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PART – I  
(MCQ Portion)

30 Marks

- *Answers to MCQs are to be marked on the OMR answer sheet as given on the cover page of the descriptive answer book only. Answer to MCQs, if written inside the descriptive answer book shall not be evaluated.*
- *Please write and darken correct MCQ booklet number in the OMR answer sheet. The correct MCQ booklet number must also be written in the attendance register.*

1. Mr. Krishnamurthy is employed with XYZ Ltd. as Marketing Manager. His CTC details as per proposed offer for the appointment are as under :

- Basic Pay - ₹ 30,00,000/-
- HRA - ₹ 15,00,000/-
- Other taxable allowances - ₹ 5,00,000/-

Mr. Krishnamurthy requested his employer to restructure salary component of “Other taxable allowances” by including tax free perquisites such as Health insurance and medical expenses in term of proviso to Section 17(2), making arrangement for commuting between office to residence and providing gift coupons to the extent of tax free limit prescribed under Rule-3 of the Income-Tax Rules. He is also requested to contribute a part of the above component in the NPS account as employer’s contribution within the limit prescribed under Section 80CCD(2).

2

The proposal of Mr. Krishnamurthy for restructuring of salary in your view -

- (A) is a tax planning method as it reduces tax liability of Mr. Krishnamurthy in legitimate way.
- (B) is a tax evasion method as it reduces tax liability of Mr. Krishnamurthy.
- (C) is a tax avoidance method as it reduces tax liability of Mr. Krishnamurthy
- (D) is a colourable method to reduces tax liability of Mr. Krishnamurthy

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2. Raman is a State Government Employee. The details of his income from salary for FY 25-26 are given below :-

- Basic Salary received during the year: ₹ 12,00,000
- Dearness allowance : ₹ 6,00,000
- Contribution made by the State Government to the NPS account of Mr. Raman as employer's contribution : ₹ 1,44,000
- Raman invested ₹ 80,000 in LIC eligible for deduction under Section 80C.
- NPS contribution deducted by the employer as employee's contribution in NPS and credited to his NPS account : ₹ 1,44,000
- Raman also paid Medical insurance premium Rs. 30,000 in terms of Section 80D

Based on the above information deduction from the Gross Total Income under default tax regime in the case of Mr. Raman works out to –

2

- (A) ₹ 2,88,000 (B) ₹ 1,44,000  
(C) ₹ 3,98,000 (D) ₹ 1,74,000

3. Mr. Puneet, a citizen of India, serving in the Ministry of External Affairs in India, was transferred to Indian Embassy in Canada on 31<sup>st</sup> March 2025. He did not visit India any time during the FY 25-26. He has received the following income for the FY 25-26 :

| S. No. | Particulars  | ₹        |
|--------|--|----------|
| (i)    | Income under the head "Income from Salaries" received from the Government of India excluding Foreign allowances (computed as per New Tax Regime) | 8,00,000 |
| (ii)   | Foreign Allowance paid by the Government of India for the services rendered outside India  | 5,00,000 |
| (iii)  | Interest on fixed deposit with a branch of scheduled bank at Delhi (India)   | 2,00,000 |

Based on the above information, Gross Total Income of Mr. Puneet for AY 26-27 under New Tax Regime works out to –

- (A) ₹ 15,00,000 (B) ₹ 8,00,000  
(C) ₹ 10,00,000 (D) ₹ 2,00,000

### INTEGRATED CASE STUDY-I

Mr. Krishan, a resident Indian, is engaged in retail business in Delhi. The turnover of his business for FY 24-25 was ₹ 9.90 crores. The aggregate payments made by Mr. Krishan to Mr. Anil (a resident wholesaler in Delhi) during the FY 25-26 towards consideration for purchase of goods were ₹ 90 lakhs (₹ 20 lakhs on 5<sup>th</sup> June 2025, ₹ 25 lakhs on 27<sup>th</sup> Sep. 2025, ₹ 20 lakhs on 20<sup>th</sup> Nov. 2025 and ₹ 25 lakhs on 15<sup>th</sup> Feb. 2026). The business turnover of Mr. Anil for FY 24-25 was ₹ 10.10 crores.

