Mock Test Paper - Series I: September, 2026

Date of Paper: 17th September, 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

ABC Ltd., a company incorporated and tax resident in Country X, is a non-resident foreign company for Indian income-tax purposes. During the previous year 2025-26, it earned business income of ₹ 8,00,000 from a unit established at Delhi. It also received dividend income of ₹ 12,50,000 from UV Ltd., an Indian company listed on a recognized stock exchange. Further, on 1 October 2025, ABC Ltd. received 8% debentures of Geeta Ltd., an Indian company, having a face value of ₹ 20,00,000 as consideration for providing technical know-how. The interest on the debentures is payable annually on 31 March.

ABC Ltd. also received dividend income of ₹ 5,50,000 on GDRs of Chetan Ltd., an Indian company, issued under a scheme of the Central Government against the initial issue of shares and purchased in foreign currency. In addition, it received royalty income of ₹ 10,00,000 from D Ltd., an Indian company, under an agreement approved by the Central Government. Assume there is no DTAA between India and Country X.

Based on the above information, choose the most appropriate option of the following Multiple-Choice Questions (MCQs) from 1 to 6 -

1. What would be tax implications with respect to debentures received from Geeta Ltd in the hands of ABC Ltd.?

   (A) ₹ 20,00,000 is only taxable as fees for technical services.

   (B) ₹ 20,00,000 is taxable as fees for technical services and Rs. 80,000 is taxable as interest.

(C) ₹ 80,000 is only taxable as interest.

(D) No amount is taxable with respect to issue of debentures in the hands of ABC Ltd.

(1 Mark)

2. What would be the amount of TDS credit available in the hands of ABC Ltd with respect dividend income received from UV Ltd. for the A.Y. 2026-27?

   (A) ₹ 1,25,000

   (B) ₹ 2,50,000

   (C) No tax is deductible at source on dividend received from UV Ltd.

   (D) ₹ 2,60,000 **(1 Mark)**

3. At what rate dividend income on GDRs from Chetan Ltd. is taxable in the hands of ABC Ltd.?

   (A) Taxable at 35% as normal income

   (B) Taxable at 20% under section 115A

   (C) Taxable at 10% under section 115AC

   (D) Exempt from tax in India **(1 Mark)**

4. At what rate interest on debentures is taxable in the hands of ABC Ltd.?

   (A) Taxable at 35% as normal income

   (B) Taxable at 20% under section 115A

   (C) Taxable at 10% under section 115AC

   (D) Taxable at 15% under section 115A **(1 Mark)**

5. What is the total income of ABC Ltd. for A.Y. 2026-27?

   (A) ₹ 36,80,000

   (B) ₹ 46,80,000

   (C) ₹ 56,80,000

   (D) ₹ 58,80,000 **(1 Mark)**

6. What is the total tax liability (without giving effect to TDS, if any) of ABC Ltd for A.Y. 2026-27?

   (A) ₹ 15,13,000

(B) ₹ 15,73,520

(C) ₹ 14,52,480

(D) ₹ 16,00,000 **(2 Marks)**

Case Scenario II

M/s Riddhi Ltd. is an Indian company engaged in providing consultancy and business advisory services. During the previous year 2025-26, it received the following loans in cash from various vendors due to some business exigency:

₹ 3,00,000 availed from Mr. Arjun on 20.04.2025.

₹ 19,500 availed from Mr. Sunny on 20.05.2025.

₹ 20,500 availed from Mr. Prabhat on 20.06.2025

Further, the company made the following loan repayments during the year:

₹ 18,000 to Mr. Arjun on 15.07.2025 in crossed cheque.

₹ 1,25,000 to Mr. Arjun on 10.08.2025 through account payee cheque.

₹ 21,000 to Mr. Arjun on 08.10.2025 through RTGS.

₹ 3,000 to Mr. Arjun on 12.12.2025 through cash.

M/s Riddhi Ltd. also furnished the following particulars for assessment year 2026-27:

S. No.	Particulars of total income	Amount (₹)
1	As per the return of income furnished under section 139(1)	(10,00,000)
2	Determined under section 143(1)(a)	(5,00,000)
3	Assessed under section 143(3)	(1,00,000)
4	Reassessed under section 147	5,00,000

The total turnover of Riddhi Ltd. for the P.Y. 2023-24 was ₹ 405 crores. Ignore the provisions of section 115BAA/115BAB.

