Mock Test Paper - Series I: March, 2026

Date of Paper: 23rd March, 2026

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(C)	**9.**	(A)
2.	(B)	**10.**	(D)
3.	(A)	**11.**	(A)
4.	(B)	**12.**	(A)
5.	(B)	**13.**	(B)
6.	(C)	**14.**	(C)
7.	(C)	**15.**	(C)
8.	(B)		

1. Computation of Total Income of Blessings Pharmaceutical Pvt. Ltd. for the A.Y. 2026-27

	Particulars	Amount (in ₹)	
I	**Profits and gains of business or profession**		
	Net profit as per statement of profit and loss		95,00,000
	Add: **Items debited but to be considered separately or to be disallowed**		
	(1) Depreciation as per Companies Act, 2013	11,90,000	
	(2) Bonus transferred to the trust for making payment to the employees after settlement of the dispute	Nil	
	[The bonus would be allowable as deduction u/s 36(1)(ii), even though the amount of bonus payable was initially remitted to the trust created for the purpose of avoiding late payment of bonus, since the actual payment of bonus made to the employees is 31st August, 2026 i.e., on or before due date		

		of filing return of income. Since the same has been already debited to the statement of profit and loss, no further adjustment is required]		
	(3)	**Regularization fee for violating a law** [Regularization fee paid for violating a law as prescribed by Medical Council of India is a payment to compound an offence. Such expenditure is considered to be the expenses prohibited by the law. Hence, it does not qualify for deduction u/s 37. As the same has been debited to the statement of profit and loss, it has to be added back]	9,50,000	
	(4)	**Late fees to Government for failure in performance of a contract** [Late fees of ₹ 45,000 paid for non-fulfilment of a contract within the stipulated time is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense. Since it is already debited in statement of profit and loss, no further adjustment is required]	Nil	
	(7)	**Payment of Interest to a company incorporated in USA** [Since the tax has been deducted in March, 2026 and deposited by the company on 14.7.2026 i.e., on or before due date of filing return of income, no disallowance would be attracted under section 40(a)(i). Since the interest has been already debited to the statement of profit and loss, no further adjustment is required]	Nil	
	(8)	**Contribution to electoral trust** [Contribution to electoral trust is not allowable as deduction while computing business income of the company. Since the contribution has been debited to statement of profit and loss, the same has to be added back while computing business income]	65,000	
				22,05,000
				1,17,05,000

	***Less:* Items credited but not taxable or chargeable to tax under another head**		
	(5) Profit on sale of plot of land to 100% subsidiary [Capital Gain arising on sale of plot of land is taxable under the head "Capital Gains". Since the profit on sale of plot of land has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	7,50,000	
	(6) Profit on sale of shares of M/s Satya Ltd. [Capital Gain arising on sale of shares of M/s Satyal Ltd. is taxable under the head "Capital Gains". Since the profit on sale of shares has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	4,50,000	
			12,00,000
			1,05,05,000
	***Less:* Depreciation as per Income-tax Act, 1961**		
	Normal depreciation		
	- On fire-fighting equipments [Eligible for depreciation even though such equipments were not used during the previous year.]	95,000	
	- On new machinery [₹ 75,00,000 x 15% since it is put to use for more than 180 days]	11,25,000	
	- On machinery sold and reacquired [15% of actual cost of ₹ 35,00,000, being lower of WDV at the time of sale (i.e., ₹ 35 lakhs) or price paid for re-acquisition (i.e., ₹ 65 lakhs)	5,25,000	
	Additional depreciation		
	- On new machinery [₹ 75,00,000 x 20%]	15,00,000	
			32,45,000
			72,60,000

II	**Capital Gains**			
	Profit on sale of plot of land to 100% subsidiary		Nil	
	[Short-term capital gains arise on sale of plot of land held for less than 24 months. However, in this case, since the transfer is to a 100% subsidiary company and the subsidiary company is an Indian company, the same would not constitute a transfer for levy of capital gains tax]			
	Long term capital gain on sale of shares of M/s. Satya Ltd. [Since shares were held for more than 12 months]			
	[Full value of consideration (2,500 x ₹ 280)]	7,00,000		
	Less: Cost of acquisition - Higher of (i) and (ii)	4,37,500		
			2,62,500	2,62,500
	(i) Actual cost of acquisition (2,500 x ₹100) ₹ 2,50,000			
	(ii) ₹ 4,37,500, being lower of fair market value as on 31.1.2018 (i.e., ₹ 4,37,500, being 2,500 x 175) and sale consideration (i.e., ₹ 7,00,000)			
	Gross Total Income			**75,22,500**
	***Less:* Deduction under Chapter VI-A**			65,000
	Under section 80GGB [Contribution by a company to an electoral trust is allowable as deduction, since payment is made otherwise than by cash]			
	Total Income			**74,57,500**

