



The Institute of Chartered Accountants of India

Code: FN4DT802425
Subject : 04 Direct Tax Laws and International Taxation

Total Marks: 70
Marks Obtained : 52.5

GRAPH PAPER IS ON THE PENULTIMATE PAGE
Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
CA Final Examination

Group No. 2 Paper No. 4
Subject Direct Tax & International Taxation
Number of Answer Books used : Main + NIL additional sheets
Date Seal 07 MAY 2026 08 MAY 2026

For use by ICAI only

802425

THE SEAL WITHIN THE CIRCLE
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
MAY, 2026

Paper Code
P
B
H
1

MCQ Booklet Serial No. 2419631
Paper No. 4
Level of Exam Final

Foundation (1) Intermediate (2) Final (3)

MCQ Answers

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

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1 1 1 1 1 1 1
2 2 2 2 2 2 2
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8 8 8 8 8 8 8
9 9 9 9 9 9 9

1 2 3 4 5

✓



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CANDIDATE

of the cover
of the OMR portion
the appropriate space at the
and affix the same on box provided
that Roll number written in numbers, words and
information wrongly, Institute will not take any
on a fresh page and question number prominently written at the
question number should be distinctly written in the margin.
should be fully completed in one page or in a consecutive set of pages,
other than the space provided for the purpose or writing distinguishing mark,
"Jesus", "786", etc., will tantamount to adoption of "unfair means"
the answer book to the invigilator take care to score out (X) blank pages, if any, that you

Illustration for Filling the MCQ Booklet, Serial No.

0	0	0	0	0	0	0	0	0	0
1	1	1	1	1	1	1	1	1	1
2	2	2	2	2	2	2	2	2	2
3	3	3	3	3	3	3	3	3	3
4	4	4	4	4	4	4	4	4	4
5	5	5	5	5	5	5	5	5	5
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7	7	7	7	7	7	7	7	7	7
8	8	8	8	8	8	8	8	8	8
9	9	9	9	9	9	9	9	9	9

INSTRUCTIONS TO THE CANDIDATE FOR FILLING THE MCQ ANSWER FIELDS

Only H.B. Pencil to Darken the appropriate Circle.

Write and darken the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluation.

In case any candidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.

3. Please darken the complete circle.

4. If 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
(A) ● (C) ● (D) ●	(A) ● (C) ● (D) ● (E) ●

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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03



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Q2(a)

Income from capital gain (FY 25-26) (AY 26-27)

Gold Jewellery (FY 05-06) (₹)

Full value of consideration	21,00,000
(-) Transfer expenses	-
Net consideration	21,00,000
(-) Cost of Acquisition (Consideration not available after 23/7/24)	(5,60,000)
LTCG (as period of holding > 2 years)	15,40,000

Gold Jewellery (FY 11-12)

Full value of consideration	21,00,000
(-) Transfer expenses	(7,80,000)
Net consideration	13,20,000
(-) Cost of Acquisition	(7,80,000)
LTCG (Period > 2 years)	13,20,000

Total LTCG 28,60,000

Less: Exemption u/s 54F.

• First Sale - $\left(15,40,000 \times \frac{21,00,000}{21,00,000}\right)$	(15,40,000)
• Second Sale - $\left(13,20,000 \times \frac{4,90,000}{21,00,000}\right)$	(3,08,000)

Net long-term capital gain. (must beneficial) 10,12,000

2aStep1

4 Marks

2a

4 Marks



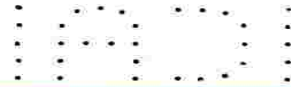
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04



Q2(b)

brought forward

In case of a closely held company, losses are allowed to be set off in a FY only if the shareholders holding at least 51% shares at end of FY in which loss arose continue to hold at least 51% shareholding on the date last date of FY in which set-off done.

