The Institute of Chartered Accountants of India

Code: FN4DT105815 **Total Marks:** 70

Subject : 04 Direct Tax Laws and International Taxation **Marks Obtained :** 64.5

GRAPH PAPER IS ON THE PENULTIMATE PAGE

Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

CA FINAL Examination

Group No. II Paper No. 4

Subject DIRECT TAX LAWS

Number of Answer Books used : Main + 3 additional sheets

Date Seal 11 JAN 2026

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105815

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

JANUARY 2026

ICAI

Paper Code: F D A 1

MCQ Booklet Serial No.	Paper No.
4322167	4

Level of Exam: FINAL

Foundation ① Intermediate ② Final

MCQ Answers

1	Ⓐ Ⓑ Ⓒ Ⓓ	11	Ⓐ Ⓑ Ⓒ Ⓓ	21	Ⓐ Ⓑ Ⓒ Ⓓ
2	Ⓐ Ⓑ Ⓒ Ⓓ	12	Ⓐ Ⓑ Ⓒ Ⓓ	22	Ⓐ Ⓑ Ⓒ Ⓓ
3	Ⓐ Ⓑ Ⓒ Ⓓ	13	Ⓐ Ⓑ Ⓒ Ⓓ	23	Ⓐ Ⓑ Ⓒ Ⓓ
4	Ⓐ Ⓑ Ⓒ Ⓓ	14	Ⓐ Ⓑ Ⓒ Ⓓ	24	Ⓐ Ⓑ Ⓒ Ⓓ
5	Ⓐ Ⓑ Ⓒ Ⓓ	15	Ⓐ Ⓑ Ⓒ Ⓓ	25	Ⓐ Ⓑ Ⓒ Ⓓ
6	Ⓐ Ⓑ Ⓒ Ⓓ	16	Ⓐ Ⓑ Ⓒ Ⓓ	26	Ⓐ Ⓑ Ⓒ Ⓓ
7	Ⓐ Ⓑ Ⓒ Ⓓ	17	Ⓐ Ⓑ Ⓒ Ⓓ	27	Ⓐ Ⓑ Ⓒ Ⓓ
8	Ⓐ Ⓑ Ⓒ Ⓓ	18	Ⓐ Ⓑ Ⓒ Ⓓ	28	Ⓐ Ⓑ Ⓒ Ⓓ
9	Ⓐ Ⓑ Ⓒ Ⓓ	19	Ⓐ Ⓑ Ⓒ Ⓓ	29	Ⓐ Ⓑ Ⓒ Ⓓ
10	Ⓐ Ⓑ Ⓒ Ⓓ	20	Ⓐ Ⓑ Ⓒ Ⓓ	30	Ⓐ Ⓑ Ⓒ Ⓓ

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How to mark answers

CORRECT METHOD Ⓐ ● Ⓒ Ⓓ WRONG METHOD

Q. No.	To be ticked ✓ by the candidate against the Questions answered (Descriptive Type)		
1	✓	8	
2	✓	9	
3	✓	10	
4	✓	11	
5	✓	12	
6		13	
7		14	
Total		Total	

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ICAI 03

Q 2(a)

Tax Implications in hands of A Ltd (Wholly owned subsidiary) & E Ltd.

In PY 2020-21

Transfer of land to E Ltd (Holding) exempt as the same is not considered as transfer u/s 47 being transferred by wholly owned subsidiary to Indian Holding Co. Therefore no tax implications for Co. A on transfer.

for E Ltd, cost of acquisition of land would be as of in hands of A Ltd

That is ₹ 15 lakhs.

In PY 2022-23 [when land converted to stock in trade].

A Ltd would be liable to pay tax on transfer of land as per section 47A as land converted by transferee within 8 years from date of transfer.