Mr. Anil paid ₹ 6 lakhs on 5<sup>th</sup> Sep. 2025 to Mr. Albert (a seller of overseas tour program package) for booking one week overseas holiday tour package to Singapore. Mr. Anil for his daughter's MBA education in USA State University, USA remitted ₹ 13 lakhs on 10<sup>th</sup> Feb. 2026, out of his personal savings, through Bank of India, Laxmi Nagar branch, Delhi. The Bank of India is an authorised foreign exchange dealer, under LRS and a financial institution for the purpose of Section 80E of the Income-Tax Act. Mr. Anil also took an education loan of ₹ 18 lakhs on 15<sup>th</sup> Feb. 2026 from State Bank of India, Shakarpur Branch, Delhi for his son's two-year Master of Public Administration program in Lynn University, USA. The loan amount was directly remitted by State Bank of India, Shakarpur Branch in the bank account of Lynn University, USA maintained with a foreign bank in USA. The remittance was made under Liberalised Remittance Scheme of RBI (LRS). Mr. Anil during the FY 25-26 also remitted ₹ 6.5 lakhs on 21<sup>st</sup> March 2026, out of his personal savings, under LRS through Bank of India, Laxmi Nagar Branch, Delhi as gift to his sister residing in London in her bank account located in London. The amount was gifted by Mr. Anil on the occasion of 52<sup>th</sup> birthday of his sister. Mr. Anil has furnished undertakings containing the details in respect of earlier foreign remittances made during FY 25-26 through Bank of India, Laxmi Nagar Branch at the time of requesting for making remittance to his sister's account.

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The Income-Tax department has received information from foreign Jurisdiction in respect of the investment in the shares of a foreign company made in the FY 24-25 and the dividend credited in foreign bank account of Mr. Albert in the said financial year. The said investment in the shares of the foreign company and dividend income have not been disclosed by Mr. Albert in his return of income for AY 25-26.

From the facts given above, choose the most appropriate answer to the following Multiple-Choice Questions (MCQs No 4 to 8): -

4. In respect of amount remitted as gift to sister by Mr. Anil \_\_\_\_\_ 2
- (A) TCS provisions are not applicable as the amount remitted is less than ₹ 10 lakhs and out of personal savings.
- (B) TCS provisions are not applicable as the gift from brother is exempt from tax under Section 56(2)(x).
- (C) TCS of ₹ 1,30,000 was to be made by the Bank of India, Laxmi Nagar branch, Delhi.
- (D) TCS of ₹ 32,500 was to be made by Bank of India, Laxmi Nagar branch, Delhi.
9. 5. In respect of investment in the shares of the foreign company and the foreign dividend income not disclosed in the return for AY 25-26, subject to fulfillment of the other conditions prescribed for filing an updated return, Mr. Albert \_\_\_\_\_ 2
- (A) has an option to file an updated return for AY 25-26 upto 31<sup>st</sup> March 2030 or before the date on which the information in respect of investment in shares of foreign company and foreign dividend has been communicated to him by the Assessing Officer, whichever is earlier.
- (B) has an option to file an updated return for AY 25-26, at any time before 31<sup>st</sup> March 2030.

(C) has an option to file an updated return for AY 25-26 upto 31<sup>st</sup> March 2030 even after the information in respect of investment in shares of foreign company and foreign dividend has been communicated to him by the Assessing Officer.

(D) cannot file an updated return for AY 25-26 as the foreign investment and foreign income not disclosed in the return filed u/s 139(1) or 139(4) or 139(5) is charged to tax under the Black Money Act.

Q 6. Which one of the following statement is correct in respect of business transactions entered between Mr. Krishan and Mr. Anil during FY 25-26 ? 2

- (A) Mr. Krishan was required to make TDS @ 0.1% on ₹ 40 lakhs.
- (B) TDS and TCS provisions are not applicable on the said transactions.
- (C) Mr. Krishan was required to make TDS @ 0.1% on ₹ 90 lakhs
- (D) Mr. Anil was required to make TCS @ 0.1% of ₹ 40 lakhs.

7. In respect of amount received from Mr. Anil for one week overseas holiday tour package to Singapore, Mr. Albert was :- 2

- (A) required to collect ₹ 6,000 as tax at source
- (B) required to collect ₹ 3,000 as tax at source
- (C) required to collect ₹ 30,000 as tax at source
- (D) not required to collect any tax at source

8. In respect of the remittance made by Mr. Anil for his daughter's education, the Bank of India, Laxmi Nagar branch, Delhi. was - 2

- (A) required to collect tax at source at the rate of 5% on ₹ 13 lakhs
- (B) required to collect tax at source at the rate of 5% on ₹ 3 lakhs
- (C) required to collect tax at source at the rate of 0.5% on ₹ 13 lakhs
- (D) not required to collect tax at source as the amount was remitted for the higher education of daughter.

