

The WAY CA test series – SEPT 2025

CA FINAL

P4 : DIRECT TAXATION
[SEMI FINALS]

29.06.2025

TIME : 3 HRS

TOTAL : 100 MARKS

PART I : MCQ ANSWERS

30 MARKS

1. Option (c)
2. Option (d)
3. Option (b)
4. Option (d)

Case study - 1

5. Option (b) Interest expense up to 20% of dividend is allowed as deduction from dividend income.

6. Option (c) Refer section 80M

7. Option (b)

Description: Salary income = 12 lakhs

Less: Standard deduction = 50,000 & 75,000 in 115BAC

Net salary = 11,50,000/11,25,000

Dividend after interest expense up to 20% = 48,000 (60,000 - 12,000)

Total Income = 11,98,000/11,73,000 in 115BAC

Tax u/s 115BAC = 78,988

Tax under normal provisions of the Act = 1,78,780

8. Option (c)

Interest on FD = 14,00,000

Dividend = 90,000 (less 20% Interest i.e. 18,000)

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Total Income = 14,72,000 (after deduction of interest expense)

both u/s 115BAC as well as normal provisions of the Act

Tax u/s 115BAC = 1,39,780

Tax under normal provisions of the Act = 2,64,260

Case Study - 2

9. Option (c)

10. Option (d)

11. Option (d)

12. Option (b)

13. Option (c)

14. Option (d)

the WAY

<u>Answer Keys</u>		
Question No.	Answer	Description
9	(c) Tax is deductible@10% on Rs. 20,000 distributed to Mr. X and @5.2% on Rs. 1 lakh distributed to Mr. Y	Refer section 10 (23FC), section 115UA and 194LBA
10	(d) The business trust is liable to pay tax@15.6%/20.8% (w.e.f. from 23rd July 2024) and at MMR, respectively	Refer section 115UA, STCG on sale of listed shares is taxable u/s 111A and sale of developmental properties at MMR
11	(d) is exempt in the hands of the business trust and in the hands of the	Refer section 10 (23FD)

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	unit holders	
12	(b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of X and Y	Refer section 10 (23FC) and 115UA
13	(c) subject to tax in the hands of the business trust at MMR	Refer section 115UA
14	(d) subject to tax in the hands of the unit-holders X and Y; business trust has to deduct tax@10% on Rs. 40,000 distributed to X and at the rates in force on Rs. 2,00,000 distributed to Y	Refer section 10 (23FCA), 115UA and 194LBA

15. Option (c)

Tax calculation as per Alternate Minimum Tax (AMT)

Adjusted Total Income	17,00,000
Add : Profits u/s 80-IA	35,00,000
	52,00,000
Tax as per AMT (52,00,000 x 18.5%)	9,62,000
Add : Surcharge @ 10%	96,200
	10,58,200
Add : cess @ 4%	42,328
	11,00,528
Round off to	11,00,530

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PART II : DESCRIPTIVE SOLUTIONS

70 MARKS

Question : 1(a)

14 Marks

Computation of Income of Pingu Trading Pvt. Ltd.

chargeable to tax for the A.Y.2025-26

Particulars		`
Net profit as per profit and loss account		33,90,000
Less:	Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000
Add:	Expenses either not allowable or to be considered separately but charged in the profit & loss account	33,70,000
	- Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 30(a)(i). However, if such expenses are required for carrying on the business efficiently, the same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, the same are allowable under section 37.	-
	- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 2)	2,500
	- Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed (See Note 4)	75,000
	- Payment made to electoral trust by cheque (See Note 5)	1,00,000
	- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 6)	5,300
	- Depreciation as per books	71,500
	- 30% of interest paid on loan paid to Mr. X, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
		36,48,300

