

**Final Course: Group-II**  
**Mock Test Paper January 2026**  
**Paper-4: Direct Tax Laws & International Taxation**

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

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

**Answers**  
**Division A - Multiple Choice Questions**

**Answer 1**

**(b) ₹ 15,60,000 & 15,50,000**

**Total Dividend Income:**  $(3,50,000 + 5,50,000 + 6,50,000 + 4,00,000) - (20\% \text{ of total interest}) = 15,60,000$ .

Deduction u/s 80M is allowed for dividends distributed till the due date i.e. 30th September 2025 or dividend income included in GTI, whichever is lower. Dividend distributed till 30th Sep. 2025 is 7,50,000 + 8,00,000 so deduction allowed is 15,50,000.

**Answer 2**

**(c) Non-Resident**

Mr. Vikas stays in India for **5 months (150 days)** every year. However, since his total **Indian-sourced income does not exceed ₹ 15 lakhs**, he does not meet the conditions of deemed residency. Hence, he is a **Non-Resident**.

**Answer 3**

**(a) 1,04,540**

Salary Income = 13,20,000 ( 1,10,000 × 12)

Less: Standard Deduction = 50,000 / 75,000 under 115BAC

Dividend after Interest Deduction = 72,000 - 14,400 (20% of 18,000) = 57,600

Total Taxable Income = 13,27,600 / 13,02,600

Tax Payable u/s 115BAC = 1,04,541

Tax under normal provisions = 2,19,211 (higher)

Choosing 115BAC, tax payable = 1,04,541

**Answer 4**

**(c) 1,39,780**

Interest on FD = 14,00,000

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

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

**Answer 5**

**(b) AY 2019-20 to AY 2024-25 (including up to 30/09/2024)**

The block period covers the last 6 AYs + the period from 01/04/2024 to the date of the search (30/09/2024)).

**Answer 6****(b) AY 2023-24 (Assessment u/s 143(3)) and AY 2020-21 (Reassessment u/s 147))**

Assessments pending u/s 143(3) and 147 abate, while pending appeals and revisions do not abate.

**Answer 7****(b) Abated assessments will revive, and AO can proceed with assessment under regular provisions.**

If the search is declared void, abated assessments are restored and processed as per normal assessment provisions.

**Answer 8****(a) 30/09/2025**

The block assessment must be completed within 12 months from the end of the month in which the search was conducted (30/09/2024), i.e., by 30/09/2025.

**Answer 9****(c) ₹ 75 lakhs (i.e., 50% of tax on ₹2.5 crores at 60%)**

Penalty u/s 158BFA(2) is 50% of tax on the undisclosed income determined by AO. Since the AO determined additional undisclosed income of ₹2.5 crores, the penalty is ₹ 75 lakhs (50% of ₹ 2.5 crores × 60%).

**Answer 10****(a) Rida Ltd. holds more than 26% shares in Anush Motors Ltd**U/s 92A(2)(a), if one entity holds at least 26% of the voting power in another entity, they are considered **associated enterprises**.**Answer 11****(a) ₹12.60 crores**The under-pricing per car is \$200. Given 10,000 cars sold, the total price difference is  $\$200 \times 10,000 = \$2,000,000$ . Converting to INR using **exchange rate ₹63/\$**, the adjustment required is:

$$2,000,000 \times 63 = ₹12.60 \text{ crores}$$

**Answer 12****(b) ₹18.90 crores**Kyoto Ltd. charged \$1,20,00,000 as royalty, whereas another Indian company paid \$90,00,000 for the same know-how. The excess payment is \$30,00,000, which needs to be added back to income.  $30,00,000 \times 63 = ₹18.90 \text{ crores}$ **Answer 13****(c) ₹840 crores**Dorf Ltd. provided a loan of EURO 1000 crores at 10% p.a., whereas it had given a similar loan to another Indian company at 9% p.a.. The **excess interest paid** is:

$$1000 \times (10\% - 9\%) = 1000 \times 1\% = 10 \text{ crores EURO}$$

Converting to INR using **exchange rate ₹84/EURO**:

