**		
	Business/Professional income in India		

	Particulars		₹	₹
	- From singing profession	9,00,00,000		
	- From being the owner of cricket team Delhi Super Players	5,50,00,000	14,50,00,000	
	Business/ Professional income in Country X			
	- Other business	7,20,00,000		
	- Share income from firm	4,80,00,000	12,00,00,000	
	Business/Professional incomein Country Y			
	- Singing profession	2,00,00,000		
	- Other business	2,90,00,000	4,90,00,000	31,40,00,000
III	**Income from Other Sources**			
	Agricultural income from India [Exempt U/s 10(1)]		-	
	Agricultural income from Country Y		1,20,00,000	1,20,00,000
Gross Total Income				**35,60,00,000**
***Less:* Deductions under Chapter VI-A** [Not allowable since Ms. Kanika is paying tax under default tax regime]				Nil
Total Income				**35,60,00,000**
Computation of tax liability:				
Step 1: Tax on ₹37,10,00,000, being non-agricultural income and agricultural income				
[30% x ₹36,86,00,000 + ₹3,00,000]			11,08,80,000	
Step 2: Tax on ₹1,54,00,000, being agricultural income and basic exemption limit of ₹3,00,000				
[30% x 1,30,00,000 + ₹3,00,000]			42,00,000	
Step 3: Step 1 - Step 2				10,66,80,000
Add: Surcharge@25% (since her total income exceeds ₹2 crore)				2,66,70,000
				13,33,50,000
Add: HEC @4%				53,34,000
Tax liability				**13,86,84,000**
Less: Deduction U/S 91 **[See Working Notes 1 & 2 below]**				4,30,23,270
Net Tax liability (rounded off)				**9,56,60,730**

Working Note 1: Computation of deduction U/S 91

	Particulars	₹	₹
	Average rate of tax in India		
	[13,86,84,000 x 100/35,60,00,000]	38.956%	
	Average rate of tax in Country X		

	Particulars	₹	₹
	[2,16,00,000 x 100/12,00,00,000]	18%	
	Average rate of tax in Country Y		
	[2,44,00,000 x 100/6,10,00,000]	40%	
I	**Deduction U/S 91 in respect of doubly taxed income in India and Country X**		
	Doubly taxed income:		
	Country X (i.e., ₹7.2 crores, being business income (+) ₹4.8 crores, being taxable share income from firm (-) ₹ 1.3 crores, loss from house property)	10,70,00,000	
	Lower of Indian rate of tax of 38.956% and rate of tax in Country X of 18%	**18%**	
	Deduction U/s 91 = 18% x ₹10.70 crores		1,92,60,000
II	**Deduction U/S 91 in respect of doubly taxed income in India and Country Y**		
	Doubly taxed income:		
	Country Y (i.e., ₹2 crores, being Professional income (+) ₹2.9 crores, being business income (+) ₹1.2 crores, being taxable agricultural income)	6,10,00,000	
	Lower of Indian rate of tax of 38.956% and rate of tax in Country X of 40%	**38.956%**	
	Deduction U/s 91 = 38.956% x ₹6.10 crores		2,37,63,270
Deduction U/S 91			**4,30,23,270**

RTP JAN 26

2. Ms. Ritika aged 30 years, a resident individual, started a business of printing mobile skins and covers in India and abroad. She frequently visits Country Z to serve her overseas clients. The following particulars are furnished for the Financial Year 2025-26:

1. Receipts from selling of phone skins and covers:
   - In India – ₹12,45,50,780
   - In Country Z – ₹15,50,000
2. Expenses incurred in earning the above income:
   - In India – ₹10.20 crores
   - In Country Z – ₹9 lakh
3. Rent received from a commercial property situated in Country Z – ₹65,000 per month.
4. Expenses incurred for earning such rental income in Country Z ₹1,50,000.

Additional Information:

(i) In Country Z, all income are taxed at a flat rate of 25% after deduction of all expenses.

(ii) Business Expansion in India:

- In F.Y. 2025-26, Ms. Ritika expanded her mobile accessories business by opening a large manufacturing unit in Pune.
- She hired the following new employees for unit of Pune:
  - 18 employees on 01.05.2025 having salary of ₹23,300 each
  - 22 employees on 01.06.2025 having salary of ₹24,500 each
  - 15 employees on 01.11.2025 having salary of ₹24,700 each

(**Note -** All employees participate in recognized provident fund and payment to all employees are made by NEFT. Such expenses are already included in the expenditure given above in relation to business in India)

(iii) India does not have any DTAA with Country Z.

(iv) Ms. Ritika is paying tax as per the default tax regime U/s 115BAC(1A).

You are required to compute the total income and net tax liability of Ms. Ritika chargeable to tax in India for A.Y. 2026-27.

Answer –

Computation of total income and net tax liability of Ms. Ritika for A.Y. 2026-27 as per the default tax regime U/S 115BAC

Particulars	₹	₹
Income from House Property		
Rent Received in Country Z [₹65,000 x 12]	7,80,000	
Less: Deduction U/S 24(a) @30%	2,34,000	5,46,000
Profit and Gains of Business or Profession		
Sales in India	12,45,50,780	
Less: Expenses	10,20,00,000	2,25,50,780
Sales in Country Z	15,50,000	
Less: Expenses	9,00,000	6,50,000
Gross Total Income		**2,37,46,780**
Less: Deduction U/s 80JJAA is permissible even if paying tax under default tax regime [(₹23,300 x 18 x 11) + (₹24,500 x 22 x 10)] x 30% [15 employees employed for a period of less than 240 days during the P.Y. 2025-26 not considered as additional employee for deduction U/s 80JJAA for the said previous year]		30,01,020
Total Income		**2,07,45,760**
Tax on Total Income		
[3,00,000 + 1,83,45,760 x 30%]		58,03,728
Add: Surcharge @25% since total income exceed ₹2 crores		14,50,932
		72,54,660
Less: Marginal Relief **(Refer Working Note 1 Below)**		91,900
		71,62,760
Add: Health and Education Cess @4%		2,86,510

Particulars	₹	₹
		74,49,270
Less: Deduction U/s 91 **(Refer Working Note 2 below)**		2,99,000
Net Tax Liability		**71,50,270**

Working Notes

1. Computation of Marginal Relief

Particulars	Amount (₹)
(A) Tax on total income ₹2,07,45,760 plus surcharge @25%	72,54,660
(B) Tax computed on total income of ₹2 crore *plus* surcharge @15%	64,17,000
(C) Total Income ₹2,07,45,760 - ₹2,00,00,000	7,45,760
(D) Income-tax computed on total income of ₹2 crores plus excess of total income over ₹2 crores	**71,62,760**
Marginal relief (A) – (D)	**91,900**
Alternative Method	
(A) Tax on total income ₹2,07,45,760 plus surcharge @25%	72,54,660
(B) Tax computed on total income of ₹2 crore *plus* surcharge @15%	64,17,000
(C) Excess Tax payable (A) – (B)	8,37,660
Marginal Relief [₹8,37,660 – ₹7,45,760, being the amount of income in excess of ₹2 crores]	91,900

2. Computation of Relief U/s 91

Particulars	Amount (₹)
Average rate of tax in India (₹74,49,270/ ₹2,07,45,760) x 100	35.91%
Average rate of Tax in Country Z	25%
Doubly Taxed Income pertaining to Country Z ₹5,46,000 + ₹6,50,000 = ₹11,96,000	11,96,000
Deduction U/s 91 = Lower of average rate of tax in India and Country Z x Double Taxed Income = [25% x ₹11,96,000]	2,99,000

Question -4(a) TDS & TCS [8 Marks]

JAN 26 RTP

1. In respect of the following independent case scenarios, you are required to discuss the provisions related to tax deducted at source for the year ended on 31st March, 2026:

(a) Mr. Ramesh is a distributor of lottery tickets in Mumbai for Golden Lottery Agency. Golden Lottery Agency is a very old Lottery Agency since 1975, it has a turnover of ₹98 Lakh during the F.Y. 2024-25. Mr. Ramesh earned commission income of ₹18,000 on 15.07.2025, and ₹40,000 on 15.11.2025.

(b) Smart Switch Pvt. Ltd., an emerging fintech start-up based in Bengaluru, operates a digital platform for trading in various crypto currencies. The company has recently gained popularity among young investors due to its user-friendly app and attractive promotional offers. On 01st November 2025, Mr. Adesh, an IT professional working in Gurugram invested a sum of ₹1,00,000 in Picto Coins, a cryptocurrency. On 15th December 2025, he transferred entire Picto Coins and earned profit of ₹3,47,504.

Answer –

(a) As per section 194G, any person responsible for paying to any person, who is or has been stocking, distributing, purchasing or selling lottery tickets, any income by way of commission, remuneration or prize (by whatever name called) on lottery tickets in an amount exceeding ₹20,000 shall deduct income-tax thereon at the rate of 2%.

Tax is required to be deducted at source @ 2% even if turnover of the agency does not exceed ₹1 crore for the F.Y. 2024-25.

Accordingly, in the present case, no tax is required to be deducted at source on 15.07.2025, since amount of commission does not exceed ₹20,000. Tax of ₹1160 i.e., @2% of 58,000 is required to be deducted on 15.11.2025.

(b) Section 194S requires any person who is responsible for paying to any resident any sum by way of consideration for transfer of a virtual digital asset to deduct tax at source @1% of such sum.

The deduction is to be made at the time of credit of consideration to the account of the resident or at the time of payment of such sum by any mode, whichever is earlier.

Hence, Smart Switch Pvt. Ltd. is required to deduct tax at source @1% of ₹4,47,504, being the amount of consideration for transfer of virtual digital asset. Accordingly, tax of ₹4,475 is required to be deducted at source.

MAY 26 RTP

2. M/s GreenEarth Resources Ltd. is engaged in extraction and sale of forest produce and minerals. During F.Y 2025–26, it sold timber obtained under a forest lease to M/s BuildWell Infrastructure Pvt. Ltd. and sold scrap generated from such operations to a resident scrap dealer. In the same year, it supplied coal to M/s PowerGen Ltd. for generation of electricity, against which PowerGen Ltd. furnished a declaration stating that coal would be used only for power generation and not for trading. Further, GreenEarth Resources Ltd. granted a licence to operate a toll plaza near its mining site to M/s National Highways Authority Ltd., a public sector company, for business purposes. All amounts were debited to the respective parties' accounts before actual receipt.

Examine the applicability or otherwise of collection of tax at source, in respect of each transaction.

Answer –

(ii) U/S 206C(1), a seller is required to collect tax at source (TCS) at the time of debit to the buyer's account or receipt of consideration, whichever is earlier, on sale of specified goods.

(i) Sale of timber obtained under a forest lease

Timber obtained under a forest lease is a specified good U/S 206C(1). Accordingly, M/s GreenEarth Resources Ltd. is liable to collect TCS at 2% on the sale value of timber at the time of debit or receipt, whichever is earlier.

(ii) Sale of scrap

Scrap is also a specified good U/S 206C(1). Hence, TCS is required to be collected by M/s GreenEarth Resources Ltd. @1% at the time of debit or receipt of sale consideration, whichever is earlier.

(iii) Sale of coal for power generation

Coal is a specified mineral U/S 206C(1), liable to TCS @ 1%. However, since the buyer furnished a declaration stating that coal would be used for generation of power and not for trading purposes, no TCS is required to be collected in view of section 206C(1A).

(iv) Licence to operate toll plaza to a public sector company

Section 206C(1C) applies to collection of TCS at 2% on grant of licence for operating a toll plaza, except where the licensee is a public sector company. Since the licence is granted to M/s National Highways Authority Ltd., a public sector company, TCS is not applicable in this case.

