

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

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 Question in Division A, working notes are not required.

All questions relate to Assessment Year 2026-27, unless stated otherwise in the question.

Time Allowed – 3 Hours

Maximum Marks – 100

Division A – Multiple Choice Questions

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

Case Scenario I

M/s. Trailer Limited is an Indian company. It distributed dividend to its shareholders amounting to ₹ 2,50,000 for the financial year 2024-25 in December 2025 and dividend of ₹ 4,50,000 for the financial year 2025-26 in March 2026. Assume that all the amounts of dividends on investment in shares by Trailer Limited have been received before 31st March 2026.

Trailer Limited has made investment in shares of Indian and foreign companies. During the financial year 2025-26, Trailer Limited earned dividends from different companies as follows:

Name of the company	Status of the company	Shareholding held by Trailer Limited	Date of declaration of dividend by the company	Gross amount of dividend in ₹	Interest Expenditure on loan borrowed for investment in shares by Trailer Limited
Peter Ltd.	Indian Company	12%	01.07.2025	3,00,000	66,000
Queen Ltd.	Indian Company	21%	01.11.2025	5,00,000	1,05,000
Xylo Inc.	Foreign company	15%	10.02.2026	4,80,000	1,20,000

A search was made under section 132 of the Income-tax Act, 1961 on M/s. Trailer Limited. The search was initiated on 26.02.2026 and concluded on 06.03.2026 when the last of authorizations executed.

M/s. Traylor Limited received a notice under section 143(2) for A.Y. 2024-25, the assessment proceedings for which in the faceless manner was ongoing at the time of search. A notice under section 148 was also issued for A.Y. 2021-22 to the company as per the provisions of the Act, the proceedings for which were also pending on the date of search.

The company has made an appeal before the Commissioner of Income-tax (Appeals) for the A.Y. 2016-17 for a matter relating to a business deduction, which was dismissed by the CIT (Appeals) on 20.12.2025 and order u/s 250 was communicated on the same date to the company. The company decided to go for further appeal on this matter in the ITAT.

Based on the above facts, choose the most appropriate answer to Q.1 to Q.5 below:

1. What is the amount of dividend to be included under the head "Income from Other sources" for the A.Y. 2026-27 for Traylor Limited?
(A) ₹ 10,44,000
(B) ₹ 10,14,000
(C) ₹ 10,24,000
(D) ₹ 5,74,000 **(2 Marks)**
2. What will be the amount of deduction allowable to M/s. Traylor Limited under section 80M for dividend income for A.Y. 2026-27, assuming that the company has opted special tax regime u/s 115BAA?
(A) ₹ 4,50,000
(B) ₹ 7,00,000
(C) ₹ 2,50,000
(D) NIL **(2 Marks)**
3. What would be considered as the "Block period" as per special provisions for Assessment of search cases under section 158B to 158BI in case of M/s. Traylor Limited?
(A) Assessment years relevant to previous years 2019-20 to 2024-25 and the period from 1st April, 2025 to 06.03.2026.
(B) Assessment years relevant to previous years 2019-20 to 2024-25 and the period from 1st April, 2025 to 25.02.2026.
(C) Assessment years relevant to previous years 2019-20 to 2024-25 and the period from 1st April, 2025 to 26.02.2026.
(D) Assessment years relevant to previous years 2019-20 to 2025-26. **(2 Marks)**

4. As per information provided relating to Traylor Limited, Choose the correct option on the basis of the above facts:
- (A) The assessment proceedings for A.Y. 2024-25 shall be deemed to have abated but assessment proceedings under section 148 shall continue.
 - (B) The assessment proceedings for both A.Y. 2021-22 and A.Y. 2024-25 shall abate on the date of initiation of search under section 132.
 - (C) The assessment proceedings for A.Y. 2021-22 shall abate but the Assessment proceedings for A.Y. 2024-25 will continue.
 - (D) The assessment proceedings for both A.Y. 2021-22 and A.Y. 2024-25 shall continue and these two periods will be excluded from assessment of block period.