$$10 \times 84 = ₹840 \text{ crores} \quad 10 \times 84 = ₹840 \text{ crores}$$

**Answer 14****(a) ₹ 4,42,500****Answer 15****(a) ₹ 45 crore**

## Answers

### Division B - Descriptive Questions

#### Answer 1

Computation of Total Income of X Ltd. for the A.Y. 2025-26		
	Particulars	Amount (in ₹)
<b>I</b>	<b>Profits and gains of business and profession</b>	
	Net profit as per profit and loss account	1,25,00,000
	<b>Add: Items debited but to be considered separately or to be disallowed</b>	
	<b>(i) Payment of advertisement expenditure of ₹ 1,60,000</b> [Sister concern of a director of X Ltd. falls under specified person u/s 40A(2). ₹ 1,08,000, being the excess payment to a specified person is disallowed u/s 40A(2). Since the payment is made in cash and since the remaining amount of ₹ 52,000 exceeds ₹ 10,000, the same would be disallowed u/s 40A(3). Since ₹ 1,60,000 has been debited to profit and loss account, the same has to be added back.]	1,60,000
	<b>(ii) Repair of plant and machinery</b> [As per ICDS V on Tangible Fixed Assets, only an expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance has to be added to the actual cost. Since expenditure on replacement of worn out parts does not bring in any new asset into existence, such replacement is in the nature of current repairs, which is allowable as deduction. Since the same has been debited to profit and loss account, no adjustment is required.]	-
	<b>(iii) Interest cost in valuation of finished stock</b> [X Ltd. has excluded interest cost in valuation of finished stock as it has changed its accounting policy to comply with the requirements of accounting standard, which is a bona fide reason and would be followed consistently in future. The change in the method of valuation of stock, being a genuine reason, no further adjustment is required, as the said interest cost has been already excluded and consequently profit has been reduced.]	-
	<b>(iv) Payment of gratuity to Mr. Q's family</b> [Payment of gratuity ₹ 2.00 lakhs on account of death of an executive while on business trip is allowable as deduction <sup>1</sup> . Since it has already been debited to the profit and loss account, no further adjustment is required.]	-

<sup>1</sup> CIT v Laxmi Cement Distributors (P) Ltd. (1976) 104 ITR 711(Gujarat).

Computation of Total Income of X Ltd. for the A.Y. 2025-26			
	Particulars	Amount (in ₹)	
(v)	<b>4/5th capital expenditure for promoting family planning</b> [Capital expenditure incurred for the purpose of promoting family planning amongst employees is deductible over a period of 5 years as per the first proviso to section 36(1)(ix). Hence, only ₹ 36,000 is deductible in the current year in respect of such expenditure incurred by the company. Since ₹ 1,80,000 has been debited to the profit and loss account, ₹ 1,44,000, being 4/5th capital expenditure has to be added back.]	1,44,000	
(vi)	<b>O/s interest paid by issuing equity shares</b> As per case law of Frontier Information Tech Ltd. conversion of unpaid interest into equity shares amounts to actual payment u/s 43B.	-	
(vii)	<b>Retrenchment compensation to employees on closure of unit</b> [Retrenchment compensation paid to employees at the time of closure of one of the units of the company is allowable as deduction <sup>1</sup> . Since the same has already been debited to the profit and loss account, no further adjustment is required.]	-	
(viii)	<b>Contribution towards NPS in excess of 14% of salary disallowed</b> [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 u/s 36(1)(iva). In this case, 2%, which is in excess of 14% i.e., ₹ 4,00,000 x 2/16, would be disallowed.]	50,000	
(ix)	<b>Marked to market losses</b> [Marked to market loss or other expected loss as computed in accordance with the ICDS would be allowed as deduction u/s 36(1)(xviii). As per ICDS I, marked to market losses cannot be recognized unless the recognition of such loss is in accordance with the provisions of any other ICDS. Marked to market loss in respect of an unsettled derivative contract is not allowable as deduction. Since such losses have been debited to the profit and loss A/c, they have to be added back for computing business income.]	6,00,000	
(x)	<b>Provision for gratuity</b> [Provision of ₹ 4 lakhs for gratuity based on actuarial valuation is not allowable as deduction as per section 40A(7). However, actual gratuity of ₹ 2.75 lakhs paid is allowable as deduction. Hence, the difference has to be added back]	1,25,000	
	<b>A(ii) Incentive to distributor without deducting tax at source [30% x ₹ 60,000 x 5]</b> [Mobile phone to distributors is a perquisite or benefit provided to the distributors and X Ltd. is liable to deduct tax at source u/s 194R on such benefit or perquisite. Disallowance @30% would be attracted u/s 40(a)(ia) for non-deduction of tax at source on such benefit or perquisite]	90,000	
		<u>11,69,000</u>	<u>1,36,69,000</u>

<sup>1</sup> Allahabad High Court in CIT v JK Cotton Spinning & Weaving Co. Ltd. (2005) 145 Taxman 591.