MTP SEP 25

3. XYZ Ltd., an insurance intermediary registered and operating from the International Financial Services Centre (IFSC), started its business operations in September 2023. During the financial year 2025-26, it earned an insurance commission of ₹1,50,000 from UVW Ltd., an Indian resident company. Assume XYZ Ltd. is claiming deduction U/s 80LA and furnished the details to XYZ Ltd. regarding it.

Answer –

No, UVW Ltd. is not liable to deduct tax U/S 194D on the insurance commission of ₹1,50,000 paid to XYZ Ltd. during the financial year 2025–26. As per Notification No. 28/2024 dated 7th March 2024, any specified payment, including insurance commission covered U/S 194D, made to a qualifying IFSC unit is exempt from TDS, provided certain conditions are fulfilled. These conditions include the furnishing of a declaration by the IFSC unit indicating the ten consecutive assessment years for which the deduction U/S 80LA is claimed. Since, as it was mentioned XYZ Ltd. has complied with all the requirements, UVW Ltd. is not required to deduct tax at source on the insurance commission paid to XYZ Ltd.

MTP JAN 26

4. M/s Crystal Wash Pvt. Ltd., a domestic company engaged in the business of manufacturing and selling washing powder and bars, hires agents to promote and boost sales of its products by paying them incentives and commission based on the sales achieved through them. During the P.Y. 2025-26, Mr. Mohan Kumar, a resident individual, worked as an agent for the company. The company paid him commission of ₹1,55,000 on 21st July 2025 for achieving the sales target of Quarter 1, ₹1,80,000 on 10th January 2026 for achieving the sales target of Quarter 3, and other incentives amounting to ₹1,60,000 on 15th January 2026 are given as reimbursement for booking air tickets for an event in Singapore for Mr. Mohan Kumar and his family members who accompanied him. Additionally, the company gave Mr. Mohan Kumar a laptop worth ₹80,000 in October 2025 for achieving the sales target for the month of September 2025.

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. 2026-27

Answer –

M/s Crystal Wash Pvt. Ltd is required to deduct tax at source on commission paid to Mr. Mohan Kumar U/S 194H @2%, being sum exceeding ₹20,000.

Reimbursement of expenses of ₹1.6 lakhs for booking air tickets for Mr. Mohan Kumar and his family and laptop of ₹80,000 for achieving sale target is benefit or perquisite arising to Mr. Mohan Kumar from his business or the exercise of his profession, being sum exceeding ₹20,000. Accordingly, M/s Crystal Wash Pvt. Ltd is required to deduct tax at source U/S 194R @10%.

Tax to be deducted U/S 194H = 2% on ₹3,35,000 = ₹6,700

Tax to be deducted U/S 194R = 10% on ₹1,60,000 (Air tickets) + + ₹80,000 (laptop) = ₹24,000

MTP Jan 26

5. Mr. Arjun, a resident individual, electronically filed his income tax return for AY 2025-26 on 30.07.2025, 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 U/S 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.

Answer –

Deduction of taxes at source is one of the methods of collecting tax. The tax deducted at source is part of the assessee's income and therefore, the gross amount is included in the total income and offered to tax. It is on this premise that the tax deducted at source would have to be treated as tax paid on behalf of the assessee.

Section 205 provides for restriction against direct demand on assessee to the extent to which tax has been deducted from that income. Thus, no recovery of TDS can be made from the deductee.

Further, the amount retained against remittance made by the payer is nothing but tax which the assessee/deductee has offered for tax by grossing up the remittance. If credit is not given, the Department would end up doing indirectly what they cannot do directly i.e., recover tax directly from the deductee.

The assessee had followed the regime put in place in the Act for collecting tax albeit, through an agent (deductor) of the Government. The recovery proceedings could only be initiated against the deductor, as the deductor, an agent for collecting tax, had failed to deposit the tax with the Government. Therefore, the deductee should be given credit for TDS though it was not reflected in Form 26AS and no recovery towards TDS could be made from the assessee in terms of the provisions of section 205.

Thus, in the present case, the Department's action in recovering the tax due from Mr. Arjun on the ground that it is not reflected in Form 26AS, is bad in law

Note – The facts given in the question are similar to the facts in BDR Finvest Pvt. Ltd [2024] (Delhi). The above answer is based on the rationale of the Delhi High Court ruling in the said case

SEP 25 Exams Paper

6. 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) Mr. A and Mrs. A jointly purchased a fully built-up and ready to move flat at Lucknow on 10.12.2025 from M/s XYZ Builders Limited for ₹86 Lacs. In addition, they have paid an amount of ₹4 Lacs for two car parking spaces to M/s XYZ Builders Limited. They also paid one time generator cost of ₹2,50,000 and swimming pool cost of ₹1,50,000 to the M/s XYZ Builders Limited. The stamp duty value of the property is ₹75 lacs. Mr. A and Mrs. A, each paid ₹47 lacs to the Builder for effecting the sale deed on 10.12.2025

(ii) Gross Salary received by Mr. Pankaj, aged 42 years during the F.Y. 2025-26 from M/s PPN Limited is ₹37,50,000. House property loss declared by him for the financial year (along-with documentary evidence) is ₹2,00,000 in respect of his self-occupied property. ₹60,000 is interest accrued on FDR with State Bank of India for F.Y. 2025-26 in respect of which TDS was deducted at applicable rate by the Bank. Mr. Pankaj purchased a Motor car of ₹32,00,000 on 01.12.2025 for personal purposes, TCS was separately charged on the purchase price of Motor Car at applicable rate. He has no other income.

Mr. Pankaj has submitted relevant information to his employer M/s PPN Limited in prescribed form with supporting evidences.

He also intimated his employer his intention to exercise the option to choose default tax regime for the financial year

(iii) An Urban Cooperative Bank (engaged in the business of banking) made an FDR of ₹100 crores with Union Bank of India (UBI) at 2.5% p.a. interest as per RBI guidelines for maintaining capital adequacy ratio. The said Cooperative Bank is also maintaining a current account with UBI from which, it withdrew ₹4 crores in cash during the financial year 2025-26. The Cooperative Bank is filing its returns of income without any default.

Answers –

(i) As per section 194-IA, consideration for transfer of any immovable property include all charges in the nature of*, inter alia,* parking charges, generator cost and swimming pool cost.

In case of more than one transferee, consideration shall be aggregate of amount paid by all the transferees for transfer of such property.

In the present case, since aggregate value of consideration of both transferees i.e., of Mr. A and

Mrs. A not less than ₹50 lakhs, tax is required to be deducted at source U/S 194-IA @1% on ₹94 lakhs or 1% on ₹47 lakhs by Mr. A and 1% on ₹47 lakhs by Mrs. A since consideration of ₹94 lakhs is higher than stamp duty value of ₹75 lakhs on purchase of flat from M/s XYZ Builders Ltd.

(ii) M/s PPN Limited, being an employer has to deduct tax at source U/S 192 from the salary of Mr. Pankaj at the time of payment by applying the average rate of income-tax computed at the rates provided in section 115BAC(1A), where an employee does not exercise an option to shift out of this tax regime. While computing the tax, the employer PPN Ltd. has to consider any other income chargeable to tax and any tax deducted at source and tax collected at source of Mr. Pankaj.

Computation of tax liability of Mr. Pankaj under default tax regime

Particulars	₹
Gross Salary	37,50,000
Less: Standard deduction U/S 16(ia)	75,000
	36,75,000
Interest in respect of self-occupied property [Not allowed under default tax regime]	Nil
	36,75,000
Interest on FDR	60,000
Total Income	**37,35,000**
Tax on ₹37,35,000 at slab rate [30% of ₹13,35,000 + ₹3,00,000]	7,00,500
Add: HEC@4%	28,020
Tax liability	**7,28,520**
Less: TDS U/S 194A @10% on interest on FDR of ₹60,000	6,000
TCS U/S 206C(1F) @1% on motor car of ₹32 lakhs	32,000
Tax liability	**6,90,520**
M/s PPN Limited has to deduct tax of ₹6,90,520.	

(iii) No deduction of tax U/S 194A is to be made on interest income credited or paid to co-operative society engaged in banking business.

Accordingly, Union Bank of India (UBI) is not required to deduct tax at source U/S 194A on interest on FDR to Urban Co-operative Bank.

Liability to deduct tax at source U/S 194N shall not be applicable on payment made to co-operative society engaged in banking business. Accordingly, Union Bank of India (UBI) is also not required to deduct tax at source on cash withdrawal by Urban co-operative bank

Question -4(b) Transfer Pricing [6 Marks]

RTP JAN 26

1. Examine the following transactions and discuss whether the transfer price declared by the following assessees, who have exercised a valid option for application of safe harbour rules, can be accepted by the Income-tax Authorities—

	Assessee	International transaction	Aggregate value of transactions entered into in the P.Y.2025-26	Declared Operating Profit Margin	Operating Expense
(1)	TechMitra Solutions Ltd., an Indian company	Provision of system support services to BlueOrbit Systems Inc., which hold 30% voting power in TechMitra Solutions Ltd.	₹99 crore	₹8 crore	₹50 crore
(2)	NextEra Systems India Ltd., an Indian company	Provision of data processing services with the use of information technology to NeuroCore Technologies Inc., its foreign subsidiary.	₹265 crore	₹45 crore	₹225 crore
(3)	Pragati & Co., a partnership firm registered under the Partnership Act, 1932	Provision of contract R & D services relating to development of internet technology, to Stratosphere Innovations Inc., a foreign firm, which holds 12% interest in Pragati & Co.	₹175 crore	₹50 crore	₹250 crore

In all the above cases, it may be assumed that the Indian entity which provides the services assumes insignificant risk. It may also be assumed that the foreign entities referred to above are non-resident in India.

Would your answer change, if in any of the cases mentioned above, the foreign entity is located in a notified jurisdictional area?

Answer –

(1) BlueOrbit Systems Inc. held 30% voting power in TechMitra Solutions Ltd. which is not less than 26% of the voting power in BlueOrbit Systems Inc. Hence, BlueOrbit Systems Inc. and TechMitra Solutions Ltd. are deemed to be associated enterprises. Therefore, provision of system support services by TechMitra Solutions Ltd., an Indian company, to BlueOrbit Systems Inc., a foreign company, is an international transaction between associated enterprises, and consequently, the provisions of transfer pricing are attracted in this case.

System support services falls within the definition of “software development services”, and hence, is an eligible international transaction. Since, TechMitra Solutions Ltd. is providing software development services to a non-resident associated enterprise and has exercised a valid option for safe harbour rules, it is an eligible assessee.

Since the value of international transactions entered does not exceed ₹100 crore, TechMitra Solutions Ltd. should have declared an operating profit margin of not less than 17% in relation to operating expense, to be covered within the safe harbour rules. However, since TechMitra Solutions Ltd. has declared an operating profit margin of only 16% (i.e. 8/50 x 100), the same is not in accordance with the circumstance mentioned in Rule 10TD. Hence, it is not binding on the income-tax authorities to accept the transfer price declared by TechMitra Solutions Ltd.

(2) Since NeuroCore Technologies Inc., is a foreign subsidiary of NextEra Systems India Ltd., an Indian company, both are associated enterprises. Data processing services with the use of information technology falls within the definition of “information technology enabled services”, and is hence, an eligible international transaction. Since NextEra Systems India Ltd. is providing data processing services to a non-resident associated enterprise and has exercised a valid option for safe harbour rules, it is an eligible assessee.