Losses of FY 23-24 (₹1,50,000)

P, Q, R and S who held combined > 51% shareholding on last day of FY 23-24 do NOT continue to hold > 51% shares on last day of FY 25-26. Instead, new shareholders (Z, T, V) hold them and P has only 35%.
∴ Losses of FY 23-24 cannot be set-off against income of FY 25-26.

Losses of FY 24-25 (₹2,50,000),

P, T and V who held combined 80% shares continue on last day of FY 24-25, continue to hold 80% shares on last day of FY 25-26.

∴ Losses of FY 24-25 can be set-off against income of FY 25-26.

Further, above provision does not apply for unabsorbed depreciation, which can always be carried forward & set-off.

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PY 25-26

(₹)

Business income	5,00,000
(-) B/f losses of 23-24	-
(-) B/f losses of 24-25	(2,50,000)
(-) unabsorbed depreciation	(1,20,000)
PGOP income	1,30,000

2bStep1 ✓
4 Marks

2b ✓
4 Marks

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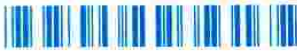
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06

1901

Q2(c)

As per Section 44BCC, a non-resident company (^{NRI} ~~company~~) operating cruise ships in India ~~enjoys~~ presumptive taxation where business income is deemed to be 20% of aggregate amounts collected from passengers (carried or received in India).

No deductions for any expenses shall be allowed as it is already deemed to be allowed.

Taxable income of NRI/CR

(₹ crore)

• Received from passengers embarking in India.

40

• Received from cargo services

5

• Received outside India and tickets sold abroad [Not taxable] [Touching Indian Port]

15

• Received for cruises operating outside India [Not taxable assuming that amount NOT received in India]

-

Total Receipts

45 60

PGBP Income (45 × 20%)

9 12

Income from other sources

Interest on FD maintained with Indian bank [received in India - Taxable]

3 -

Total Income

12 15

2cStep1
1.5 Marks



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Lease Rental Income in hands of TMB Cruises Ltd
Since, NWG Cruise and TMB Cruise are subsidiaries
of TLO Cruise, i.e., under common control,
NWG Cruise and TMB Cruise are related parties.

Accordingly, Lease Rental Income received by
TMB Cruise (Non-Resident) from NWG
Cruise (also Non-Resident) is NOT deemed
to accrue or arise in India.

DO NOT WRITE ANYTHING HERE



Therefore, Lease Rental Income is NOT Taxable
in hands of TMB Cruises Ltd.

2cStep2
1 Marks
2c
2.5 Marks
2
10.5 Marks

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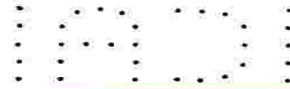
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08



Q3(a)

(i) As per the provisions of income tax act, 1961, if a charitable trust registered under section 12AB, applies any amount for any private religious purposes, it is:

- in violation of the conditions of registration and therefore, registration may be cancelled.
- Such amount is taxable under section 115BBT @ 30% and no exemption available under sections 11 and 12.

During assessment proceedings, if AO comes across such a violation, he cannot himself cancel the registration but has to make a reference to the CIT/PCIT.

Therefore, Yes, Assessing Officer is empowered to make such a reference in given case as m. foundations applied ₹5 lakhs to a private Ganpati mahotsava organised by housing society.

Action by CIT

- CIT may call upon necessary documents, records and information to inquire into the specified violation.
- After being satisfied, and giving assessee an opportunity of being heard, CIT may cancel the registration granted u/s 12AB.

3e 3ai
2 Marks

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(ii) As per Explanation to section 11 of Income Tax Act, 1961, if an amount received by a charitable trust cannot be applied during the current FY, it may make an application before 2 months of due date of return filing undertaking to apply the amount in next FY. In that case, the amount is deemed to be applied in the current FY.

DO NOT WRITE ANYTHING HERE

Accordingly, Sarvesa Trust can make an application and claim ₹ 5 lakhs as application in current FY 25-26, since it has applied the amount in FY 26-27.

conditions :

- Application to AO must be filed 2 months prior to due date of return filing.
- However, as per a recent circular by CBOT, the trust will be allowed to treat this as application in FY 25-26 even if it applies before due date of return filing. The 2 months prior condition is to ensure that it can be considered in Tan Audit.