Mr. Arjun's total sales in business during the year ended 31.3.2025 was ₹ 1.50 crores. He has entered into a contract with Rajesh, a sole proprietor for construction of his residential house for ₹ 49,00,000 which was credited in his books of account on 1.2.2026.

He also pays a monthly rent starting from 1st April, 2025 to 31st March, 2026 of ₹ 16,000 p.m. for the office premises to Mr. Hemant, the owner of building. Besides, he also pays service charges of ₹ 5,500 per month to Mr. Hemant towards the use of furniture, fixtures and vacant land appurtenant to office. The turnover of Mr. Arjun for previous year 2025-26 is ₹ 95 Lakhs.

Based on the above information, choose the most appropriate option of the following Multiple-Choice Questions (MCQs) from 7 to 12 -

7. What is the amount of penalty leviable on repayment of loan to Mr. Arjun?

   (A) No penalty is leviable since the repayment otherwise than by way of prescribed modes is less than ₹ 20,000

   (B) Penalty of ₹ 21,000 under section 271E

   (C) Penalty of ₹ 3,000 under section 271D

   (D) Penalty of ₹ 24,000 under section 271E **(2 Marks)**

8. What is the amount of penalty, if any, which would be leviable on M/s Riddhi Ltd. for availing loan in cash from various vendors?

   (A) Penalty of ₹ 3,20,500 under section 271D

   (B) Penalty of ₹ 3,40,000 under section 271E

   (C) Penalty of ₹ 3,40,000 under section 271D

   (D) Penalty of ₹ 3,19,500 under section 271E **(2 Marks)**

9. Assuming that the underreporting of income is on account of misreporting, penalty leviable on M/s. Riddhi Ltd. under section 270A at the time of assessment u/s 143(3) would be?

   (A) ₹ 6,24,000

   (B) ₹ 1,87,200

   (C) ₹ 1,24,800

   (D) ₹ 2,49,600 **(2 Marks)**

10. Assuming that the underreporting of income is not on account of misreporting and none of the additions or disallowances made in assessment qualifies under section 270A(6), penalty leviable on M/s Riddhi Ltd. under section 270A at the time of reassessment u/s 147 would be?

    (A) ₹ 93,600

    (B) ₹ 62,400

    (C) ₹ 1,56,000

    (D) ₹ 1,40,400 **(2 Marks)**

11. What would be the tax obligation on Mr. Arjun for deduction of tax at source in respect to contract with Rajesh?

    (A) No tax is deductible at source in respect of such contract.

    (B) Tax is deductible at source under section 194C @1% on the entire amount of ₹ 49 lakhs.

    (C) Tax is deductible at source under section 194M @2%

    (D) Tax is deductible at source under section 194C @2% on the entire amount of ₹ 49 lakhs. **(1 Mark)**

12. What would be the tax obligation on Mr. Arjun for deduction of tax at source in respect of rental payment to Mr. Hemant?

    (A) Tax is deductible at source under section 194-I @10% on the entire amount of ₹ 2,58,000.

    (B) No tax is deductible at source under section 194I in respect of such rental payments.

    (C) Tax is deductible at source under section 194I @2% in respect of furniture and fixtures and @10% in respect of office premises.

    (D) Tax is deductible at source under section 194C @2% on the entire amount of ₹ 2,58,000. **(1 Mark)**

Case Scenario III

Manish Tarder, a partnership firm, earned a Gross Total Income of ₹ 300 lakhs during the previous year 2025-26 relevant to Assessment Year 2026-27. The firm has not entered into any international transaction or specified domestic transaction during the year. The gross total income includes a profit of ₹ 220 lakhs from an eligible undertaking having a turnover of ₹ 80 crores. This is the fifth year of the undertaking, and the firm is eligible to claim a deduction of ₹ 200 lakhs under section 80-IA. Since the turnover of the firm exceeds the prescribed threshold, its accounts are subject to tax audit under section 44AB.

The firm is facing certain grey areas in the tax computation and is contemplating filing its return on 12th December 2026 after obtaining clarification from tax experts. The firm is therefore required to evaluate the tax consequences of filing the return on each of these dates and determine the practical course of action for obtaining clarification.

Based on the above information, choose the most appropriate option of the following Multiple Choice Questions (MCQs) from 13 to 17:

13. What would be the due date for furnishing tax audit report and for furnishing return of income of the firm for the A.Y. 2026-27?