Since the aggregate value of transactions entered in the F.Y. 2025-26 exceeds ₹100 crore but does not exceed ₹300 crore, NextEra Systems India Ltd. should have declared an operating profit margin of not less than 18% in relation to operating expense, to be covered within the scope of safe harbour rules. In this case, since NextEra Systems India Ltd. has declared an operating profit margin of 20% (i.e. 45/225 x 100), the same is in accordance with the circumstance mentioned in Rule 10TD. Hence, the income-tax authorities shall accept the transfer price declared by NextEra Systems India Ltd. in respect of such international transaction.

(3) Stratosphere Innovations., a foreign firm holds 12% interest in Pragati & Co., an Indian firm. Therefore, the condition of one enterprise, being a foreign firm, holding not less than 10% interest in another enterprise, being an Indian firm, is satisfied. Hence,

Stratosphere Innovations and Pragati & Co. are deemed to be associated enterprises. Therefore, provision of contract R & D services relating to development of internet technology by Pragati & Co., an Indian firm, to Stratosphere Innovations, a foreign firm, is an international transaction between associated enterprises, and consequently, the provisions of transfer pricing are attracted in this case.

Development of internet technology falls within the meaning of "contract R&D services wholly or partly relating to software development", and hence, is an eligible international transaction. Since Pragati & Co., an Indian firm is providing contract R & D services to a non-resident associated enterprise and has exercised a valid option for safe harbour rules, it is an eligible assessee.

Since the value of the international transaction does not exceed ₹300 crore, Pragati & Co. should have declared an operating profit margin of not less than 24% in relation to operating expense, to be covered within the safe harbour rules. However, since Pragati & Co. has declared an operating profit margin of only 20% (50/250 x 100), the same is not in accordance with the circumstance mentioned in Rule 10TD. Hence, it is not binding on the income-tax authorities to accept the transfer price declared by Pragati & Co.

The safe harbour rules shall not apply in respect of eligible international transactions entered into with an associated enterprise located in a notified jurisdictional area. Therefore, if in any of the cases mentioned above, the foreign entity is located in a NJA, the safe harbour rules shall not be applicable, irrespective of the operating profit margin declared by the assessee.

MTP SEP 25

2. (i) Axis Research Solutions is engaged in providing scientific research services to various non-resident clients. Among these clients is Emerald Inc., which guarantees 12% of the total loans availed by Axis Research Solutions. Examine whether transfer pricing provisions under the Income-tax Act, 1961 would be applicable to this arrangement.

(ii) Without prejudice to the answer to (i) above, assuming that transfer pricing provisions are applicable in this case, and the Assessing Officer makes a primary adjustment of ₹440 lakhs to the transfer price for the previous year 2023-24, vide order dated 31.03.2025 which is accepted by Axis Research Solutions. What are the subsequent compliance requirements under the Income-tax Act, 1961, and what would be the implications of non-compliance?

Assume that the transaction is denominated in Indian Rupees, and that no repatriation of the adjusted amount has taken place up to 31.03.2026. Also, the one-year marginal cost of funds-based lending rate (MCLR) of State Bank of India as on 1.4.2025 is 9%.

Answer –

(i) Provision of scientific research services falls within the scope of international transaction U/S 92B. Axis Research Solutions and Emerald Inc. are deemed to be associated enterprises as per section 92A(2)(d), since Emerald Inc. guarantees not less than 10% of the total borrowings of Axis Research Solutions. Since, there is an international transaction between associated enterprises, transfer pricing provisions are attracted in this case.

(ii) Where the Assessing Officer has made a primary adjustment of ₹440 lakhs to the transfer price and the same has been accepted by Axis Research Solutions, secondary adjustment has to be made in the books of account as per section 92CE, since the primary adjustment made by the

Assessing Officer and accepted by Axis Research Solutions exceeds ₹100 lakhs and the primary adjustment is in relation to P.Y. 2023-24.

The excess money determined based on the primary adjustment has to be repatriated to India within 90 days from the date of order, failing which the same would be deemed as an advance and interest would be computed at the one-year marginal cost of fund lending rate of State Bank of India as on 1.4.2025 + 3.25%, since the international transaction has been denominated in Indian Rupees.

In this case, since the excess money has not been repatriated within 90 days, the same would be deemed to be an advance made by Axis Research Solutions to Emerald Inc. and interest would be computed @12.25% (9% + 3.25%) from 1.4.2026, being the date of the order of the Assessing Officer. The interest would amount to ₹53.90 lakhs (i.e., 12.25% of ₹440 lakhs) for the P.Y. 2025-26.

Alternatively, Axis Research Solutions can opt to pay additional income tax @20.9664% (tax @18% plus surcharge @12% plus cess @4%) on ₹440 lakhs, which would amount to ₹92,25,216. In such a case, secondary adjustment is not required to be made.

MTP JAN 26

3. Pristine Cement Industries Ltd. (PCIL) is an Indian company, having its head office at Chennai. For the P.Y. 2025-26, it furnished the following information of certain entities and the transactions undertaken with these companies:

- Sakura Industries Ltd. is a wholly owned foreign subsidiary of PCIL, having its head office in Japan. It is currently paying royalty of USD 3 million per annum to PCIL for supply of know-how. For similar supply of know how to Hikari Ltd., a wholly owned Government Company in Japan, PCIL receives annual royalty of USD 4 million. (1 USD = ₹82).
- PCIL has borrowed a sum of equivalent of ₹220 crores from Orion Capital Inc., Dubai on 1.4.2025. On this date, the assets position of PCIL was as under:

(In ₹ Crores)

Type of assets	Market value	Book value
Tangible fixed assets	350	270
Intangible assets	30	25
Other assets	40	35

  Orion Capital Inc., has charged interest at 8% and PCIL has paid interest of ₹17.6 crores for the year ended 31.3.2026. Though the normal lendingrate of Orion Capital Inc. was 7% per annum to other parties, in view of the urgent requirement of funds and pressing financial commitments, PCIL decided to borrow this amount then.
- PCIL supplies goods to Pacific Build Corp. (PBC), in Singapore. The paid-up capital of PBC in foreign currency equivalent is ₹92 crores. PCIL holds shares to the tune of ₹22 crores in PBC. The voting power in the company is directly proportional to the number of shares held.

You are required to examine the various transactions entered into by PCIL and determine the applicability of transfer pricing provisions for each transaction. Ignore provisions of section 94B, if applicable, in this case.

Answer –

Any income arising from an international transaction, between two or more "associated enterprises", shall be computed having regard to arm's length price as per the provisions of Chapter X of the Act. Section 92A defines an "associated enterprise" and sub-section (2) of this section speaks of the situations when the two enterprises shall be deemed to be associated enterprises.

Transaction with Sakura Industries Ltd.

Sakura Industries Ltd. is a wholly owned subsidiary of PCIL and is a non-resident company. Hence, it is an associated enterprise. Royalty falls within the meaning of international transaction, since it is payment for supply of know-how, being an intangible property. Sakura Industries Ltd. is currently paying a royalty of USD 3 million per annum to PCIL for supply of know-how. For similar supply of know how to Hikari Ltd., a wholly owned Government Company in Japan, PCIL receives annual royalty of USD 4 million.

Under CUP Method, ALP has to be taken as USD 4 million. Understatement of royalty is 1 million USD, i.e., 1 M USD x ₹82 = ₹820 lakhs.

Transaction with Orion Capital Inc.

As per section 92A(2), if one enterprise advances loan to the other enterprise of an amount of 51% or more of the book value of the total assets of such other enterprise, the two enterprises would be deemed to be associated enterprises.

As on the date of borrowing, the amount advanced is ₹220 crores out of ₹330 crores, which comes to 66.67%. Hence, Orion Capital Inc., is deemed to be an associated enterprise of PCIL. Interest payments are also covered by the term "international transaction".

Orion Capital Inc., has charged interest at 8% and PCIL has paid interest of ₹17.6 crores for the year ended 31.3.2026. Interest rate charged to other parties is 7%. This has to be taken as the ALP rate.

In view of this, the interest payment should have been 17.6 x 7/8 i.e., ₹15.4 crores. An excess payment of 2.2 crores over the ALP has been made.

Transaction with PBC

In PBC, PCIL holds 22/92 i.e., 23.91% of the voting power. Since PCIL holds less than 26% of the voting power, PBC is not an associated enterprise. Hence, the transfer pricing provisions would not be applicable on sales made by PCIL to PBC.

MTP JAN 26

4. 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 2025-26, 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?

Answer –

Vega Ltd., an Indian company and Solaris Inc. of UK, are deemed to be associated enterprises as per section 92A(2), since Vega Ltd. guarantees 10% or more of total borrowings of Solaris Inc.

Further, the transaction of purchasing raw material falls within the meaning of “international transaction” U/S 92B. Hence, transfer pricing provisions would be attracted in this case.

Computation of Arm’s length price and adjustment to be made as per Comparable Uncontrolled Price Method

Particulars	₹ in crores
Price of imported goods charged by Solaris Inc. from Vega Ltd.	60.00
Less: Mark up earned @ 25% [₹60 crores x 25/125] from Vega Ltd.	12.00
	48.00
Add: Mark up earned in uncontrolled comparable transaction @ 20%	9.60
Add: Adjustment on account of brand value [Annual cost of brand value]	1.00
Add: Adjustment on account of cost of credit for 1 month [12% x 1/12 x 57.60]	0.576
Arm's length price of raw material purchase	59.176
Less: Price at which raw material was imported by Vega Ltd. from Solaris Inc.	60.000
Adjustment to be made to the income of Vega Ltd.	0.824

(ii) Vega Ltd. is required to furnish the audit report U/S 92E on or before 31.10.2026, being the specified date i.e., date one month prior to the due date for furnishing the return of income U/S 139(1) for the relevant assessment year.

(iii) If Vega Ltd. fails to furnish the audit report U/S 92E, penalty of ₹1 lakh would be leviable.

RTP MAY 26

5. Trex Ltd., an Indian Company, on 01-04-2024 has borrowed ₹90 crores from M/s Refine Inc, a Company incorporated in Country S, at an interest rate of 8% p.a. The said loan is repayable over a period of 12 years. Further, loan is guaranteed by Prestige Inc incorporated in Country P. Bright Inc, a non-resident, holds shares carrying 40% of voting power both in Trex Ltd. and Prestige Inc. Bright Inc has also deposited ₹90 crores with M/s Refine Inc. Trex Ltd. repaid ₹10 crores on 31.3.2025. The net profit of the Financial Year 2025-26 of Trex Ltd. was ₹18 crores after debiting the above interest, depreciation of ₹4 crores and income- tax of ₹2.70 crores. For Financial Year 2024-25, disallowance U/S 94B was ₹7.5 crores.

Trex Ltd. wants to know the amount of interest allowable as deduction under the head "Profits and gains of business or profession" for the P.Y. 2025-26.

Answer –

If an Indian company, being the borrower, incurs any expenditure by way of interest in respect of any debt issued by its non-resident associated enterprise (AE) and such interest exceeds ₹1 crore, then, the interest paid or payable by such Indian company in excess of 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is lower, shall not be allowed as deduction as per section 94B.

Further, where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise and limitation of interest deduction would be applicable.

In the present case, since Bright Inc. holds 40% of voting power i.e., 26% or more of voting power in both Trex Ltd and Prestige Inc., Trex Ltd. and Prestige Inc. are deemed to be associated enterprises.

Since loan of ₹90 crores taken by Trex Ltd., an Indian company from Refine Inc, is guaranteed by Prestige Inc, an associated enterprise of Trex Ltd., such debt shall be deemed to have been issued by an associated enterprise and interest payable to Refine Inc shall be considered for the purpose of limitation of interest deduction U/S 94B.

Computation of interest to be allowed in the computation of income under the head profits and gains of business or profession of Trex Ltd.