2. (a) Computation of Taxable Capital gain in the hands of Star Limited for A.Y.2026-27

Particulars	₹
Full value of consideration **[See Note 1 below]**	2,64,00,000
Less: Net worth **[See Note 2 below]**	2,37,25,000

Long-term capital gain [Since the Unit is held for more than 24 months] No indexation benefit is allowed in slump sale.	**26,75,000**

Note 1: Computation of Full value of consideration

Particulars	₹
Fair market value of the capital assets transferred by way of slump sale [FMV1]	
Land, being an immovable property [Stamp duty value on 1.10.2025, being the date of slump sale]	62,00,000
Building, being an immovable property [Stamp duty value on 1.10.2025, being the date of slump sale]	72,00,000
Machinery [Book value as appearing in the books of accounts]	52,00,000
Investment in listed equity shares of ABC Limited [Fair market value as on 1.10.25] [1,00,000 x 42]	42,00,000
Inventories [Book value as appearing in the books of accounts]	60,00,000
Licenses and Franchises [Book value as appearing in the books of accounts]	23,00,000
	3,11,00,000
Less: Liabilities of Chemical Unit – Trade Creditors	47,00,000
Fair market value of the capital assets transferred by way of slump sale **[FMV1]**	**2,64,00,000**
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [Value of the monetary consideration received] **[FMV2]**	2,42,00,000
Full value of consideration [Higher of FMV1 or FMV2]	2,64,00,000

Note 2 – Computation of Net worth

Particulars	₹	₹
Land (Excluding ₹ 20 lakhs on account of revaluation)		50,00,000
Building		70,00,000
Machinery		52,00,000

Investment in Equity Shares of ABC Ltd.		35,00,000
Inventories		60,00,000
Licenses and Franchises		17,25,000
Cost as on 1.6.2024	23,00,000	
Less: Depreciation @ 25% for Financial Year 2024-25	5,75,000	
WDV as on 1.4.2025	17,25,000	
Total assets		2,84,25,000
Less: Trade Creditors		47,00,000
Net worth		**2,37,25,000**

(b) Computation of total income and net tax liability of Mr. Karan Verma for A.Y. 2026-27 as per the default tax regime under section 115BAC

		₹	₹
Income from Salary			
Gross Salary		23,50,000	
Less: Standard Deduction u/s 16(ia)		75,000	
			22,75,000
Income from House Property			
Self-occupied property in Delhi			
Interest on housing loan [Not allowable as deduction under default tax regime]			-
Let out property in Country R	Euro		
Rent from house property in Country R[1]	8,000		
Less: Municipal taxes paid in Country R	800		
	7,200		
Less: Deduction under section 24(a) @30%	2,160		
	5,040		
Euro 5,040 x ₹ 90			4,53,600

[1] *Rental Income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.*

Profits and Gains of Business or Profession		
Income from business in Country R [Euro 13,500 x ₹ 90]		12,15,000
Capital Gain		
Short-term capital gain on sale of shares of companies registered in County R [Euro 6,000 x 90]		5,40,000
Income from Other Sources		
Dividend from Indian companies	1,90,000	
Interest in FDR [To be included in the total income of Mr. Karan since FDRs are made by Mr. Karan]	24,000	
		2,14,000
Gross Total Income/ Total Income		**46,97,600**
Tax liability on ₹46,97,600		
Tax on total income [30% of ₹ 22,97,600 + ₹ 3,00,000]		9,89,280
Add: Health and Education cess @4%		39,571
		10,28,851
Less: Deduction u/s 91 (See Working Note below)		4,83,683
Net tax liability		**5,45,168**
Net tax liability (Rounded off)		**5,45,170**
Working Note: Calculation of deduction under section 91		
Average Rate of tax in Country R is 25%		
Indian Average Rate of tax = ₹ 10,28,851/ ₹ 46,97,600 x 100 = 21.90%		
Doubly taxed income pertaining to Country R = Income from house property of ₹ 4,53,600 + Income from Business of ₹ 12,15,000 + Capital Gain of ₹ 5,40,000 = ₹ 22,08,600		
Deduction u/s 91 = Lower of average rate of tax in Country R and Indian rate of tax rate of tax x Doubly taxed income = [21.90% x ₹ 22,08,600]		4,83,683

3. (a) (i) As per section 13(2), if any part of the income or the property of the trust or institution is or continues to be lent to any "specified person" referred to in section 13(3) for any period during the previous year without either adequate security or adequate interest or both, such income or property is to be deemed to have been used or applied for the benefit of a person referred to in section 13(3).