    (A) 30th September 2026 for both tax audit report and return of income

    (B) 31st October 2026 for both tax audit report and return of income

    (C) 30th September 2026 for tax audit report and 31st October 2026 for return of income

    (D) 31st October 2026 for tax audit report and 30th November 2026 for return of income

(1 Mark)

14. What would be tax liability of the firm if it files return of income on or before the due date of filing return of income?

    (A) ₹ 31.20 lakhs

    (B) ₹ 55.50 lakhs

    (C) ₹ 57.72 lakhs

    (D) ₹ 64.65 lakhs **(2 Marks)**

15. What would be tax liability of the firm if it files return of income after the due date of filing return of income?

    (A) ₹ 64.65 lakhs

    (B) ₹ 90.00 lakhs

    (C) ₹ 100.80 lakhs

    (D) ₹ 104.832 lakhs **(2 Marks)**

16. Would the firm be eligible for any AMT credit arising for A.Y. 2026-27 if it files return of income on or before the due of filing return of income? If so, what would be the amount of such credit?

    (A) Yes, the firm would be eligible for AMT credit of ₹ 33.45 lakhs

    (B) No, the firm would not be eligible for any AMT credit arising for A.Y. 2026-27

    (C) Yes, the firm would be eligible for AMT credit of ₹ 24.30 lakhs

    (D) Yes, the firm would be eligible for AMT credit of ₹ 26.52 lakhs **(1 Mark)**

17. Which of the following would be the most appropriate course of action for the firm to minimise its tax liability and preserve its eligibility for alternate minimum tax credit??

    (A) File the return of income after the due date to ensure that all clarifications are available before filing return of income.

    (B) File the return under section 139(1) within the due date, claim the eligible deduction, and subsequently file a revised return under section 139(5), if required.

    (C) File the return under section 139(4) and claim the deduction only after obtaining the requisite clarifications.

    (D) Defer filing the return until the clarification is received, as a revised return cannot replace the original return. **(1 Mark)**

18. What is the tax treatment of ₹ 2.50 crores earned as rental income from real estate assets owned directly by it in the hands of REIT.

    (A) The rental income is taxable at the maximum marginal rate in the hands of the business trust and exempt in the hands of unit holders.

    (B) The rental income is exempt in the hands of the REIT under section 10(23FCA).

    (C) The rental income is taxable at 20% in the hands of the REIT.

    (D) The rental income is exempt both in the hands of the REIT and unit holders and no TDS is applicable. **(1 Mark)**

19. Which of the following statements is correct regarding the TDS obligation on the business trust in respect of the interest component received from a SPV and distributed to unit holders?

    (A) The business trust is not required to deduct TDS since the interest income is exempt in the hands of the business trust.

    (B) The business trust is required to deduct TDS under section 194A at 10% on the entire amount of interest distributed to unit holders.

    (C) The business trust is required to deduct TDS under section 194LBA at 10% on the interest component distributed to resident unit holders and at 5% on the interest component distributed to non-corporate non-resident and foreign company unit holders.

    (D) The business trust is required to deduct TDS under section 194-I on the interest component distributed to unit holders. **(1 Mark)**

20. A charitable institution, engaged in welfare of poor in India, registered under section 12AB of the Income-tax Act, 1961 for the previous year ended 31 March 2026, received the following amounts of donation:

(i)	Total donations during the year	₹ 40,00,000
(ii)	Anonymous donations received (Included in total donations)	₹ 10,00,000

What amount of anonymous donations would be taxable @30% as per section 115BBC of the Income-tax Act, 1961?

(A) ₹ 1,00,000

(B) ₹ 8,00,000

(C) NIL

(D) ₹ 2,00,000 **(1 Mark)**

21. Dividend received by a real estate investment trust (REIT) from special purpose vehicle (SPV) and distributed to its unit holders is –

(A) exempt in the hands of both the REIT and the unit holders unconditionally

(B) exempt in the hands of the REIT only if the SPV is a specified domestic company; taxable in the hands of unit holders only if SPV does not exercise option under section 115BAA

(C) exempt in the hands of the REIT; exempt in the hands of unit holders only if SPV does not exercise option under section 115BAA

(D) taxable in the hands of the REIT; exempt unconditionally in the hands of unitholders **(1 Mark)**