Particulars	₹
Net profit	18,00,00,000

Particulars			₹
Add: Interest already debited (₹80 crores x 8%)			6,40,00,000
Depreciation			4,00,00,000
Income tax			2,70,00,000
EBITDA			**31,10,00,000**
Interest paid or payable by Trex Ltd.			6,40,00,000
Less: Excess interest – Lower of			
Interest paid or payable in excess of 30% of EBITDA			
- ₹6,40,00,000 (-) ₹9,33,00,000		Nil	
Interest paid or payable to non- resident AE		₹6,40,00,000	Nil
Interest disallowed during the P.Y. 2024-25 can be set-off to the extent of maximum allowable interest after reducing the current year interest i.e., ₹2,93,00,000			2,93,00,000
Interest allowable as deduction for P.Y. 2025-26			**9,33,00,000**

Note – Since Bright Inc., an associated enterprise of Trex Ltd., has deposited a matching amount with Refine Inc., the interest payable by Trex Ltd. to Refine Inc. on loan of ₹80 crores borrowed from Refine Inc. would be subject to limitation of interest deduction on the basis of this line of reasoning also.

Question -5(a) Case Laws, Assessment Procedure, Appeals, MISC, Penalty [8 Marks]
RTP JAN 26

1. The Assessing Officer with the prior approval of the Principal Commissioner of Income-tax directed M/s. Greenfield Textiles Ltd. to get its accounts audited U/S 142(2A) of the Income-tax Act, 1961, on account of the complexity of the accounts and furnish report of such audit. For this purpose, a Chartered Accountant was nominated by the Principal Commissioner of Income-tax to carry out the audit. The assessee company was willing to produce its records and extend full cooperation in getting the audit conducted. However, the nominated Chartered Accountant, without any valid reasons, refused to undertake the audit of the assessee's accounts. The Assessing Officer treated the matter as non-compliance of the directions issued U/S 142(2A) by the assessee and proceeded to complete the assessment U/S 144(1)(b) by way of best judgment assessment.

In the light of the above facts, examine whether the assessee can be held liable for failure to comply with the direction of the Principal Commissioner and whether the action of the Assessing Officer in proceeding with a best judgment assessment is valid, referring to the relevant provisions of the Income-tax Act, 1961 and judicial pronouncement.

Answer –

As per section 142(2A) of the Income-tax Act, 1961, the Assessing Officer, with the prior approval of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, may direct the assessee to get the accounts audited by a Chartered Accountant nominated by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, if he is of the opinion that it is necessary in view of the complexity of the accounts.

Further, as per section 144(1)(b), if the assessee fails to comply with the directions issued U/S 142(2A), the Assessing Officer is empowered to make a best judgment assessment.

In the present case, the Assessing Officer with prior approval of Principal Commissioner of Income-tax directed M/s. Greenfield Textiles Ltd. to get its accounts audited by a Chartered Accountant U/S 142(2A). The assessee expressed its willingness to cooperate and produce the necessary records. However, the nominated Chartered Accountant, without valid reasons, refused to undertake the audit.

The issue under consideration is whether the assessee can be held liable for non-compliance of the direction and whether the Assessing Officer was justified in making a best judgment assessment.

The Supreme Court in *Swadeshi Polytex Ltd. v. ITO [1983]* held that if, for a frivolous reason, the nominated Chartered Accountant declines to audit the accounts, the assessee cannot be held responsible for non-compliance. The assessee cannot be penalized for something beyond its control. Consequently, there is no default on the part of the assessee so as to attract section 144(1)(b). The Court, therefore, set aside the best judgment assessment and directed the authority to appoint another Chartered Accountant within one month to carry out the audit.

Applying the rationale of the above ruling on the case in hand, M/s Greenfield Textiles Ltd. cannot be said to have defaulted in complying with the direction issued U/S 142(2A). Hence, the action of the Assessing Officer in making a best judgment assessment U/S 144(1)(b) is **not valid**.

RTP JAN 26

2. M/s. Sunrise Trading Co., a partnership firm engaged in wholesale trading of electronics, filed its return of income for A.Y. 2026-27 declaring a total income of ₹40 lakhs. The income of the firm is determined as ₹42 lakhs U/S 143(1)(a). On scrutiny assessment U/s 143(3), the Assessing Officer determined the total income at ₹58 lakhs by making certain additions and disallowances (not on account of misreporting).

The Assessing Officer, being satisfied that there was under-reporting of income, initiated penalty proceedings U/s 270A.

You are required to compute the amount of penalty U/s 270A of the Income-tax Act, 1961 and state whether M/s Sunrise Trading Co. can file an application for grant of immunity from imposition of penalty. Also specify the conditions to be satisfied for filing such application.

Answer –

In the present case, M/s. Sunrise Trading Co.'s total income was determined as ₹42 lakhs U/S 143(1)(a), whereas the Assessing Officer, after making certain additions and disallowances, assessed the income at ₹58 lakhs. Thus, there is under-reported income of ₹16 lakhs. As per section 270A, penalty is leviable for under-reporting of income at the rate of 50% of the tax payable on such under-reported income.

Tax payable on under-reported income = (₹16,00,000 x 30%) + HEC @4% = 4,99,200

Hence, penalty U/s 270A would be 50% of ₹4,99,200 = ₹2,49,600

M/s Sunrise Trading Co. can make an application to the Assessing Officer for grant of immunity from imposition of penalty U/S 270A, if it –

(i) pays the tax and interest payable as per the order of assessment U/S 143(3), within the period specified in such notice of demand; and

(ii) does not prefer an appeal against such assessment order.

Such application can be made within one month from the end of the month in which the order of assessment is received.

SEP 25 Exams

3. Answer the following three sub-parts, viz. (i), (ii), (iii).

Your answer should cover:

- Issue involved
- Provision applicable
- Analysis and Conclusion

(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 order passed U/s 263 was dispatched to assessee on 28.03.2026. 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).

(ii) M/s. Rama Ltd. filed its return of income claiming deduction for bad debts. The return was processed U/s 143(1)(a) of Income-tax Act, 1961. Thereafter, the Assessing Officer noticed that the assessee had wrongly claimed amounts of bad debts, he issued a notice U/s 154 after expiry of the time limit prescribed U/s 154(7). During the pendency of the proceedings initiated by notice U/s 154, the Assessing Officer issued a notice U/s 148A(1) of the Act. It is contention of M/s. Rama Ltd that the notice issued U/s 148A(1) is illegal.

(iii) AZ Foundation, trust registered U/s 12AB, runs an educational institution. The trust is paying rent of ₹30 lakhs per annum for the building occupied by it but the trust has not deducted TDS on such rent under the relevant provisions of the Income-tax Act. The ITO TDS has issued a notice to show cause as to why, the trust should not be treated an assessee in default for the tax deductible and the interest should not be imposed for such default. The income of the trust is being exempt, whether ITO TDS was justified in issuing the said show cause notice?

Answer –

(i) Issue Involved: The issue under consideration is whether the revision order which is passed within 2 years from the end of the financial year in which order sought to be revised was passed but received by the assessee thereafter, is considered as beyond the period of limitation prescribed U/S 263(2).

Provision applicable: As per section 263(2), no revision order shall be made after the expiry of two years from the end of the financial year in which the order sought to be revised was passed.

Analysis: Sub-section (2) of section 263 mandates that no revision order shall be "made" after the expiry of two years from the end of the financial year in which the order sought to be revised was passed. The word used is "made" and not the order "received" by the assessee. Even the word "dispatch" is not mentioned in section 263(2). The provisions of the statute are to be read as they are and nothing is to be added or taken away from the provisions of the statute. Therefore, once it is established that the order U/S 263 was made or passed within the period of two years from the end of the financial year in which the order sought to be revised was passed, such an order cannot be said to be beyond the period of limitation prescribed U/S 263(2).

Conclusion: In the present case, revision order U/S 263 was passed on 26.3.2026 before the expiry of two years i.e., 31.3.2026 from the end of the F.Y. 2023-24 in which assessment order U/s 143(3) was passed. Thus, the revision order is within the period of limitation prescribed U/S 263(2).

***Note** – The facts given in the question are similar to the facts in Mohammed Meeran Shahul Hameed* (2021) (SC).

(ii) Issue Involved: The issue under consideration is whether notice issued U/S 148A during the pendency of the rectification proceedings initiated U/S 154 is valid on the ground that the notice U/S 154 was issued after the expiry of the time limit prescribed U/S 154(7).

Provision applicable: As per section 154(7), no amendment U/S 154 shall be made after the expiry of four years from the end of the financial year in which the order sought to be amended was passed.

Analysis: In the absence of any specific order of withdrawal of the proceedings U/S 154 on the ground that the same was beyond the period of limitation prescribed U/S 154(7), the proceedings initiated U/S 154 can be said to have been pending. During the pendency of the proceedings U/S 154, it was not permissible on the part of the revenue to initiate the proceedings U/S 148A.

Conclusion: In the present case, notice U/S 148A was issued during the pendency of the proceedings U/S 154. Thus, notice issued U/S 148A is illegal.

Note *– The facts given in the question are similar to the facts in S.M. Overseas (P) Ltd.* v *CIT* (2023)(SC). *The above answer is based on the rationale of the Apex Court ruling in the said case. The said ruling is in respect of erstwhile section 148, however, the same can be applied in the case on hand.*

(iii) **Issue Involved:** The issue under consideration is whether a trust, being exempt can be treated as assessee in default for not deducting tax at source and levy of interest for such default.

Provision applicable: As per section 201, where any person who is required to deduct any sum, does not deduct or does not pay or after deducting fails to pay, then such person shall be deemed to be an assessee in default in respect of such tax unless the payee has paid such tax on such income at the time of furnishing return of income U/S 139.

Analysis: Section 194-I does not provide any exemption to a trust registered U/S 12AB, paying rent of an amount exceeding the threshold limit, from deducting tax at source. If a trust registered U/S 12AB is liable to deduct tax at source and has not deducted such tax, it shall be deemed to be assessee in default by virtue of section 201 and would be liable to pay interest.

Conclusion: In the present case, since AZ Foundation trust has not deducted tax at source on the rent payment of ₹30 lakhs, it shall be deemed to be assessee in default and the ITO TDS was justified in issuing the show cause notice to AZ Foundation.

MTP Sep 25

4. (i) The Commissioner of Income-tax issued notice to revise the order passed by an Assessing Officer U/S 143. During the pendency of proceedings before the Commissioner, on the basis of material gathered during survey U/S 133A after issue of the first notice, the Commissioner of Income-tax issued a second notice, the contents of which were different from the contents of the first notice. Examine whether the action of the Commissioner is justified as to the second notice.

(ii) Due to the nature, complexity and volume of the accounts of M/s. Nexgen Analytics Private Limited, during the assessment proceedings, the Assessing Officer issued the direction for inventory valuation U/S 142(2A) of the Income-tax Act. The relevant approval has been taken by the AO and the company was given an opportunity of being heard as per law. The AO wants to appoint a Chartered Accountant in practice for the purpose. The AO fixed the fees for inventory valuation at ₹2,50,000 and asked the CA to raise the bill for valuation report directly to the company after completion of the valuation. Is AO justified in doing so? What are the relevant provisions for Inventory valuation U/S 142(2A)? Discuss in detail.

(iii) “The arm’s length price determined by the Tribunal, which is the final fact-finding authority, is final and cannot be the subject matter of scrutiny by the High Court as it does not give rise to a substantial question of law. Accordingly, in an appeal U/s 260A, the High Court is precluded from examining the correctness of the determination of the ALP” – Examine the correctness of this statement with reference to a Supreme Court ruling. Your answer should cover: (1) Issue Involved (2) Provision Applicable (3) Analysis and Conclusion.