(2 Marks)

5. What would be the prescribed time limit for filing appeal before ITAT as per the time limit given in section 253(3) of the Act on the matter relating to A.Y. 2016-17 for the company. (Ignore condonation of delay allowable by ITAT)?
- (A) On or before 18.02.2026
 - (B) On or before 28.02.2026
 - (C) On or before 19.01.2026
 - (D) On or before 31.01.2026

(2 Marks)

Case Scenario II

Mr. Rohan Mehta, aged 49 years, is a non-resident and a person of Indian origin during the Previous Year 2025-26. He furnishes the following details of income earned in India:

- He sold listed equity shares of B Ltd., an Indian company, on 31-05-2025 for ₹ 6,00,000. These shares were acquired on 01-06-2021 for ₹ 1,10,000 in convertible foreign exchange. Expenses incurred in connection with transfer amounted to ₹ 50,000.
- He earned interest on Government securities (acquired in convertible foreign exchange) of ₹ 81,000 (net of TDS).
- He earned interest on deposits with public limited companies of ₹ 3,25,000 (gross). Expenses of ₹7,500 were incurred for earning this income. These deposits were also made in convertible foreign exchange.
- He also earned interest on deposits with private limited companies of ₹ 5,55,000. These deposits were made when he was resident in India out of taxable income.

On 11-11-2025, he made a fresh investment of ₹ 2,20,000 in shares of an Indian public limited company.

He opted out of the default tax regime under section 115BAC(1A). TDS has been deducted wherever applicable. Ignore interest under sections 234A, 234B and 234C and ignore the first proviso to section 48.

Based on the above facts, choose the most appropriate answer to Q.6 to Q.8 below:

6. What amount is chargeable to tax under the head "Capital Gains" arising on sale of listed equity shares in accordance with Chapter XII-A for the A.Y. 2026-27?
- (A) ₹ 4,40,000
(B) ₹ 2,78,667
(C) ₹ 2,64,000
(D) ₹ 3,10,333 **(2 Marks)**
7. What amount is chargeable to tax under the head "Income from Other sources" in the hands of Mr. Rohan Mehta for the A.Y. 2026-27?
- (A) ₹ 9,74,773
(B) ₹ 9,61,000
(C) ₹ 9,82,273
(D) ₹ 9,81,250 **(2 Marks)**
8. Compute the total tax liability (including health and education cess) of Mr. Rohan Mehta for the Assessment Year 2026-27 in accordance with Chapter XII-A and other applicable provisions of the Income-tax Act, 1961.
- (A) ₹ 1,70,510
(B) ₹ 1,47,630
(C) ₹ 1,40,770
(D) ₹ 1,23,190 **(2 Marks)**

Case Scenario III

Mr. Sunny Gupta (aged 34 years) in respect of a piece of land owned by him, entered into a registered agreement for development of a real estate project in the financial year 2021-22 with M/s Yen Ltd, a real estate developer. As per the terms of the agreement, Mr. Sunny Gupta was entitled to receive one constructed flat in the project besides cash consideration of ₹ 32,00,000/- in the year of completion of project. The certificate of completion of the project is issued by the

competent authority in the financial year 2025-26. Mr. Sunny Gupta received one of the constructed flat and cash consideration (as agreed) from Yen Limited during the financial year 2025-26. The cash consideration was received in the form of an account payee bank draft. The stamp duty value of the said flat on the date of the payment of cash consideration was ₹ 29,00,000/-.

Mr. Sunny Gupta is married with Avni Gupta. He has gifted a house property to his wife on 24/03/2025. The stamp duty value of the said property on the date of gift was ₹ 80 lakhs. The said house was let out by Mrs. Avni Gupta for a period of 15 months, w.e.f. 01/04/2025 at monthly rent of ₹ 50,000/- to Mr. Suresh Kumar. There is no payment of property tax in the financial year 2025-26. Mr. Sunny Gupta also gifted 2,000 debentures of ₹ 500 each of Royal Limited to his wife Mrs. Avni Gupta on 01/04/2025. M/s Royal Limited credited interest of ₹ 1,00,000/- on these debentures on 30/03/2026 in the bank account of Mrs. Avni Gupta. Mrs. Avni Gupta does not have any other source of income.