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Less: Depreciation allowable as per Income-tax Act, 1961	65,000
	35,83,300
Less: Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately (See Note 7)	15,00,000
Income from business (other than specified business)	20,83,300
Add: Difference in the value of stocks detected on survey under section 133A on 31.03.2025 chargeable as income (See Note 8)	3,75,000
	24,58,300
Computation of income/ loss from specified business (See Note 7)	
Income from specified business	` 15,00,000
Less: Deduction under section 35AD @ 100% of `25 lakhs	<u>` 25,00,000</u>
Loss from specified business to be carried forward as per section 73A	` (10,00,000)
Income from Other Sources	
Interest on income-tax refund	4,570
Gross Total Income	24,62,870
Less: Deduction under section 80GGB	
Contribution to political party (See Note 2)	2,500
Contribution to an Electoral trust (See Note 5)	1,00,000
Total Income	23,60,370

Notes:

(1) Bonus for the previous year 2023-24 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2023-24. However, when the same has been paid in December 2024, it should be allowed as deduction in the P.Y.2024-25 (A.Y.2025-26). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.

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(2) The amount of ` 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to “contribute” under section 293A of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.

(3) The penalty of ` 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.

(4) It has been assumed that ` 25,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only ` 25,000 for the same opinion and therefore, the balance ` 75,000 has been disallowed.

(5) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.

(6) The interest of ` 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of

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₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.

© (7) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2012. It is presumed that ₹ 25 lakhs does not include expenditure on acquisition of any land.

The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business.

In view of the provisions of section 73A(1), the loss of ₹ 10 lakhs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.

(8) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/ net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2025.

Revised Trading Account

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Particular	`	Particular	`
Opening Stock	8,75,000	Sales (` 1,55,50,000 + ` 75,000)	1,56,25,000
Purchases	1,25,75,000	Closing Stock	12,50,000
Freight and Cartage	1,26,000		
Gross Profit	32,99,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of ` 32,99,000 - ` 29,24,000 = ` 3,75,000 is to be added as income of the business for the year as undisclosed income.

(No loss (whether brought forward or otherwise) or unabsorbed depreciation under section 32(2) can be set-off against undisclosed income.)

Question : 2(a)

8 Marks

Computation of capital gains on slump sale of Unit 1

Particulars	`
Full value of consideration [Fair market value on 1.4.2024]	14,82,500
<i>Less:</i> Expenses on sale	38,000
Net sale consideration	14,44,500
<i>Less:</i> Net worth (See Note 1 below)	11,73,125
Long-term capital gain	2,71,375

Notes:

1. Computation of Full value of consideration

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Particulars		`
Fair market value of the capital assets transferred by way of slump sale		
Building, being an immovable property [stamp duty value on 1.4.2024, being the date of slump sale] [A]		10,00,000
Machinery [Book value as appearing in the books of accounts] [B]		4,00,000
Debtors [Book value as appearing in the books of accounts] [C]		2,00,000
Patents [Book value as appearing in the books of accounts] [D]		2,50,000
		18,50,000
Less: Liabilities of Unit 1 [` 29,50,000 - ` 1,20,000 - ` 2,62,500] [L]		25,67,500
Excluding		
(i) Own Capital	17,00,000	
(ii) Revaluation reserve	<u>5,00,000</u>	<u>22,00,000</u>
Fair market value of the capital assets transferred by way of slump sale [A+B+C+D- L] [FMV1]		14,82,500
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]		14,00,000
Full value of consideration [Higher of FMV1 or FMV2]		14,82,500

2. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	`	`
Land (excluding ` 5 lakhs on account of revaluation)		8,00,000
Machinery		4,00,000
Debtors		2,00,000
Patents (See Note 2 below)		1,40,625
Total assets		15,40,625
Less: Creditors [` 3,50,000 x 25%]	87,500	
Bank Loan [` 4,00,000 x 70%]	2,80,000	3,67,500
Net worth		11,73,125

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3. Written down value of patents as on 1.4.2024

Value of patents	,
Cost as on 1.7.2022	2,50,000
Less: Depreciation @ 25% for Financial Year 2022-23	62,500
WDV as on 1.4.2023	1,87,500
Less: Depreciation for Financial Year 2023-24	46,875
WDV as on 1.4.2024	1,40,625

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of ` 4 lakh and ` 8 lakh (` 13 lakh – ` 5 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

4. Since the Unit is held for more than 36 months, capital gain arising would be long-term capital gain. However, indexation benefit is not available in case of slump sale.