In the present case, Mr. Rahul has made a substantial contribution of ₹ 1,70,000 which exceeds the limit of ₹ 1,00,000 to TMV Foundation, he would fall within the category of persons specified under section 13(3).

TMV Foundation trust gave loan of ₹ 5 lakhs out of the income of the trust without any security to Mr. Rahul though rate of interest i.e., 12% is higher than the market rate of 11.50%, such income/loan amount of ₹ 5 lakhs is deemed to have been used or applied for the benefit of Mr. Rahul, being a person specified u/s 13(3). By virtue of section 13(1)(c), the provisions of section 11 or 12 would not apply to such income to exclude from the total income of the P.Y. 2025-26.

Consequently, the income of ₹ 5 lakhs would be considered as specified income u/s 115BBI and be taxable @30%.

Further, in terms of section 271AAE, penalty of ₹ 5 lakhs would also be leviable, calculated at 100% of income provided as a benefit, where the violation is noticed for the first time during any previous year.

(ii) Voluntary contribution of ₹ 105 lakhs received with a specific direction that it should form part of the corpus of the trust, would be eligible for exemption, since investment in shares of M/s National Health Services Ltd., a public sector company is permissible mode of investment under section 11(5).

However as per provisions of section 11(5), where an investment is made in the shares of any public sector company and such public sector company ceases to be a public sector company, the investment so made shall be deemed to be an investment made for a period of three years from the date of such cessation.

Therefore, it would continue to be eligible for exemption for a period of 3 years from the cessation date i.e., 31.3.2026 on which M/s National Health Services Ltd., ceases to be a public sector company due to the disinvestment.

(iii) A trust is required to deduct tax at source u/s 194J even if it is not subjected to tax audit u/s 44AB. Moreover, as per *Explanation 3* to section 11(1), where tax has not been deducted at source on any expenditure, 30% of disallowance of expenditure for non-deduction of tax at source under section 40(a)(ia) would *mutatis mutandis* apply to a trust in determining application of income.

Accordingly, ₹ 36,000 being 30% of ₹ 1,20,000 would not be treated as application of income for non-deduction of tax at source on the consultancy fees paid to Mr. Amit by M/s Sunshine Care Foundation.

(c) A transaction where one of the parties thereto is a person located in a NJA would be deemed to be an international transaction and all parties to the transaction would be deemed as associated enterprises. Accordingly, all the provisions of transfer pricing would be attracted in case of such a transaction.

Hence, the transactions between Tide Ltd, an Indian company and Limitless Ltd., located in NJA, would be deemed to be international transactions between associated enterprises.

The transactions of Tide Ltd. with XY Inc. of Country X and RP Inc. of Country Y for sale of identical goods are comparable uncontrolled international transactions, since they are neither associated enterprises of Tide Ltd. nor are they situated in NJA. Hence, Comparable Uncontrolled Price (CUP) method can be used to determine ALP.

Where more than one price is determined by the most appropriate method, CUP method in this case, then, the arithmetic mean has to be taken in cases where the number of entries in the dataset is less than 6 (in this case it is only 2). Moreover, the benefit of permissible variation between the ALP and the transfer price based on the rate notified by the Central Government (i.e., maximum of 3% of transaction price) would **not** be available in respect of such transaction.

Computation of ALP using CUP method

Particulars	XY Inc.	RP Inc.
	₹ in crores	₹ in crores
Price charged by Tide Ltd. (on CIF basis)	10.50	11.00
Less: Ocean freight and insurance, has to be reduced since the price charged to Limitless Ltd. is on FOB basis	0.18	0.18
	10.32	**10.82**
Less: Cost of after-sales support service (has to be reduced, since such services are being provided to XY Inc. and RP Inc. but not to Limitless Ltd.)	0.13	0.13
Arm's Length Price	**10.19**	**10.69**

Arithmetic mean of the above prices [(₹ 10.19 crores + ₹ 10.69 crores)/2]	**10.44**
Less: Price at which goods were sold to Limitless Ltd.	9.50
Arm's length adjustment [increase in profit of Tide Ltd.]	**0.94**

4. **(a)** **(i)** TDS under section 194C is **not** attracted since the payment of ₹ 3 lakhs for repair of residential house is for personal purpose. TDS under section 194M is also not attracted as aggregate of contract payment to the payee in the P.Y.2025-26 does not exceed ₹ 50 lakhs.