22. Mrs. Nita aged 56 years, a resident individual acquired a residential house at Pune on 01.04.1993 for ₹ 45,00,000. The Fair market value of the property as on 01.04.2001 was ₹ 1,20,00,000 and the stamp duty value as on 01.04.2001 was ₹ 1,02,00,000. Mrs. Nita sold her residential house located at Pune to Mr. Kumar on 15.10.2025 for ₹ 15,50,00,000. The value determined by the Stamp Duty Authority on 15.10.2025 was ₹ 17,00,00,000. Determine the capital gains includible in the total income of Mrs. Nita for the A.Y. 2026-27. Cost Inflation Index for F.Y. 2001-02: 100, F.Y. 2025-26: 376

(A) Long-term capital gains of ₹ 14,48,00,000

(B) Long-term capital gains ₹ 14,30,00,000

(C) Long-term capital gains ₹ 15,98,00,000

(D) Long-term capital gains ₹ 11,66,48,000 **(1 Mark)**

23. An electoral trust is not permitted to accept a contribution or donation from which of the following entities under the provisions relating to electoral trusts?

    (A) An Indian company

    (B) An individual who is a resident of India

    (C) A Hindu Undivided family

    (D) A foreign company **(1 Mark)**

Division B – Descriptive Questions

Question No. 1 is compulsory.

Attempt any four questions from the remaining five questions.:

1. The net profit of Mahi Ltd. as per its statement of profit and loss for the year ended 31.03.2026 amounted to ₹ 27,22,000 after debiting/ crediting following items:

    (i) Interest of ₹ 2,00,000 was paid on a bank loan borrowed for construction of factory building. Approval for construction of the factory building from the local authority was pending as on 31 March 2026.

    (ii) Commission of ₹ 1,00,000 paid in the month of February, 2026 on which tax was deducted in February, 2026 itself. Commission of ₹ 1,25,000 paid in the month of March, 2026 on which tax was deducted in May, 2026. Tax deducted at source on these payments was deposited to the Government on 28.09.2026.

    (iii) Travelling expenses amounting to ₹ 90,000 were incurred on a foreign tour undertaken by a director for negotiating a collaboration with a foreign manufacturer for commencing a new line of business.

    (iv) As part of the restructuring of its debt, arrears of interest amounting to ₹ 3,00,000 on a term loan were converted into a new term loan with a revised repayment schedule. During the year, ₹50,000 was paid towards such funded interest. The entire amount of ₹3,00,000 was debited to the Statement of Profit and Loss.

    (v) EPABX and mobile phones, exclusively used for business purposes, were purchased during the year. Depreciation of ₹ 18,00,000 was claimed thereon @ 40%, treating these assets as computers.

    (vi) A sum of ₹ 5,00,000 was contributed to South Ltd., a wholly-owned subsidiary company, towards the construction of a school for the benefit of the employees of the Mahi company.

(vii) Dividend received from P Ltd. on 10,000 listed equity shares of ₹ 10 each purchased at ₹ 100 per share on 10th October, 2017. The rate of dividend declared is 100%, the record date being 10th December, 2025. These shares were sold on 15.3.2025 at ₹ 130 per share. Long term capital gain of ₹ 3 lakhs is credited in statement of profit and loss. Fair market value of shares as on 31.1.2018 is ₹ 110. STT is paid both at the time of sale and purchase of such shares.

(viii) Provision for gratuity based on actuarial valuation ₹ 6,00,000 was debited to statement of profit and loss. Actual gratuity paid ₹ 1,50,000 was debited to provision for gratuity account.

Other information:

(1) Provision for bonus for the assessment year 2025-26 paid on 15.12.2025 ₹ 98,000. It is inclusive of payment by bearer cheque of ₹ 34,000 to one employee.

(2) The company has purchased and put to use a commercial vehicle of ₹ 8,00,000 for the purpose of business on 21.03.2026 and calculated depreciation@15% for the full year. Depreciation debited to the statement of profit and loss is calculated on all other assets as per the rates prescribed in the Income-tax Act, 1961.

Compute the total income of the company chargeable to tax for the A.Y. 2026-27, ignoring the provisions of section 115JB. Company is not opting for any concessional tax regimes. **(14 Marks)**

2. (a) M/s. Gaurav & Co., a partnership firm in India, is engaged in development of software and providing IT enabled services through two units, one of which is located in a notified Special Economic Zone (SEZ) in Noida (commenced operations from 01.04.2013) and the other located in a domestic tariff area (DTA). The particulars relating to previous year 2025-26 furnished by the assessee are as follows:

Total Turnover: SEZ unit ₹ 210 lakhs; DTA unit ₹ 90 lakhs

Export Turnover: SEZ unit ₹ 150 lakhs received in India in convertible foreign exchange on or before 30.9.2026; DTA unit ₹ 50 lakhs

Profit as per Statement of Profit and Loss: SEZ unit ₹ 50 lakhs; DTA unit ₹ 40 lakhs.

