The Institute of Chartered Accountants of India

Code: FN4DT850591 **Total Marks:** 70

Subject : 04 Direct Tax Laws and International Taxation **Marks Obtained :** 41.5

FORMAT - 2

GRAPH PAPER IS ON THE PENULTIMATE PAGE
(containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Final Examination

Group No. 2 Paper No. 4

Subject Direct Tax law & International Taxation

Number of Answer Books used : Main + 2 additional sheets

Date Seal 08 MAY 2026

For use by ICAI only

850591

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
MAY, 2026

ICAI

Paper Code: P B 4 1

MCQ Booklet Serial No.: 2 4 4 4 6 4 3

Paper No.: 4

Level of Exam: Final

Foundation ① Intermediate ② Final ●

MCQ Answers

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

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[redacted]e fully completed in one page or in a consecutive set of pages,

[redacted]nan the space provided for the purpose or writing distinguishing mark,
[redacted] "786", etc., will tantamount to adoption of "unfair means"
[redacted] book to the invigilator take care to score out (X) blank pages, if any, that you

Illustration for Filling the MCQ Booklet Serial No.

[redacted]CTIONS TO THE CANDIDATE FOR FILLING THE **MCQ ANSWER FIELDS**

[redacted]. **Pencil to Darken the appropriate Circle.**
[redacted] darken the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluation.
[redacted] any candidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.
[redacted]se darken the complete circle.
[redacted] you want to change your Answer, erase the darkened circle completely and make a fresh mark.
5. Please do NOT make any stray marks on the OMR cover page.
6. Rough work must NOT be done on the OMR cover page.
7. Mark your answer only in the appropriate space against the number corresponding to the question.

How to mark answers

CORRECT METHOD Ⓐ ● Ⓒ Ⓓ WRONG METHOD

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

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3

DO NOT WRITE ANYTHING HERE

Answer 1

Computation of total income & Tax liability of AB Ltd, for AY 2026-27 (Under Regular Provision).

Particulars	₹	₹
Net Profit as per Books		52,00,000
ADD:		
Professional fees Paid in cash, that was taken as expense in FY24-25. (As per relevant Provision, if Expenditure on accrual basis is subsequently Paid in cash is treated as income (deemed)].	2,00,000	
Interest of NBFC. (Any Interest Amt. Paid to notified NBFC after the Due Date of filing Return shall be disallowed u/s 43B	8,00,000	

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Interest on margin money (As per relevant case law interest on margin money for business is treated as business income) [As already cr. in P&L so no treatment]	–	
Loss on future & options. (~~Expense~~ Loss on this is disallowed as it is not related to business).	2,60,000	
legal fees incurred (No treatment, as already debited in P&L, & it is allowed as expenditure as it is incidental to business)	–	
Development charges on land [is a Capital Expenditure thereby added back as dr. in P&L, & no Depreciation is as expenditure of land].	95,000	

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Subject : 04 Direct Tax Laws and International Taxation

Total Marks: 70
Marks Obtained : 41.5

5

~~Resoarch~~

Amount Paid to Notified Research Association [Expenditure is allowed to be claimed under the regular provision U/s 35(1)(ii)] [Already adjusted no treatment]	—	
~~Amount~~ Loss on machine dr. in P&L. [It is an Capital loss not allowed as deduction, also the block still exist].	1,70,000.	
Export Incentives. [These are part of Profit of business].	6,50,000	
	————	21,75,000

1Step1 3 Marks

1Step2 3.5 Marks

6

less:

Depreciation on Machinery. 25,500
[1,70,000 * 15%].
(As 1,80,000 is reduced from Block but only 10,000 was to be reduced, hence it has been assumed depreciation on 1,70,000 would not have been taken, as the block still exist depreciation is taken].

Depreciation on Printer.
Block 40%

[90,000 * 40%] 36,000

Additional Depreciation on Computer.
90,000 * 20% 18,000
(Note: Considering such computer is used for the factory (manufactory & not in office).

(79,500)

7

Profit as Per tax (Regular Provision). 72,95,500.

Tax Liability.
Base Tax. 72,95,500 × 25%. 18,23,875
+ 4% Cess. 72,955
18,96,830

Note: Considering Company is eligible for Addn Depn.

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Total Marks: 70
Marks Obtained : 41.5

8

Computation of Total Income of ABCL for AY 2026-27 as per Section 115BAA.