Mr. Sunny Gupta purchased 400 shares of Gear Ltd (a listed company) on 14.06.2017 at a cost of ₹ 450 per share. He sold all the shares of Gear Ltd. on 01.07.2025 through National Stock Exchange for ₹ 5,00,000/-. The applicable security transaction tax was also paid. The price at which these shares were traded in National Stock Exchange on 31.01.2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	710
Average Trading Price	695
Lowest Trading Price	680

In respect of the Assessment Year 2024-25, in case of Mr. Sunny Gupta, the Assessing Officer had in its possession the information in respect of the undisclosed income. The said information has been enclosed with a notice for the assessment year issued and served u/s 148A(1) of the Income-tax Act to Mr. Sunny Gupta. However, the notice u/s 148 has still not been issued for the assessment year.

From the facts given in the case study, choose correct answer to MCQ. No. 9 to 12:

9. The amount of income to be clubbed in the gross total income of Mr. Sunny Gupta for the A.Y. 2026-27 will be -
- (A) ₹ 4,20,000/- under the head "Income from House Property" and ₹ 1,00,000/- under the head "Income from other sources".
 - (B) Only ₹ 6,00,000/- under the head "Income from House Property".
 - (C) NIL, as the gift to wife is exempt under section 56(2)(x).
 - (D) ₹ 6,00,000/- under the head "Income from House Property" and ₹ 1,00,000/- under the head "Income from other sources".
- (2 Marks)**

10. In respect of consideration paid in form of a flat and account payee bank draft to Mr. Sunny Gupta, M/s. Yen Limited during the financial year 2025-26 was required to make TDS of -
- (A) ₹ 28,000
 - (B) ₹ 32,000
 - (C) NIL
 - (D) ₹ 3,20,000
- (2 Marks)**
11. Capital gain from sale of shares of Gear Limited in the case of Mr. Sunny Gupta for the A.Y. 2026-27 works out to-
- (A) ₹ 2,16,000
 - (B) ₹ 2,22,000
 - (C) ₹ 2,28,000
 - (D) ₹ 91,000
- (2 Marks)**
12. In the given facts, in the case of Mr. Sunny Gupta in respect of the Assessment Year 2024-25, which of the following statement is correct?
- (A) Mr. Sunny Gupta can file an updated return for the Assessment Year upto 31/03/2029 or issue of notice u/s 148, whichever is earlier.
 - (B) Mr. Sunny Gupta can file an updated return for the Assessment Year upto 31/03/2027.
 - (C) Mr. Sunny Gupta is not eligible to file an updated return for the Assessment Year 2024-25, since notice u/s 148A(1) is served on him.
 - (D) Mr. Sunny Gupta cannot file an updated return with respect to undisclosed income.
- (2 Marks)**
13. During the financial year 2024-25, MNO International Singapore (a company incorporated in Singapore) held shares carrying voting power of 25% in XYZ (India) Ltd. (an Indian Company). XYZ (India) Ltd., who is a wholly owned subsidiary of PQR International Singapore, also held shares carrying voting power of 36% in PQR (India) Ltd. PQR (India) Ltd is engaged in manufacturing of industrial chemicals and for such manufacturing, it is wholly dependent on the technical know-how provided by PQR International Singapore. During the financial year, royalty of ₹ 25 Crores was paid

by PQR (India) Ltd. to PQR International Singapore. Considering the above facts, which of the following statements is correct:-

- (A) XYZ (India) Ltd is only associated enterprise of PQR International Singapore.
- (B) XYZ (India) Ltd and PQR (India) Ltd, both are associated enterprise of PQR International Singapore.
- (C) Neither XYZ (India) Ltd, nor PQR (India) Ltd is associated enterprise of PQR International Singapore.
- (D) PQR (India) Ltd is only associated enterprise of PQR International Singapore.

(2 Marks)

14. Mr. Rajat, a resident, and Mr. James, an American citizen and a non-resident in India, are both sports commentators deriving income of ₹ 7 lakh from sports commentaries in India for A.Y.2026-27. Which of the following statements are correct?