## INTEGRATED CASE STUDY-II

Mr. Nitin a citizen of India, who lives in Singapore and a non-resident for the AY 26-27 for the purpose of taxation under the Indian Income-tax Act has furnished the following information in respect of the said assessment year :

- (i) Dividend from TLT Ltd., an Indian Company (gross) of ₹ 3,60,000
- (ii) Interest on debentures of SLL Pvt. Ltd., an Indian Company, (subscribed in convertible foreign exchange) of ₹ 3,70,000 (gross).
- (iii) Interest expenses of ₹ 60,000 and ₹ 40,000 respectively incurred on loan taken for purchase of shares of TLT Ltd. and for purchase of debentures of SLL Pvt. Ltd.
- (iv) On 15<sup>th</sup> March 2026, he sold shares of Tix Ltd. (an Indian public company) for ₹ 18,25,000 which were subscribed in convertible foreign exchange on 10<sup>th</sup> June 2004 in dollars equivalent to ₹ 4,65,000. Expenditure of ₹ 7,000 were incurred in connection with sale of the said shares at the time of sale. Out of the sale proceeds of shares, he invested ₹ 4,80,000 on 30<sup>th</sup> April 2026 for purchases of listed shares of an Indian Company Next High Ltd.  
[Cost Inflation Index : FY 04-05 – 113; FY 25-26 – 376]
- (v) ₹ 4,00,000 - Interest on Income Tax Refund for FY 24-25 credited in his designated Bank Account.

From the facts given above, choose the most appropriate answer to the following Multiple-Choice Questions (MCQs No 9 to 11) :

9. The long-term capital gains taxable in the hands of Mr. Nitin on sale of shares of Tix Ltd. (without giving effect to first proviso to Section 48 and assuming that the capital gains from sale of shares of Tix Ltd. is only source of income for AY 26-27), if he elects to be governed by the "special provisions relating to certain incomes of Non-Residents" shall be –

- |                |                 |
|----------------|-----------------|
| (A) ₹ 9,95,772 | (B) ₹ 13,53,000 |
| (C) ₹ 9,97,142 | (D) ₹ 13,60,000 |

10. In the situation, where Mr. Nitin elects to govern by special provisions discussed in MCQ-9 above, the long term capital gain arises from the sale of shares of Tix Ltd. shall be chargeable to income-tax at the rate of -

- (A) twenty per cent
- (B) ten per cent
- (C) Twelve and one half per cent on amount exceeding ₹ 1,25,000
- (D) Twelve and one half per cent

11. Ignoring the provisions of the DTAA and cess and surcharge, state which of the following statement is correct in respect of taxability of dividend in the hands of Mr. Nitin and TDS was to be made by TLT Ltd. on the dividend distributed to Mr. Nitin \_\_\_\_\_

- (A) Taxable dividend in the hands of Mr. Nitin is ₹ 3,00,000 and ₹ 30,000 is the amount of which TDS was to be made by TLT Ltd.
- (B) Taxable dividend in the hands of Mr. Nitin is ₹ 3,60,000 and ₹ 36,000 is the amount of which TDS was to be made by TLT Ltd.
- (C) Taxable dividend in the hands of Mr. Nitin is ₹ 3,00,000 and ₹ 60,000 is the amount of which TDS was to be made by TLT Ltd.
- (D) Taxable dividend in the hands of Mr. Nitin is ₹ 3,60,000 and ₹ 72,000 is the amount of which TDS was to be made by TLT Ltd.

### INTEGRATED CASE STUDY-III

Asha Trust is a charitable trust set up on 1<sup>st</sup> April 2010 with the object of providing relief to the poor. Later on, in April 2012, it changed its object to medical relief. It applied for registration on the basis of its new object, i.e., medical relief, on 1<sup>st</sup> Sep. 2012 and was granted registration under Section 12AA on 1<sup>st</sup> Feb. 2013. Before Asha Trust applied for registration on the basis of its new object, the trust was not allowed any benefit under Section 11 and 12 or under relevant clauses of Section 10(23C) of the Act.



