

MODEL TEST PAPER 3
INTERMEDIATE COURSE: GROUP - I
PAPER – 3: TAXATION

Time Allowed – 3 Hours

Maximum Marks – 100

SECTION – A: INCOME TAX LAW (50 MARKS)

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

The relevant assessment year is A.Y.2025-26.

Division A – Multiple Choice Questions

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

1. Mr. Rudra is engaged in the business of trading since 2018. His turnover for the P.Y. 2023-24 was ₹ 6 crores. His minor daughter's marriage is fixed in December, 2024. He planned destination wedding in Goa for his minor daughter. For the wedding, he withdrew ₹ 40,00,000 cash in the month of September, 2024 and ₹ 65,00,000 cash in the month of October, 2024 from Hamara Paisa Bank.

He booked 30 rooms for 5 days for the accommodation of his relatives in Raho Hotel and paid ₹ 40,000 in cash as advance and balance by account payee cheque. He took the catering services of Tasty Caterers, a sole Proprietor, for the wedding for which he paid ₹ 10,20,000 on 15.10.2024. For her wedding, he gifted his daughter a house property, purchased from SK Builders on 10.10.2024 by account payee cheque for ₹ 15,00,000. The stamp duty value of the property on 10.10.2024 is ₹ 16,00,000 and on the date of transfer to minor daughter is ₹ 20,00,000.

Mr. Rudra paid ₹ 45,000 in cash and balance in cheque to travel agent for the return ticket of some of his relatives to US. He regularly files his return of income.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

- (i) The amount of tax to be deducted by Hamara Paisa Bank on cash withdrawals by Mr. Rudra is -
- (a) ₹ 10,000
 - (b) ₹ 25,000
 - (c) ₹ 1,70,000
 - (d) ₹ 1,85,000

- (ii) The amount of tax to be deducted by Mr. Rudra on payment made to Tasty Caterers is -
- ₹ 10,200
 - ₹ 20,400
 - ₹ 51,000
 - Nil
- (iii) What shall be the amount taxable and in whose hands with respect to purchase of immovable property by Mr. Rudra from SK Builders and gift of the same to his daughter?
- ₹ 1,00,000 in the hands of Mr. Rudra and ₹ 20,00,000 in the hands of minor daughter
 - Nothing is taxable in the hands of Mr. Rudra and Minor daughter
 - ₹ 1,00,000 in the hands of Mr. Rudra and nothing is taxable in the hands of minor daughter
 - Nothing is taxable in the hands of Mr. Rudra but ₹ 20,00,000 is taxable in the hands of minor daughter **(3 x 2 = 6 Marks)**

2. Mr. Mayank had bought a residential house worth ₹ 2.5 crores at South Extension, Delhi in 2018 and let out the house on rent to Mr. Rihaan. The property was funded through loan from PNB. The interest due for F.Y. 2024-25 to PNB is ₹ 25 lakhs, out of which he paid only ₹ 20 lakhs during the year. Mr. Mayank then took a loan of ₹ 1.5 crores from SBI on 1.7.2024 for construction of first floor in that house for self-occupation. The construction is in progress as on 31.3.2025. Mr. Mayank started repaying EMIs due to SBI. During the P.Y. 2024-25, he repaid principal amount of ₹ 25 lakhs and ₹ 5 lakhs to PNB and SBI, respectively. He also paid interest of ₹ 8 lakhs to SBI out of ₹ 10 lakhs, being interest due for the period from 1.7.2024 to 31.3.2025.

Mr. Mayank owns another house in Haryana. He transferred that house to his minor daughter Miss Sia on her birthday as her birthday gift. Miss Sia gave the said house to the local Panchayat from September, 2024 at a rent of ₹ 5,000 per month. Mrs. Mayank's total income for A.Y.2025-26 is higher than that of Mr. Mayank. This is the first year when Miss Sia has any source of income.

Mr. Mayank bought electric vehicle worth ₹ 50 lakhs on loan from BSM Bank which it sanctioned on 1.4.2022. BSM Bank charged interest of ₹ 7 lakhs on electric vehicle for the P.Y.2024-25. Mr. Mayank has also taken loan from ABC Bank for his daughter's higher education. He paid ₹ 50,000 as interest to ABC Bank. He also paid mediclaim of ₹ 20,000 to New India Assurance Scheme for insuring his health.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

- (i) What is the amount of interest allowable as deduction u/s 24 to Mr. Mayank for A.Y.2025-26?