Computation of Total Income of X Ltd. for the A.Y. 2025-26			
	Particulars	Amount (in ₹)	
	<b>Less: Items credited but not taxable or chargeable to tax under another head</b>		
	<b>(i) Waiver of principal on bank loan</b> [Waiver of principal amount of loan taken for trading activity is a benefit in respect of a trading- liability by way of remission or cessation thereof and is, hence, taxable u/s 41(1) <sup>1</sup> . Since the loan is for meeting working capital requirement, it is logical to assume that is taken for trading activity. Since the loan waiver has already been credited to profit and loss account, no adjustment is required.]	-	
	<b>(ii) Waiver of interest on bank loan</b> [As per section 43B, since interest is allowable only on actual payment, deduction in respect of interest due on loan would not have been allowed as deduction in any previous year. Therefore, waiver of such interest cannot be brought to tax by invoking section 41(1). Since such interest has now been credited to profit and loss account, the same has to be deducted while computing business income.]	1,00,000	1,00,000
<b>II</b>	<b>Income from Other Sources</b>		<b>1,35,69,000</b>
	<b>Deemed dividend u/s 2(22)(e)</b> [Loan of ₹4 lakhs by ABC Pvt. Ltd., being a company in which the public are not substantially interested, to X Ltd., being a shareholder who is holding 16% of voting rights of the ABC Pvt. Ltd. will be deemed to be dividend in the hands of X Ltd. to the extent of the accumulated profits i.e., ₹ 1 lakh.]		1,00,000
	<b>Gross Total Income</b>		<b>1,36,69,000</b>
	<b>Less: Deduction under Chapter VI-A</b>		
	<b>U/s 80GGB</b> [Contribution by a company to an approved Electoral trust is allowable as deduction, since payment is made through RTGS.]		3,50,000
	<b>Total Income</b>		<b>1,33,19,000</b>

**Answer 2(a)**

Computation of Total Income of JK & Sons for the A.Y. 2025-26			
	Particulars	Amount (in ₹)	
<b>I</b>	<b>Profits and gains of business and profession</b> Net profit as per profit and loss account		80,00,000
	<b>Add: Items debited but to be considered separately or to be disallowed</b>		
	<b>(1) Interest to partners on capital</b> [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.] [₹7,00,000 × 2%/14%]	1,00,000	
	<b>(2) Interest on loan taken from partner</b> [As per section 40(b), interest to partners authorized by the partnership	18,000	

1 *Solid Containers v DCIT* (2009) 308ITR 417 (Bom).

Computation of Total Income of JK & Sons for the A.Y. 2025-26			
	Particulars	Amount (in ₹)	
	deed is allowable as deduction subject to a maximum of 12% p.a., whether it is interest on partner's capital or loan][₹ 90,000 × 3%/15%] <b>(3) Depreciation as per books of account</b>	1,02,000	2,20,000
	<b>Less: Items credited but chargeable to tax under other head/expenses allowed but not debited</b>		<b>82,20,000</b>
	<b>1. Interest on bank fixed deposits made out of surplus fund</b> [Interest received from bank on fixed deposits made out of surplus funds is assessable under the head 'Income from other sources'. Since the same has been credited to profit and loss account, it has to be deducted while computing business income]	25,000	
	<b>2. Profit on sale of building</b> [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]	53,55,000	
	<b>3. Depreciation as per Income tax Rules, 1962</b>		
	- Depreciation other than on motor car and mobile phones		
	- Depreciation on Motor car [₹ 6,80,000 × 15%]	14,000	
	- Mobile phone [₹ 20,000 × 15% × 50%, since purchased and put to use for less than 180 days]	1,02,000	
		15,00	<b>54,97,500</b>
	<b>Book Profit</b>		<b>27,22,500</b>
	<b>Less: Salary to working partners</b>		
	(i) As per limits given u/s 40(b)		
	On first ₹ 6,00,000 @90%	5,40,000	
	On the balance of ₹ 21,22,500 @ 60%	<u>12,73,500</u>	
	(ii) Salary actually paid to working partners [₹ 20,000 × 12 × 2]	18,13,500	
	Deduction allowed being (i) or (ii) whichever is less	4,80,000	
			<b>4,80,000</b>
<b>II</b>	<b>Capital Gains</b> 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 Less: Cost of acquisition [WDV as on 1.4.2024]	90,00,000	<b>22,42,500</b>
		<u>36,45,000</u>	
	Less: Exemption u/s 54EC [Investment in bonds of NHAI, the maximum deduction u/s 54EC would be ₹ 50 lakhs]	53,55,000	
	[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]	<u>50,00,000</u>	<b>3,55,000</b>
<b>III</b>	<b>Income from other sources</b>		