Answer –

(i) The action of the Commissioner in issuing the second notice is ***not justified***. The term “record” has been defined in clause (b) of *Explanation 1* to section 263(1). According to this definition “record” shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner. In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the purpose of invoking his jurisdiction U/S 263(1). However, at the same time, in view of the express provisions contained in clause (b) of the *Explanation* 1 to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action U/S 263 is taken by the Commissioner.

Issuance of a notice U/S 263 succeeds the examination of record by Commissioner. In the present case, the Commissioner initially issued a notice U/S 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected U/S 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. Accordingly, the material on the basis of which the second notice was issued could not be said to be "record" available at the time of examination as emphasized in *Explanation 1(b)* to section 263(1).

(ii) As per section 142(2A), if at any stage of the proceedings, the Assessing Officer, having regard to the nature and complexity of the accounts, volume of the accounts etc. is of the opinion that it is necessary so to do, he may, with the previous approval of the Principal Chief Commissioner (PCC) or Chief Commissioner (CC) or the Principal Commissioner (PC) or Commissioner (C) get the inventory valued by a Cost Accountant and furnish a report of such inventory valuation. Opportunity of being heard is to be given to the assessee before directing to get the inventory valued.

For inventory valuation, Cost Accountant should be nominated by PCC or CC or PC or C of Income-tax. Further, the expenses of inventory valuation including remuneration of Cost Accountant shall be determined by the PCC or CC or PC or C of Income-tax in accordance with the prescribed guidelines, and not by the AO. The expenses so determined shall be paid by the Central Government.

In the present case, though AO has taken the relevant approval and the company was given opportunity of being heard, the Assessing Officer is not justified in appointing a Chartered Accountant in practice, fixing his fees himself and asking the CA to raise the bill to the company. For inventory valuation, a Cost Accountant nominated by PCC or CC or PC or C can be appointed and expenses of inventory valuation including remuneration are also determined by these authorities. Such expenses shall be paid by the Central Government and not by the company.

(iii) **Issue Involved:** The issue under consideration is whether the arm's length price (ALP) determined by the Tribunal, which is the final fact-finding authority, is final and cannot be the subject matter of scrutiny by the High Court as it does not give rise to a substantial question of law.

Relevant provision of law: As per section 260A(1), an appeal shall lie to the High Court from every order passed in appeal by the Appellate Tribunal, if the High Court is satisfied that the case involves a substantial question of law.

Analysis & Conclusion: The High Court have the powers to consider the substantial question of law involving determination of arm's length price (ALP)

- While determining the ALP, the Tribunal has to follow the guidelines stipulated under Chapter X of the Income-tax Act, 1961, namely, sections 92 to 92F of the Act and Rules 10A to 10E of the Income-tax Rules, 1962. Any determination of the ALP under Chapter X not in accordance with the relevant provisions of the Income-tax Act, 1961 and Rules can be considered as perverse and it may be considered as a substantial question of law as perversity itself can be said to be a substantial question of law. Therefore, there cannot be any absolute proposition of law that in all cases where the Tribunal has determined the ALP, the same is final and cannot be the subject matter of scrutiny by the High Court in an appeal U/S 260A.

  When the determination of the ALP is challenged before the High Court, it is always open for the High Court to consider and examine whether the ALP has been determined while taking into consideration the relevant guidelines under the Act and the Rules.

- The High Court can also examine the question of comparability of two companies or selection of filters and examine whether the same is done judiciously and on the basis of the relevant material/evidence on record. The High Court can also examine whether the comparable transactions have been taken into consideration properly or not, i.e., to the extent as to whether non-comparable transactions are considered as comparable transactions or not.

  Therefore, in an appeal challenging the determination of the arm's length price, it is always open for the High Court to examine in each case, within the parameters of section 260A, whether while determining the ALP, the guidelines laid down under the Income-tax Act, 1961 and the Income-tax Rules, 1962 are followed or not and whether the determination of the ALP and the findings recorded by the Tribunal while determining the ALP are perverse or not.

The statement is, therefore, not correct.

Note – *The facts given in the question are similar to the facts in SAP Labs India Pvt. Ltd.* v *ITO [2023] wherein the issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case.*

MTP JAN 26

5. Metro Buildcon Pvt. Ltd. is engaged in the construction of bridges and flyovers. During the previous year 2025-26, it made payment to various parties and deducted tax amounting to ₹18 lakhs. However, the business did not deposit the aforementioned sum with the income-tax department within the time period specified under the Income-tax Act, 1961. The company stated that it is having financial difficulties as a result of a significant amount of money being held up by both its debtors and the income tax department in the form of tax refunds. It is further submitted that inspite of financial crisis, the company has *suo-moto* deposited the TDS amount along-with interest U/s 201(1A), before receiving any notice from the income-tax department in this regard. However, prosecution proceedings were initiated U/S 276B against the company and its directors. The company has approached you to advise in the matter.

Answer –

Issue Involved: The issue under consideration is whether prosecution proceedings can be initiated where tax deducted has been deposited by the assessee suo moto, after the time prescribed under the Act but before receiving notice from the income-tax department, along with interest U/S 201(1A) and the assessee has shown reasonable cause for such delay.

Relevant provisions of law: Prosecution proceedings are attracted U/S 276B, if a person fails to pay to the credit of the Central Government, the tax deducted at source by him as required under the provisions of the Act. The punishment is rigorous imprisonment for not less than 3 months but which may extend to 7 years and with fine. Section 278AA, however, provides that no person would be punishable for such failure if he proves that there was reasonable cause for the same.

Analysis & Conclusion: The CBDT has, vide Circular No. 24/2019 dated 9.9.2019, in exercise of the powers U/S 119, listed out the offences covered under Chapter XXII of the Income-tax Act, 1961 in respect of which prosecution proceedings shall be launched by Approving Authority being the Sanctioning 15 Authority where the quantum of offences exceed the prescribed monetary threshold. Accordingly, in case of failure to pay TDS U/S 276B or failure to pay TCS U/s 276BB, no prosecution will be processed if the TDS/TCS amount does not exceed ₹25 lakhs and delay in deposit is less than 60 days. In this case, the company has reasonable and sufficient cause since it was facing financial hardship on account of large sum of money stuck up with the debtors and also with the income-tax department on account of refunds. Inspite of the financial crisis, the company has *suo moto* deposited the TDS along with interest U/S 201(1A) of the Act, before receiving any notice from the income-tax department in this regard. Since it has deposited the TDS along with interest *suo moto* before receiving any notice from the department and it has also shown reasonable cause for such delay in deposit, the company cannot be punishable for the delay in deposit of TDS. The initiation of prosecution proceedings U/S 276B against the company and the directors is, therefore, not correct.

Note - *The facts given in the question are similar to the facts in ACIT v. AT-Dev Prabha (JV) and others (2023), wherein the above issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case read along with the CBDT Circular.*

MTP JAN 26

6. 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 31.03.2026 for AY 2026-27.

In March 2026, the assessee deposited part of the TDS being ₹38 lakhs and balance of ₹72 lakhs was deposited later in July 2026. However, the Additional Commissioner of Income Tax issued a show cause notice proposing to levy penalty U/S 271C of the Income-tax Act 1961 of the amount equal to TDS and also levied penal interest U/S 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.

Answer-

Issue Involved: The issue under consideration is whether penalty U/s 271C and interest U/s 201(1A) both are leviable on late deposit of TDS.

Provisions applicable: Section 271C(1)(a) provides that if any person fails to deduct the whole or any part of the tax as required by or under the provisions of Chapter XVII-B, then, such person is liable to pay, by way of penalty, a sum equal to the amount of tax which such person failed to deduct. Section 201(1A) provides that in case a tax has been deducted at source but is subsequently remitted belatedly, such a person is liable to pay interest as provided U/S 201(1A).

Analysis and Conclusion: On a plain reading of section 271C(1)(a), no penalty would be leviable on belated remittance of TDS after it is deducted by the assessee.

Similarly, section 276B speaks about prosecution for failure to pay the tax deducted at source to the credit of the Central Government within the prescribed time.

The words “fails to deduct” in section 271C(1)(a) cannot be read as “failure to deposit/pay the tax deducted”.

Accordingly, no penalty would be leviable U/S 271C on delay in remittance of the tax deducted at source after deducting it on time. However, interest U/s 201(1A) for late deposit of TDS is leviable.

Note – *The above answer is based on the rationale of the Supreme Court in US Technologies International Pvt. Ltd.*[2023].

JAN 26 Exams

7. (i) Mr. Chauhan furnished his return of income for the FY 2024-25, on 23/07/2025 declaring a total income of ₹16 lakhs. The Assessing Officer passed an order U/S 154 and determined total income at ₹19 lakhs.

Mr. Chauhan claimed that the action of the Assessing Officer of enhancement in the total income is not in accordance with the provisions of the Income-tax Act. He wishes to file an application before the Dispute Resolution Committee to get the issue resolved.

Discuss-

- Whether order U/S 154 is a "specified order" in terms of section 245MA?
- If yes, are there any monetary limits prescribed? Does Mr. Chauhan's case fall within the monetary limit criteria?

(ii) Mr. Roy, an Indian resident liable to collect tax U/S 206C, failed to pay to the Central Government the tax collected by him from customers during the FY 2024-25. The Assessing Officer initiated prosecution proceedings against Mr. Roy on 24/07/2025 U/S 276BB. Mr. Roy applied for Compounding of Offences on 17/08/2025 which was rejected due to non-payment of outstanding tax. Mr. Roy also filed an appeal with CIT(A) against the penalty imposed by the Assessing Officer. On 08/10/2025, Mr. Roy paid all outstanding tax demand including interest and penalty thereon.

He again wishes to apply for Compounding of Offences under the new guidelines issued on 17/10/2025. You are required to answer the following questions in this regard:

(A) Can Mr. Roy apply for Compounding of Offences under the new guidelines, when the compounding application was already rejected under the old guidelines? Also, is he eligible to apply for compounding of offences when the appeal against the penalty is pending before the CIT(A)?

(B) By which date Mr. Roy needs to file the application for compounding under the revised (New) guidelines?

Answers –

(i) Yes, a rectification order made U/S 154 having the effect of enhancing the assessment or reducing the loss is a specified order in terms of section 245MA subject to the fulfillment of certain conditions.

Yes, the following monetary limits are prescribed for specified order.

(i) the aggregate sum of variations proposed or made in such order should not exceed ₹10 lakhs; and

(ii) the return has been furnished by the assessee for the assessment year relevant to such order and the total income as per such return should not exceed ₹50 lakhs.

Yes, Mr. Chauhan's case falls within the monetary limit criteria since the variation of ₹3 lakhs in the order U/S 154 does not exceed ₹10 lakhs; and the total income as per return of income does not exceed ₹50 lakhs.

Thus, Mr. Chauhan is eligible to file an application before the Dispute Resolution Committee to get the issue resolved

(ii) (A) Yes, Mr. Roy can apply for compounding of offences under the new guidelines even if the compounding application was already rejected under the old guidelines since it was rejected due to non-payment of outstanding tax which is a curable defect.

Yes, Mr. Roy is eligible to apply for compounding of offences when the appeal against the penalty is pending before CIT(A) however, he must undertake to withdraw appeal filed by him.

(B) Mr. Roy can file application for compounding under the revised (New) guidelines at any time after committing the offence, regardless of whether the same has come to the notice of the department or prosecution proceedings have been launched.