Net Profit (under Regular)	₹72,95,500
Add: Deduction not allowed u/s 35(1)(ii)	3,20,000
ADD: Additional Depreciation	18,000
Total Income (U/S 115BAA).	76,33,500

Tax Liability.
~~Rate~~ 76,33,500 * 25.168% = 19,21,199

R/off (288B) → 19,21,200.

1Step3
3 Marks

Therefore, not be beneficial to opt in 115BAA, as tax liability under Regular is lower.

1
9.5 Marks

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Subject : 04 Direct Tax Laws and International Taxation **Marks Obtained :** 41.5

9

Answer 2
(A).

Computation of Capital Gain in the hands of Mr. Pawan.

Particulars	₹
Gross Sale Consideration (21,00,000 + 21,00,000).	42,00,000
less: Expense on transfer	–
Net sale Consideration	42,00,000.
less: Cost of Acquisition (COA). (5,60,000 + 7,80,000)	(13,40,000)
Capital Gain	28,60,000.
less: Exemption u/s 54F. (WN 1).	(18,48,000)
Taxable Capital Gain Long Term	10,12,000

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Total Marks: 70
Marks Obtained : 41.5

Working Note (WN)

① Under Section 54F Exemption is allowed, if assess sold any asset & buy a Residential house when he was the owner of only 1 house.

Thereby Exemption of:

$$\frac{\cancel{28,60,000}\ 28,60,000 \times 25,90,000}{\cancel{28,60,000}\ 42,00,000}$$

= 17,63,666.66

Exemption is for gold purchased in FY 05-06.

⑧	NSC (net sale)	21,00,000
	- COA	5,60,000
	Capital Gain.	15,40,000

Exemption.
Against 15,40,000 if 21,00,000 would have invested whole 15,40,000 would be exempted.
Thereby, 25,90,000 is invested hence 15,40,000 is exempt → ①

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Subject : 04 Direct Tax Laws and International Taxation **Marks Obtained :** 41.5

DO NOT WRITE ANYTHING HERE

11

Answer ~~B~~ 2.
(B).

Answer 2
(A).

Computation of Capital Gain in hands of Mr. Pawan for AY 26-27.

Particulars

2nd for FY 11-12 Gold.
~~Q8~~. NSC → 21,00,000
-COA → 7,80,000
Capital Gain. 13,20,000

Hence, Investment done is 25,90,000 - 21,00,000 utilised in first ⇒ 4,90,000.

Exemption = 4,90,000 + 13,20,000 - 21,00,000

→ 3,08,000. → ②.

Total ① + ② ⇒ 18,48,000.

2aStep1
4 Marks

2a
4 Marks

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Subject : 04 Direct Tax Laws and International Taxation

Total Marks: 70
Marks Obtained : 41.5

12

Answer 2
(B)

→ As per the relevant provision of the Income Tax Act, 1961.

In case of loss related to a closely held company (Pvt.) which is not an elligible startup,

for loss to be carry forward & setoff, the person holding 51% or more of the shareholding in the last day of ~~year~~ loss shall continue to hold 51% or more on the last day of the ~~+~~ next subsequent years, to carry forward & set off of such losses.

2bStep1
3.5 Marks

→ This provision does not apply on the unabsorbed depreciation, it can be set off without any condition.

13

Therefore, for the FY 25-26, Gain of ₹5,00,000 .

→ In this Business loss of loss ₹2,50,000 of FY 24-25 is allowed to be set off.
As P, T, U holding more than 51% in the FY 24-25 as well as FY 25-26

→ Business loss of FY 23-24 is not allowed to be set off as, only shareholder P(35%), is the common shareholder in these two years, that too holding less than 51% of shareholding.

→ Unabsorbed Depreciation FY 23-24, FY 24-25. Both are allowed to be set off against any income except salary without any restriction in the given case.

2b
3.5 Marks

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Therefore.

5,00,000 − 2,50,000 − 40,000 − 80,000

= $\boxed{₹1,30,000}$.

Net total income after set off of loss.

Note: loss (Business) of FY. 23-24 will be lapsed in FY 25-26, due to non fulfilment of condition.