Computation of Total Income of JK & Sons for the A.Y. 2025-26			
	Particulars	Amount (in ₹)	
	Interest from bank on fixed deposits		25,000
	<b>Gross Total Income</b>		<b>26,22,500</b>
	<b>Less: Deduction u/s 10AA</b> [₹ 7,50,000 × 40,00,000 / ₹ 1,20,00,000 × 100] [Unit in SEZ is eligible for deduction u/s 10AA since it obtained the letter of approval on or before 31st March, 2020 and started operations before 31.3.2021]		2,50,000
	<b>Total Income</b>		<b>23,72,500</b>

**Answer 2(b)****Computation of tax liability of Mr. Wesley for the A.Y. 2025-26 as per Chapter XII-A**

Particulars	₹
Tax on long-term capital gain (₹6,50,000 × 10%) [See Note 1]	65,000
Tax on short-term capital gain u/s 111A (₹4,60,000 × 15%) [See Note 1 & 3]	69,000
Tax on interest income being investment income (₹2,10,000 × 20%) [See Note 1 & 3]	42,000
Total Tax before cess	1,76,000
Add: Health & Education Cess @ 4%	7,040
<b>Total tax liability (rounded off)</b>	<b>1,83,040</b>

**Notes:****(1) Computation of total income of Mr. Wesley for the A.Y. 2025-26 as per provisions of Chapter XII-A**

Particulars	₹
<b>Interest income from deposits with Public limited companies in India</b> (Investment income)	2,10,000
<b>Short-term capital gains</b> on listed shares (STT paid)	4,60,000
<b>Long-term capital gain on transfer of specified foreign exchange asset</b>	
- Sale consideration	-
- Less: Expenditure in connection with transfer	17,000
- Computed long-term capital gain (after deduction)	6,50,000
Less: <b>Exemption u/s 115F [Not available as investment made after 6 months]</b>	
<b>Total Income</b>	<b>13,20,000</b>

(2) No deduction is allowed for transfer related expenses or under Chapter VI-A, except as permitted u/s 48. Hence, ₹17,000 incurred wholly/exclusively for the transfer is allowable as a deduction while computing LTCG.

(3) As per **Section 115E**, the applicable tax rates are:

- 10% [12.5 w.e.f. 23/7/24] on LTCG from **foreign exchange assets**
- 20% on **investment income**

(4) The investment made in shares of public limited companies in India (₹2,10,000 on 22-02-2025) is not eligible for exemptions as investment made after 6 months of transfer of Forex Asset.

**Answer 3(a)**

**(A) Tax Treatment of Buyback of Shares (P.Y. 2024-25, A.Y. 2025-26)**

- As per **Section 2(22)(f)**, the amount received from a **buyback of shares** is treated as **deemed dividend** in the hands of the shareholder.
- Therefore, **₹60,000 (400 shares × ₹150)** will be taxed under **Income from Other Sources (IFOS)** in the hands of Mr. KK.

**(B) Computation of Capital Gain on Buyback of Shares (P.Y. 2024-25, A.Y. 2025-26)**

Particulars	Amount (₹)
Full Value of Consideration (Buyback)	Nil
Less: Cost of Acquisition (COA) (400 shares × ₹60)	(24,000)
Capital Loss on Buyback (Long-Term Capital Loss - LTCL)	(24,000)

- **Note: FVOC on buyback is always taken as NIL**, but the **LTCL of ₹24,000 can be set off** against other LTCG or carried forward for up to **8 years**.

**(C) Computation of Capital Gain on Sale of 900 Shares (P.Y. 2025-26, A.Y. 2026-27)**

Particulars	Amount (₹)
Full Value of Consideration (900 shares × ₹250)	2,25,000
Less: Cost of Acquisition (COA) (900 shares × ₹60)	(54,000)
Long-Term Capital Gain (LTCG)	1,71,000
Less: LTCL of Previous Year (A.Y. 2025-26)	(24,000)
<b>Net LTCG Taxable in A.Y. 2026-27</b>	<b>1,47,000</b>

**Answer 3(b)**

The Assessing Officer's view is incorrect as per the provisions of the Income-tax Act, 1961. Section 11 provides a tax exemption for income derived from property held under a public charitable trust, subject to certain conditions. However, this exemption is denied u/s 13(1)(c) read with Section 13(3) if any part of the trust's income enures directly or indirectly for the benefit of specified persons, including the author, founder, trustee, major contributors (₹50,000 or more), their relatives, and entities where they hold a substantial interest. Employees of a company that donated to the trust do not fall under the category of "specified persons" u/s 13(3).

Unless there is concrete evidence to prove that these interest-free loans were extended because of a connection with a disqualified person, the exemption u/s 11 cannot be denied.

The Patna High Court, in *CIT v Tata Steel Charitable Trust* (1993), ruled that a contractual employer-employee relationship does not constitute a "relative" for the purpose of Section 13(3). Since employees of ABC Ltd. have no familial or ownership connection with the trust's founders, trustees, or major contributors, they do not fall under the purview of Section 13(3).