DO NOT WRITE ANYTHING HERE

3aiiStep1

1.5 Marks

3aii

1.5 Marks



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10

100

(iii) In case of an Electoral Trust, the income represented by voluntary contributions is EXEMPT provided that the Electoral Trust applies at least 95% of ~~such~~ total voluntary contributions (including brought forward of previous year) by way of donations to political parties.

The Electoral Trust can incur administrative expenses upto 5% of voluntary contributions restricted to maximum of :

- ₹ 5 Lakhs in the first year, AND
- ₹ 3 Lakhs in subsequent years.

In given case, Swadeshi Electoral Trust, has received ₹ 1.2 crores during FY 25-26 as voluntary contributions. Therefore, it must distribute at least 95% of 1.2 crores, i.e., ₹ 1.14 crores to political parties, to be eligible for exemption. [Ans]

Further, it can incur admin expenses of upto 5% of 1.2 crores, i.e., ₹ 6,00,000, restricted to maximum ₹ 5 Lakhs being first year of incorporation.

3aiiiStep1

1 Marks

3aiii

1 Marks

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11



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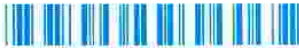
Q 3(b)			
Total Income		(₹)	(₹)
Income from House Property			
House Property in Chennai			4,30,000
Income from other sources			
• Royalty from country - X [Not taxable as per DTAA taxable only in source state]		-	
• Interest (other than securities) from country - Y (10,000 X 80) [converted at rate on 31.03.26, i.e., ₹ 80 / USD]		8,00,000	
• Agricultural income in country - Z [Not exempt in India because agricultural land outside India] IFOS		2,00,000	
			10,00,000
Income from House Property H.P. in Chennai		4,30,000	
(-) Loss from H.P. in country - Z		(1,30,000)	3,00,000
Total Income			13,00,000



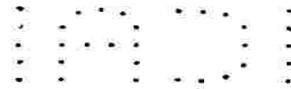
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12



✓ 3bStep1 3 Marks	<u>Tax Liability</u> Tax on Total income of ₹13,00,000 [(13,00,000 - 10,00,000) × 30% + 1,12,500] (+) HEC @ 4%. Tax is (-) rebate u/s 90 [working note] Net Tax Liability.	(₹) 2,02,500 8,100 2,10,600 (78,000) 1,32,600
✓	<u>Rebate calculation. (Country - Y)</u> Tax paid on doubly taxed income in India [$\frac{2,10,600}{13,00,000} \times 8,00,000$]	1,29,600
✓ ✓	Tax paid on foreign income in 'Y'. [1000 × 78] (converted at last day of previous month of tax deducted, i.e., 31/1/26).	78,000.
✓ 3bStep2 2 3 3b 9.5 Marks 5 Marks	<u>Rebate (Country - Z).</u> No doubly taxed income because agricultural income exempt in Country - Z	78,000 -

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13



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Q4(a)

(i) Section 194R of Income Tax Act, 1961.

TDS is applicable on any amount/asset/gift distributed by a company to a resident payee in course of business/probation, if amount exceeds ₹ 20,000. TDS applicable @ 10%, on the amount of purchase value, if company has purchased it.

In given case, XYZ Pvt Ltd distributed gold chain for achieving highest sale. It was purchased for ₹ 2,50,000, i.e., exceeds ₹ 20,000.
∴ TDS u/s 194R = $2,50,000 \times 10\% = ₹ 25,000$ [Ans].

XYZ must ensure that TDS amount is paid by distributor before gold chain distributed to him. It must be distributed only after obtaining proof from distributor that he has paid tax. Alternatively, XYZ may apply grossing up and discharge tax on behalf of distributor. [Since gold chain is in kind].