Question : 2(b)

6 Marks

Mr. Vikas is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2025-26, and he has employed “additional employees” during the P.Y.2024- 25.

I. **If Mr. Vikas is engaged in the business of manufacture of computers**

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Additional employee cost = ` 24,000 × 12 × 75 [See Working Note below] = ` 2,16,00,000
Deduction under section 80JJAA = 30% of ` 2,16,00,000 = ` 64,80,000.

Working Note:

Number of additional employees

Particulars		No. of workmen	
Total number of employees employed during the year			420
Less:	Casual employees employed on 1.7.2024 who do not participate in recognized provident fund	120	
	Regular employees employed on 1.5.2024, since their total monthly emoluments exceed ` 25,000	125	
	Regular employees employed on 1.9.2024 since they have been employed for less than 240 days in the P.Y.2024-25.	100	345
Number of "additional employees"			75

Notes –

(i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed ` 25,000. Also, 100 regular employees employed on 1.9.2024 do not qualify as additional employees for the P.Y.2024-25, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.

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(ii) As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for previous year 2025-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. Vikas for the A.Y. 2026-27.

II. If Mr. Vikas is engaged in the business of manufacture of leather products

If Mr. Vikas is engaged in the business of manufacture of leather products, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2024, since they have been employed for more than 150 days in the previous year 2024-25.

Additional employee cost = ` 2,16,00,000 + ` 24,000 × 7 × 100 = ` 3,84,00,000

Deduction under section 80JJAA = 30% of ` 3,84,00,000 = ` 1,15,20,000

Question : 3(a)

8 Marks

Computation of Total Income of Asma Rani Public Charitable Trust

Particulars	Amount (₹)
Gross receipts from Hospital (other than voluntary contribution of ₹ 20 lakhs)	5,40,00,000
Gross receipts from Rehabilitation Centre	2,20,00,000
Grant received from State Government	7,50,000

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Fees not realized from patients as at 31.03.2025 (not includible, since trust follows cash system of accounting)	-
	7,67,50,000
Add: Voluntary contributions other than corpus donations of ₹ 10 lakhs	10,00,000
	7,77,50,000
Add: Anonymous donations (to the extent not chargeable to tax @ 30% u/s 115BBC(1)(i)) [₹ 1,40,000 being 5% of total donations of ₹ 28 lakhs or 1 lakh, whichever is earlier]	1,40,000
	7,78,90,000
Less: 15% of income eligible for being set apart without condition	1,16,83,500
Balance	6,62,06,500
Less: Amount applied for charitable purposes	
On revenue account - Administrative expenses: For Hospital (Out of ₹ 335 lakhs, ₹ 3.6 lakhs, being 30% of 12 lakhs, would be disallowed, since tax is not deducted for u/s 192 & 194C on such amount paid to resident doctors & contractors)	(3,31,40,000)
Rehabilitation Centre	(1,38,00,000)
On capital account - Land & Building [Section 56(2)(x) is not attracted in respect of value of property received by a trust or institution registered u/s 12AB	(1,50,00,000)
Donation to Jan Kalyan Trust registered u/s 12AB (85% of ₹ 6 lakhs) Allowable to the extent of 85%, even though the objects of the trust are different. Only corpus donations are not permissible to other trust are registered u/s 12AB. Thus, out of Rs 11 Lakhs, Rs 5 Lakhs towards corpus are not allowable as deduction.	(5,10,000)
Repayment of loan taken for construction of rehab centre	(6,65,000)