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On 1<sup>st</sup> April 2025, Asha Trust merged with Upkar Trust. Upkar Trust is not eligible for registration under Section 12AB or approval under Section 10(23C). All the assets and liabilities of the Asha Trust became the assets and liabilities of Upkar Trust.

The break-up of assets and liabilities of Asha Trust transferred to Upkar Trust is given below:

## (i) Land

| Location | Date of purchase           | Stamp Duty Value On 1 <sup>st</sup> April 2025 | Value which the land would fetch, if sold in the open market on 1 <sup>st</sup> April 2025 as per report of registered valuer | Book Value on 1 <sup>st</sup> April 2025 |
|----------|----------------------------|--|---|--|
|          |                            |  | ₹   | ₹  |
| Noida    | 1 <sup>st</sup> Sept. 2010 | 75 lakhs                                       | 78 lakhs  | 70 lakhs                                 |
| Gurugram | 1 <sup>st</sup> Sept. 2013 | 120 lakhs                                      | 140 lakhs   | 130 lakhs                                |

## (ii) Shares

| Type of shares                       | Date of Purchase           | Face value of each share | Purchase Price of each share | Price at which each share is quoted on BSE as on 1 <sup>st</sup> April 2025 |              | Open market value as on 1 <sup>st</sup> April 2025 |
|--------------------------------------|----------------------------|--------------------------|------------------------------|---|--------------|--|
|                                      |                            |                          |                              | Highest Price   | Lowest Price |  |
|                                      |                            | ₹                        | ₹                            | ₹   | ₹            | ₹  |
| 10000 Quoted equity shares of A Ltd. | 1 <sup>st</sup> May 2014   | 100                      | 210                          | 420   | 400          | NA   |
| 4000 Preference shares of B Ltd.     | 1 <sup>st</sup> Sept. 2015 | 100                      | 100                          | -   | -            | *180   |

\* as per report of Merchant Banker

- (iii) **Trust Fund and Liabilities**  
Book value of trust fund and liabilities on 1<sup>st</sup> April 2025 = ₹ 150 lakhs which includes –
- (a) Corpus fund ₹ 15 lakhs.
  - (b) Provision for taxation ₹ 5 lakhs; and
  - (c) Reserves and Surplus ₹ 20 lakhs.

From the facts given above, choose the most appropriate answer to the following Multiple-Choice Questions (MCQs No 12 to 15) :

12. Additional income-tax payable by Asha Trust on accreted Income works out to -
- (A) ₹ 24,39,840
  - (B) ₹ 54,58,250
  - (C) ₹ 15,64,000
  - (D) ₹ 27,32,620
13. For the purpose of the calculation of accreted Income of Asha Trust, FMV of land at Noida to be taken at –
- (A) ₹ 78,00,000
  - (B) ₹ 75,00,000
  - (C) ₹ 70,00,000
  - (D) ₹ Nil
14. For the purpose of the calculation of accreted Income of Asha Trust, FMV of Total Assets shall be :
- (A) ₹ 2,67,20,000
  - (B) ₹ 2,66,20,000
  - (C) ₹ 1,88,20,000
  - (D) ₹ 2,63,20,000
15. Accreted Income of Asha trust works out to –
- (A) ₹ 1,57,20,000
  - (B) ₹ 1,56,20,000
  - (C) ₹ 1,53,20,000
  - (D) ₹ 78,20,000

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PART – II

70 Marks

(Descriptive Portion)

(Candidates are required to give descriptive answers for this part inside the answer book)

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.
4. Candidates are required to write the question number legibly.
5. All Questions relate to Assessment Year 2026-27 unless stated otherwise in the Question. Significant notifications and circulars issued upto 31<sup>st</sup> October 2025 would be relevant.

1. The statement of the profit and loss of AB Ltd., (a domestic company) which is engaged in the business of Manufacturing, shows a Net Profit of ₹ 52 lakhs for the financial year ended 31<sup>st</sup> March 2026. The following debits and credits needs to be considered for computing total income of AB Ltd. for AY 26-27 : 14
- (a) Professional fees amounting to ₹ 2 lakhs debited in profit and loss account for FY 24-25 but was paid on 30<sup>th</sup> July 2025 in cash has not been debited or credited in the profit and loss account for FY 25-26.
  - (b) The interest amounting ₹ 8 lakhs payable to non-banking financial companies notified for the purpose of Section 43B has been debited in P&L for FY 25-26 even though the same is proposed to be paid after due date of filing return for the AY 26-27.
  - (c) ₹ 3.5 lakhs received as interest on margin money deposited with bank for obtaining bank guarantee to carry on business was credited in profit and loss account for FY 25-26.