DO NOT WRITE ANYTHING HERE

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Subject : 04 Direct Tax Laws and International Taxation | Marks Obtained : 41.5

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Answer 2 (C)

Computation of Taxable Income

Particulars	₹
① Amount Received for cruises touching Indian Port. (U/S 44BBC, 20% of the Amount is taxable as Business income). (40 cr × 20%)	8,00,00,000
② Amount Received for Cargo services. (Considering, amount is Received in India thereby taxable, as covered under the scope of Income) [not covered under 44BBC].	5,00,00,000
③ Cruises touching Indian Port, Amount also Received outside India, thereby no taxability as not deemed to accrue arise in India (not covered in scope).	

2cStep1
0.5 Marks

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Subject : 04 Direct Tax Laws and International Taxation **Marks Obtained :** 41.5

(4) operating entirely in India. 10,00,00,000
(Considering this Amount is Received in India) ~~the ship is not touch to~~ ~~Indian Port~~, hence taxable) (But not covered under 44BBC)

(5) Interest earned 3,00,00,000
(Covered in scope 5 as it is accrue arising in India).

26,00,00,000

DO NOT WRITE ANYTHING HERE

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Subject : 04 Direct Tax Laws and International Taxation
Total Marks: 70
Marks Obtained : 41.5

17

For TMB cruises.

Under the relevant Provision of Income Tax Act 1961, If any Company receives the lease Rental from a Company whose Income is taxable in India & had chosen Presumptive Scheme of 44BBC of Income Tax Act, then Such lease income is exempt in the hands of Receiver. Provided, they are both under the same control of any company. (i.e. holding company must hold more than 50% of holding in Both).

2cStep2
1 Marks

Hereby, as TMB Cruise Ltd. receives lease Rental from its fellow Subsidiary who is qualified company u/s 44BBC thereby, lease Rental is exempt.

2c
1.5 Marks

2
9 Marks

The Institute of Chartered Accountants of India

Code: FN4DT850591 Total Marks: 70
Subject : 04 Direct Tax Laws and International Taxation Marks Obtained : 41.5

18

Answer 4
(A).

(i)

As per section 194R, when any person provides any benefit in the form of cash, kind or gift to a Resident of Amount more than 20,000, then a TDS @ 10% is deducted while making such benefit, at earlier credit or payment.

For valuation, as the Fair Value is available, a TDS on such fair value is deducted.

Therefore, 3,00,000 × 10% = ₹30,000

Yes, XYZ Pvt Ltd. has to ensure, that amount of TDS is either deposited by the distributor to the government.

(Or) he also may collect the Amount & pay it to the government.

4aiStep1 1.5 Marks

4ai 1.5 Marks

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Total Marks: 70
Marks Obtained : 41.5

19

But yes, XYZ Pvt. Ltd must ensure deposit of TDS Amount to government.

(ii)

As Per Section 194T of the Income Tax Act, a TDS of 10% is deducted at the earlier of credit or Payment, when any sum is paid by the firm to its Partner, exceeding 20,000 / Partner / year.

Thereby, while making Payment to Rakesh Kumar TDS needs to be deducted i.e. 1,20,000 × 10% = ₹12,000.

But, while making Payment to Ashok Kumar TDS shall not be deducted as it has not breached the threshold. (NO TDS).

4aiiStep1 2 Marks

4aii 2 Marks

The Institute of Chartered Accountants of India

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Total Marks: 70
Marks Obtained : 41.5

20

(iii).

As Per Section 194J, a TDS @ 10%. is deducted if it is Paid by by a Person to Resident, at earlier of credit or Payment. In case of Professional fee, Threshold is ₹ 50,000.

As the Tax is to be borne by PQR Ltd., thereby 2,70,000 will be considered as After TDS Income.

Hence, Gross income would be.

$$\frac{2,70,000}{90\%} = \boxed{3,00,000}$$

Thereby, TDS Amount -

$$3,00,000 - 2,70,000 = \boxed{30,000}.$$

This ₹30,000 is to be paid by PQR Ltd. to the government & Remaining 2,70,000 to Mr. A.

4aiiiStep1
2 Marks

4aiii
2 Marks

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In the Return of Mr. A, whole 3,00,000 will be shown as Income, &

he will be entitled to get a credit of ₹30,000 as TDS credit.

(iv)

As no declaration is filed under Rule 37BA(2), thereby the State Bank of India shall while crediting the interest deduct a TDS of 10% ~~[illegible]~~ as per relevant provision of Income Tax Act, 1961, as, the payment is in excess of ₹10,000.

Hence, the Bank needs to deduct TDS, on whole of 3,00,000 @10%.

$= \boxed{₹30,000}$.