Capital gains applicable in year of transfer

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ie P4 2020-21

Capital Gains

	₹
Consideration	3500000
less Indexed cost of acquisition $\left[\frac{1500000}{148} \times 301\right]$	(3050676)
Long term capital Gains	449,324

On conversion ~~of~~ to stock in trade by E Ltd, would be liable to capital gains ~~to~~ u/s 45(2)

fair market value of date ordered of conversion	₹6000000
less: Cost of acquisition $\left[\frac{35L \times 331}{301}\right]$ ₹	(3848837) ~~(3800000)~~
Capital Gains	~~2500000~~ 2151163

On sale of plot of land by E Ltd, in PY 24-25 Profits and gains from business would arise u/s 28:-

Sale of plot	₹ 6500000
less: FMV of plot on conversion date.	(₹ 6000000)
Profits from business	500000

4 2aStep1

4 2a

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Q.2(b) S Ltd bought back shares on 10th November 2024 [given].

~~As per section 2(22)(f) read with section 46A of Income Tax Act, 1961, a domestic company buying back it shares~~

(i) Domestic company buying back its own shares would be liable to pay additional tax at rate of 20% + surcharge at 12% and health & education cess. Only if buy back happened on or before 30/9/2024.

In given case S Ltd bought back the shares on 10/11/2024 hence no additional tax payable by S Ltd.

(ii) Tax liability in hands of Divyam :-

Taxable as Income from other sources U/s 2(22)(f) → 100×250/share

Taxable as dividend U/s 2(22)(f) → ₹25,000

Further, Divyam would be entitled to claim ~~long~~ short term capital loss of ₹20000 (Note 1)

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[as period of holding is less than 2 years]*

(iii) In case of foreign company, the same would be taxable in hands of shareholders only as capital gains u/s 46A of Income Tax Act 1961
[Date of buy back is not relevant in this case].
Capital gains on buy back in hands of Divyam would be:-

	₹
~~fair~~ full value of consideration (250 × 100 shares)	25000
less: Cost of acquisition	(20000)
* Short term capital gains (Note 1)	5000

Note 1 * If shares are listed than Period of holding would be and 'long term capital loss/gains would apply

3.5 2bStep1

3.5 2b

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07

Q2(c)

Statement showing total income of Mr Manoj [Non Resident] PY24-25 (AY25-26)

Particulars		₹
Capital Gains [Long term]		
Consideration received on sale of shares	1500000	
Less: Cost of acquisition	(1300000)	200000
[As per section 112A, indexation benefit not allowed, further indexation benefit has been withdrawn wef 23/7/2024. further as per section 64, income from capital gains would be clubbed in hands of Mr ~~Majo~~ Manoj]		
Income from other sources		
a) Excess SDV over purchase of land from Tulsi foundation [As the same exceeds 10% of consideration & difference more than 50000 hence taxable u/s 56(2)(x)]		10,00000 (NT)

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b) Dividend Income	55,000
(c) Interest credited to NRE A/c [exempt u/s 10]	—
(d) Royalty [As same is not pursuant to any agreement ~~###~~ with Indian company or government, therefore not taxable u/s 115A]	200000
Gross total income.	1455000
less: Deduction u/c VI-A, u/s ~~80D~~ 80C, Premium paid for life insurance policy [Maximum ₹150000]	(150000)
less: Deduction u/s 80 QQB [Not available as available only to resident individuals]	—
Net total income.	1305000

Income Tax liability of Mr Manoj. [other than default tax regime] ₹

Tax on longterm capital gains of ₹200000 u/s 112A less ₹125000 at rate of 12.5%.	9375
Dividend income [u/s 115A]	11,000
~~Other income~~ at rate of 20%.	

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ICAI 09

Other Income of 10,50,000
upto 250000 — —
>250000 upto 500000 5% 12500
>500000 upto 1000000 20% 100000
>1000000 upto 1050000 30% 15000 127500

Total tax 147875
+ Health education cess @ 4% 5915
153790

Note :
1) It is assumed that trust is not set up for benefit of Mr ~~Maj~~ Manoj, in which case the income from other sources on land would not ~~arise~~ be taxable.