In conclusion, the Assessing Officer's action to withdraw the tax exemption is incorrect. The interest-free loans were granted as per the trust's objectives and did not create any undue benefit for related parties. Therefore, the trust remains eligible for tax exemption u/s 11, and the AO's proposed action is not legally justified.

The consultant's view is correct, as per the provisions of the Income-tax Act, 1961. Educational institution existing solely for educational purposes qualifies for automatic exemption u/s 10(23C)(iiiad), provided its aggregate annual receipts do not exceed ₹5 crores. Similarly, a hospital operating solely for philanthropic purposes qualifies for automatic exemption u/s 10(23C)(iiiiae), subject to the same ₹5 crore threshold.

When a trust operates both an educational institution and a hospital, the exemption is granted if the combined receipts from both do not exceed ₹5 crores. In this case, since Dhanvantari Welfare Trust's total receipts amount to ₹4.50 crores, which is below the ₹5 crore threshold, it qualifies for exemption u/s 10(23C) without requiring formal registration.

Therefore, the consultant's assessment is legally sound. The trust is not required to pay any tax, even though it does not have registration u/s 11 or 12, because it qualifies for automatic exemption u/s 10(23C). This provision ensures that smaller philanthropic institutions engaged in education and healthcare are not burdened with tax compliance requirements, allowing them to focus on their core charitable activities.

**Answer 3(c)****Computation of total income of Mr. Anil Talpade for A.Y.2025-26**

Particulars	₹	₹
<b>Income from salaries</b> [Standard deduction of ₹ 75,000 allowable]		4,50,000
<b>Income from House Property</b>		
Annual value of self-occupied property in India	Nil	
Less: Interest on housing loan [not allowable, since he opts for section 115BAC]	Nil	
	Nil	
Annual value of house property in Brazil [Rental income from property in Brazil <sup>1</sup> ]	1,80,000	
Less: Deduction u/s 24(a) @30% (allowable in respect of let out property)	<u>54,000</u>	1,26,000
<b>Profits and gains from business or profession</b>		
Professional income from Brazil		5,80,000
<b>Income from Other Sources</b>		
Dividend from Brazil		88,000
Interest on FDRs with Bank of Baroda		<u>62,000</u>
<b>Gross Total Income</b>		<b>13,06,000</b>
Less: Deduction u/s 80C in respect of investment in PPF and deduction u/s 80D in respect of medical insurance premium [no deduction is allowable under these sections, since he opts for section 115BAC]		<u>Nil</u>
<b>Total Income</b>		<b><u>13,06,000</u></b>

**Computation of tax liability of Mr. Mr. Anil Talpade for A.Y.2025-26**

Particulars	Amount (₹)
Upto ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 7,00,000 [i.e., ₹ 4,00,000@5%]	20,000
₹ 7,00,001 – ₹ 10,00,000 [i.e., ₹ 3,00,000@10%]	30,000
₹ 10,00,001 – ₹ 12,00,000 [i.e., ₹ 2,00,000@15%]	30,000
₹ 12,00,001 – ₹ 13,06,000 [i.e., ₹ 3,00,000@20%]	<u>21,200</u>
<b>Add: Health &amp; Education Cess@4%</b>	<b>4,048</b>

1 In the absence of any information relating to fair rent, municipal value and standard rent, rental income assumed to be GAV.

Particulars		Amount (₹)
		1,05,248
<i>Less: Deduction u/s 91</i>		
Average rate of tax in India = ₹1,05,248 x 100/ ₹13,06,000 = 8.0588%		
Rate of tax in Brazil = 16%		
Doubly taxed income = ₹ 1,26,000 + ₹ 5,80,000 = ₹ 7,06,000		
[Since dividend is exempt from tax in Brazil so rebate u/s 91 not available for dividend Income, as rebate available only for doubly taxed income]		
Lower of the Indian rate of tax and Brazil rate of tax is 8.0588%, which has to be applied on doubly taxed income of ₹ 7,06,000 [8.0588% x ₹ 7,06,000]		56,895
<b>Tax Payable</b>		48,353
<b>Tax Payable (rounded off)</b>		<b>48,350</b>

**Answer 4(a)**

Section 194-IA requires deduction of tax@1% by every transferee responsible for paying any sum as consideration for transfer of immovable property (land, other than agricultural land, or building or part of building) to a resident transferor. Tax is not required to be deducted at source where the total amount of consideration for the transfer and SDV of immovable property is less than ₹ 50 lakhs. Consideration for transfer of any immovable property includes, inter alia, club membership fee, car parking fee, maintenance fee, which are incidental to transfer of the immovable property.