4aiStep1
2 Marks

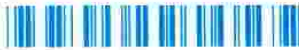
4ai
2 Marks



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14

1401

(ii) Section 194T of Income Tax Act, 1961.

Any amount paid by a Partnership Firm to its partner, in nature of ^{interest} salary, commission, bonus or whatever name called, is liable for TDS @ 10% if amount exceeds ₹ 20,000.

∴ TDS provisions are applicable on ex charge and company on payment made to Ramesh Kumar since it exceeds ₹ 20,000.

∴ TDS = 10% of 1,20,000 = ₹ 12,000. [Ans]

With respect to interest paid to Ashok Kumar, TDS is not applicable as pay amount does not exceeds 20,000 ₹.

4aiiStep1

2 Mar

4aii

2 Marks

Section 194T of Income Tax Act, 1961.

Payment made by company with respect to professional services taken from a resident payee, is liable to TDS @ 10% if the amount exceeds ₹ 50,000.

Here, amount exceeds ₹ 20,000.

∴ TDS applicable.

However, since tax borne by P&R Ltd, grossing up needs to be done.

Therefore, ₹ 270000 paid is considered to be net of TDS.

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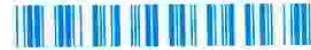
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$$\therefore \text{TDS applicable} = \frac{2,70,000}{90\%} \times 10\% \\ = \underline{\underline{₹ 30,000}} \text{ [Ans]}$$

Mr. A is required to report income of ₹ 3,00,000 in respect of above professional services.

Therefore, Yes, Mr. A entitled to TDS credit of ₹ 30,000. [Ans]

4aiiStep1

4aii

2 Marks

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In case of interest on capital gain accounts scheme, TDS required to be deducted under section 194A of Income Tax Act, 1961.

TDS applicable @ 10% if amount exceeds ₹ 10,000.

In case of death of assessee, interest credited upto date of death (i.e. 30/9/25), TDS deducted against PAN of assessee itself @ 10%.

$$\therefore \text{TDS on ₹ 1,50,000} = (1,50,000 \times 10\%) = \underline{\underline{₹ 15,000}} \\ \text{(against PAN of Mr. Ramesh),}$$

With respect to interest after date of death, TDS deducted against PAN of legal heirs if declaration filed. Since, no declaration filed, TDS

will be deducted against PAN of Mr. Ramesh.

$$\text{TDS} = 1,50,000 \times 10\% = \underline{\underline{₹ 15,000}}$$

4aiivStep1

0 Marks

4aiiv

0 Marks

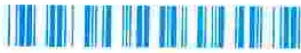
$$\text{Total TDS} = \underline{\underline{₹ 30,000}} \text{ (Mr. Ramesh's PAN),}$$



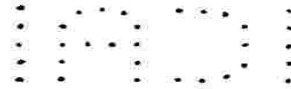
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Q4(b).

In case of more than 5 Arm's Length Price (ALP), we have to apply Range concept.

Step-1 : Arrange data in ascending order.

Comparable	ALP	Rank
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

Step-2 : calculate Percentiles.

$$35^{th} \text{ Percentile} = (8 \times 35\%) = 2.8.$$

Since it is decimal, we take the higher number, i.e., 3.

$$\therefore 35^{th} \text{ \%ile} = 75,000.$$

$$65^{th} \text{ Percentile} = (8 \times 65\%) = 5.2$$

$$\therefore \text{Higher Round-off} = 6.$$

$$\therefore 65^{th} \text{ \%ile} = 1,13,760.$$

Step-3 : If actual share action price lies between 35th and 65th percentile, it is deemed to be the ALP. In given case, ₹ 72,975 does not lie between them.

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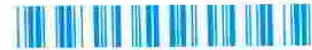
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Step-4 : Therefore, ALP = Value of 50th Percentile
50th x ile = $8 \times 50\% = 4$.