X

R 4 2cStep1
R 4 2c
R 11.5 2

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10

Q 3 (a)

(i) Statement showing total income of ~~$\not{T}$~~ education centre PY24-25 [AY25-26]

Particulars	₹
(i) Gross receipts	175,00,000
(ii) Interest from tax free bonds u/s 10(15) [As trust is ~~its~~ claiming benefit u/s 12AB therefore no benefit allowed u/s 10(15) as per section 11(7) of Income Tax Act]	20 00000
(iii) Voluntary contributions [excluding Anonymous donation]	900000
(iv) State Government Grant [Not taxable as per section ~~#~~ 11]	—
(V) Anonymous donation ~~ut~~ [Allowed under normal tax rates upto 5% of total donation [excluding government grant & corpus] ie 5% x 1900000 => 95000 or ~~Actual~~ 100000 [Higher]	1,00,000

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Capital gains [10.5 lakhs less 5 lakhs] [Assumed ₹10.5 lakhs as sale value].	550000
Gross Income.	21050000
Less: Standard deduction at 15% of 21050000	(3157500)
	17892500
Less: Income applied by trust (i) Salary [upto amount paid during year].	(3500000)
(ii) other General expense [Payment by uncrossed cheques not allowed as it is not A/c payee cheque and not prescribed modes of payment].	(1940000)
(iii) Land purchased [As Net consideration fully applied therefore ~~net~~ total capital gains exempt].	(550000)
~~Land~~ purchased amount more than capital gains ~~Also~~ also allowed as it is applied for ~~benefit~~ purpose of Trust	(150000)

3.5 3aiStep1
2 3aiStep2

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~~Net~~ ~~tz~~ Total Income ~~Befo~~ [Taxable at normal rate]	11,17,52,500
Anonymous donation taxable u/s 115BBC [150000 - 100000]	50000
Total income	11,18,02,500

5.5 3ai

Q.3(a)(ii)

In given case, as the annual receipt of ~~that~~ education institution is upto ₹ 5 crore, hence it would be eligible for exemption without availing approval of prescribed authority.

2 3aiiStep1

~~In~~ Hence, ~~provided~~ action of Assessing officer is incorrect of disallowing Benefit.

[~~Pr~~ It is further provided that ~~above~~ above education Institute engages in solely education activities and not for profit purpose]

2 3aii

The above answer is based on provision of section 10(23C)(iiiad).

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Q.3(b)

Statement showing Total Income of Mr Dhruv PY24-25 (AY25-26)

Particulars	₹
Income from House property	
~~form~~ Rent from country B	210000
less Municipal tax	(10000)
	200000
Less: Standard deduction at rate of 30% [Sec 24]	(60000)
Income from house property	140000
~~Income~~ Profit & Gains from Business & Profession	
Carried in India	850000
Business loss in country B	(75000)
	775,000
Income ~~prof~~ from other sources	
a) Agriculture income in country A [Not exempt u/s 10(1) as the same is not from agriculture land in India]	60000

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b) Dividend from Country B	160000
c) Royalty income from Country A ₹ 500000	
Less: expenses incurred (55000)	₹ 445000
d) Interest on fixed deposits and savings account	55000
Gross total income	1635000
Less: Deduction u/s 80QQB [Maximum upto ₹300000]	(300000)
Less: Deduction u/s 80TTB	(50000)
Total Income	1285000

Statement showing tax liability under provisions other than default tax.