As amendment made by FA 2024, w.e.f. 1/10/2024, Where there is more than one transferor or transferee in respect of any immovable property, then the consideration shall be the aggregate of the amounts paid or payable by all the transferees to the transferor or all the transferors for transfer of such immovable property.

In the present case, since the consideration for transfer of flat by Mr. Mani & Mrs. Bani to Omkar Construction Ltd. is ₹ 52,20,000 (₹ 48 lakhs + ₹ 1,20,000, being ₹ 5,000 x 24 + ₹ 2 lakhs + ₹ 1 lakh) which is not less than ₹ 50 lakhs, Mr. Mani is required to deduct tax @1% on ₹ 26,10,000 & Bani also require to deduct tax @1% on ₹ 26,10,000.

Total Tax deductible by Mr. Mani & Mrs. Bani would be ₹ 52,200.

Since Mr. X pays rent exceeding ₹50,000 per month in the F.Y. 2024-25, he is liable to deduct tax at source @ 2% of such rent for F.Y. 2024-25 u/s 194-IB. Thus, ₹11,000 [₹55,000 x 2% x 10] has to be deducted from rent payable for March, 2025.

If Mr. X vacated the premises in December, 2024, then tax of ₹7,700 (₹55,000 x 2% x 7) has to be deducted from rent payable for December, 2024.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @ 20%, instead of 2%.

In case 1 above, this would amount to ₹1,10,000 [₹55,000 x 20% x 10] but the same has to be restricted to ₹55,000, being rent for March, 2025.

In case 1 above, this would amount to ₹77,000 [₹55,000 x 20% x 7] but the same has to be restricted to ₹55,000, being rent for December, 2024.

Mr. Hardik last year T/O more than ₹ 100 lakhs then also he is not required to deduct TDS u/s 194J as fees for professional service is for personal purpose of Individual.

However, tax is required to be deducted at source@2% u/s 194M, on the payment of ₹ 65,00,000, since such amount exceeds ₹ 50 lakhs.

Therefore, tax deducted at source would be ₹ 1,30,000, being 2% of ₹ 65,00,000.

**Answer 4(b)**

ABC & Co., an Indian LLP, and XYZ LLP, a foreign LLP, are deemed to be associated enterprises, since XYZ LLP is controlled by A & B, who are the partners of ABC & Co., along with their relatives.

Engine, engine parts including cooling systems and engine valves fall within the meaning of “core auto components”, and hence, export of all such parts originally manufactured by ABC & Co. is an eligible international transaction.

Since the Indian LLP is solely engaged in the manufacture and exports of such parts and has exercised a valid option for Safe Harbour Rules, it is an eligible assessee.

The Indian LLP should have declared an operating profit margin of not less than 12% in relation to operating expense, to be covered within the Safe Harbour Rules.

However, since ABC & Co. an Indian LLP has declared an operating profit margin of only 7.5% (₹ 4.5/₹ 60 crore x 100), the same is not in accordance with the circumstance mentioned in Rule 10TD.

Hence, ABC & Co., an Indian LLP, has to make primary adjustment.

Accordingly, it has to declare operating profits margin of ₹ 7.2 crore, being 12% of operating expenses i.e., ₹ 60 crore.

Thus, primary adjustment of ₹ 2.7 crore [i.e., ₹ 7.2 crore – ₹ 4.5 crore] has to be made by ABC & 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 the foreign LLP is located in a NJA, the Safe Harbour Rules shall not be applicable, irrespective of the operating profit margin declared by the assessee.

### Answer 5(a)

**Issue Involved:** The issue under consideration is whether bonus shares received by shareholders would be taxable under the head ‘Income from other sources’ as per the provisions of section 56(2)(x), as they are received without consideration.

**Provision Applicable:** Section 56(2)(x) brings to tax any sum of money or value of property received by any person without consideration or for inadequate consideration from any person.

**Analysis:** The issue of bonus shares by capitalization of reserves is merely a reallocation of the company's funds. There is no inflow of fresh funds or increase in the capital employed, which remains the same. Thus, there is no addition or alteration to the profit-making apparatus and the total funds available with the company remain the same.

On the other hand, when a shareholder gets bonus shares, the value of the original shares held by him goes down and the market value as well as intrinsic value of the two shares put together will be the same or nearly the same as the value of original share before the issue of bonus shares.

Thus, any profit derived by the assessee shareholder on account of receipt of bonus shares is adjusted by depreciation in the value of equity shares originally held by him.

**Conclusion:** Accordingly, the action of the Assessing Officer in including the fair value of bonus shares as Income from other sources of M Sudarshan is incorrect.