- (a) ₹ 2 lakhs
 (b) ₹ 25 lakhs
 (c) ₹ 28 lakhs
 (d) ₹ 35 lakhs
- (ii) What is the amount of deduction permissible to Mr. Mayank under Chapter VI-A of Income-tax Act, 1961 for A.Y. 2025-26 if he has opted out of the default tax regime?
 (a) ₹ 1,70,000
 (b) ₹ 2,20,000
 (c) ₹ 3,70,000
 (d) ₹ 9,20,000
- (iii) In whose hands would Sia's rental income from house property at Haryana be taxable and how much income would be taxable?
 (a) In Sia's hands; ₹ 24,500
 (b) In Mr. Mayank's hands; ₹ 24,500
 (c) In Mrs. Mayank's hands; ₹ 23,000
 (d) It would change every year depending on the parent whose income is higher in that year. **(3 x 2 = 6 Marks)**
3. Mr. Arpan (aged 35 years) submits the following particulars for the purpose of computing his total income:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out house property	(-) 2,20,000
Brought forward loss from let-out house property for the A.Y. 2024-25	(-)2,30,000
Business loss	(-)1,00,000
Bank interest (FD)	80,000

Compute the total income of Mr. Arpan for the A.Y.2025-26 and the amount of loss that can be carried forward for the subsequent assessment year under normal provisions of the Act?

- (a) Total income ₹ 2,00,000 and loss from house property of ₹ 2,50,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.
- (b) Total income ₹ 1,60,000 and loss from house property of ₹ 2,30,000 to be carried forward to subsequent assessment year.
- (c) Total income ₹ 4,00,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.
- (d) Total income is Nil and loss from house property of ₹ 70,000 to be carried forward to subsequent assessment year. **(2 Marks)**

4. Mr. Raja, aged 64 years, was not able to provide satisfactory explanation to the Assessing Officer for the investments of ₹ 7 lakhs not recorded in the books of accounts. What shall be the tax payable by him on the value of such investments considered to be deemed income as per section 69?
- (a) ₹ 2,18,400
(b) ₹ 55,000
(c) ₹ 5,46,000
(d) ₹ 54,600
- (1 Mark)**

Division B – Descriptive Questions

Question No. 1 is compulsory.

*Attempt any **two** questions from the remaining **three** questions.*

1. Mr. Ayush, a resident individual, aged 54 years, is engaged in the business of manufacturing textiles. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:
- (i) Depreciation ₹ 15,40,000
(ii) Short term capital gains on 01.05.2024 on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000
(iii) He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.
(iv) Dividend income from Indian companies ₹ 15,00,000. Dividend received from each company is less than ₹ 5,000.

Additional information –

- (i) Mr. Ayush installed new plant and machinery for ₹ 65 lakhs on 1.10.2024 which was put to use on 1.1.2025. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.
(ii) Mr. Ayush took a loan from SBI of ₹ 50 lakhs on 1.9.2024 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2025 has been paid on 31.3.2025 and the same has been debited to profit and loss account.
(iii) Advance tax paid during the year is ₹17,50,000
(iv) Ayush purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.
(v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2017.
(vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.

- (vii) On 1.7.2024, Mr. Ayush withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with SBI. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable by Mr. Ayush for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC. **(15 Marks)**

2. (a) Miss Geeta, a citizen of India, got married to Mr. Peter of Australia and left India for the first time on 20.8.2024. She has not visited India again during the P.Y. 2024-25. She has derived the following income for the year ended 31-3-2025:

	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in kanyakumari.	1,50,000
(ii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo. Sale consideration was received in Chennai.	5,00,000
(iii)	Income from sale of tea grown and manufactured in West Bengal.	12,00,000
(iv)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	2,00,000

You are required to determine the residential status of Miss Geeta and compute the business income and agricultural income of Miss. Geeta for the Assessment Year 2025-26. **(6 Marks)**