Income	Rate	Tax
upto 300000		-
>300000 upto 500000	5%	10000
>500000 upto 1000000	20%	100000
>1000000 upto 1285000	30%	85500
		195500
	+HEC @ 4%	7820
		203320
Less: ~~Rebate of~~ Credit U/s 91		
Country A [N1]		(20500)
Country B [N2]		(35595)
Net tax payable		₹ 147225

2.5 3bStep1

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N1 Relief u/s 91 for country A

Tax Rate in country A => 10%

Tax Rate in India

[203320 / 1285000 x 100] 15.82%

lower => 10%

Doubly tax income

10% x [60000 + 145000 (Royalty)] 20500

N2 Relief u/s 91 for country B

Tax Rate in country B 20%

Tax Rate in India 15.82%

lower 15.82%

Relief => Doubly tax income x 15.82%

b) [160000 + 140000 - 75000] x 15.82%

=> 35595

R 13 3

R 3 3bStep2

R 5.5 3b

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Q 4(a)

(i) As per section 194-IA of Income Tax Act, 1961, ~~tax~~ any person acquiring Immovable property from resident person is required to deduct tax at rate of 1% of consideration or SDV whichever is higher.
The TDS is ~~not~~ to be deducted when consideration or SDV ~~or both~~ is ₹ 50,00,000 or more.

In given case, Mr Sohan required to deduct TDS as follows

2 4aiStep1

⇒ 51,00,000 × 1% ⇒ [₹ 51,000]
[On SDV, as it is higher than consideration].

2 4ai

(ii) As per section 194N, a bank or Co-operative bank required to deduct TDS at rate of 2% on cash withdrawn by resident for amount ~~of~~ more than ₹ 1 crore.

If ~~the~~ payee, not furnished ~~~~ TDS ~~~~

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return ~~for~~ preceding 3PYs for which due date has expired during current PY, then TDS to be deduct as follows:—

a) ~~up~~ more than 20,00,000 to 1crore at rate of 2%.

b) & over and ~~above~~ above ₹1crore at rate of 5%.

In given case, co-operative bank required to deduct TDS ~~all~~ as below:—

for Mr A :) (1,05,00,000 − 1,00,00,000) × 2% ⇒ $\boxed{₹10,000}$

for MR B [Not furnished returns for 3AYs]

:) (98,00,000 − 20,00,000) × 2% ⇒ $\boxed{₹1,56,000}$

R 4 4aiiStep1

R 4 4aii

(iii) As per section 194DA, ~~to~~ any person making payment of life ~~income~~ insurance amount of ₹1,00,000 or more to resident required to deduct TDS at rate of 5% [~~to~~ 2% wef 23/7/2024]

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TDS is to be deducted only on income component.

So, TDS on maturity proceeds are as follows:—

=> [900000 - 250000 x 3] x 5%
=> ₹7500

[In given case, as policy premium is more than 10% of sum assured, therefore the proceeds are not exempt from tax, and hence TDS applicable]

R 2 4aiiiStep1
R 2 4aiii

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Q 4(b)

Statement showing Gross profit margin to be charged

Particulars	₹
GP margin ~~charged~~ charged to XYZ Ltd [unrelated party]	50%
Add: Value of technology support received from unrelated party [50% × ~~10~~ 4%]	2%
Less: Quantity discount to Canada Ltd [50% × 20%]	(10%)
Less: Risk associated with services not applicable for Canada Ltd [50% × 10%]	(5%)
Less: Value of credit offered to XYZ Ltd but not allowed to Canada Ltd [50% × 2%]	(1%)
Gross profit to be charged to Canada Ltd	~~32~~ 36%

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Arm's length price for Canada Ltd.
=) 450000 + 36% of 450000
[as gross profits]
=) ₹ 612 000

Amount billed
[3600 × 120] (₹432,000)

Net addition
[as per
Transfer pricing Rules] ~~₹ 162000~~ 180000

Hence, ALP adjustment leads to addition of ₹180000

Note: In given case as Canada Limited holds 35% of voting power i.e. more than 26% voting power prescribed u/s 92A. Therefore Canada Limited and LMN Ltd are associate enterprises and transfer pricing provisions apply.

R 6 4bStep1

R 6 4b

R 14 4

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Q.5(a)

(i) Issue Involved

Whether AO to issue notice u/s 143(2) based on the year of rectification of defects done within time as per notice or based on original return filing date.