4aivStep1
0 Marks

4aiv
0 Marks

22

Answer 4
(B)

→ For Computation of Arms length Price, Comparable Amount is needed.

→ When the Comparable Amount is more than equal to 6 then Range concept is used.

Therefore.

		Number
C	68,850	1
A	69,750	2
E	75,000	3
B	79,200	4
D	83,400	5
H	1,13,760	6
G	1,32,938	7
F	1,45,500	8

Here, 35th Quartile being 8 * 35% = 2.8 hence next higher number being 3 i.e. 75,000.

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Total Marks: 70
Marks Obtained : 41.5

23

65th Quartile.
8 x 65% = (5.2), i.e. the next higher number being (6),
Therefore. 1,13,760.

As the Range is.
75,000 — 1,13,760.

The given operating profit is not within the Range. (being 72,975).

⟹ Hence, the ALP is 50th Quartile being. (4). As it is whole number.

Average of next & current value would be taken.
$$\frac{83,400 + 79,200}{2}$$
= ₹81,300.

Therefore, ALP is 81,300. (2).

Adjustment of. (₹8325) to be done.

4bStep1
4b
5 Marks
4
10.5 Marks

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Code: FN4DT850591
Subject : 04 Direct Tax Laws and International Taxation

Total Marks: 70
Marks Obtained : 41.5

24

Answer 6
(A).

→ As Per clause 21 of form 3CD, the Tax Auditor needs to Report on the Expenditure which has been disallowed under section 40(a)(i), 40(a)(ia), 40(a)(ii), 40(a)(iii),(iv),(v).

He shall state the section, nature of default, the Amount of transaction & Amount of dissallowed expenditure.

→ In case of any conflict he may choose to Report in PARA 3 of Form 3CA or PARA 5 of Form 3CB.

→ As Per Section 40(a)(i), the Company needs to deduct & Pay the TDS applicable on the Payment to the NR (except salary) otherwise it will be 100% dissallowed & allowed in P.Y in which deducted & Paid.

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Subject : 04 Direct Tax Laws and International Taxation **Marks Obtained :** 41.5

25

→ The PE status of the NR in such a scenario would be irrelevant in determining the income chargeable, as the payment income of NR is deemed to accrue arise in India & it would be chargeable to tax & TDS needs to be deducted.

→ Auditor would have checked the certificate provided by the management on thorough basis, & would not only rely on the representations.

→ In this case tax Auditor is guilty of Professional misconduct under clause (7)(2) of the Part I of First schedule of Chartered Accountant Act 1949.

6aStep1 0 Marks

6aStep2 0 Marks

6a 0 Marks

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26

Answer 6
(B).

(i).
Tax Planning

As mr. Dowshil is availing the benefit that has been provided by section 54EC of the Income Tax 1961, of depositing ~~(?)~~ Amount in 6monthly under prescribed Bonds.

He, is within the Jurisdiction of law of violating it.

6bStep1
2 Marks

(ii).
Tax management,

As mrs. Varsha, is complying with the Procedures & legal formality of the law duly, while filing & suppleoaly the forms.
Hence, she is doing tax managment

6bStep2
1 Marks

6b
3 Marks

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Total Marks: 70

Marks Obtained : 41.5

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Code: FN4DT850591 **Total Marks:** 70

Subject : 04 Direct Tax Laws and International Taxation **Marks Obtained :** 41.5

28

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Answer 6
(C).

As Per section 245N, a Resident can file an application, to determine the tax liability of a Non Resident, while doing the transaction with the Non-Resident, for the transaction take or proposed to be undertaken, & whether such matter is Question of law or fact.

→ The Board of Advance Ruling can Reject the application under relevant Provision, when the matter is Pending with any Authority, Tribunal, High Court or Supreme Court in case of Resident applicant for determining liability of Non Resident.

Hence, the rejection is valid in law & the matter is Pending at High Court.

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Subject : 04 Direct Tax Laws and International Taxation

Total Marks: 70
Marks Obtained : 41.5

4850591-01

Addl. Book No. ....(1)...........

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS ADDITIONAL ANSWER BOOK

DO NOT WRITE ANYTHING HERE

→ Board of Advance Ruling must given on opportunity of being heard to the applicant before rejecting, also, he must send the order of rejection copy to the applicant & its jurisdictional commissioner

6cStep1
1 Marks

→ The Applicant cannot file an appeal under the order of rejection of Board of Advance ruling, but it can file Writ Petition or special leave Petition in High Court or Supreme court respectively.