- (i) Tax is deductible u/s 194J from remuneration payable to Mr. Rajat.
- (ii) Tax is deductible u/s 194E from remuneration payable to Mr. James.
- (iii) Tax is deductible u/s 195 from remuneration payable to Mr. James.
- (iv) Mr. James is not required to file his return of income u/s 139, if tax deductible at source is fully deducted.
- (v) Mr. Rajat is not required to file his return of income u/s 139, if tax deductible at source is fully deducted.

Which of the above statements are correct, assuming that this is the only source of income for Mr. Raghav and Mr. John?

- (A) (i), (ii) and (iv)
- (B) (i), (ii), (iv) and (v)
- (C) (i) and (iii)
- (D) (i), (iii) and (iv)

(2 Marks)

15. Mr. Bunny acquired 1000 Equity shares of Parrot Limited for ₹ 400 each in May 2020. The company buyback 300 Equity shares of Mr. Bunny, as per the scheme of buyback, in January 2026 at a price of ₹ 550 per share. The buyback was completed in January 2026 and Mr. Bunny received the payment as per scheme. He did not sell any other capital asset during F.Y. 2025-26. What amount will be included in the Gross Total

Income of Mr. Bunny and what will be the amount of loss to be carried forward (if any) for A.Y. 2026-27 as per the Income-tax Act, 1961?

- (A) Long Term Capital Gain of ₹ 45,000 will be included under the head “Capital Gains” only. No loss to be carried forward.
- (B) Dividend of ₹ 45,000 will be included under the head “Income from other sources” and a long-term capital loss of ₹ 1,20,000 will be carried forward.
- (C) Dividend of ₹ 1,65,000 will be included under the head “Income from other sources” and a long-term capital loss of ₹ 1,20,000 will be carried forward.
- (D) The company will pay additional tax of 23.296% of ₹ 38,438 for buyback made from Mr. Bunny and the amount of ₹ 1,65,000 will not be taxable in the hands of Mr. Bunny. **(2 Marks)**

Division B – Descriptive Questions

Question No. 1 is compulsory.

Attempt any four questions from the remaining five questions.

1. Blessings Pharmaceuticals Private Limited is an Indian Company, engaged in the business of manufacturing and providing access to affordable and innovative medicines and healthcare solutions. The company is incorporated in the year 2009. The company shows a Net Profit of ₹ 95 lakhs as per the Statement of Profit and Loss for the year ended March 31, 2026.

Net Profit has been arrived at after debiting and crediting the following items:

- (1) Depreciation as per the Companies Act, 2013 - ₹ 11.90 lakhs.
- (2) The amount of employee benefits includes a sum of ₹ 13,00,000 in respect of bonus payable to employees. In the previous year 2025-26, the company and its employee’s union had a dispute over payment of bonus. In order to avoid late payment of bonus, the company formed a trust and transferred the amount of bonus payable to employees to the said trust. The dispute was settled in the month of August, 2026 and the trust paid the amount of bonus to the employees on 31st August, 2026.
- (3) An amount paid by the company as regularization fee for violating a law (as prescribed by Medical Council of India) of manufacturing medicines, ₹ 9.50 lakhs.
- (4) An amount of ₹ 45,000 was paid as late fees to Government for company’s failure in performance of a contract within the stipulated time. There was a delay of 5 months and according to the agreement, the company had to pay late fees of ₹ 9,000 per month to the Government.

- (5) The company earned a profit of ₹ 7.50 lakhs on sale of plot of land on 25.08.2025 to Sita Private Ltd., a domestic Company, the entire shares of which are held by the assessee company. The plot was acquired by Blessings Pharmaceuticals Pvt. Ltd. on 20.12.2023. This profit is included in the income of the assessee company.
- (6) The company earned a profit of ₹ 4.50 lakhs on sale of 2,500 shares of M/s Staya Ltd., a listed Indian company. These shares were sold on 08.11.2025 for ₹ 280 per share. The highest trading price of Satya Ltd. quoted on the stock exchange as on 31.01.2018 was ₹ 175 per share and the Lowest Trading price quoted on the stock exchange was ₹ 165 per share. The said shares were acquired for ₹ 100 per share on 11.07.2016. STT paid both at the time of purchase and sale of shares.
- (7) Company debited an interest of ₹ 7.50 lakhs which the company remitted as interest to a company incorporated in USA on a loan taken 3 years ago. Tax under section 195 from such interest has been deducted in March 2026, but deposited by the company on 14th July, 2026.
- (8) The company has contributed ₹ 65,000 to an electoral trust by account payee cheque.