- (d) Loss of ₹ 2,60,000 incurred by way of trading in Futures and Options (Derivatives) in BSE during the FY 25-26 and accordingly debited to P&L for FY 25-26.
- (e) Legal fees incurred in defending Title of factory premises of the company ₹ 3,70,000 debited in P&L of FY 25-26. The same was incurred and paid during the said FY after deducting TDS as applicable and the TDS was also deposited in the said FY.
- (f) Development charges of ₹ 95,000 paid to Government on industrial land purchased in the FY 25-26 and accordingly, debited to the P&L account relevant to the AY 26-27.
- (g) ₹ 3,20,000 paid to the Indian Institute of Science, Bangalore notified for scientific research in term of Section 35(1)(ii) during the FY and accordingly, debited to P&L Account for the FY 25-26.
- (h) A Machine which was in use since 5 years having WDV amounting ₹ 1.80 lakhs as on 1<sup>st</sup> April 2025 was discarded on 1<sup>st</sup> Sep. 2025 for ₹ 10,000. The WDV of the Machine amounting ₹ 1.80 lakhs was reduced from its block of assets of 15% (Block still exists) and ₹ 1.70 lakhs was debited to P&L as loss on sale of Machinery.

Additional Information for which no adjustments has been made in the books of accounts :

1. The Company has received Excise Duty Drawback under the Customs and Central Excise Duty Drawback Rules, 1971 amounting to ₹ 6.5 lakhs during the FY 25-26 against exports made during the earlier financial years.
2. Computer Printer amounting ₹ 90,000 was purchased on 1<sup>st</sup> Sep. 2025 and put to use on the same day.



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Compute Total Income of AB Ltd. for the AY 26-27 under the regular provision of the Income-tax Act, with necessary explanations assuming that the AB Ltd. has not opted for any concessional tax under special provisions of the Income-tax Act, 1961. Total turnover of AB Ltd. for the FY 23-24 was ₹ 290 crores and during the FY 24-25 was ₹ 410 crores. Ignore the provision of MAT.

Would it be beneficial for AB Ltd. to opt for beneficial tax rates under Section 115BAA for FY 25-26. Support your view with necessary calculations.

2. (a) Mr. Pawan (a resident) purchased Gold Jewellery worth ₹ 5,60,000 during the FY 05-06. During the FY 11-12, he further purchased gold jewellery worth ₹ 7,80,000. All the jewellery was sold by him on 15<sup>th</sup> May 2025. The Jewellery purchased in FY 05-06 was sold for ₹ 21,00,000 and that purchased in FY 11-12 was also sold for ₹ 21,00,000. He purchased a Residential House of ₹ 25,90,000 on 25<sup>th</sup> Dec. 2025. He owns only one residential house as 15<sup>th</sup> May 2025. Compute the income chargeable under the head Capital Gains in accordance with the provisions of the Income-tax Act, 1961, considering the most beneficial treatment permissible to Mr. Pawan under the Act.

**CII for relevant Previous Year :**

2005-06: 117, 2011-12: 184, 2025-26: 376

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(b) T Pvt Ltd. a Closely Held Company not being an eligible startup referred to in Section 80 -IAC submits the following information :

| Particulars                                   | FY<br>23-24   | FY<br>24-25   | FY<br>25-26   |
|---|---------------|---------------|---|
| Business Income/loss                          | (-)₹ 1,50,000 | (-)₹ 2,50,000 | (+)₹ 5,00,000<br>(before unabsorbed depreciation and business losses of FY 23-24 and 24-25) |
| Unabsorbed Depreciation                       | ₹ 40,000      | ₹ 80,000      | ----  |
| Shareholding as on last day of financial year | P-35%         | P-35%         | P-35%   |
|   | Q-20%         | Q-20%         | Z-20%   |
|   | R-15%         | T-15%         | T-15%   |
|   | S-30%         | U-30%         | U-30%   |

Considering the above facts, explain whether the losses of FY 23-24 and 2024-25 can be set off against the income of FY 25-26 assuming that Income-tax Return for AY 24-25 and 25-26 were filed before the due date applicable for relevant assessment year.