Since this is whole number, we take average
of ALP at '4' and '5'.

$$\therefore 50^{\text{th}} \text{ x ile} = \frac{79,200 + 83,400}{2}$$

$$\therefore \text{ALP} = ₹ 81,300 \text{ [Ans].}$$

Adjustment in operating profit

$$= ₹ (81,300 - 72,975)$$

$$= ₹ 8,325 \text{ [Ans]}$$

(Increase).

4bStep1

5 Marks

4b

5 Marks

4

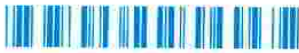
11 Marks



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18

1801

Q1			
	Particulars (PGBP Income)	(₹)	(₹)
	Net Profit as per P & L		52,00,000
	Add: Items disallowed / income		
✓	• Professional Fees	2,00,000	
✓	[Expense allowed in PY 24-25 on accrual basis but paid in cash in PY 25-26 and > 10,000]		
✓	• Interest to NBFC	2,00,000	
✓	[Allowed only if paid before due date of return filing - ∴ disallowed u/s 43B]		
✗	• Loss on Futures & Options	-	
	[Allowed as normal business income. Not treated as speculative]		
✓	• Legal Fees		
✓	[Allowed under section 37 as connected to business purpose and revenue nature] [TOS also paid]		
✓	• Development charges	95,000	
✓	[Capital Expense since paid on purchase of industrial land. Further, no depreciation adjustment for land]		

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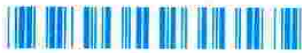
19			
DO NOT WRITE ANYTHING HERE	✓	• Donation to scientific institute [Allowed u/s 35(1)(ii) since assessable out of dearness regime].	—
DO NOT WRITE ANYTHING HERE	1Step1✓ 3.5 Marks	• Loss on sale of machinery [Loss on discard of machinery is a capital expense. ∴ disallowed]	1,70,000
DO NOT WRITE ANYTHING HERE	✓	• Excise duty drawback [Revenue income under section 28]	6,50,000
DO NOT WRITE ANYTHING HERE	✓		19,15,000
DO NOT WRITE ANYTHING HERE	✓	Less : Items allowed / income not credited to	
DO NOT WRITE ANYTHING HERE	✓	• Interest on margin money [since margin deposited for obtaining bank guarantee (business purpose) and not to earn interest, it is considered PGBP income]	—
DO NOT WRITE ANYTHING HERE	✓	• Depreciation on machine discarded (25,500) (170000 × 15%) [Incorrectly removed from block so depreciation provided].	
DO NOT WRITE ANYTHING HERE	✓	• Depreciation on computer printer. (90,000 × 40%) [Put to use more than 180 days]	(36,000)
			(61,500)



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INDIAN

	(₹)	(₹)
and computer accessories depreciation rate 40%]		
Total Income		70,53,500
Tax liability (Normal provisions)		
Tax @ 25% (70,53,500 x 25%) [since AY 23-24 Turnover upto 400 cr]		17,63,375
(+) HEC @ 4%		70,535
Tax payable under normal provisions		18,33,910
Total Income & Tax Liability (115B AA)		
	(₹)	(₹)
Net Gross Total Income		70,53,500
(+) Donation to Scientific Institute [not allowed under 115B AA]		3,20,000
Total Income		73,73,500
Tax @ 22% (22% of 73,73,500)		16,22,170
(+) Surcharge @ 10%		1,62,217
(+) HEC @ 4%		41,375
Tax liability under 115BAA		18,55,762
- Since Tax liability under Section 115BAA [greater] than under normal provisions of income tax, it is NOT beneficial to opt for Section 115BAA.		



The Institute of Chartered Accountants of India

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Subject : 04 Direct Tax Laws and International Taxation

Total Marks: 70
Marks Obtained : 52.5

21



Q6(a)

Legal Provision

As per section 40(a)(i), if TDS has not been deducted on payments made to NR, 100% expense is disallowed.

In given case, TDS has not been deducted on payments of ₹35 crores made to NR.