Following Additional information is provided by the company for P.Y 2025-26:

The depreciation charged in the Statement of Profit and Loss of ₹ 11.90 lakhs include the depreciation calculated on following assets:

- (i) It includes an amount of depreciation of ₹ 95,000 in respect of fire fighting equipments installed in the office premises and factories of the assessee. During the year, there was no incidence of fire and hence, the equipments were not used. Amount of depreciation on such equipment as per Income-tax Rules, 1962 is also same.
- (ii) A new machinery which was installed and put to use on 14.05.2025 valuing ₹ 75 lakhs.
- (iii) A machinery which was sold to a domestic company in 2016 at its WDV for ₹ 35 lakhs was re-acquired on July 5, 2025 for ₹ 65 lakhs.

There is no other fixed asset included by the company's accountant for calculation of depreciation except these three assets mentioned above.

You are required to compute total income of the company as per Income-tax Act, 1961 for the Assessment Year 2026-27 indicating reasons for treatment of each item, assuming that the company has not opted for special provisions under section 115BAA or 115BAB. **(14 Marks)**

2. (a) Star Limited has two units one engaged in manufacture of textile goods and the other involved in manufacturing of chemicals. As a restructuring drive, the company sold its chemical unit as a going concern by way of slump sale for ₹ 242 lakhs on 01.10.2025.

The balance sheet of Star limited as on 01 October 2025, being the date on which chemical unit has been transferred, is given here under –

Liabilities	₹	Assets	₹
Paid up Share Capital	2,50,00,000	Land	
General Reserve	1,35,00,000	Textile Unit	60,00,000
Share Premium	60,00,000	Chemical Unit	70,00,000
Revaluation reserve	20,00,000	Building	
Trade Creditors		Textile Unit	90,00,000
Textile Unit	90,00,000	Chemical Unit	70,00,000
Chemical unit	47,00,000	Machinery	
		Textile Unit	40,00,000
		Chemical unit	52,00,000
		Investment in Equity Share (1,00,000) shares of ABC Ltd, a listed company at ₹ 35 per share	
		Chemical Unit	35,00,000
		Inventories	
		Textile Unit	82,00,000
		Chemical unit	60,00,000
		Licenses and Franchises	
		Textile Unit	20,00,000
		Chemical unit	23,00,000
	6,02,00,000		6,02,00,000

The following information have been furnished by the management:

- (i) The Chemical unit was established in July, 2020 during the COVID period.
- (ii) Land of Chemical unit includes revaluation reserve of ₹ 20 lakhs. The Land was purchased at ₹ 50 lakhs in May 2020 and revalued at ₹ 70 lakhs as on October 1, 2025. The stamp duty value on 01.10.2025 is ₹ 62 lakhs.
- (iii) The Building and Machinery have been shown in the balance sheet at its written down value as per section 43(6)(c) of the Income-tax Act, 1961. The stamp duty value of building of Chemical unit on 01.10.2025 is ₹ 72 lakhs.

- (iv) License and Franchises were acquired on 01.06.2024 and shown in the balance sheet at its original purchase price.
- (v) Equity shares were acquired by the company through National stock exchange on 01.04.2022 and value recorded for shares of ABC Limited as on 01.10.2025 at NSE is ₹ 42 per share.

You are required to Compute the Taxable capital gain to Star Limited for A.Y. 2026-27. **(8 Marks)**

- (b) Mr. Karan Verma (Age 32 years) is the Marketing manager in M/s. Pinto Systems Ltd. since 01.10.2021. His income for the Financial Year 2025-26 in India consists of -

- (i) Salary (before standard deduction) of ₹ 23.50 lakhs;
- (ii) Interest on Housing loan in respect of property at Delhi (self-occupied by him) of ₹ 2,20,000;
- (iii) Dividend from Indian companies ₹ 1,90,000/-.
- (iv) Interest on FDR ₹ 24,000, FDR made by Mr. Karan Verma in the name of his wife. Mrs. Karan Verma, who does not have any other source income.