- (b) Briefly discuss the provisions of tax deduction at source under the Income-tax Act, 1961 and determine the amount, if any, of TDS in respect of the following payments:
- (i) Mr. Vikas received a sum of ₹ 10,20,000 on 28.02.2025 as premature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- (ii) Indian Bank sanctioned and disbursed a loan of ₹ 12 crores to B Ltd. on 31-12-2024. B Ltd. paid a sum of ₹ 1,20,000 as service fee to Indian Bank for processing the loan application. **(4 Marks)**
3. (a) Mr. Jain and his wife Mrs. Jain are partners in a partnership firm holding 25% share each. During the F.Y. 2024-25, the firm paid ₹ 2,50,000 to each of them as remuneration. Apart from this, they provide you the following information in respect of F.Y. 2024-25:
- (i) Salary received by Mr. Jain from his employer ₹ 12,50,000.
- (ii) Interest on fixed deposit earned by Mrs. Jain ₹ 14,00,000. (The fixed deposit was opened by using her "Stridhan")
- (iii) Income of their three minor children Neeta, Meeta and Seeta was ₹ 15,000; ₹ 10,000 and ₹ 2,000 respectively.

You are required to compute the gross total income of Mr. and Mrs. Jain as per the provisions of Income-tax Act for the A.Y. 2025-26 assuming that they have shifted out of the default tax regime.

(4 Marks)

(b) Mr. Ram, an employee of the Central Government is posted at New Delhi. He joined the service on 1st February, 2021. Details of his income for the previous year 2024-25, are as follows:

- (i) Basic salary: ₹ 3,80,000
- (ii) Dearness allowance: ₹ 1,20,000 (40% forms part of pay for retirement benefits)
- (iii) Both Mr. Ram and Government contribute 20% of basic salary to the pension scheme referred to in section 80CCD.
- (iv) Gift received by Ram's minor son on his birthday from friend: ₹ 70,000. (No other gift is received by him during the previous year 2024-25)
- (v) On 25.03.2024, Mr. Ram gifted a sum of ₹ 6,00,000 to Mrs. Ram to start a business by introducing such amount as her capital. On 1st April, 2024, her total investments in business was ₹ 10,00,000 which includes ₹ 6,00,000 gifted by Mr. Ram. During the previous year 2024-25, she has loss from such business ₹ 1,30,000.
- (vi) Mr. Ram deposited ₹ 70,000 in Sukanya Samridhi account on 23.01.2025. He also contributed ₹ 40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.
- (vii) He has taken an educational loan from SBI for his major son who is pursuing MBA course from Gujarat University. He has paid ₹ 15,000 as interest on such loan.

Determine the total income of Mr. Ram for the assessment year 2025-26. Ignore provisions under section 115BAC. **(6 Marks)**

4. (a) Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y.2025-26 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2024-25 in respect of these assesseees:

- (i) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2024 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

- (ii) Mr. Raj purchased 200 units of equity oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2024 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	Fund A
	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)
Average Trading Price	700 (on 31.1.2018)
Lowest Trading Price	650 (on 31.1.2018)
Net Asset Value on 31.1.2018	800

(4 Marks)

OR

- (a) Mr. Aman has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2025:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payment made to AB University, an approved University	15
(ii)	Payment made to Siya College	17
(iii)	Payment made to IIT, Bangalore (under an approved programme for scientific research)	12
(iv)	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2025-26, while computing his income under the head "Profits and gains of business or profession" under default tax regime under section 115BAC. (4 Marks)

- (b) Mr. Sailesh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2025-26. He has opted out of the section 115BAC.

- (i) Basic salary is ₹ 70,000 per month.
- (ii) Dearness allowance @ 40% of basic salary
- (iii) He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.
- (iv) Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.

- (v) Smile Ltd. allotted 800 sweat equity shares in August 2024. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Sailesh was ₹ 700 per share.
- (vi) He was provided with furniture during September 2020. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2025, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- (vii) Received ₹ 10,000 towards entertainment allowance.
- (viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2024 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Sailesh every quarter towards principal starting from June 2024. The lending rate of SBI for similar loan as on 01.04.2024 was 8%.
- (ix) Facility of laptop costing ₹ 50,000 **(6 Marks)**