6c
1 Marks

6
4 Marks

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Subject : 04 Direct Tax Laws and International Taxation

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2

Answer 3
(A).

(i)

→ Under Section 143(2), an Assessing officer under the scrutiny assessment, if found that charitable trust has done any specified violation, then he may request

CIT or PCIT, to assess the case & look into matter.

If CIT & PCIT considers that any violation has been conducted, then they may cancel the exemption & direct the officer to ~~~~ perform the scrutiny assessment.

3aiStep1
1 Marks

→ Yes, the assessing officer is empower to make such reference to CIT.

3ai
1 Marks

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3

4850591-02

→ The case above is specified violation as M. Foundation, a charitable trust has, applied sum of money other than his object, for, any private religious purpose or particular religious community.

→ As, this is specified violation CIT will withdraw the exemption of Trust & direct AO to perform, scrutiny assessment.

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

The Institute of Chartered Accountants of India

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Subject : 04 Direct Tax Laws and International Taxation **Marks Obtained :** 41.5

4

Answers
(A)
(ii).

As Per the relevant Provision of the Income Tax Act, 1961,

the Trust if Received the income later in the year or have not Received such income, may file an form along with Return of Income & enjoy the benefit of deemed application,

Stating that it will apply such income in the next year of Receipt.

Therefore, Sarvseva Trust can claim such 85% as application of income, & it has filled prescribed form, latest by 2months before due date of Return, But various circulars, allow it be failed latest by the Date of Return of Income.

3aiiStep1 1 Marks

3aii 1 Marks

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4850591-03

Addl. Book No. 2

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS ADDITIONAL ANSWER BOOK

DO NOT WRITE ANYTHING HERE

Answer 3
(A)
(iii).

As per relevant Provision of the Income tax Act 1961, an electoral Trust needs to distribute 95% or more of its total Receipt, to the Registered Political Party, to be elligible for claiming the exemption of income.

3aiiiStep1
0.5 Marks

Therefore, the Swadeshi Electoral Trust needs to distribute minimum of 95% of ₹1.2crore being = ₹1,14,00,000

3aiii
0.5 Marks

Fix deposit income is irrelevant for taking into calculation, as Receipt of Voluntary Contribution is to be taken.

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2

Answer 3

(B).

Computation of Total Income & Tax Liability of Mr. Mohan for AY 2026-27.

Particulars	₹
~~Profits from Business~~	
Income from House Property	4,30,000
less: Loss from House Property	(1,30,000)
Net	3,00,000
Profits from Business.	
Royalty of Country X (As per DTAA it is taxable in source state thereby not taxable in Residence State i.e. India).	—
Income from other Source.	
Interest (Country Y) (other than Security).	8,00,000
$10,000 × 80	

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3 4850591-04

Agricultural income (Z) (AS H ie from outside India).	2,00,000
B&P income	13,00,000.

Tax liability.

3bStep1
3 Marks

Base Tax. [3,00,000*30%. +1,12,500]	2,02,500
(+) Surcharge	—
(-) Relief	—
(-) Rebate	—
(+) Health & Education Cess 4%.	8100
Gross Tax liability.	2,10,600
less: Relief u/s 90&91. (WN).	78,000
Tax liability	1,32,600

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4

Working Note.

① For Country Y as India has DTAA.
Tax Credit ⇒ 1,000 × 78 = 78,000

② Average Rate of Tax in India.

$\frac{210,600}{13,00,000} = 16.2\%$

Tax on Doubly Tax Income (Y).

~~8~~00,000 × 16.2% ⇒ 1,29,600.

Relief → $\boxed{78,000}$.

③ Country Z.

No Relief u/s 91, as no tax is paid in Country Z, therefore no doubly taxed income.