He has the following income for the year ended 31st March 2025 in Country 'R':

- (i) Income from business in Country R Euro 13,500;
- (ii) Rent from house property in Country R Euro 8,000;
- (iii) Municipal taxes in respect of the above house (Not allowed as deduction in Country R) = Euro 800;
- (iv) Short-term capital gain of Euro 6,000 on sale of shares of companies registered in Country 'R' and sale proceeds were credited in bank account in Country 'R' on 31.03.2026.

During F.Y. 2025-26, Mr. Karan Verma visited the country R for 30 days. He has never stayed there for more than a month in one financial year. India has not signed any DTAA with Country 'R'. The fiscal year for the purpose of income-tax is the same (both in India and Country 'R'). Rate of tax in Country 'K' is 25% in respect of all incomes.

Assume that Rate of 1 Euro ₹ 90 for all calculation purposes.

Compute the total income and net tax liability of Mr. Karan Verma for the A.Y. 2026-27 under the default tax regime. **(6 Marks)**

3. (a) Examine and discuss each of the following independent cases of charitable trust/institutions based on the relevant provisions of the Income-tax Act, 1961 for the Assessment Year 2026-27:

(i) TMV Foundation is a charitable trust registered under section 12AB engaged in the activity of providing old-age homes to senior citizens. The total receipts of the trust for the financial year 2025-26 was ₹ 145 lakhs. This receipt of ₹ 145 lakhs includes a voluntary contribution from Mr. Rahul Chadda, a resident individual, amounting to ₹ 1,70,000. He has never before given any contribution to the trust.

During F.Y. 2025-26, out of the total receipts, the trust gave an unsecured loan of ₹ 5 lakhs to Mr. Rahul Chadda at an interest rate of 12% p.a. The scheduled banks charge interest at the rate of 11.50% for a similar kind of loan. The trust has always applied 85% of the total receipts for its objects.

(4 Marks)

(ii) M/s Life Care Foundation, a trust registered under section 12AB of the Income-tax Act, 1961, runs a hospital. During the financial year 2024-25, it received a voluntary contribution of ₹ 105 lakhs with a specific direction that it should form part of the corpus of the trust. The trust invested such amount in the shares of M/s National Health Services Ltd., a public sector company.

On March 31, 2026, due to disinvestment by the Government, M/s National Health Services Ltd. ceases to be a public sector company. **(2 Marks)**

(iii) M/s Sunshine Care Foundation, a trust registered under section 12AB of the Income-tax Act, 1961, which runs a hospital, also paid consultancy fees of ₹ 1,20,000 to Dr. Amit Verma on 31.08.2025. The trust did not deduct TDS on consultancy fees paid to the doctor.

The accountant of the trust claims that the trust is not liable to tax audit under section 44AB (being a trust), therefore it is out of the purview of section 194J. **(2 Marks)**

(b) Tide Ltd., an assessee, has sold goods on 12.01.2026 to Limitless Ltd., located in notified jurisdictional area (NJA), for ₹ 9.50 crores. During the current financial year, Tide Ltd. charged ₹ 10.50 crores from XY Inc. of Country X and ₹ 11 crores from RP Inc. of Country Y for sale of identical goods and both of which are neither associated enterprise of Tide Ltd. nor they are situated in any NJA. While sales to XY Inc. and RP Inc. were on CIF basis, the sale to Limitless Ltd., was on FOB basis, which paid ocean freight and insurance amounting to ₹ 20 lakhs on

purchases from Tide Ltd. If sales to XY Inc. and RP Inc. are made on FOB basis, the cost of freight, insurance would amount to ₹ 18 lakhs.

The assessee has a policy of providing after-sales support service to the tune of ₹ 13 lakhs to all customers except Limitless Ltd. which procured the same locally at a cost of ₹ 17 lakhs.