(c) NWG Cruises Ltd., a non-resident company incorporated in Singapore, operates luxury passenger cruises across Asia. During the FY 25-26, the company undertook multiple cruise voyages, operating in Indian ports as well as internationally.



The particulars of the income / receipts of NWG Cruises Ltd. for FY 25-26 are as under:-

1. ₹ 40 crore received from passengers embarking in India for cruises touching Indian ports.
2. ₹ 5 crore received from cargo services.
3. ₹ 15 crore received outside India for tickets sold abroad for cruises touching Indian ports.
4. ₹ 10 crore received for cruises operating entirely outside India (not touching Indian ports).
5. ₹ 3 crore interest earned (Gross) on fixed deposits maintained with an Indian bank.

NWG Cruises Ltd. had taken the cruise ship on lease from TMB Cruises Ltd., a company registered in Singapore, and paid lease rentals of ₹ 8 crore during the FY 25-26. Both NWG Cruises Ltd. and TMB Cruises Ltd. are subsidiaries of TLO Cruise Ltd., a holding company incorporated in Singapore.

Considering the above facts, compute the taxable income of NWG Cruises Ltd. in India, assuming that special provisions for computing profits and gains of business of operation of cruise ships in case of non-residents inserted with effect from 1<sup>st</sup> April 2025 under the Income-tax Act, 1961 are applicable and NWG Cruises Ltd. fulfils all the conditions prescribed under the relevant rule of the Income-tax Rules, 1962. Also examine the taxability of lease rental income in the hands of TMB Cruises Ltd. with necessary explanations.

3. (a) (i) M. Foundations is a charitable trust registered under Section 12AB of IT Act 1961. During the FY 25-26, it derived an income of ₹ 60 lakhs from property held under trust. It applied a sum of ₹ 40 lakhs towards charitable purposes which includes repayment of loan taken for the construction of an orphanage amounting to ₹ 6 lakhs. It applied ₹ 5 lakhs at a private Ganpati Mahotsava organized by a housing society.

Assuming that the return filed for AY 26-27 is subsequently taken under scrutiny by issue of notice u/s 143(2) and during the assessment proceedings, the Assessing Officer consider that the amount of ₹ 5 lakhs paid for a private Ganpati Mahotsava organized by a housing society is a violation of term of the registration granted under Section 12AB and make a reference to CIT (Exemption) to withdraw the registration granted.

Considering the above facts, explain whether the Assessing Officer is empowered to make such reference and what action the CIT (Exemption) may take on such reference.

(ii) Sarvseva Trust is a charitable trust registered under Section 12AB with the main object of relief of poor. The trust received an income of ₹ 5 lakhs on 30<sup>th</sup> March 2026. It could not apply this amount during the FY 25-26 but applied it in the FY 26-27.

Considering the above facts, explain whether the Sarvseva trust can claim this amount of ₹ 5 lakhs as application for charitable purpose during the FY 25-26, if so, whether any conditions need to be fulfilled by Sarvseva trust.

(iii) Swadeshi Electoral trust is an Electoral Trust incorporated on 1<sup>st</sup> May 2026 and approved by CBDT in accordance with the scheme made by Central Government. It received voluntary contributions amounting to ₹ 1.20 crores during the FY 25-26. It invested a part of the contribution in 6 months bank fixed deposit and received an interest of ₹ 1 lakh. 2

Being in the first year of incorporation, what is the obligation on the Swadeshi Electoral trust regarding the distribution of these contributions to be eligible for exemption. Explain with the relevant provision and rule.

(b) Mohan, a resident individual aged 46 years, received the following incomes during the FY 25-26 : 6

- Income from house property in Chennai (as computed under the head "Income from House Property") : ₹ 4,30,000
- Royalty from Country X : ₹ 7,50,000 (Rate of tax in Country X is 10% and tax deducted in Country X was ₹ 75,000). As per DTAA with Country X, the royalty is only taxable in the source state.
- Interest (other than interest on securities) from Country Y: USD 10,000 (Interest became due on 31<sup>st</sup> Dec. 2025) and tax deducted (on 19<sup>th</sup> Feb. 2026) USD 1,000 (Rate of tax 10%). As per DTAA with Country Y, interest can be taxed in both the contracting states and tax credit will be available in respect of tax payable in resident state.