**Note -** The facts given in the question are similar to the facts in PCIT v. Dr. Ranjan Pai (2021), wherein the issue came up before the Karnataka High Court. The above answer is based on the rationale of the Karnataka High Court in the said case.

**Issue Involved:** The issue under consideration is whether the participation by the assessee in assessment proceedings would make the omission to issue notice u/s 143(2) a curable defect on account of the deeming provision u/s 292BB.

**Relevant provision of law:** As per section 292BB, any notice which is required to be served upon an assessee shall be deemed to have been duly served and the assessee would be precluded from taking any objection that the notice was -

- (a) not served upon him; or
- (b) not served upon him in time; or
- (c) served upon him in an improper manner,

if he had appeared in any proceedings or co-operated in any enquiry relating to assessment or re-assessment.

**Analysis & Conclusion:** Issue of notice u/s 143(2) is mandatory for making a regular assessment u/s 143(3). Section 292BB is a deeming provision that seeks to cure defects in any notice issued under any provision of the Income-tax Act, 1961, if the assessee has participated in the proceedings.

For section 292BB to apply, the notice must have emanated from the Department. It is only the infirmities in the manner of service of notice that the section seeks to cure. The section is not intended to cure the complete absence of notice itself.

Accordingly, non-issuance of notice u/s 143(2) is not a curable defect u/s 292BB inspite of participation by the assessee in assessment proceedings.

In the present case, since the assessment of Mr. Arora was completed u/s 143(3) without issuing notice u/s 143(2), the assessment is bad in law and not a curable defect u/s 292BB.

Therefore, the contention of Mr. Arora is valid and the contention of the Assessing Officer is invalid in spite of the fact that Mr. Arora participated in the assessment proceedings.

*Note* – The facts given in the question are similar to the facts in *CIT v Laxman Das Khandelwal (2019)*, 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.

The obligation to deduct tax at source in terms of section 194H arises when the legal relationship of principal and agent is established. Agency is a triangular relationship between the principal, agent and the third party. The legal position of a distributor is generally regarded as different from that of an agent.

Section 194H fixes the liability to deduct tax at source on the 'person responsible to pay' and the liability to deduct tax at source arises when the income is credited or paid by the person responsible for paying. However, deduction of tax at source in terms of section 194H is not to be extended and widened in ambit to apply to true/genuine business transactions, where the assessee is not the person responsible for paying or crediting income.

In the present case, M/s SBL Cellular Limited, being an assessee,

- neither pays nor credits
- any income to the person with whom he has contracted.

M/s SBL Cellular Limited is not privy to the transactions between distributors/franchisees and third parties. It is, therefore, impossible for M/s SBL Cellular Limited to deduct tax at source and comply with section 194H, on the difference between the total/sum consideration received by the distributors/franchisees from third parties and the amount paid by the distributors/franchisees to them.

Thus, in the case on hand, section 194H is not applicable in the hands of M/s SBL Cellular Limited and it would not be under a legal obligation to deduct tax at source on the income/profit component in the payments received by the distributors/franchisees from the third parties/customers.

Accordingly, the contention of the Revenue that company should deduct tax under section 194H is not correct.

*Note* – The facts given in the question are similar to the facts in *Bharti Cellular Ltd. vs. ACIT [2024]*. The above answer is based on the rationale of the Supreme Court ruling in the said case.

### **Answer 5(b)**

A company is typically financed or capitalized through a mixture of debt and equity. The manner in which company raises capital has a significant impact on the amount of profit it reports for tax purposes. This is due to the reason that tax legislations of countries typically allow a deduction for interest paid or payable in arriving at the profit for tax purposes while the dividend paid on equity contribution is not deductible. Therefore, the higher the level of debt in a company, and thus, the amount of interest it pays, the lower will be its taxable profit. For this reason, debt is often a more tax efficient method of finance than equity. Since in such a structure, equity financing is less, it is referred to as Thin Capitalization. Thin capitalization, thus, refers to the process of funding an entity by debt instead of equity with a view to take advantage of interest deduction benefits.

Multinational groups are often able to structure their financing arrangements to maximize these benefits. To prevent tax erosion on account of such arrangements, country's tax administrations often introduce rules that place a limit on the amount of interest that can be deducted in computing a company's profit for tax purposes. Such rules are designed to counter cross-border shifting of profit through excessive interest payments, and thus aim to protect a country's tax base. Under the initiative of the G-20 countries, the Organization for Economic Co-operation and Development (OECD) in its Base Erosion and Profit Shifting (BEPS) project had taken up the issue of base erosion and profit shifting by way of excess interest deductions by the MNEs in its Action Plan 4. The OECD has recommended several measures in its final report to address this issue. In view of the above, new section 94B has been inserted in the Income-tax Act, 1961, in line with

the recommendations of OECD BEPS Action Plan 4, to provide that interest paid or payable by an entity to its non-resident associated enterprises shall be restricted to 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to non-resident associated enterprises, whichever is less.