Compute the ALP for the sales made to Limitless Ltd., and the amount of consequent increase, if any, in the profit of the assessee-company. **(6 Marks)**

4. (a) (i) Mr. Madhav, an individual carrying on retail business with turnover of ₹ 3.2 crores in the P.Y.2024-25. He made contract payment for repair of residential house of ₹ 3 lakhs and ₹ 75,000 towards commission on 01.08.2025 to Mr. Vayu for business purposes. Examine whether TDS provisions would be attracted, if yes, specify the rate and amount of TDS applicable. **(2 Marks)**
- (ii) Mr. Raghav, who gets his accounts audited under section 44AB filed his original return of income under section 139 for A.Y.2024-25 on 28.12.2024 declaring income of ₹ 12 lakhs and for A.Y.2025-26 on 31.10.2025 declaring loss of ₹ 5 lakhs.
- He wants to file an updated return of income under section 139(8A) for A.Y.2025-26 on 30.11.2026 declaring total income of ₹ 7 lakhs. Can he do so? Examine. **(2 Marks)**
- (b) Sky Ltd. took on sub-lease a building from James, an individual, with effect from 1.9.2025 on a rent of ₹ 20,000 per month. It also took on hire machinery from Jim with effect from 1.10.2025 on hire charges of ₹ 18,000 per month. Sky Ltd. entered into two separate agreements with James for sub-lease of building and hiring of machinery. Examine the obligation of Sky Ltd. with regard to deduction of tax at source in respect of the rent and hire charges. **(4 Marks)**
- (c) Silver BV is a foreign company incorporated in Belgium. It is engaged in diamond mining and trading of raw diamonds. It sells raw diamonds globally. During the P.Y. 2025-26, it sold raw diamonds to Indian buyers in Special Notified Zone (SNZ) in Surat, Gujarat for ₹ 100 crores. An exhibition was taken place in Special Notified Zone (SNZ) in Surat, Gujarat for display of uncut and unassorted diamonds. Silver BV has income of ₹ 10 crores from activity of display of uncut and unassorted diamond in that exhibition. Silver BV wants to exercise the option to apply for safe harbour rules. It wants to declare profits of ₹ 3 crores from trading of raw diamonds to Indian buyers and profit of ₹ 2 crores from display of diamonds in Special Notified Zone (SNZ) in Surat.

Whether Silver BV is eligible to opt for the Safe Harbour Rules. If yes, can it declare profit of ₹ 3 crores and ₹ 2 crores from trading of raw diamonds to Indian buyers and from display of diamonds, respectively under safe harbour rules?

(6 Marks)

5. (a) Answer **any one** of the following two sub-parts (i) or (ii) on the basis of decided case laws, bringing out the following –
- (1) Issue involved
 - (2) Relevant provisions of law
 - (3) Analysis and Conclusion
- (i) In the case of M/s H Ltd., the Income-tax Appellate Tribunal decided against the assessee and issued order under section 254. The assessee filed an appeal to the jurisdictional High Court by framing the substantial question of law under section 260A(2)(c). The High Court, without framing the question of law u/s 260A(3) at the time of admission of appeal, issued notices, heard both the parties and decided the appeal affirming the order of the Tribunal on the questions raised by the assessee appellant. You are required to discuss whether the High Court was justified in not formulating the substantial question of law as required under section 260A(3) and adjudicating merely on the questions put forth by the appellant under section 260A(2)(c). **(4 Marks)**
- (ii) Mr. Ashish filed his return of income for A.Y. 2025-26 by declaring a total income of ₹ 10 lakhs. His case was selected for scrutiny assessment and an addition of ₹ 4 lakhs was made by the Assessing Officer on account of disallowances of certain expenses. During the course of the assessment proceedings, Mr. Ashish found that he erroneously failed to claim the set-off of brought forward losses under section 72 amounting to ₹ 8 lakhs, which he was otherwise entitled to. By the time the error was discovered by Mr. Ashish, the time-limit for filling revised return had also expired. Hence, during the course of the proceedings, Mr. Ashish approached the Assessing Officer to allow the set-off of the brought forward losses which was erroneously not claimed in the return of income filed under section 139(1). Whether the Assessing Officer is bound to accept the request of Mr. Ashish? Examine. **(4 Marks)**
- (b) Travel Ltd. received the draft order from the Assessing Officer as per section 144C of the Income-tax Act, 1961 due to variations determined by the Transfer Pricing Officer in the arm's length price. But Travel Ltd. did not prefer to file the objection

against the draft order before the Dispute Resolution Panel, instead, he prefer to do appeal before the CIT appeals under section 246A against the final order received from the Assessing Officer.