- Agricultural income in Country Z: ₹ 2,00,000; loss from house property (computed) in Country Z - ₹ 1,30,000 which is not eligible for set-off against any other income in Country Z. Agricultural income is exempt in Country Z and India does not have a DTAA with Country Z.

TTBR rate of 1 USD on various dates:

31.03.2025 - ₹ 75; 30.11.2025 - ₹ 76; 31.12.2025 - ₹ 77;

31.01.2026 - ₹ 78; 19.02.2026 - ₹ 79; 31.03.2026 - ₹ 80

Compute the total income and tax liability of Mohan for the AY 26-27, assuming that he opted out from the taxation under the default tax regime.

4. (a) (i) XYZ Pvt. Ltd. distributed Gold Coin to one of its Resident distributor for achieving higher sale. The coin was purchased on 15.01.2026 by XYZ Pvt. Ltd. for ₹ 2,50,000 but at the time of distribution of Gold Coin (i.e. 15<sup>th</sup> Feb. 2026) the Fair Market Value of Gold Coin was ₹ 3,00,000. Explain whether TDS provisions are applicable on the gold coin distributed by XYZ Pvt. Ltd. If so, calculate the amount of TDS and whether XYZ Pvt. Ltd. has to ensure that the TDS amount is paid by the distributor before the gold coin is distributed to him.
- (ii) R K Garg & Company, a Partnership firm has paid Interest amounting ₹ 1,20,000 and ₹ 20,000 to its partners Ramesh Kumar Garg and Ashok Kumar Garg respectively on 31<sup>st</sup> Mar. 2026. Explain whether TDS provisions are applicable on R K Garg & Company. If so, calculate the TDS to be deducted by R K Garg & Company.

(iii) PQR Ltd. has paid ₹ 2,70,000 to Mr. A for Professional Services rendered by Mr. A. The agreement between PQR Ltd. and Mr. A stipulates the tax should be borne by PQR Ltd. Explain the TDS implications on PQR Ltd. Also state whether Mr. A is entitled to get TDS Credit. 2

(iv) Mr. Ramesh has deposited money under Capital Gain Accounts Scheme, 1988 during the FY 24-25 with State Bank of India. Mr. Ramesh has died on 30<sup>th</sup> Sep. 2025. The Total Amount of Interest during the FY 25-26 was ₹ 3,00,000 (which includes interest ₹ 1,50,000 upto 30<sup>th</sup> Sep. 2025). Discuss the TDS implications for the FY 25-26 assuming no declaration is filed under Rule 37BA(2). 2

(b) Company A had undertaken an international transaction in FY 25-26 and the operating profit for the same was ₹ 72,975. The company selected the following comparables with the weighted average operating profits as under : 6

| Name of Comparable | Operating Profit<br>(Amount in ₹) |
|--------------------|-----------------------------------|
| A                  | 69,750                            |
| B                  | 79,200                            |
| C                  | 68,850                            |
| D                  | 83,400                            |
| E                  | 75,000                            |
| F                  | 1,45,500                          |
| G                  | 1,32,938                          |
| H                  | 1,13,760                          |

Compute the Arm's Length Price (ALP). Also determine the amount of adjustment, if any, required to be made to the operating profit of Company A.

5. (a) Answer any two of the following three sub-parts.

(i) AB Ltd. is a multinational company engaged in manufacturing and selling of soft drinks. For the AY 21-22, after being aggrieved by the order of assessment passed in pursuance to the directions issued by the DRP, it had filed an appeal before ITAT. In May 2024, the tax tribunal allowed a stay for six months on the operation of order of assessing officer which was extended till 28<sup>th</sup> May 2025. Till then the bench was functioning intermittently and therefore, the disputed matter could not be disposed off.

Discuss whether the automatic vacation of the stay order upon the expiry of extended period of 365 days is valid, in a case where the delay in disposing of the appeal is not attributable to the assessee.

(ii) M/s XYZ Pvt. Ltd., aggrieved by the order of Appellate Tribunal, filed an appeal to the High Court. The High Court without itself framing the substantial question of law at the time of admission of appeal, issued notices, heard both the parties and decided the appeal affirming the order of the Tribunal based on the questions raised by the appellant under Section 260A(2)(c).

Discuss the validity of action taken by High Court in deciding the appeal.