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	30,91,500
Less: Amount set apart for acquiring another table & equipment for OT Rs 15 Lakhs would be treated as application for the previous year 2024–25	15,00,000
Total Income	15,91,500
Add : Annonymous donation taxable @30% u/s 115BBC(1)(i) (8,00,000 - 1,40,000)	6,60,000
Total Income of trust (including anonymous donation Taxable @ 30%)	22,51,500

Computation of Tax Liability of the Trust

Particulars	Amount (₹)
Tax on total income [Excluding anonymous donations]	
[0 to 3 Lakh Nil 0	
3Lakh to 7 Lakh 5% 20,000	
7 Lakh to 10 Lakh 10% 30,000	1,67,450
10 Lakh to 12 Lakh 15% 30,000	
12 Lakh to 15 Lakh 20% 60,000	
15 Lakh to 15,91,500 30% 27,450]	
Tax on anonymous donations taxable @30% [₹ 6,60,000 × 30%]	1,98,000
	3,65,450
Add: Health and Education Cess @4%	14,618
Total Tax Liability	3,80,068
Total Tax Liability (Rounded Off)	3,80,070

Question : 3(b)

6 Marks

Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of Mr. Hari	In the hands of Mr. Rajesh
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In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.

Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of

agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ` 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, ` 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ` 150 lakh, and the purchase price i.e., ` 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration.

Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ` 9,00,000, being the higher of ` 50,000 and **10% of consideration**. Therefore, ` 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ` 150 lakh) and the actual consideration (i.e., ` 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of Mr. Hari	In the hands of Mr. Rajesh
In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker, (except where the property transferred in a residential unit fulfilling the stipulated conditions, which is not so in this case).

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consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.

Thus, ` 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ` 150 lakh) and the purchase price (i.e., ` 75 lakh) would be chargeable as short-term capital gains.

It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ` 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ` 9,00,000, being the higher of ` 50,000 and 10% of consideration.

Therefore, ` 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ` 150 lakh) and the actual consideration (i.e., ` 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Question : 4(a)

8 Marks

Computation of Taxable and Exempt Income of M/s Gomati (P) Ltd. for the A.Y. 2025-26

Particulars	₹
Net profit as per Profit and Loss Account	37,65,00,000
Add: Excess depreciation as per books of account	
Depreciation as per books of account	30,00,00,000
Less: Depreciation allowable as per the Income-tax Act, 1961	<u>2,00,00,000</u>
	<u>28,00,00,000</u>

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Net profit before allowing deduction under section 33AB	39,65,00,000
Less: Deduction under section 33AB would be the lower of:	
- Amount deposited in Rubber Development Account on or before 30.9.2025 [i.e., ₹ 30,00,00,000]	
- 40% of profits of such business [40% of ₹ 39,65,00,000]	<u>15,86,00,000</u>
Net profit after allowing deduction under section 33AB	23,79,00,000
Add: Amount withdrawn from special account with NABARD, which is deemed as profits and gains of business or profession	
(i) Purchase of a new sprinkling machine for use in its operation for ₹ 10 crores, would not be deemed as profits and gains of business or profession, since the said amount is utilised as per the specified scheme.	Nil
(ii) Purchase of office appliances for corporate office at Chennai for ₹ 10 crores – Out of the amount withdrawn from the deposit as profit and gains of business or profession, since the said utilisation is not permissible	10,00,00,000
(iii) ₹ 5 crores utilised for purchase of computers and accessories – permissible, This, such amount would not be deemed as profit and gains of business or profession	Nil
(iv) ₹ 1 crore utilised for construction of a godown near rubber estate to store raw rubber would not deemed profit and gains of business or profession, Since the said amount is utilised as per the specified scheme	Nil
(v) ₹ 35 lakhs utilised for repairs to machinery would not deemed as profit and gains of business or profession, Since the said amount is utilised as per the specified scheme	Nil
Note: However No deduction would be allowed in respect of such expenditures mentioned in (i), (iii), (iv) and (v) during the year, Since amount is spent out of the allowed deposited in special amount with NABARD, which has already has been allowed as deduction in an earlier assessment year.	—
(vi) The Remaining amount of ₹ 13.65 crores {₹ 40 crores less ₹ 26.35 crores (utilised, above in (i) to (v))}, which is not utilised during the previous year in which such amount is withdrawn, would be deemed as profit and gains of business or profession	13,65,00,000