RTP SEP 25

8. Mr. Kabir filed his return of income for A.Y.2026-27, declaring total income of ₹35 lakhs, on 2nd June, 2026. He has opted out of the default tax regime. On processing of return, the total income determined U/S 143(1)(a) was ₹45 lakhs. Thereafter, on scrutiny, the Assessing Officer made some additions U/S 40(a)(ia) and section 43B and passed an assessment order U/S 143(3) assessing total income of ₹85 lakhs. Later on, the Assessing Officer noticed that certain income had escaped assessment and issued notice for reassessment U/S 148. The total income reassessed U/S 147 was ₹1.05 crores.

Considering that none of the additions or disallowances made in the assessment or re-assessment as above qualifies U/S 270A(6), compute the amount of penalty to be levied U/S 270A of the Income-tax Act, 1961 at the time of assessment U/S 143(3) and at the time of reassessment U/S 147 (Assume under- reporting of income is not on account of misreporting).

Answer –

Mr. Kabir is deemed to have under-reported his income since:

(1) his income assessed under 143(3) exceeds its income determined in a return processed U/S 143(1)(a); and

(2) the income reassessed U/S 147 exceeds the income assessed U/S 143(3).

Therefore, penalty is leviable U/S 270A for under-reporting of income.

Computation of penalty leviable U/S 270A

Particulars	₹	₹
Assessment U/S 143(3)		
Under-reported income:		
Total income assessed U/S 143(3)	85,00,000	

Particulars	₹	₹
(-) Total income determined U/s 143(1)(a)	45,00,000	
	40,00,000	
Tax payable on under-reported income *plus* income determined U/s 143(1)(a) i.e., on ₹85 lakhs *[(30% of ₹75 lakh + ₹1,12,500) + Surcharge @10% + HEC@4%]*	27,02,700	
Less: Tax payable on income determined U/s 143(1)(a) i.e., on ₹45 lakhs *[(30% of ₹35 lakh + ₹1,12,500) + HEC@4%]*	12,09,000	
	14,93,700	
Penalty leviable@50% of tax payable		7,46,850
<u>Reassessment U/S 147</u>		
<u>Under-reported income</u>:		
Total income reassessed U/S 147	1,05,00,000	
(-) Total income assessed U/S 143(3)	85,00,000	
	20,00,000	
Tax payable on under-reported income *plus* income determined U/s 143(3) i.e., on ₹1.05 crores *[(30% of ₹95 lakh + ₹1,12,500) + Surcharge @15% + HEC@4%]*	35,43,150	
Less: Tax payable on income determined U/s 143(3) i.e., on ₹85 lakhs *[(30% of ₹75 lakh + ₹1,12,500) + Surcharge @10% + HEC@4%]*	27,02,700	
	8,40,450	
Penalty leviable@50% of tax payable		4,20,225

RTP SEP- 25

9. Samaksh Ltd. filed its return of income U/S 139(1) on 15th September, 2024 for A.Y. 2024-25. The return was found to be defective, and an intimation was issued on 10th May, 2025, directing the assessee to rectify the defects within 15 days. The defects were rectified on 19th May, 2025. The return was processed, and intimation was sent on 15th July, 2025. Subsequently, the Assessing Officer issued a notice U/S 143(2) on 21st June, 2026.

CA. of Samaksh 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 U/S 143(2) by the Assessing Officer.

Answer -

The issue under consideration is whether, for the purpose of computing limitation period U/S 143(2), the relevant date is the date of filing of the original return of income or the date of removal of defects in response to a notice issued U/S 139(9)?

The same issue came up before Supreme Court in *DCIT* v *Travel Designer India Pvt. Ltd.* (2025). In this case, the High Court noted that since the return was defective, the assessee was called upon to remove such defects, which was removed on 19th May, 2025, which is within the time allowed by the Assessing Officer. Therefore, upon such defects being removed, the return would relate back to the date of filing original return i.e., 15th September, 2024. Consequently, the limitation for issuance of notice U/S 143(2) would be 30th June, 2025 i.e., three months from the end of the financial year in which the return U/S 139(1) was filed.

In the present case, notice U/S 143(2) has been issued on 21st June, 2026, which is much beyond the period of limitation. Therefore, such notice is barred by limitation and cannot be sustained.

Accordingly, the notice issued U/S 143(2) is not a valid notice.

MTP SEP 25

10. (i) An order for A.Y. 2024-25 was passed by the Assessing Officer as per section 143(3), but the typist wrongly typed in the order, the assessment year as A.Y.2023-24 and the relevant previous year as ending on 31.3.2023. The assessee claimed in appeal that the same is an invalid order which was not accepted by the CIT (Appeals) on the ground of the error being of clerical nature. Discuss the correctness of the order of the CIT(Appeals).

(ii) Forecast Limited entered into a contract for purchase of patented process with M/s. YPL Inc, a non-resident company based in Country Z. It filed an application U/s 195(2) before the Assessing Officer to make payment to the non-resident company for purchase of patented process without deducting tax at source.

The assessee, Forecast Limited, contended that said non-resident company had no Permanent Establishment in India and in terms of the DTAA between India and Country Z, no tax was to be deducted in India on same. The Assessing Officer rejected the assessee's application on grounds that consideration for patented process constituted royalty U/s 9(1)(vi) and was liable to be taxed in India and, accordingly, assessee was directed to deduct tax at source at rate of 10% on said royalty payment.

On Appeal, the Commissioner (Appeals) passed an order in favour of the assessee. On further appeal, the Tribunal upheld the order passed by the Assessing Officer on grounds that payments made for purchase of patented processes were in the nature of royalty and tax at source to be deducted on such payment.

The assessee company filed a miscellaneous application for rectification U/S 254(2) before the Tribunal. The assessee had also filed an appeal before the High Court.

The Tribunal allowed said application in exercise of his powers U/S 254(2) and reheard entire appeal on merits and recalled its original order and passed an order in favour of the assessee. Thereafter, the writ petition filed by the assessee with High Court was also withdrawn. Is Tribunal justified in recalling its original order?

Your answer should cover: (1) Issue involved, (2) Provision Applicable and (3) Analysis and conclusion

Answer –

(i) Section 292B provides that no return of income, assessment, notice or summons furnished or made or issued or taken in pursuance of any of the provisions of the Income-tax Act, 1961 shall be invalid or deemed to be invalid merely by reason of any mistake, defect or omission in such return of income, assessment or notice etc., if such return of income, assessment, notice, summons etc. is in substance and effect in conformity with or according to the intent and purpose of the Act.

Therefore, a clerical mistake cannot invalidate an otherwise valid assessment. Thus, the typographical error in the assessment order as to assessment year and previous year does not make the same invalid unless established otherwise. Accordingly, the action of the CIT(Appeals) in not accepting the claim of the assessee is valid

(ii) **Issue Involved:** The issue under consideration is whether the powers U/S 254(2) can be exercised by the Tribunal to recall an order and rehear the entire appeal on merits.

Relevant provision of law: Section 254(1) empowers the Appellate Tribunal to pass such order thereon as it thinks fit, after giving both the parties to the appeal an opportunity of being heard. U/S 254(2), the Appellate Tribunal, may amend an order passed by it U/s 254(1) with a view to rectifying any mistake apparent from the record

Analysis & Conclusion: The power U/s 254(2) is limited to rectification of a mistake apparent on record and therefore, the Tribunal must restrict itself within those parameters.

A detailed order was passed by the Tribunal upholding the order passed by the Assessing Officer. While allowing the application U/s 254(2) and recalling its earlier order, the Tribunal had reheard the entire appeal on the merits as if the Tribunal was deciding the appeal against the order passed by the Commissioner (Appeals).

The subsequent order passed by the Tribunal recalling its earlier order was beyond the scope and ambit of the powers U/s 254(2) and is not tenable in law.

Note – *The facts given in the question are similar to the facts in Reliance Telecom Ltd./Reliance Communications Ltd. (2022) wherein the issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case*

RTP MAY 26

11. The regular assessment of Ms. Preeti for the A.Y. 2023-24 was completed U/s 143(3) on 16-07-2025. On 18-01-2026, she received a notice issued U/s 148 for income escaping assessment for the A.Y. 2023-24. Further, on 25-03-2026, during the pendency of such proceeding for income escaping assessment, the A.O. attaches the house property of Ms. Preeti.

Now, aggrieved Preeti seeks your opinion (being a Chartered Accountant) as to:

(i) The circumstances under which the A.O. can make provisional attachment of property of the assessee.

(ii) The period of time for which such attachment can take place.

(iii) Can such attachment be revoked by the A.O. and if yes, how?

Discuss the relevant provisions of law to satisfy the aggrieved assessee, Ms. Preeti.

Answer –

(i) As per section 281B(1), the Assessing Officer is empowered to provisionally attach any property of Ms. Preeti, by an order in writing, during the pendency of assessment or reassessment proceedings, with the prior approval of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner or Principal Director General or Director General or Principal Director or Director, if he is of the opinion that it is necessary to do so for the purpose of protecting the interests of the revenue.

(ii) As per section 281B(2), the provisional attachment shall be valid for a period of 6 months from the date of the order issued for provisional attachment.

However, the above mentioned income-tax authority may extend the period of provisional attachment, for reasons to be recorded in writing, by a further period as he thinks fit.

However, the total period of extension shall not exceed two years or sixty days after the date of assessment or reassessment, whichever is later.

(iii) Section 281B(3) empowers the Assessing Officer to revoke, by an order in writing, provisional attachment of property if Ms. Preeti furnishes a guarantee from a scheduled bank, for an amount not less than the fair market value of such provisionally attached property or for an amount which is sufficient to protect the interests of the revenue.

Question -5(b) Tax Treaty, MTC & BEPS [6 Marks]

MTP SEP 25

1. (i) Explain the concept of the Mutual Agreement Procedure (MAP) as provided under international tax treaties. What differentiates the OECD Model Convention from the UN Model Convention in the context of arbitration for MAP?

(ii) Briefly explain the purpose of the Multilateral Instrument (MLI) under the BEPS Project. How does it help in modifying existing bilateral tax treaties?

Answer –

(i) Where in a situation a tax payer may believe that the treatment accorded by either or both Contracting States is not in accordance with the provisions of the tax treaty. In such a case, there is a need for dispute resolution which is addressed by the article named Mutual Agreement Procedure (MAP). This Article requires competent authorities of both countries to endeavour to resolve the conflict by engaging in bilateral negotiations.

The Mutual Agreement Procedures (MAP) provides for dispute resolution through bilateral negotiations between competent authorities of both the contracting states.

Key differences between the OECD Model Convention (Article 25) and UN Model Convention (Article 25B - Alternative B) are as follows:

- Article 25B(5) of the UN Model provides that an arbitration may be initiated if the competent authorities are unable to reach an agreement on a case within three years from the presentation of that case. However, Article 25(5) of the OECD Model provides a time limit of two years from the date when all the information required by the competent authorities in order to address the case need to be provided to both competent authorities.
- Article 25B(5) of the UN Model provides that arbitration must be requested by the competent authority of one of the Contracting States. Once such a request is made, the taxpayer will be notified. However, as per Article 25(5) of the OECD Model, arbitration must be requested in writing by the person who initiated the case.
- Article 25B(5) of the UN Model allows the competent authorities to depart from the arbitration decision if they agree to do so within six months after the decision has been communicated to them.

(ii) The Multilateral Instrument (MLI) was developed under Action 15 of the OECD-G20 BEPS Project to address Base Erosion and Profit Shifting (BEPS) by modifying existing bilateral tax treaties in a synchronized and efficient manner. Its primary purpose is to implement treaty-related anti-abuse measures — such as preventing treaty shopping, artificial avoidance of permanent establishment (PE), and hybrid mismatch arrangements — without the need for renegotiating each treaty separately.