Provisions applicable:

As per section 139(9) of Income Tax Act, 1961, in case of defective return, Assessee is required to correct the defects within 15 days [ie time allowed by AO] and the same would be construed as return filed.

Further, as per section 143(2) assessing officer can issue notice for purpose of assessment u/s 143(3) upto three months from end of financial year in which return was filed.

Further, it has been held in case of Travel Designer India Pvt Ltd by Supreme Court, that if assessee

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corrects the defect within 15 days of intimation of defect u/s 139(9), then the same return would date back to original return and period u/s 143(2) to be considered from original return filing date.

Analysis: In given case, M/s D Pvt Ltd rectified the defect intimated within 15 days of intimation and hence return would date back to its original return filing date ie 15th October 2024.
Therefore, the time period u/s 143(2) has to be considered from end of year 2024-25 and maximum time for issue of notice u/s 143(2) is upto 30 June 2026.

Conclusion: Contention of D Pvt Ltd is correct and assessing officer action is invalid as time limit for issue of notice has lapsed, ~~hence~~ hence it is not empowered to issue notice upto 30/6/2026.

R R R R
4 5aiORiiStep1
4 5aiORii

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Q.5(a) (ii)

(i) Yes, rectification order u/s 154 is a specified order u/s 245MA.

(ii) monetary limits prescribed are as follows:-

1) Total income ~~of~~ ~~assesse~~ assessee should be upto ₹50,00,000.

and

2) Variations proposed in ~~draft~~ specified order is upto ₹10,00,000.

In given case, Mr Chauhan's case falls under monetary limits as the total income is upto ₹50,00,000 & variations proposed are ₹3,00,000 [less than ₹10,00,000] in rectification order.

Therefore Mr Chauhan can file application before DRC.

R 4 5aiiORiiiStep1

R 4 5aiiORiii

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Q. 5(b)

A) Most favoured Nation

It ~~Re~~ refers to those nations ~~as~~ part of OECD & where benefit member provided to other nation's resident member of OECD with respect to reduced ~~taxes~~ tax rates or scope of taxation would be provided to first member nation.

It Implies, in case of any subsequent agreement / treaty / the benefits provided to other nation would be extended to first most favoured nation member. This clause is generally given in protocols of DTAAs eg India france Treaty

India has to issue notification to incorporate benefit of most favoured nation to ~~ext~~ extend benefits to it.

Base Erosion Profit Shifting (BEPS)

It refers to tax planning strategies adopted by large ~~multi~~ multinational enterprises to exploit the mismatch or gaps in tax laws to make the

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profits disappear from location of economic activity and resulting in little or no overall tax being paid.

MNEs are able to shift their profits from location of value creation to low tax jurisdiction is known as Base Erosion Profit Shifting

R

2.5 5bStep1

Q.5(b) B The given statement is ~~correct~~ / partially correct

Article 14 of Independent personal services as per UN model gives right to tax as follows:-

a) Income from independent services would be taxable in resident ~~sta~~ contracting state

But in following cases it would be taxable in source state :-

1) If person has fixed base available to him in contracting state.

2) If he maintains presence through employees or other person for period of not less than 183 days in 12 month

R

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period starting and ending in fiscal year itself.

~~The~~ Income to the extent attributed to above fixed base or physical presence would be taxable in source state

Hence, exclusive rights are not with source state unless, fixed base or physical presence available there.

R 2 5bStep2

R 4.5 5b

R 12.5 5

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4105815-01

Addl. Book No. ......1.............