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Add: Sale of machinery acquired out of amount withdrawal from special account in accordance with the scheme of deposit. The cost of such machinery is sold before the expiry of 8 years from the end of the previous year of its acquisition.	10,00,00,000
Total Composite Business Profits	57,44,00,000
Less: 65% agricultural income exemption	37,33,60,000
Business Income	20,10,40,000
Less: Brought forward business loss of ₹ 6 crores pertaining to A.Y. 2023-24 not allowed to be set-off against the business profits of the P.Y. 2024-25 , since as on 31.3.2025, the shares of M/s Gomati P Ltd carrying 60% (i.e., not less than 51%) of the voting power is held by Mr. B and not by Mr. A, being the person who held such shares as on 31.03.2023, being the last day of previous year 2022-23, in which such loss was incurred.	-
Taxable Business Income	20,10,40,000

Question : 4(b)

6 Marks

As per section 115TD, the accreted income of “Helpage”, a charitable trust, registered under section 12AA which is merged with Poor Aid, an entity not entitled for registration under section 12AB or approval under section 10(23C), would be chargeable to tax at the rate of 34.944% [30% plus surcharge @12% plus cess@4%].

Computation of accreted income and tax liability in the hands of the Helpage trust arising as a result of merger with Poor Aid

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.2024, being the specified date (date of merger) [See Working Note 1]	1,39,10,000
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	82,00,000

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Accreted Income	57,10,000
Tax Liability @ 34.944% of ` 57,10,000 (rounded off)	19,95,300
Working Notes:	
(1) Aggregate fair market value of total assets on the date of merger	
- Land at Noida, being immovable property, purchased on 1.9.2010 Since the trust was registered only on 1.2.2013 and benefit of section 11 and 12 was available to the trust only from A.Y.2013- 14, relevant to P.Y.2012-13, being the previous year in which the application for registration is made, the value of land purchased in P.Y.2010-11, in respect of which benefit under sections 11 and 12 was not availed, has to be ignored for computing accreted income.	-
- Land at Gurgaon, being an immovable property, purchased on 1.9.2013 [The fair market value of land would be higher of ` 120 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ` 100 lakhs, being stamp duty value as on the specified date, i.e., 1.4.2024]	1,20,00,000
- Quoted equity shares of A Ltd. [5,000 x ` 310 per share] [` 310 per share, being the average of the lowest (` 300) and highest price (` 320) of such shares on the specified date]	15,50,000
- Preference shares of B Ltd. [2,000 x ` 180 per share] [The fair market value which it would fetch if sold in the open market on the specified date i.e., FMV on 1.4.2024]	3,60,000
	1,39,10,000
(2) Total liability	
- Reserves and Surplus ` 18 lakhs [not includible]	-
- Corpus Fund of ` 12 lakhs [not includible]	-
- Provision for taxation ` 8 lakhs [not includible]	-
- Other Liabilities [` 120 lakhs - ` 18 lakhs - ` 12 lakhs - ` 8 lakhs]	82,00,000
	82,00,000

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Question : 5 (a)