The MLI applies to Covered Tax Agreements (CTAs), which are bilateral treaties notified by both parties. It does not replace existing treaties but modifies their application using the lex posterior (later in time) principle, meaning the newer rule prevails. This allows consistent implementation of BEPS measures across multiple treaties while respecting each country's policy choices through options, alternatives, and reservations.

MTP SEP 25

2. Examine and state the correctness or otherwise of each of the following in the context of BEPS Action Plan and Income-tax Act, 1961 and answer in brief with reasons/contents thereof:

(i) "Country by Country (CBC) report not requires Multi National Enterprises (MNEs) to provide an annual report of economic indicators". Explain with reference to BEPS Action Plan.

(ii) What are the basic three fundamental pillars of BEPS Action Plans?

(iii) Why there is a need for international collaboration to protect tax sovereignty of its countries?

Answer –

(i) **Incorrect** – Country by Country (CbC) report requires MNEs to provide an annual report of economic indicators viz. the amount of revenue, profit before income tax, income tax paid and accrued in relation to the tax jurisdiction in which they do business.

(ii) The Action Plans were structured around three fundamental pillars viz.:

(a) Introducing **'coherence'** in the domestic rules that affect cross-border activities.

(b) Reinforcing of **'substance'** requirements in existing international standards; Alignment of taxation with location of value creation and economic activity; and

(c) Improving **transparency** and **tax certainty**.

(iii) There is a need for countries to collaborate on tax matters so that they are able to get their due share of taxes due to following reasons –

- The interaction of separate sets of domestic laws enforced by sovereign countries causes frictions, including potential double taxation for corporations operating in many countries.
- It also causes gaps, in cases where corporate income is untaxed, both in the country of source and in the country of residence, or is taxed only at nominal rates.

- BEPS relates primarily to instances where the interaction of different tax rules & tax systems leads to double non-taxation.
- It also relates to arrangements that achieve no or low taxation by shifting profits away from the jurisdictions where the activities creating those profits take place

SEP 25 Exams

3. (i) What is the need of applying principles of interpretation of law for interpreting a tax- treaty (DTAA), briefly describe the objective behind such interpretation?

(ii) Briefly describe Indicators of BEPS activity recommended under action plan 11 of Base Erosion and Profit Shifting (BEPS).

Answers-

(i) The interpretation of DTAAs require a different approach than the interpretation of domestic tax laws as the latter is based on interpretative principles set out by the national courts, whereas the DTAAs are an international agreement between the government of two countries. The treaties are interpreted in light of the customary principles set out under the Vienna Convention of the Law of treaties (VCLT).

VCLT is a multilateral treaty signed and ratified by several countries, which codifies the customary international law for interpretation of tax treaties.

Principles or rules of interpretation of a tax treaty would be relevant only where terms or words used in treaties are ambiguous, vague or are such that different meanings are possible.

If words are clear or unambiguous, then there is no need to resort to different rules for interpretation.

(ii) Under Action Plan 11, there are six indicators of BEPS activity which are described below:

(1) The profit rates of MNE affiliates located in lower-tax countries are higher than their group's average worldwide profit rate

(2) The effective tax rates paid by large MNE entities are estimated to be lower than similar enterprises with only domestic operations.

(3) Foreign direct investment (FDI) is increasingly concentrated.

(4) The separation of taxable profits from the location of the value creating activity is particularly clear with respect to intangible assets, and the phenomenon has grown rapidly.

(5) Royalties received by entities located in these low-tax countries accounted for 3% of total royalties.

(6) Debt from both related and third-parties is more concentrated in MNE affiliates in higher statutory tax-rate countries.

JAN 26 Exams

4. Answer following questions—

(A) Explain the terms "Most Favored Nation" and "Base Erosion and Profit Shifting (BEPS)" with reference to the international tax treaties.

(B) "Article 14 of the UN Model Convention gives exclusive rights to the source country to tax Independent Services." Examine the correctness of the above statement.

Answer-

(A) Most Favoured Nation clause is usually found in Protocols and Exchange of Notes to Double Taxation Conventions. Under this clause a country agrees to extend the benefits to the residents of the other country, which it had (first country) promised to the residents of third country. It tries to avoid discrimination between residents of different countries.

Base Erosion and Profit Shifting (BEPS) refers to tax planning strategies that exploit gaps and mismatches in tax rules to make profits 'disappear' for tax purposes or to shift profits to locations where there is little or no real activity, but the taxes are low, resulting in little or no overall corporate tax being paid.

(B) The statement is **not correct.**

Article 14 of the UN Model Convention does not give exclusive rights to the source country to tax Independent Services.

It gives an exclusive right to the residence country to tax Independent Services except in the following two circumstances when such Independent Services may also be taxed in the source country:

(i) If he has a fixed base regularly available to him in the source country for the purpose of performing his activities.

(ii) If his stay in the source country is for a period or periods amounting to or exceeding in the aggregate 183 days in any 12 months period commencing or ending in the fiscal year concerned.

MTP JAN 26

5. Explain the term "Exchange of information" as per Article 26 of Model Tax Conventions under OECD Model and UN Model and explain importance of Article 26.

Answer –

In order to complete tax cases, a country may require certain information which may be available with the treaty partner. Article 26 provides for the information which may be exchanged and the manner in which such a request has to be made. The OECD and UN Model Conventions are similar with respect to this Article.

Importance of Article 26:

- facilitates effective exchange of information between Contracting States.
- curtails cross-border tax evasion and avoidance,
- curtails the capital flight that is often accomplished through tax evasion & avoidance. This is particularly relevant in the perspective of developing countries.

Question -6(a) Tax Audit [6 Marks]

MTP SEP 25

1. BlueEdge Consulting Private Limited, engaged in the business of consulting services, remitted substantial amounts to Australia as per the information collected by the Income-tax Department from ISB Bank. The department collected documents from ISB Bank, which included Form 15CB issued by the chartered accountant, list of foreign clients, copies of consultancy agreements, email correspondences, and invoices raised by the foreign service providers.

On enquiry with the alleged foreign clients and verifying the email trails, it was found that no actual consultancy services were rendered by or to the parties on the dates mentioned in the documents. In fact, the supposed clients denied having any business transaction with BlueEdge Consulting Private Limited.

The Income-tax Department concluded that the amounts were remitted by the company on the basis of fictitious consultancy agreements and fake invoices, and that the foreign remittances were made under false pretenses. This pointed towards violations under FEMA, and Form 15CB issued by the chartered accountant was considered a critical document in facilitating these remittances.

During the six-month period in question, the chartered accountant had issued 78 Form 15CB certificates involving total remittances of ₹35 crores for BlueEdge Consulting Private Limited. A representation was submitted by the concerned CA stating that he had issued the Form 15CB based solely on the invoices and documents submitted by the company, and by verifying the KYC details of the signatory to those documents.

He contended that since he was not the statutory auditor of the company, he neither examined the company's books of account nor conducted any due diligence of its business activities prior to issuing the certificates. He had charged ₹3,300 per certificate, with most of the fees collected in cash, and a portion credited to his bank account.

Is Chartered Accountant's contention, correct? Examine the ethical implications in this case with the relevant clauses of the Chartered Accountants Act, 1949.

Answer –

Form 15CB is a certificate of an accountant wherein he certifies that he has examined the agreement between the remitter and the beneficiary requiring such remittance. He has to also examined the relevant documents and books of account required for ascertaining the nature of remittance and for determining the rate of deduction of tax at source.

The Chartered Accountant certifying the Form 15CB undertakes to have verified the agreement between the remitter and the beneficiary as well as the relevant documents and books of account to ascertain the nature of remittance and determine the rate of TDS.

In this case, however, the Chartered Accountant mentioned that he had only verified KYC of signatory to invoice and the invoices thereof.

He had not only failed to justify as to how verification of invoices was considered as sufficient compliance for certifying the forms but also failed to bring on record the said invoices.

Thus, he failed to provide any basis on which he relied for issuing Form 15CB certificates to the company, hence Chartered Accountant's contention was not correct.

On account of such failure, clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for failure to exercise due diligence in discharging his professional responsibilities and failure to obtain sufficient information may be invoked.

JAN 26 Exams

2. M/s P Associates, a partnership firm (liable for tax audit U/S 44AB) engaged in the business of food processing, provided following relevant information to you during your tax audit examination in respect of purchases made from various entities:

Name of the entity	Turnover	Investment in plant and machinery	Date of purchase	Date of payment as per the agreement	Date of actual payment
Teal Pvt. Ltd.	₹80 crores	₹35 crores	11/01/2026	01/03/2026	28/02/2026
Cyan Pvt. Ltd.	₹3 crores	₹45 lakhs	21/11/2025	01/12/2025	28/02/2026
Rust Pvt. Ltd.	₹25 crores	₹5 crores	01/03/2026	20/04/2026	18/04/2026

Discuss whether P Associates is in compliance with the relevant provisions of Income-tax Act, 1961 and other related Act relevant to your tax audit?

List out, the points to be kept in mind while conducting the audit of P Associates for the purpose of clause 22 of Form 3CD.

Answer –

As per section 43B(h) any sum payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of the Micro, Small and Medium Enterprises Development (MSMED) Act shall be allowed as deduction only on actual payment.

Section 15 of the MSMED Act, 2006 mandates payment of goods or services to supplier, being a micro or small enterprise by the buyer on or before the date agreed upon between them in writing i.e., as per the written agreement, which cannot be more than 45 days from the day of acceptance.

M/s P Associates, a partnership firm made purchases from Teal Pvt. Ltd., Cyan Pvt. Ltd. and Rust Pvt. Ltd. Cyan Pvt. Ltd. is a micro enterprise and Rust Pvt. Ltd. is a small enterprise.

Cyan Pvt. Ltd. is a micro enterprise as its investment in plant & machinery does not exceed ₹2.5 crores and turnover does not exceed ₹ 10 crores. Rust Pvt. Ltd. is a small enterprise, since investment in plant & machinery does not exceed ₹25 crore and turnover does not exceed ₹100 crores.

Teal Pvt. Ltd. is not a micro or small enterprise. Hence, provisions of section 43B(h) are not applicable in respect of payment to it.

In the present case, payment to Cyan Pvt. Ltd. is to be made by 1.12.2025 but such payment was made on 28.2.2026. Since such amount is actually paid during the P.Y. 2025-26 such sum is eligible for deduction during the P.Y. 2025-26.

Payment to Rust Pvt. Ltd. is to be made on 14th April 2026, within 45 days from the date of purchase even if the agreed date was 20.4.2026. However, in the present case, payment was made on 18.4.2026, which is beyond the specified time limit of 45 days. Such payment is not allowed to be deducted during the P.Y. 2025-26 but is allowable on actual payment basis in the P.Y. 2026-27.

Since payment to Cyan Pvt. Ltd. and Rust Pvt. Ltd. are made after the specified time limits, M/s P Associates is liable to pay compound interest from the appointed date or from the date immediately following the date agreed upon, at three times of the bank rate notified by the Reserve Bank. Such interest being of penal nature is not allowed to be deducted while computing business income as per section 23 of MSMED Act, 2006.

While conducting the audit of P Associates, the following points are to be kept in mind:

- seek information regarding status of the enterprise i.e., whether the same is covered under the MSMED Act, 2006.
- Obtain a full list of suppliers of the assessee which fall within the purview of the definition of "Supplier9" It is the responsibility of the auditee to correctly classify and identify those suppliers who are covered by this Act.
- verify from the books of account whether any interest payable or paid to the buyer in terms of section 16 of the MSMED Act has been debited or provided for in the books of account.
- verify the interest payable or paid as mentioned above on test check basis.
- verify the additional information provided by the auditee relating to interest U/S 16 in his financial statement.
- verify that only interest paid or payable in terms of section 16 of the MSMED Act which has been debited to the Profit & Loss account is reported under clause 22(i). Such interest is not allowable as deduction for the purposes of computation of income under the Income-tax Act, 1961 in terms of section 23 of the MSMED Act.
- verify the payments which are required to be made to a micro or small enterprise during the relevant previous year and then the amount actually paid or not paid within the time limit specified U/S 15 of the MSMED Act and also the amount which are inadmissible as deduction during the relevant previous year.