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS ADDITIONAL ANSWER BOOK

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Q1(a)

Statement showing Total Income of M Automobile Ltd
PY24-25 (AY 25-26)

Particulars	₹
Profits and gains from Business	
Net Profit from lucknow unit	50,00,000
Net profit from Patna unit	25,00,000
Add : Items disallowed / treated separately	
(i) Commission payment to non-resident without deducting TDS [Disallowed u/s 40(a)(i) as made without TDS deduction so 100% expense disallowed]	2,50,000
(ii) Provision for warranty	—

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2

[Allowed, assumed ~~based~~ provision made as per ICDS-X based on reasonable estimate of outflow].

c) Contribution to NPS of 20% of basic salary | 180000

[As per section 40, contribution of upto 14% of Basic salary & Dearness allowance in terms allowed]

[Here assumed that no dearness allowance paid, in absence of information]

d) Expenditure on issue of debenture | -

[Allowed u/s 37 as expense is for business and revenue in nature].

(e) Capital Expenditure on new building | 20,00,000

[As per sec 37, capital expenditure disallowed, but company can claim depreciation u/s 32] [Refer Note 2]

f) Less: Non-compete fees paid without deducting TDS [As per section 40(a)(ia) disallowed upto 30% on payment to resident] [Assumed not debited to P&L]. | (840,000)

4.5 R 1Step1

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4105815-02

Less: Disallowed / considered separately	
Depreciation (WN1)	(556250)
~~Lucknow Unit: (N1)~~	—
~~Opening WDV: 14475000 x 15%.~~	
~~Patna unit~~	
[Working Note 1: provides for depreciation computation]	
Profits from business	8533750
Income from capital gains	
Enhanced compensation	300000
[To the extent received during the ~~yr~~ previous year]	
[Chargeable as longterm capital gains].	
Income from other sources.	
Interest on enhanced compensation 1200000	
Less: 50% standard (600000) deduction U/s 57	600000
Gross total income / Net total income.	9433750

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Code: FN4DT105815 **Total Marks:** 70

Subject : 04 Direct Tax Laws and International Taxation **Marks Obtained :** 64.5

4

Tax liability as per normal provision

~~(94,33,750 × 25%) 23,58,438~~

~~+ Health & education~~

Capital gains u/s 112 at rate of 20% 60000

[As transfer took place before 23 July, 2024.]

Other income [9133750 × 25%] 2283438

2343438

R

2

1Step3

Add: Health, education cess 93738

2437175

ie 2437180

as per normal provision

As per concessional tax regime (sec 115BAA)

Total income as per normal provisions 9433750

Add: Additional depreciation 120000

9553750

Tax liability

Capital gains 60,000

Balance income [at rate of 22%] 2035825

2095825

Surcharge @10% 209582

2305408

+ Health & education cess @4%. 92216

2397624 ie 23,97,620

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In given case, tax as per concessional tax regime is lower than normal tax provisions.

Therefore, M Automobile Ltd should opt for concessional regime u/s 115BAA.

3 1Step4

Note: ~~Tax~~ Tax is payable on the basis of total income of Assessee, therefore, Income has to be clubbed for both Lucknow and Patna unit.

Note 2 Assumption:

1) In given case, it is assumed that capital expenditure on building is done by lessee [M Automobile Ltd] Therefore depreciation allowed to lessee as deemed owner in capacity of tenant].

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Working note

Statement showing depreciation allowed U/s 32.

	₹
Opening WDV (Lucknow Unit)	1475000
Machine acquired during year:–	
New Machinery [Put to use more than 180 days]	600000
Old Machinery [Put to use more than 180 days]	10,00,000
Less: Sale (Amount payable)	(1500000)
Closing WDV:	15,75,000

Depreciation allowed

	₹
On Old Machinery & New Machinery } 1575000 × 15% =	236250
Additional depreciation (600000 × 20%) [allowed u/s 32(1)(iia)]	₹ 120000
	356250

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2

Depreciation on building 2,00,000
(20,00,000 x 10%)
[Assumed put to use for more than 180 days].

[Depreciation is computed on block of asset basis, ~~for~~ which means same class of assets with same rate of depreciation. Hence, machineries of both Lucknow & Patna unit clubbed for M Automobile Ltd].

R 4 1Step2
R 13.5 1

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Total Marks: 70
Marks Obtained : 64.5

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