However, on payment of ₹ 75,000 towards commission to Mr. Madhav for business purposes, tax is required to be deducted at source u/s 194H @2%, since the payment exceeds ₹ 20,000, and Mr. Madhav's turnover from business exceeds ₹ 1 crore in the P.Y.2024-25. Accordingly, amount of ₹ 1,500 (₹ 75,000 x 2%) is required to be deducted at source.

(ii) Yes, he can do so. If a person has a loss in any previous year and has furnished a return of loss under section 139(3) on or before the due date of filing return of income u/s 139(1), he shall be allowed to furnish an updated return, if such updated return is a return of income. Accordingly, in this case, since the original return of Mr. Raghav was filed on the due date u/s 139(1) i.e., on 31.10.2025, he can file an updated return within 4 years from the end of A.Y.2025-26, i.e., on or before 31.3.2030.

Accordingly, he can file an updated return of income on 30.11.2026 declaring total income of ₹ 7 lakhs, after paying tax due on such total income along with interest under section 234B and section 234C and additional income-tax at 25% of aggregate of tax and interest payable (since the updated return is filed before 31.3.2027, i.e., before 12 months from the end of A.Y.2025-26).

(b) As per section 194-I dealing with deduction of tax at source from payment of rent, the rate of TDS applicable is 2% for machinery hire charges and 10% for building lease rent. The scope of the section includes within its ambit, rent for machinery, plant and equipment. Tax is required to be deducted at source from payment of rent, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of building and machinery, irrespective of whether such assets are owned or not by the payee.

The limit of ₹ 50,000 p.m. or part thereof for tax deduction at source will apply to the aggregate rent of all the assets. Even if two separate agreements are entered into, one for sub-lease of building and another for hiring of machinery, rent and

hire charges under the two agreements have to be aggregated for the purpose of application of the threshold limit of ₹ 50,000 p.m.

In this case, since the payment for rent and hire charges credited to the account of James, the payee, aggregates to ₹ 38,000 p.m. or part thereof (₹ 20,000 + ₹ 18,000), no tax is to be deductible at source under section 194-I.

(c) Section 92CB(1) provides that the determination of income referred to in section 9(1)(i) shall be subject to safe harbour rules. Safe harbour means circumstances in which the income tax authorities shall accept the transfer price declared by the assessee. Section 92CB(2) empowers the CBDT to prescribe such safe harbour rules or circumstances under which the transfer price declared by the assessee shall be accepted by the Income-tax Authorities.

Accordingly, in exercise of the powers conferred by section 92CB read with section 295 of the Income-tax Act, 1961, the CBDT has, vide *Notification No.124/2024 dated 29.11.2024*, prescribed the safe harbour rules for income referred to in section 9(1)(i) chargeable to tax under the head "Profits and gains of business or profession".

Silver BV is a foreign company engaged in the business of diamond mining, hence, it is an eligible assessee as per Rule 10TI and can apply for safe harbour rules.

An eligible business, for this purpose, means a business of selling raw diamonds in any notified special zone as referred to in clause (e) of *Explanation 1* to section 9(1)(i). Accordingly, display of uncut and unassorted diamonds is not an eligible business and Silver BV cannot declare profits from such display under safe harbour rules.

Moreover, in case of a foreign company which is engaged in the business of mining of diamonds, no income shall be deemed to accrue or arise in India to it through or from the activities which are confined to display of uncut and unassorted diamonds in any notified special zone. Hence, profit of ₹ 2 crores from display of diamonds in Special Notified Zone (SNZ) in Surat shall not be deemed to accrue or arise in India and not taxable in India.

As per Rule 10TIA, if an eligible assessee declares 4% or more of the gross receipts as profits and gains of the eligible business chargeable to tax under the head "Profits and gains of business or profession", the option for safe harbour exercised by such eligible assessee in any relevant previous year shall be accepted by the income-tax authorities.

During the P.Y. 2025-26, Silver BV wants to declare ₹ 3 crores from trading of raw diamonds to Indian buyers which is only 3% of gross receipts of ₹ 100 crores. Hence, the option for safe harbour exercised by Silver BV in P.Y. 2025-26 shall not be accepted by the income-tax authorities as the same is not in accordance with the circumstance mentioned in Rule 10TIA.