Amount debited to Statement of Profit and Loss and credited to Special Economic Zone Re-Investment Reserve Account ₹ 20 lakhs.

Considering that the firm has no other income during the year, compute the tax liability of the firm for the A.Y. 2026-27 by integrating, analysing and applying the relevant provisions of income-tax law. **(5 Marks)**

(b) M/s. Manav, a firm, consists of four partners namely, X, Y, Z and M. They shared profits and losses equally during the year ended 31.3.2025. The assessed business loss of the firm for the assessment year 2025-26 which it is entitled to carry forward amounts to ₹ 3,60,000. A new deed of partnership was executed among X, Y, Z and M on 1.4.2025 in terms of which they agreed to share profits and losses in the ratio of 15:15:20:50 respectively.

Compute the amount of business loss relating to the assessment year 2025-26, which the firm is entitled to set off against its business income for the assessment year 2026-27. The business income of the firm for the assessment year 2026-27 is ₹ 3,30,000. Your answer should be supported by reasons. **(3 Marks)**

(c) S Ltd. is a company incorporated in Canada and 65% of its shares are held by G (P) Ltd., an Indian company. S Ltd. has its presence in India also. The details relating to S Ltd. for the P.Y.2025-26, are as under:

Particulars	India	Canada
Fixed assets at depreciated values for tax purposes (₹ in crores)	120	80
Intangible assets (₹ in crores)	50	200
Other assets (value as per books of account) (₹ in crores)	40	120
Income from trading operations (₹ in crores)	25	50
The above figure includes:		
(i) Income from transactions where purchases are from associated enterprises and sales are to unrelated parties	2	4
(ii) Income from transactions where sales are to associated enterprises and purchases are from unrelated parties	3	5
(iii) Income from transactions where both purchases and sales are from/to associated enterprises	5	10
Interest and dividend from investments (₹ in crores)	20	15
Number of employees (Residents in respective countries)	70	90
Payroll expenses on employees (₹ in crores)	8	12

Determine the residential status of S Ltd. for A.Y.2026-27, if during the F.Y. 2025-26, eight board meetings were held – 3 in India and 5 in Canada. **(6 Marks)**

3. (a) Examine and discuss each cases mentioned below. All Charitable Trusts registered under section 12AB as per the provisions of the Income-tax Act, 1961 for the A.Y. 2026-27. Each case is independent to each other.

(i) Shiva Charitable Trust having its main object as "advancement of object of general public utility" provide electrical scooter to the various corporate employees of Cyber Hub Gurugram for their daily commute. With this business activity, it generates receipts of ₹ 45 lakh, which has been applied for the object of general public utility. The total receipts for the F.Y. 2025-26 of Shiva Charitable Trust was ₹ 190 Lakh.

(ii) 'Vidyut' a Charitable Trust, a vocational training institute offers certificate courses in sewing, handloom weaving, and handicrafts. It operates a clothing shop at the entrance of the training institute. The shop derived income of ₹ 60 lakh in the F.Y. 2025-26 and the income completely applied towards the object of trust providing training. The trust maintains separate books of accounts for the shop.

(iii) "Jal" Charitable Trust having objective of providing 'clean drinking water' started its welfare activities in 2019 by providing clean water to some villages of Uttar Pradesh. In August 2025, a similar objective trust named 'Water for everyone' was formed by a group of people in Jharkhand. They also provide clean drinking water to villagers on a small scale. "Jal" offers the 'Water for everyone' trust to merge with them so that they can scale the benefits and share resources. However, they are concerned about the exit tax levied at the time of merger of trusts **(8 Marks)**

(b) (I) Xylo Ltd., operating in India, is the dealer for the goods manufactured by Yoyo Ltd. of Japan. Yoyo Ltd. owns 55% shares of Xylo Ltd. and out of 7 directors of the company, 4 were appointed by them. The Assessing Officer, after verification of international transactions of ₹ 300 lakhs of Xylo Ltd. for the relevant year and by noticing that the company had failed to maintain the requisite records and had also not obtained the accountants report, adjusted its income by making an addition of ₹ 30,00,000 to the declared income and also issued a show cause notice to levy various penalties. Xylo Ltd seeks your expert opinion. Assumed that Xylo Ltd. has not entered into an APA and has also not opted to be subject to Safe Harbour Rules. **(4 Marks)**