4 × 2 = 8 Marks

(i) Computation of total income of XYZ Limited for the A.Y. 2025-26

Particulars	(` in lakhs)	
Business income before setting-off brought forward losses of ABC Ltd.		140.00
Add: Excess depreciation claimed in the scheme of amalgamation of ABC Limited with XYZ Limited.		
Value at which assets are transferred by ABC Ltd.	150	
WDV in the books of ABC Ltd.	<u>100</u>	
Excess accounted	<u>50</u>	
Excess depreciation claimed in computing taxable income of XYZ Ltd. [` 50 lacs × 15 %] [Explanation 2 to section 43(6)]		7.50
		147.50
Set-off of brought forward business loss of ABC Ltd. (See Notes 2 & 4)		(120.00)
Set-off of unabsorbed depreciation under section 32(2) read with section 72A (See Notes 2 & 4)		(18.00)
Set-off of unabsorbed capital expenditure under section 35(1)(iv) read with section 35(4) (See Note 5)		(2.00)
Business income		7.50

Notes:

1. It is presumed that the amalgamation is within the meaning of section 72A of the Income-tax Act, 1961.
2. In the case of amalgamation of companies, the unabsorbed losses and unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or unabsorbed depreciation of the amalgamated company for the previous year in which the amalgamation was effected and such business loss

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and unabsorbed depreciation shall be carried forward and set-off by the amalgamated company for a period of 8 years and indefinitely, respectively.

3. As per section 72A(7), the accumulated loss to be carried forward specifically excludes loss sustained in a speculative business. Therefore, speculative loss of ` 4 lacs of ABC Ltd. cannot be carried forward by XYZ Ltd.
4. Section 72(2) provides that where any allowance or part thereof unabsorbed under section 32(2) (i.e., unabsorbed depreciation) or section 35(4) (i.e., unabsorbed scientific research capital expenditure) is to be carried forward, effect has to be first given to brought forward business losses under section 72.
5. Section 35(4) provides that the provisions of section 32(2) relating to unabsorbed depreciation shall apply in relation to deduction allowable under section 35(1)(iv) in respect of capital expenditure on scientific research related to the business carried on by the assessee. Therefore, unabsorbed capital expenditure on scientific research can be set-off and carried forward in the same manner as unabsorbed depreciation.
6. The restriction contained in section 73 is only regarding set-off of loss computed in respect of speculative business. Such a loss can be set-off only against profits of another speculation business and not non-speculation business. However, there is no restriction under the Income-tax Act, 1961 regarding set-off of normal business losses against speculative income. Therefore, normal business losses can be set-off against profits of a speculative business.

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Consequently, there is no loss or allowance to be carried forward by XYZ Ltd. to the F.Y. 2025-26.

(ii) Applicability of GAAR

(i) In the present case, Tilo Ltd. having huge profits acquired Milo Ltd. a loss-making company. Due to provisions relating to merger and acquisition in the Act and considering that the scheme would have been sanctioned by the High Court/National Company Law Tribunal considering tax implications, GAAR need not be invoked.

(ii) In case of investment made prior to 1.4.2017, income arising from transfer thereof would not be subject to GAAR. Accordingly, income from transfer of shares acquired on 1.4.2016 by DAMP Inc. would not attract GAAR.

If the original shares are acquired before 1.4.2017, but bonus shares are issued after that date, GAAR provisions would not be attracted on transfer of such bonus shares also.

(iii) An impermissible avoidance arrangement means an arrangement, the main purpose or one of the main purposes of which is to obtain a tax benefit and also, inter alia, lacks commercial substance or is deemed to lack commercial substance. An arrangement is deemed to lack commercial substance if it involves, inter alia, round tripping of funds.

In this case, the arrangement of routing money through wholly owned subsidiary Company B in Country B, a low tax jurisdiction, to an Indian

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company (C Ltd.) involves round tripping of funds even though funds emanating from A Ltd. are not traced back to A Ltd. The alternate course available in this case is direct advance to C Ltd. an Indian company, in which case the interest income would have been chargeable to tax in the hands of A Ltd.

Therefore, the agreement is deemed to lack commercial substance as it involves round tripping of funds. Also, its main purpose is to obtain tax benefit and there is no other activity in Company B.

However, if the tax benefit in relevant assessment year arising, in aggregate, to all the parties to arrangement does not exceed 3 crore, then, GAAR provisions would not be invoked.