Question -6(b) Tax Management, Avoidance, Evasion and GAAR [4 Marks]

JAN 26 Exams

1. Discuss whether the provisions of General Anti-Avoidance Rules can be invoked in the following scenarios:

(i) Red Ltd., an Indian company, incorporates Brown Ltd., as a wholly owned subsidiary in country Y, a no-tax jurisdiction. Brown Ltd. is engaged in manufacturing of cement, raw material for which is available at a lower price in Country Y. Brown Ltd. has not paid any dividend to Red Ltd.

(ii) Yellow Ltd. (an Indian company) is a wholly owned subsidiary of Pink Ltd., a company incorporated in Country H. Pink Ltd. gave a loan to Yellow Ltd. during the FY 2025-26. The DTAA between India and Country H gives the exclusive right to tax interest to the resident state. Country H provides tax exemption of interest receivable by a resident company from any entity in which the resident company holds not less than 10% of equity shares. Pink Ltd. does not have a PE in India. Yellow Ltd. is able to claim interest deduction from its total income and thus, enjoyed a tax benefit of ₹1.50 crores in India. Pink Ltd. also earned a tax benefit equivalent of

₹2 crores in Country H.

Answer-

(b) (i) In Country Y, the raw material is available at lower price and incorporation of Brown Ltd., a wholly owned subsidiary in Country Y, to reduce the cost of manufacturing of cement does not lack commercial substance even if Country Y is a no-tax jurisdiction. Further, the main purpose of the arrangement is not to obtain tax benefits, GAAR would not be attracted even if Brown Ltd. has not paid any dividend to Red Ltd.

(ii) For GAAR provisions to be invoked, the tax benefits arising from the transaction to all the parties together should be more than ₹3 crores.

The application of tax laws is jurisdiction specific and hence what can be seen and examined is the tax benefit enjoyed in Indian jurisdiction due to the arrangement or part of the arrangement.

Thus, in the present case, since tax benefit in Indian jurisdiction does not exceed ₹3 crores, GAAR cannot be invoked.

MTP SEP 25

2. M/s Skyline Design Solutions Ltd., a company incorporated in Country X, is engaged in providing architectural design services globally. It receives a contract from Sunrise Hospitality Pvt. Ltd., an Indian company, to design and develop a chain of resorts across India.

As per the India–Country X tax treaty, payments for architectural services are treated as fees for technical services (FTS) and are taxable in India when paid to a company. However, when the same services are rendered by a partnership firm or individual, the income is taxable in India only if:

- The firm has a fixed base in India, or
- The stay of partners or employees in India exceeds 180 days.

The tax treaty does not contain a Limitation of Benefits clause.

To leverage the treaty benefit, M/s Skyline Design Solutions Ltd. forms a partnership firm in Country X with one of its directors holding a nominal stake. The contract is routed through this firm, and the company sends its employees to the firm to perform the services. The firm claims treaty protection, stating that it neither has a fixed base nor exceeds the 180-days stay condition, and hence no tax is paid in India.

Does this restructuring of income from a company to a partnership firm, aimed at availing treaty benefits and avoiding Indian tax liability, fall within the scope of GAAR provisions?

Answer –

The original service provider Skyline Design Solution Ltd. is replaced by the partnership firm with nominal partnership of one of the director. It is obvious that there was no commercial necessity to create a separate firm except to obtain the tax benefit. The firm was only on paper as the manpower was drawn from the company. The firm did not have any commercial substance. The contract, workforce and execution remain effectively under the control of the Skyline Design Solution Ltd.

The contract between the Sunrise Hospitality Pvt. Ltd and partnership firm lacks the commercial substance, as the actual service are rendered by the personnel of the Skyline Design Solution Ltd.

It is a case of treaty abuse (treaty shopping). Hence, GAAR may be invoked to disregard the firm and tax payment for architectural services as fee for technical services. However, the rate of tax on such payment shall be as applicable under the treaty, if more beneficial.

Question -6(c) Board for Advance Ruling [4 Marks]

MTP SEP 25

1. The Indian branch of Slack Ltd, Country Y has carried out some transactions with ZH Co. Ltd., Bengaluru in the financial year 2025-26. The value of the transaction is ₹600 crores. ZH Co. Ltd. applied for advance ruling in January, 2026 to know exactly the tax consequences of its transactions with the non-resident Slack Ltd., Country Y, both for itself and on non-resident.

What would be the amount of fee to be accompanied with the applicable for advance ruling.

Assume application for ruling is accepted by Board for Advance Rulings (BAR). On 30.04.2026 BAR pronounced its ruling and said ruling was communicated to ZH Co. Ltd. on the same date. ZH Co. Ltd. was, however, not satisfied with said ruling. State whether the advance ruling pronounced by BAR is binding on ZH Co. Ltd. Is there any remedy available to ZH Co. Ltd. if it is aggrieved with the said ruling? Examine.

Answer –

Since the value of transaction between M/s ZH Co. Ltd and Slack Ltd, in respect of which ruling is sought, exceeds ₹300 crores, fees of ₹10 lakhs to be accompanied with the application Advance ruling pronounced by Board for Advance Rulings is not binding on ZH Co. Ltd. Section 245W provides that the applicant who is aggrieved by any ruling pronounced or order passed by the Board for Advance Rulings may appeal to the High Court against such ruling. He has to do so within **60 days from the date of the communication** of that ruling or order, in the prescribed form and manner.

Accordingly, if ZH Co. Ltd. is aggrieved by the advance ruling pronounced by BAR, it can file an appeal before the High Court on or before 29th June 2026. The High Court can grant extension of a further period of 30 days for filing the appeal, if it is satisfied, on an application made by ZH Co. Ltd. in this behalf, that it was prevented by sufficient cause from presenting the appeal within the 60 days period as specified above.

MTP JAN 26

2. An agreement has been made between Orange Inc., a company registered in Country A, and Unicorn Ltd., an Indian company, to provide technical know-how. Orange Inc.'s sister company, XYZ LLC of Country A, has received an Advance Ruling about a similar technological know-how arrangement with another Indian business, MNC Ltd.

The agreement is expected to be of ₹350 crores and expected tax liability would be ₹120 crores.

Can Unicorn Ltd. make an application to the Board for Advance Rulings to issue same ruling for Unicorn Limited in accordance with the Act? Examine whether the Board can ask for the submission of books of accounts when a decision on a related matter has already been made. Examine in the context of the provisions of the Income-tax Act, 1961?

Answer –

A resident can make an application for advance ruling in relation to his tax liability arising out of one or more transactions valuing ₹100 crore or more in total which has been undertaken or is proposed to be undertaken.

Since the value of transactions between M/s Unicorn Ltd and M/s Orange Inc for providing technical knowhow exceeds ₹100 crores, Unicorn Ltd. can make an application for advance ruling with the Board for Advance Rulings.

As per section 245U, the Board for Advance Rulings shall have all the powers of the Civil Court in respect of discovery and inspection, enforcing the attendance of any person, including any officer of a banking company and examining on oath, issuing commissions and compelling the production of books of accounts and other documents.

Accordingly, the Board can ask for the production of books of accounts before passing advance ruling for Unicorn Ltd.

JAN 26 Exams

3. Analyse whether the following persons fall under the definition of "applicant" U/S 245N(b)(A) to apply for advance ruling with the Board for Advance Ruling under the Income-tax Act 1961.

(i) TBF India Pvt. Ltd. a closely held Indian company needs to pay ₹75 crores to BIK Inc. of USA for some services provided by BIK Inc. on 12.04.2025. TBF India wants to know whether such services fall under the definition of technical service and thus determine the amount of tax to be deducted on the payment to be made to BIK Inc. The estimated tax liability arising out of this transaction is ₹15 crores in the hands of BIK Inc.

(ii) Figtree Ltd., an Indian private sector company is considering entering into an export contract with Lamou Inc. of China. Figtree Ltd. is expected to earn an income of ₹500 crores and expected tax liability would be ₹150 crores. However, Figtree Ltd. wants. to know if it is eligible for section 10AA deduction on such export?

(iii) Universe India Ltd., an Indian public-sector undertaking, undertook a transaction with Moon Pte. of Singapore. The expected tax liability in the hands of Universe India Ltd. involved in this transaction is expected to be ₹56 crores.

(iv) BNHJ Ltd. is an Indian public-sector undertaking. For the AY 2024-25, it has a matter pending with the Income Tax Appellate Tribunal which involves a question of fact in respect of a transaction it entered into with a non-resident company. The tax liability involved in this transaction is expected to be ₹105 crores

Answer-

(i) TBF India Pvt. Ltd. would fall under the definition of applicant for advance ruling in relation to tax liability of BIK Inc. USA, being a non-resident arising for providing services to TBF India Pvt. Ltd. for determining whether such services fall under the definition of technical services and subject to tax deduction at source.

(ii) Figtree Ltd., an Indian private sector company would fall under the definition of applicant for advance ruling since its tax liability arising out of the transaction value with Lamou Inc. of China, being a non-resident is ₹500 crores, which is more than ₹100 crores.

(iii) Universe India Ltd., an Indian public sector company would fall under the definition of applicant for advance ruling since the value of the transaction with Moon Pte. of Singapore, being a non-resident is ₹100 crores or more, as its tax liability itself is ₹56 crores

Note – The public sector company is notified for the purpose of section 245N(b)(A)(IV). Since in this sub-sub-clause (IV) there is no linking or reference with any of the sub-clause of clause (a), it is possible that a public sector company is an applicant for advance ruling without any monetary limit. In such case, Universe India Ltd., being a public sector undertaking, can apply for advance ruling for its own tax liability.

(iv) BNHJ Ltd., an Indian public sector undertaking would fall within the definition of applicant for advance ruling, even if the matter is pending with the Income-tax Appellate Tribunal which involves a question of fact in respect of a transaction it entered with a non-resident company.

MTP SEP 25

4. M/s GreenTech Innovations Pvt. Ltd., a resident Indian company, is planning to enter into a collaboration with a German firm for technology licensing. To understand the taxability of royalty payments under the India-Germany DTAA, it files an application for Advance Ruling before the Board for Advance Rulings in April 2026.

However, it is later revealed that M/s GreenTech Innocations Pvt. Ltd. had already submitted a detailed note on the same transaction to its Assessing Officer in March 2026 as part of a suo moto disclosure during scrutiny proceedings for A.Y. 2025–26. The AO had not yet issued any order but had acknowledged the issue for further verification.

1. In light of Section 245R(2) of the Income-tax Act, 1961, will the application for advance ruling filed by M/s GreenTech Innovations Pvt. Ltd. be allowed?
2. What is the remedy available to an applicant who is aggrieved by the ruling of Board for Advance Rulings?

Answer –

1. As per Section 245R, a resident assessee cannot pursue both the remedies, i.e., an appeal or revision before Income-tax Authority/Appellate Authority as well as an application for Advance Ruling to Board for Advance Rulings, in respect of an issue.

   The Board shall not allow an application where the question raised in the application is already pending before any income-tax authority, or Appellate Tribunal or any court.
2. The applicant who is aggrieved by any ruling pronounced or order passed by the Board for Advance Rulings may appeal to the High Court against such ruling or order of the Board of Advance Rulings within 60 days from the date of communication of that ruling or order.