**Answer 5(c)**

**Yes, I agree with the given statement.**

It is a general principle of construction with respect to treaties that they shall be liberally construed so as to carry out the apparent intention of the parties.

Contrary to an ordinary taxing statute, a tax treaty or convention must be given a liberal interpretation with a view to implementing the true intentions of the parties. A literal or legalistic interpretation must be avoided when the basic object of the treaty might be defeated or frustrated in so far as the particular item under consideration is concerned.

**Answer 6(a)****Computation of total income and tax payable by Ms. Palam Ltd. as per regular provisions of the Act**

	₹	₹
Gross revenue		<b>80,00,000</b>
Less: Manufacturing expenses (excluding depreciation)		30,00,000
Normal Depreciation (as per the Income-tax Act)		7,00,000
Additional Depreciation (as per the Income-tax Act)		2,00,000
		<b>39,00,000</b>
Gross total income		<b>41,00,000</b>
Less: Deduction u/s 80-IA		5,00,000
Deduction under section 80JJAA		4,00,000
		<b>9,00,000</b>
Total income		<b>32,00,000</b>
Tax on above @ 25%		8,00,000
Add: Cess @ 4%		32,000
Total tax payable		<b>8,32,000</b>

**Computation of total income and tax payable by Ms. Palam Ltd. as per section 115BAA of the Act**

Total income as per normal provisions		<b>32,00,000</b>
<b>Add: Deductions not allowed</b>		
Additional Depreciation		2,00,000
Deduction U/s 80-IA -not allowed as per Sec.115BAA		5,00,000
Deduction U/s.80JJAA -allowed under section 115BAA		Nil
		<b>7,00,000</b>
Total income		<b>39,00,000</b>
Tax on ₹39,00,000 @22%		8,58,000
Add: Surcharge @10%		85,800
Add: Cess @4%		37,752
Total tax payable		<b>9,81,552</b>

Tax liability rounded off

9,81,550

Conclusion: It is beneficial for the company to pay tax as per regular provisions of the Act

### Answer 6(b)

- (i) Since the entire foreign deposit of ₹30 lakhs is undisclosed foreign asset, it is liable to tax @ 30% under the Black Money Act, 2015.
- (ii) Senior citizens not having any income chargeable under the head "Profits and gains of business or profession", need not pay advance tax. In the present case, Ramesh is a senior citizen aged 82 years and having income only under capital gains. Thus, he is not liable to pay advance tax instalments and is allowed to discharge his tax liability by payment of self-assessment tax.
- (iii) His total pension income would be ₹9,09,000 after standard deduction of ₹75,000. His income from bank SB interest when added his total income would be ₹9.41 lakhs. He is liable to pay interest u/s 234A for the delay in filing of ITR. The delay being 3 months (August, September and October) and interest @ 3% on tax liability (including cess) of ₹45,864, 45,800 (rounded off) being ₹1,374. Interest u/s 234B & 234C are not applicable as assessee not required to pay advance tax.

**Note:** Since assessee filed late return so he has to follow default tax regime u/s 115BAC. As per provision assessee can opt out only upto due date of return filing.

### Answer 6(c)

#### Tax implication of transfer pricing adjustment in the hands of Tan Ltd

##### (i) In respect of transaction with Blue LLC

- The income of Tan Ltd will increase by ₹50 lakhs by way of Primary adjustment.
- There is no need for secondary adjustment as the amount of primary adjustment is less than ₹1 crore.

##### (ii) In respect of transaction with Pink Inc

- There is no need for primary adjustment as it will result in reduction of total income of Tan Ltd.
- Secondary adjustment is also not applicable.

##### (iii) In respect of transaction with Green GmbH

- The income of Tan Ltd will increase by ₹2 crores by way of Primary adjustment
- The excess amount lying with Green GmbH (₹2 crores) will be treated as deemed loan.
- Green GmbH needs to repatriate the excess money back to Tan Ltd within 90 days (30+31+29) of the assessment order, i.e., on or before 29th January 2025.
- Since, the foreign AE did not repatriate the amount within the time limit, Tan Ltd. will have to add imputed interest income to its total income for the financial year 2024-25.
- The rate of interest will be  $7\% + 3.25\% = 10.25\%$
- Interest income shall be  $2 \text{ crores} \times 10.25\% \times 151 \text{ days}/365 \text{ days} = 8,48,082$
- There is no need for Tan Ltd. to pay additional income tax since the amount is repatriated by the foreign AE.