(II) PT Inc, a US company having its place of effective management also in the USA, has advanced a loan equivalent to ₹ 170 crores to Myra Ltd., an Indian company on 10-4-2025. The total book value of assets of Myra Ltd.

is ₹ 300 crores. The market value of the assets, however, is ₹ 320 crores. Myra Ltd. repaid ₹ 30 crores before 31-3-2026. Examine with reasons whether these two enterprises can be deemed to be associated enterprises under the Indian transfer pricing. **(2 Marks)**

4. (a) You are required to discuss the provisions related to tax deducted/collected at source for the below mentioned independent scenarios and amount of tax deductible/ collectable for the year ended 31st March 2026:

(i) During the previous year 2025-26, Mr. Rajesh purchased scrap of ₹ 65 lakhs from Mr. Suresh for the purpose of his manufacturing unit Mr. Rajesh also furnished a declaration to Mr. Suresh that the scrap shall be utilized for manufacturing process carried on by him and shall not be used for trading purposes. Mr. Rajesh made the payment of ₹ 49 lakhs during F.Y 2025-26 to Mr. Suresh. Assume turnover of both Mr. Rajesh and Mr. Suresh from the business carried on by them exceeds ₹ 10 crores in the financial year 2024-25. **(3 Marks)**

(ii) Gayatri Ltd., a real estate development company, entered into a Joint Development Agreement with Mr. Jaspal, a resident individual, whereby Mr. Jaspal would transfer a plot of land measuring 10 acres for a part consideration of ₹ 6.5 crores to be paid on the date of agreement, i.e., 1.6.2025 Gayatri Ltd. has planned to develop a high-rise apartment complex on such land by 31.3.2028. Upon completion of the project, Gayatri Ltd would transfer 6 flats in the apartment to Mr. Jaspal as final settlement. The FMV of the flats is estimated to be ₹ 1.35 crores each as on 31.3.2028. **(3 Marks)**

(iii) State Government of Uttar Pradesh grants a lease of coal mine to M/s Turbo Co. Ltd. on 01.09.2025 and charged ₹ 12 crores for the lease. M/s Turbo Co. Ltd. sold coal for ₹ 1 crore to M/s Quick Pvt. Ltd. during the previous year 2025-26. The turnover of M/s Turbo Co. and M/s Quick Pvt. Ltd. for the financial year 2024-25 amounted to ₹ 7 crores and ₹ 8 crores, respectively. **(2 Marks)**

(b) Mr. Karan, an individual resident in India aged 52 years, furnishes you the following particulars of income earned in India, Country "X" and Country "Y" for the previous year 2025-26. India has not entered into double taxation avoidance agreement with these two countries.

Particulars	₹
Income from profession carried on in India	7,50,000
Agricultural income in Country "X" (gross)	50,000
Dividend from a company incorporated in Country "Y" (gross)	1,50,000

Royalty income from a literary book from Country "X" (gross)	6,00,000
Expenses incurred for earning royalty	50,000
Business loss in Country "Y" (Proprietary business)	65,000
Rent from a house situated in Country "Y" (gross)	2,40,000
Municipal tax paid in respect of the above house in Country "Y" (not allowed as deduction in country "Y")	10,000

Note: *Business loss in Country "Y" not eligible for set off against other incomes as per law of that country. The rates of tax in Country "X" and Country "Y" are 10% and 20%, respectively.*

Compute total income and net tax liability of Mr. Karan in India for Assessment Year 2026-27, assuming that he opted out of the default tax regime under section 115BAC. **(6 Marks)**

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

(i) Step 2 home Pvt. Ltd. filed its return of income under section 139(1) on 15th September, 2024 for A.Y. 2024-25. The return was found to be defective, and an intimation was issued on 10th May, 2025, directing the assessee to rectify the defects within 15 days. The defects were rectified on 19th May, 2025. The return was processed, and intimation was sent on 15th July, 2025. Subsequently, the Assessing Officer issued a notice under section 143(2) on 21st June, 2026.