You are required to advise Travel Ltd., whether his contentions are tenable? Discuss the issue with reference to provisions of section 144C of the Income-tax Act, 1961. **(4 Marks)**

- (c) What is meant by Digital economy? What are the taxation issues in E-Commerce? List out the OECD recommendations under Action Plan 1 which deals with the digital economy. **(6 Marks)**
6. (a) In the following independent circumstances, discuss whether the provisions of GAAR would be applicable:
- (i) R Inc., a company incorporated in Country M, holds 1200 equity shares in PSI Ltd., an Indian listed entity since 1.4.2016. On 1.5.2025, PSI Ltd. issued 1200 bonus shares to R Inc. As per the treaty between India and Country M, the capital gain is taxable in the country where the transferor of shares is a resident. The tax laws of Country M, exempt capital gains. R Inc. sells all the shareholding in PSI Ltd. on 1.1.2026 and earned a capital gain of ₹ 5 crores. **(2 Marks)**
 - (ii) Dynasty Ltd., an Indian company, incorporates a wholly owned subsidiary Company C, in Country X which is a Low Tax Jurisdiction with equity share capital of ₹ 1 crore. Out of the equity capital, company C gives loan to C Ltd., an Indian company at the rate of 5%. There is no other activity in Company C. **(2 Marks)**
- (b) Explain the correctness or otherwise of the following statements giving proper reasons thereof:
- (i) Mr. Karan Malhotra, a resident individual, is aggrieved by an order passed by the Board for Advance Ruling on 1.10.2025. Since the decision of the Board is binding on the applicant, he has no other option but to accept the ruling of the Board. **(2 Marks)**
 - (ii) M/s Solar Ltd., an Indian public sector company, wants to seek advance ruling from the Board for Advance Rulings (BAR) in respect of a matter relating to computation of its total income involving a question of law relating to such computation. However, the matter is already pending before the Income-tax Appellate Tribunal (ITAT) as on the date of application for advance ruling i.e., 12.12.2025. It cannot seek the BAR ruling till the matter is pending before the ITAT. **(2 Marks)**

- (c) Mr. Rohan Mehta runs a travel agency business since the year 2010. His total commission receipts for the F.Y. 2025-26 is ₹ 287 lakhs. The details of receipts and payments made by him during the year 2025-26 are as follows:

Particulars	Amount (₹)	Mode of receipt/ payment
Date of Receipt		
15.4.2025	15,65,000	BHIM UPI
27.4.2025	13,80,000	A/c payee cheque
7.5.2025	13,35,000	Bearer cheque
6.6.2025	18,21,000	A/c payee cheque
15.8.2025	15,25,000	NEFT
19.9.2025	16,72,000	NEFT
18.10.2025	15,35,600	UPI
15.2.2026	16,25,350	UPI
17.3.2026	18,19,450	NEFT
Other aggregate receipts not exceeding ₹ 2,000 per person on certain occasions from various customers. Out of this, receipts of ₹ 52,500 are received in cash.	1,44,21,600	A/c payee cheques, NEFT and UPI
Payments		
Aggregate all payments made during the P.Y. 2025-26	2,58,00,000	
Amount incurred for expenditure in cash (not exceeding ₹ 10,000 per person in each case)	20,58,000	

Mr. Rohan Mehta contended that he is not required to get his accounts audited since his turnover does not exceed ₹ 3 crores and he is eligible to declare his income as per presumptive provisions of section 44AD. Examine the contention of Mr. Rohan Mehta. **(6 Marks)**