Tan Audit Report

- Form 3CD clause 21 - Tan Auditor is required to report whether any amount is disallowable under section 40(a)(i). Auditor has reported that entire expense allowable.
- Form 3CD clause 34 - Tan Auditor is required to report on whether or not TDS has been deducted on payments and deposited to Government. Tan Auditor has NOT reported under this clause.
- Form 3CA Para 3 - Tan Auditor is required to ~~rep~~ state about any certificate that he has relied upon provided by management. He fails to report this.

6aStep1
2 Marks



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Total Marks: 70
Marks Obtained : 52.5



22

Ethical Implications

• clause (7) of Part-I of second schedule
guilty of professional misconduct is auditor
is grossly negligent or fails to exercise
due diligence.

• clause (8) of Part-I of second schedule
guilty of professional misconduct if fails
to obtain sufficient and appropriate evidence.

Tax Auditor relied on management representation
and did not state the same under Form 3CA
Para 3. Further, he conducted test checks on
domestic freight payment and failed to
verify foreign freight payments via vouching
of bills of entry, bank remittance, confirmations.
∴ Guilty under above clauses.

6aStep2

2 Marks

6a

4 Marks

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DO NOT WRITE ANYTHING HERE



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Total Marks: 70
Marks Obtained : 52.5

23



Q 6(b).

(i) Tax Planning

Mr. Darshil has acted within four corners of law and availed benefit of legitimate exemptions provided by law under section 54EC by investing in TREA bonds.

6bStep1
1 Marks

(ii) Tax management

Mrs. Varsha has complied with requirements of law and ensured efficiency in tax management by complying with audit requirements under section 44AB. She has uploaded form 3CB and 3CD on time ensuring no penalties.

6bStep2
2 Marks

6b
3 Marks



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Total Marks: 70
Marks Obtained: 52.5



24

Q 6(C) .

A Resident can apply for advance ruling on behalf of Non-Resident with respect to a transaction undertaken or proposed to be undertaken, involving question of law.

However, Advance Ruling cannot be sought if the matter is already pending before High court.

- Accordingly, in given case, rejection of XYZ limited's application by the Board is valid because matter was already pending before High court.
- Before rejecting application, Board must give an opportunity of being heard to M/s XYZ limited.
- Remedies available
XYZ limited can file an appeal before the High court against such rejection, within a period of 60 days from date of rejection.

6cStep1

2 Marks

6c

2 Marks

6

9 Marks

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Code: FN4DT802425
Subject : 04 Direct Tax Laws and International Taxation