5. (a) (i) **Issue Involved**: The issue under consideration is whether the High Court is justified in not framing any substantial question of law itself and adjudicating merely on the questions put forth by the appellant.

Relevant provision of law: Section 260A(1) provides that an appeal shall lie to the High Court from every order passed in appeal by the Appellate Tribunal, if the High Court is satisfied that the case involves a substantial question of law. As per section 260A(3) and 260A(4), if the High Court is so satisfied, it shall formulate that question and the appeal shall be heard only on the question so formulated.

Analysis & Conclusion: There lies a distinction between the questions proposed by the appellant for admission of the appeal to the High Court and the questions framed by the High Court. The questions, which are proposed by the appellant, fall under section 260A(2)(c) whereas the questions framed by the High Court fall under section 260A(3). Section 260A(4) provides that the appeal is to be heard on merits only on the questions formulated by the High Court under section 260A(3**)** and not on the questions proposed by the appellant.

In case the High Court is of the view that the appeal did not involve any substantial question of law, it should have recorded a categorical finding to that effect that the questions proposed by the appellant either do not arise in the case or/and are not substantial questions of law so as to attract the rigour of section 260A for its admission and accordingly, should have dismissed the appeal at the preliminary stage itself. However, this was not done in this case. Instead, the appeal was heard only on the questions urged by the appellant u/s 260A(2)(c).

The High Court was, therefore, not justified since it did not decide the appeal in conformity with the mandatory procedure prescribed in section 260A.

Note *– The facts given in the question are similar to the facts in CIT v. A.A. Estate Pvt. Ltd. [2019] 413 ITR 438, 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.*

(ii) **Issue Involved:** The issue under consideration is whether the Assessing Officer is bound to allow the set-off of brought forward losses under section 72 even if the assessee, Mr. Ashish, in this case, has not claimed the same in the return filed by him and the time limit for filing revised return has expired.

Provisions Applicable: Under section 72, business losses shall be carried forward and shall be set-off against the profits and gains of any business in the next assessment year.

It is assumed that the assessee has filed the return of income within the time stipulated u/s 139(1) and hence is eligible for set off of the unabsorbed loss in the subsequent year.

The wording used in section 72 is "shall", indicating that the provisions relating to set off of brought forward business loss are mandatory provided the loss was determined in pursuance of a return filed under section 139(3) in any earlier previous year.

Analysis and Conclusion: As per CBDT Circular No.14 (XL-35) of 1955 dated 11.04.1955, it is the duty of the Assessing Officer to assist a taxpayer in every reasonable way, particularly in the matter of claiming and securing reliefs and in this regard, they should take the initiative in guiding a taxpayer where proceedings or other particulars before them indicate that some refund or relief is due to him.

Thus, it is the duty of the Assessing Officer to apply the relevant provisions of the Act for the purpose of determining the true figure of Mr. Ashish's total income and consequential tax liability.

Merely because Mr. Ashish has not claimed the set-off of brought forward losses of ₹ 8 lakh in the original return filed and the time limit for filing revised return has expired, it cannot relieve the Assessing Officer of his duty to apply section 72 in the appropriate case.

The Assessing Officer is bound to accept the request of Mr. Ashish and allow the set-off of brought forward losses of ₹ 8 lakh under section 72, even if Mr. Ashish has not claimed the same in the return filed, and the time limit for filing the revised return has expired.

Note - *The above answer is based on the rationale of the Supreme Court in CIT v. Mahalakshmi Sugar Mills Co. Ltd. (1986) 160 ITR 920, taking note of the CBDT Circular No.14 (XL-35) of 1955 dated 11.04.1955.*

(b) Section 144C requires the eligible assessee, Travel Ltd., to file his objections within 30 days of the receipt of draft assessment order from the Assessing Officer with the DRP and the Assessing Officer.

If he fails to do so, the Assessing Officer will proceed to complete the assessment on the basis of the draft order.

The CBDT has clarified that the assessee has a choice whether to file an objection before the DRP against the draft assessment order or not to exercise this option and file an appeal later before CIT (Appeals) against the final assessment order passed by the Assessing Officer.

Therefore, Travel Ltd. can choose to file an appeal before Commissioner (Appeals) against the final assessment order instead of filing objection before the DRP against the draft assessment order passed by the Assessing Officer.

In case Travel Ltd. files objection before the DRP, then, he has the right to appeal to Appellate Tribunal, if he is aggrieved by the final order passed by the Assessing Officer in pursuance of the directions of the DRP.