(iii) Mr. Manish's total income for the AY 24-25, as per return furnished under Section 139(1) is ₹ 45 lakhs. The assessment was completed on 20<sup>th</sup> Oct. 2025. Thereafter, on 10<sup>th</sup> April 2026 the Assessing Officer noticed a mistake in computation of depreciation which increased the income by ₹ 6 lakhs. The Assessing Officer issued a notice under Section 154 for the purpose of rectifying the mistake.

Mr. Manish consults you to give an opinion whether he can opt for dispute resolution before DRC (Dispute Resolution Committee) in respect of order passed under Section 154 (assuming he fulfils all the specified conditions).

Would your answer change if an order for detention has been made on him under the provisions of the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974, but such order has been set aside by the court?

(b) In the light of the provisions of Model tax conventions, answer the following :

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- (i) Discuss the taxability of 'Business profits', under both OECD and UN Model tax conventions.
- (ii) What kind of dispute resolution is addressed under Article pertaining to Mutual Agreement Procedure? Give any two key differences between OECD Model Convention and UN Model Convention in respect of Mutual Agreement Procedure.

6. (a) An enquiry under Section 133(6) of the Income-tax Act, 1961 was initiated by the Income-tax Department on 18<sup>th</sup> Nov. 2025 in the case of XYZ Importers Ltd., a company engaged in import and trading activities. During the course of enquiry, the Department examined the company's financial records, import documentation and foreign remittance details.

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The investigation revealed that the company had made payments aggregating to approximately ₹ 35 crores towards freight and logistics charges to various non-resident shipping and transport service providers during the relevant previous year. The existence and nature of such payments were substantiated by :

- Bills of entry and import documentation
- Bank remittance proofs and foreign outward remittance certificates
- Confirmations obtained from foreign vendors

PBH

It was observed that no tax had been deducted at source under Section 195 on these payments. Consequently, the Assessing Officer proposed disallowance under Section 40(a)(i) under the Act.

However, in the tax audit report furnished in Form 3CD, the tax auditor had reported the expenditure as fully allowable under Clause 21, without any qualification or adverse remark. Upon being questioned, the tax auditor submitted that:

1. The management had provided a certificate obtained from another Chartered Accountant stating that the foreign service providers did not have a Permanent Establishment (PE) in India and therefore, the payments were not chargeable to tax in India.
2. Based on such certificate, the management represented that there was no obligation to deduct tax under Section 195.
3. The tax auditor had conducted test checks primarily in respect of domestic freight payments and found them to be in order.
4. Relying on the management representation and the certificate produced, the auditor concluded that the expenditure was allowable and no disallowance was required to be reported in Clause 21.

Examine the ethical implications in this case of tax auditor.

(b) State with reasons whether the following Act can be considered as Tax Planning or Tax Management or Tax Evasion: 4

(i) On 2<sup>nd</sup> Jan. 2026, Mr. Darshil sold his residential house property which he had purchased on 20<sup>th</sup> May 2005, resulting in a long-term capital gain of ₹ 30,00,000.

He invested the entire amount of ₹ 30,00,000 on 15<sup>th</sup> April 2026 in bonds issued by Indian Renewable Energy Development Agency (IREDA) which are redeemable after 5 years.

(ii) Mrs. Varsha is engaged in business and her turnover for the PY 25-26 amounts to ₹ 18 crore. She has duly complied with the provisions of Section 44AB by getting her accounts audited by a Chartered Accountant and uploading Form 3CB and Form 3CD within the prescribed time limit.

PBH

(c) M/s XYZ Limited, an Indian company engaged in providing Engineering Consultancy Services, entered into negotiations with M/s GTW Inc., a non-resident company incorporated in the USA, for a proposed transaction involving transfer of technical know-how and provision of specialized engineering services. Since the taxability of payments to the non-resident was uncertain, particularly with respect to characterization as royalty, fees for technical services (FTS), or business income under the Income-tax Act, 1961 and the applicable Double Taxation Avoidance Agreement (DTAA), XYZ Limited filed an application before the Board for Advance Ruling seeking determination of: Whether the consideration payable to GTW Inc. would be taxable in India and whether XYZ Limited would be required to deduct tax at source under Section 195 the applicable rate of tax, if any.

The Board rejected the application on the ground that the issue raised in the application was already pending before the High Court.

Considering the facts given, explain whether such rejection by the Board of Advance Ruling is valid, what precautions the Board of Advance must take before rejecting an application and what remedies are available to the XYZ Limited against such rejection ?

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