3bStep2
3 Marks
3b
6 Marks
3
8.5 Marks

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Total Marks: 70
Marks Obtained : 41.5

Result Overview

Awarded Marks:41.5	Max Marks:70

Not Attempted	Optional	M Marked

Q1_Compulsory (Score: 9.5/14)

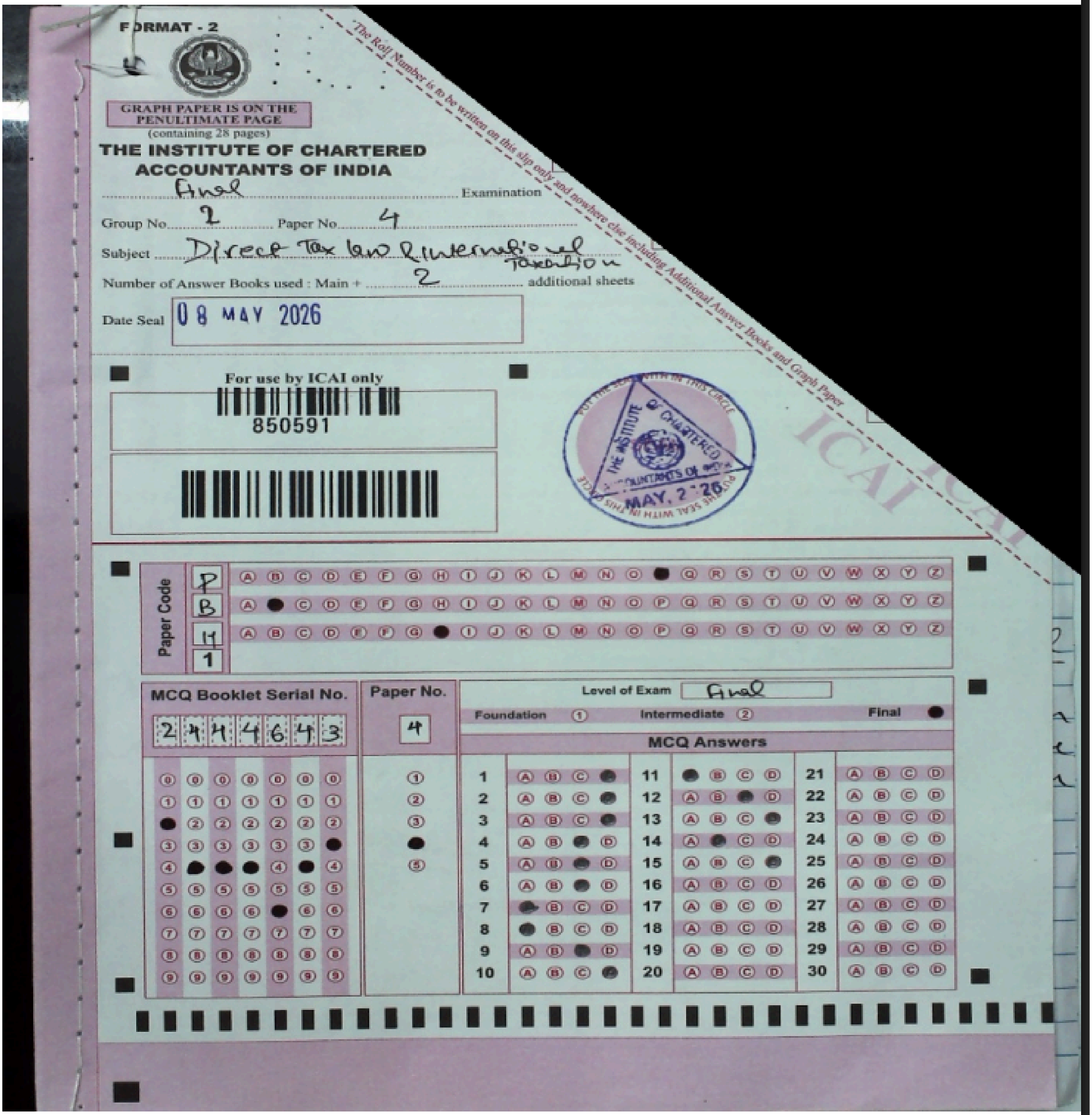
Question No	Awarded Marks	Maximum Marks	Status
1	9.5	14	M

Q2_Q6 (Score: 32/56)

Question No	Awarded Marks	Maximum Marks	Status
2	9	14	M
2a	4	4	M
2b	3.5	4	M
2c	1.5	6	M
3	8.5	14	M
3ai	1	3	M
3aii	1	3	M
3aiii	0.5	2	M
3b	6	6	M

4	10.5	14	M
4ai	1.5	2	M
4aii	2	2	M
4aiii	2	2	M
4aiv	0	2	M
4b	5	6	M
5	0	14	
5aiORii	0	4	
5aiiORiii	0	4	
5b	0	6	
6	4	14	M
6a	0	6	M
6b	3	4	M
6c	1	4	M

MARKS OBTAINED (IN OMR) : 26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