(c) In digital economy transactions like sale, purchase, payment, rendering services are performed through digital or virtual mode. In the digital domain, business does not actually occur in any physical location but instead takes place in "cyberspace."

Taxation issues in e-commerce

The typical taxation issues relating to e-commerce are:

(i) the difficulty in characterizing the nature of payment and establishing a nexus or link between taxable transaction, activity and a taxing jurisdiction,

(ii) the difficulty of locating the transaction, activity and identifying the taxpayer for income tax purposes.

The following are OECD recommendations under Action Plan 1 dealing with digital economy:

(1) **Modifying the existing permanent establishment** rule to provide for whether an enterprise engaged in fully de-materialized digital activities would constitute a PE, if it maintained a significant digital presence in another country's economy.

(2) **a virtual fixed place of business in the concept of permanent establishments** i.e., creation of a PE when the enterprise maintains a website on a server of another enterprise located in a jurisdiction and carries on business through that website.

(3) **Imposition of a final withholding tax on certain payments** for digital goods or services provided by a foreign e-commerce provider **or imposition of equalisation levy** on consideration for certain digital transactions received by a non-resident from a resident or from a non-resident having permanent establishment in other contracting state.

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

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

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

In this case, the arrangement of routing money through wholly owned subsidiary Company C in Country X, a low tax jurisdiction, to an Indian company (C Ltd.) involves round tripping of funds even though funds emanating from Dynasty Ltd. are not traced back to Dynasty Ltd. The alternate course available in this case is direct advance to C Ltd. an Indian company, in which case the interest income would have been chargeable to tax in the hands of Dynasty Ltd.

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

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

(b) (i) The statement is **not** correct.

An applicant who is aggrieved by any ruling pronounced by the Board for Advance Rulings may appeal to the High Court against such ruling or order of the Board of Advance Rulings. He has to do so within sixty days from the date of the communication of that ruling, in the prescribed form and manner.

Therefore, Mr. Karan may appeal to the High Court against such order within sixty days from the date of the communication of that order.

(ii) The statement is **not** correct.

A resident falling within any class or category of persons as notified by the Central Government i.e., a public sector undertaking can seek advance ruling even if question raised is pending before the Appellate Tribunal.

(c) As per section 44AB, every person *inter alia* carrying on business or profession is required to get his accounts audited before the "specified date" by an accountant, if total sales, turnover or gross receipts in business exceeds ₹ 1 crore in any previous year.

However, tax audit is not required in case of such person carrying on business whose total sales, turnover or gross receipts in business ≤ ₹ 10 crore in the relevant previous year (P.Y.), if -

- aggregate cash receipts including amount received for sales, turnover, gross receipts in the relevant previous year ≤ 5% of such receipts; **and**
- aggregate cash payments including amount incurred for expenditure in the relevant P.Y. ≤ 5% of such payments or

As per section 44AD, a resident individual, HUF or Partnership firm (but not LLP) engaged in eligible business and who has not claimed deduction under section 10AA or Chapter VIA under "C – deductions in respect of certain incomes" whose total turnover/ gross receipts in the P.Y. ≤ ₹ 200 lakhs (where cash receipts do not exceed 5% of total turnover, higher threshold limit of ₹ 300 lakhs applicable) can declare 8%/6%, as the case may be, of total turnover/ sales/gross receipts or a sum higher than the aforesaid sum claimed to have been earned by the assessee. However, a person *inter alia* carrying on any agency business are not eligible for presumptive provisions of section 44AD.

In the present case, since Mr. Rohan Mehta is carrying on travel agency business, he is not eligible for presumptive provisions of section 44AD, though his turnover does not exceed ₹ 3 crores.

In this case, the turnover of Mr. Rohan Mehta exceeds ₹ 1 crore but does not exceed ₹ 10 crore. Accordingly, it has to be seen whether cash receipts exceed 5% of aggregate receipts and cash payments exceed 5% of aggregate payments, to determine whether tax audit is compulsory. During the P.Y. 2025-26, his cash receipts are ₹ 13,35,000 plus ₹ 52,500 totaling to ₹ 13,87,500, which is 4.83% of total receipts of ₹ 2,87,00,000. Cash payments made during the P.Y. 2025-26 are ₹ 20,58,000 which is 7.98% of aggregate payments of ₹ 2,58,00,000. Since his cash payments during the P.Y. 2025-26, exceed 5% of aggregate payments made during the year, he is required to get the accounts audited under section 44AB and furnish tax audit report on or before the specified date i.e., one month prior to the due date of filing return of income under section 139(1).