(iv) Bee Ltd. set up a SEZ unit and claiming 50% deduction under section 10AA resulting in tax benefit. However, setting up of SEZ is for the purpose of taking benefit of a fiscal incentive offered for promoting SEZS. In such a case, GAAR provisions would not be applicable.

(iii) (i) Interest for delayed remittance of equalization levy

Equalisation levy = 6% of 5 lakh = Rs. 30,000

The equalization levy deducted on 15.3.2025 has to be paid to the credit of the Central Government by 7.4.2025 (ie., 7th of the succeeding month).

However, in this case, Sun Ltd. remitted the same only on 15.4.2025. The delay in this case is 8 days.

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Simple interest@1% is leviable per month or part of month by which crediting of tax is delayed.

Accordingly, interest would be 1% of Rs. 30,000 = Rs. 300

(ii) Circumstances under which penalty cannot be imposed

No penalty for failure to deduct or pay equalisation levy shall be imposable, if Sun Ltd. proves to the satisfaction of the Assessing Officer that there was reasonable cause for the said failure. Further, no order imposing a penalty shall be made unless Sun Ltd. has been given a reasonable opportunity of being heard.

(iii) Time limit for filing appeal

If Sun Ltd. is aggrieved by the order imposing penalty, it may appeal to Commissioner (Appeals) within a period of 30 days from the date of receipt of the order of the Assessing Officer imposing the penalty.

Question : 5 (b)

6 Marks

Computation of Deduction under Section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed A deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment

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years beginning with assessment year relevant to previous year in which the Unit begins to manufacture or provide such articles or services, as the case may be, and 50% of such profits for further five assessment years, subject to fulfillment of other conditions specified in section 10AA.

Computation of Eligible Deduction under Section 10AA

(See Working Note below):

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2017:

Since A.Y. 2025–26 is the 8th assessment year from A.Y. 2018–19 (relevant to P.Y. 2017–18), in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all other conditions of section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export Turnover of unit of SEZ}}{\text{Total Turnover of unit of SEZ}} \times 50\%$$

$$= \text{Rs 50 Lakhs} \times \frac{\text{Rs 400 Lakhs}}{\text{Rs 400 Lakhs}} \times 50\% = \text{Rs 25 Lakhs}$$

(ii) If Unit in SEZ was set up and began manufacturing from 14-05-2020:

Since A.Y. 2025–26 is the 5th assessment year from A.Y. 2021–22 (relevant to P.Y. 2020–21), in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions of section 10AA are fulfilled.

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$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export Turnover of unit of SEZ}}{\text{Total Turnover of unit of SEZ}} \times 100\%$$

$$= \text{Rs 50 Lakhs} \times \frac{\text{Rs 400 Lakhs}}{\text{Rs 400 Lakhs}} \times 100\% = \text{Rs 50 Lakhs}$$

The Unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its exports, in both the situations

Working Note:

Computation of Total Sales, Export Sales, and Net Profit of Unit in SEZ

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,50,00,000	2,50,00,000	4,00,00,000
Export Sales	5,60,00,000	1,60,00,000	4,00,00,000
Net Profit	70,00,000	20,00,000	50,00,000

Question : 6 (a)

6 Marks

(i) **Computation of total income of the AOP for A.Y.2025-26**

Particulars	
Profit & gains of business (See Working Note below)	3,12,300
Long term capital gain	6,40,000
Income from other sources - Dividend from Indian companies	25,000
Total income	9,77,300

Working Note - Computation of profits and gains of business

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Particulars	`	`
Net profit as per profit & loss account		5,24,300
Add: Inadmissible payments		
Interest to members T & Q (` 48,300 + ` 35,700)	84,000	
Advertising [Disallowance under section 40A(3) (100% of ` 30,000 being a cash payment)]	30,000	
Remuneration to members T & Q (` 1,30,000 + ` 1,70,000)	3,00,000	
GST penalty (See Note 3 below)	39,000	4,53,000
		9,77,300
Less: Income not taxable under this head		
Long term capital gain	6,40,000	
Dividend from Indian companies	25,000	6,65,000
Profits and gains of business		3,12,300

Notes:

1. Since the employer's contribution to PF has been paid during the previous year itself, it is allowable as deduction.
2. Penalty imposed for delay in filing GST return is not deductible since it is on account of infraction of the law requiring filing of the return within the specified period. – CIT v. Ratanchand Bholanath (S.S) (1986) 160 ITR 500 (M.P.)