Total Marks: 70
Marks Obtained : 52.5

25

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X



Total Marks:	70
Marks Obtained :	52.5

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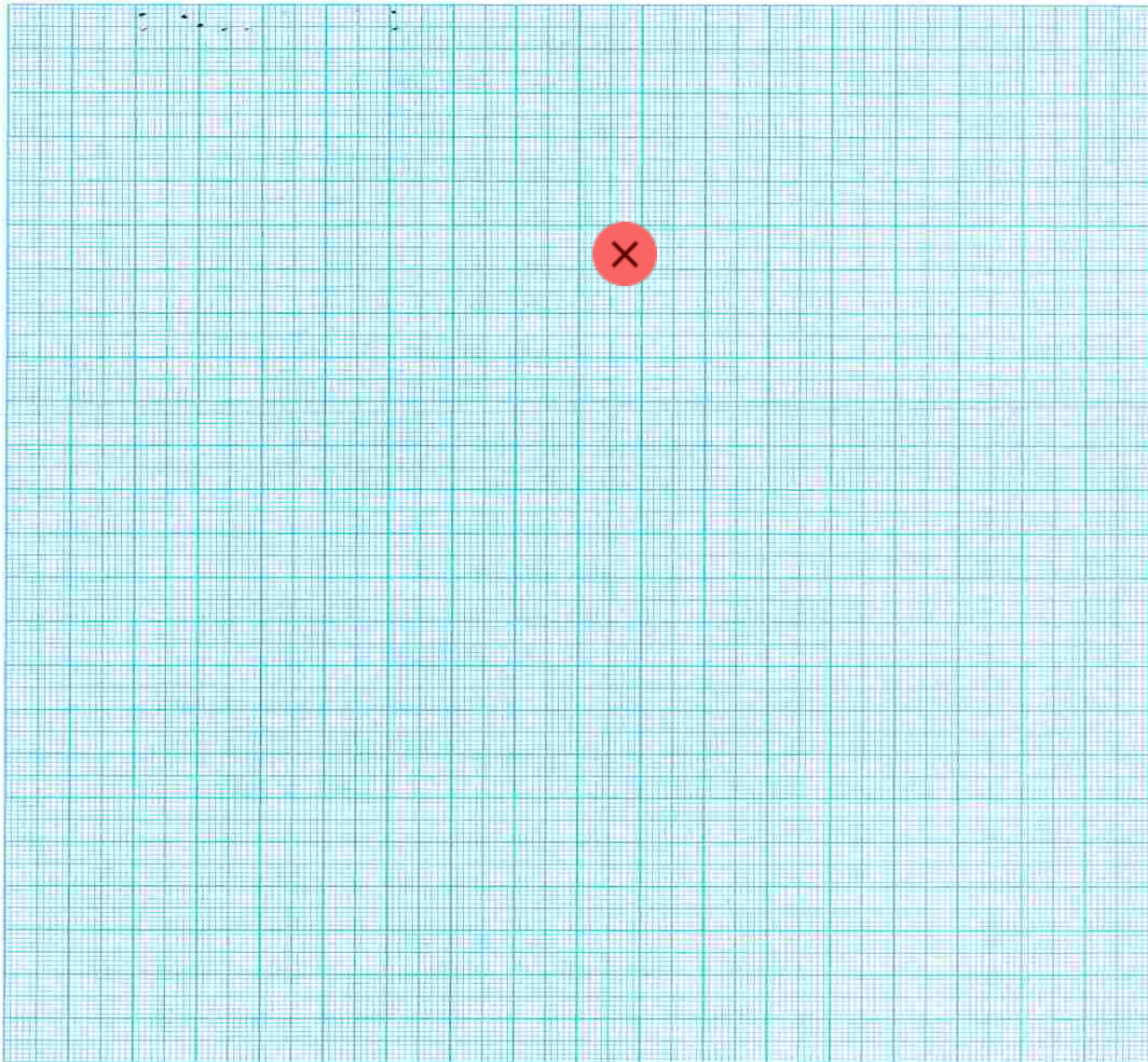


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Total Marks: 70
Marks Obtained : 52.5

27





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Subject : 04 Direct Tax Laws and International Taxation

Total Marks: 70
Marks Obtained : 52.5

28

1234

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Code: FN4DT802425
Subject : 04 Direct Tax Laws and International Taxation

Total Marks: 70
Marks Obtained : 52.5

Result Overview

Awarded Marks:52.5

Max Marks:70

 **Not Attempted**

 **Optional**

 **Marked**

Q1_Compulsory (Score: 12.5/14)

Question No	Awarded Marks	Maximum Marks	Status
1	12.5	14	

Q2_Q6 (Score: 40/56)

Question No	Awarded Marks	Maximum Marks	Status
2	10.5	14	
2a	4	4	
2b	4	4	
2c	2.5	6	
3	9.5	14	
3ai	2	3	
3aii	1.5	3	
3aiii	1	2	
3b	5	6	

4	11	14	M
4ai	2	2	M
4aii	2	2	M
4aiii	2	2	M
4aiv	0	2	M
4b	5	6	M
5	0	14	Y
5aiORii	0	4	Y
5aiiORiii	0	4	Y
5b	0	6	Y
6	9	14	M
6a	4	6	M
6b	3	4	M
6c	2	4	M