Company's CA. contended that the notice was barred by limitation since it was issued beyond the permissible time limit. Examine the validity of the notice issued under section 143(2) by the Assessing Officer. **(4 Marks)**

(ii) Mr. Rinku, an individual whose total sales in the business of food grains for the year ending 31.3.2026 was ₹ 305 lakhs, did not maintain books of account for P.Y.2025-26, even though his turnover was ₹ 28 lakhs in the P.Y.2024-25. During the previous year 2025-26, majority of payment were made either in cash or by bearer cheque by Mr. Rinku. The Assessing Officer levied penalty of ₹ 25,000 under section 271A for non-maintenance of books of account and penalty of ₹ 1,50,000 under section 271B for not getting the books audited as required by section 44AB. Is the Assessing Officer justified in levying penalty under section 271B? **(4 Marks)**

(iii) An Income-tax authority did not file an appeal to the Income-tax Appellate Tribunal against an order of the Commissioner (Appeals) decided against the Income-tax department on a particular issue in case of one assessee, Neha for assessment year 2025-26 on the ground that the tax effect of such dispute was less than the monetary limit prescribed by CBDT. In assessment year 2026-27, similar issue arose in the assessments of Neha and her Brother Vijay, which was decided by the Commissioner (Appeals) against the Department and where the tax effect of the dispute is not less than the prescribed monetary limits. Can the Income-tax department move an appeal to the Tribunal in respect of A.Y. 2026-27 against the orders of the Commissioner (Appeals) for Neha and her Brother Vijay? **(4 Marks)**

(b) Describe the three-tier structure for transfer pricing documentation mandated by BEPS Action Plan 13. Which provisions under the Income-tax Act, 1961 dealt with Master File and CBC reporting**.** **(6 Marks)**

6. (a) Correct & Co, a firm engaged in retail business, employed 30 new employees on 1.4.2025 on a monthly salary of ₹ 24,500 to be paid by account payee cheque. In addition, each employee was entitled to 10% employer contribution to recognised provident fund. The employees were also entitled to transport allowance of ₹ 3,500 p.m. paid in cash. The gross total income of Correct & Co. included profits and gains from business of ₹ 75 lakhs.

The firm claimed deduction under section 80JJAA of ₹ 26,46,000, being 30% of ₹ 88,20,000 lakh (30 new employees x ₹ 24,500 p.m. x 12) on the basis of the report of the chartered accountant issued in Form 10DA. The same chartered accountant was also the tax auditor of the firm. The chartered accountant contended that "emoluments" do not include employer contribution to PF. Also, cash payments were not to be considered as "additional employee cost" for the purpose of section 80JJAA. Hence, only ₹ 24,500 p.m. per employee paid by account payee cheque has to be treated as additional employee cost. Since the same does not exceed the limit of ₹ 25,000 p.m. and the employees have been employed for more than 240 days in the P.Y.2025-26, the employees would qualify as "additional employees" for the purpose of deduction under section 80JJAA for A.Y.2026-27. Is his contention correct? Examine the ethical implications in this case. **(6 Marks)**.

(b) In the following independent circumstances, discuss whether the provisions of GAAR would be applicable:

(I) Alphabet Inc., a company incorporated in Country X, holds 1200 equity shares in AB Ltd., an Indian listed entity since 1.4.2016. On 1.5.2025, AB Ltd. issued 1200 bonus shares to Alphabet Inc. As per the treaty between India and Country X, the capital gain is taxable in the country where the transferor of shares is a resident. The tax laws of Country X, exempt capital gains. Alphabet Inc. sells all the shareholding in AB Ltd. on 1.1.2026 and earned a capital gain of ₹ 5 crores.

(II) Yes Ltd., an Indian company, incorporates a wholly owned subsidiary Company Nice Ltd, in Country Z which is a Low Tax Jurisdiction with equity share capital of ₹ 150 crores. Out of the equity capital, Nice Ltd. gives loan to Never Ltd., an Indian company at the rate of 5%. There is no other activity in Company Nice Ltd. in Country Z **(4 Marks)**

(c) Explain the correctness or otherwise of the following statements giving proper reasons thereof:

(i) Mr. Jatin, a resident individual, is aggrieved by an order passed by the Board for Advance Ruling on 1.11.2026. Since the decision of the Board is binding on the applicant, he has no other option but to accept the ruling of the Board.

(ii) M/s Zinc 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., 02.02.2026. It cannot seek the BAR ruling till the matter is pending before the ITAT. **(4 Marks)**