(i) Tax implication in the hands of members T & Q for the A.Y. 2025-26

Members of the AOPs have to pay tax on their total income taking into account savings/ investments etc. Since one of the members has total income excluding share from AOP more than the basic exemption limit, the AOPs will be chargeable to tax at the maximum marginal rate.

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Since the AOPs is taxed at maximum marginal rate, the share income of members is not taxable in their hands individually as per section 86.

Question : 6 (b)

4 Marks

Computation of Total Income of Mr. X

Particulars	Rs.	Rs.
Income from Salary		4,00,000
Income from House Property		3,80,000
Net agricultural income (4,50,000-1,60,000)	2,90,000	
Less : Exempt under Section 10(1)	(2,90,000)	-
Gross Total Income		7,80,000
Less : Deductions Under chapter VI-A		-
Total Income		7,80,000

Computation of Tax Liability (age 75 Years)

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.,

1. Net agricultural income exceeds Rs. 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of Rs. 3,00,000

His Tax liability is computed in the following manner:

$$\begin{aligned} \text{Step 1 : } & \text{Rs. 7,80,000} + \text{Rs. 2,90,000} & = & \text{Rs. 10,70,000} \\ & \text{Tax on Rs. 10,70,000} & = & \text{Rs. 1,31,000} \end{aligned}$$

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(i.e., 5% of Rs. 2,00,000 plus 20% of Rs. 5,00,000 Plus 30% of Rs. 70,000)

Step 2 : Rs. 2,90,000 + Rs. 3,00,000 = Rs. 5,90,000

Tax on Rs. 5,90,000 = Rs. 28,000

(i.e., 5% of Rs. 2,00,000 plus 20% of Rs. 90,000)

Step 3 : Rs. 1,31,000 – Rs. 28,000 = Rs. 1,03,000

Step 4 & 5 : Total Tax Payable = Rs. 1,03,000 + 4% cess

= Rs. 1,07,120

Question : 6 (c)

4 Marks

- (i) For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of
- (a) cost of acquisition of such asset, i.e., actual cost; and
 - (b) lower of
 - (i) the fair market value of such asset as on 31.1.2018; and
 - (ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.

The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

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Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Prasun would be determined as follows:

The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be ₹ 1,50,000 i.e., $(₹ 1,200 - ₹ 700) \times 300$ shares. The long-term capital gain of ₹ 25,000 (i.e., the amount in excess of ₹ 1,25,000) would be subject to tax@10% under section 112A (plus cess@4%), without benefit of indexation. The tax on capital gain @10.4% would be ₹ 2,600 $(₹ 25,000 \times 10.4\%)$

- (ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if units are listed on that date), else, it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date) and the FMV of units of Fund B as on 31.1.2018 would be ₹ 950 (being the net asset value as on 31.1.2018, since the units of Fund B are unlisted on that date).

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 $(₹ 900 - ₹ 750) \times 200$ units.

The cost of acquisition of a unit of Fund B would be ₹ 900, being higher of actual cost i.e., ₹ 550 and ₹ 900 (being the lower of FMV of ₹ 950 as on 31.1.2018 (net asset value) and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund B would be Nil $(₹ 900 - ₹ 900) \times 200$ units.

Since the long-term capital gains on sale of units is ₹ 30,000, which is less than ₹ 1,25,000, the said sum is not chargeable to tax under section 112A.

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