FINAL EXAMINATION

December 2025

P–15(DIT)
Syllabus 2022

DIRECT TAX LAWS AND INTERNATIONAL TAXATION

Time Allowed: 3 Hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.
Wherever considered necessary, suitable assumptions may be made and clearly indicated in the respective answer.
All workings must form part of the relevant answer.

Section – A

(Answer Question No.1 which is compulsory)

1. Choose the correct alternative from the four alternatives given: 2×15=30

(i) Dr. Vinayak, a reputed medical doctor (aged 56) is a non-resident. His gross receipt from the profession in India for the financial year ended 31st March, 2025 was ₹ 12 lakhs and his total income computed as per the provisions of Income-tax Act, 1961 was ₹ 2 lakhs. There is no TDS credit for the income earned in India. Which of the following statements is correct as regards his filing of return of income in India for the assessment year 2025-26?

(A) He does not need to file his return of income in India as his total income does not exceed the basic exemption limit.

(B) He has to file his return of income in India since he is a non-resident who earned some income in India.

(C) He does not need to file his return of income in India since no TDS was deducted from his income in India.

(D) He has to compulsorily file his return of income in India since the gross receipt from profession exceeded ₹ 10 lakhs.

(ii) MNO LLP, Mumbai, furnished its return of income for the Assessment Year 2025-26 before the specified 'due date' and declared an income of ₹ 1,20,000. The assessment was completed on 10th February, 2026 and the total income was enhanced to ₹ 1,65,000. There was no advance tax or TDS credit available to assessee. How much is the amount of interest payable under Section 234B by MNO LLP?

(A) ₹ 5,096

(B) ₹ 5,663

(C) ₹ 494

(D) ₹ 1,544

(iii) What is the rate of tax (ignore surcharge and HEC) on the income from transfer of Virtual Digital Asset?

(A) 10%

(B) 20%

(C) 30%

(D) Normal slab rate of tax

(iv) An apartment was acquired by Kantilal for ₹ 50 lakhs in Singapore on 19th August, 2016. He was in India for more than 2 decades before he left India permanently in April, 2017. Only 60 % of the purchase price of the apartment was disclosed to tax authorities in India. The fact of non-disclosure of full amount of purchase price of apartment came to the knowledge of the Assessing Officer in January, 2025 when the fair market value of the apartment was ₹ 200 lakhs. How much would be taxed under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015?

(A) ₹ 200 lakhs

(B) ₹ 80 lakhs

(C) ₹ 120 lakhs

(D) ₹ 30 lakhs

(v) During the course of assessment of Sheela & Co for the assessment year 2025-26, it was found that a bogus purchase entry was made for ₹ 5 lakhs in the books of account. Even after the bogus purchase was disallowed in the assessment by the Assessing Officer, the assessee's total income consisted of only one item viz., business loss of ₹ 2 lakhs. How much is the amount of penalty leviable for the false entry made in the books of account?

(A) ₹ 5,00,000

(B) ₹ 3,12,000

(C) ₹ 1,56,000

(D) Nil

(vi) A survey under section 133A was conducted in the business premises of AB & Co. Which of the following powers could not be exercised by the Income-tax authority conducting the said survey?

(A) Seize cash not recorded in the books of account

(B) Record statement of any partner who is present there at the premises during survey.

(C) Verify cash and stock

(D) Place marks of identification in the books of account

(vii) What is the monetary limit of tax effect for the Department to file appeal to the High Court on being aggrieved by the order of ITAT?

(A) ₹ 60,00,000

(B) ₹ 1,00,00,000

(C) ₹ 2,00,00,000

(D) ₹ 5,00,00,000

(viii) Allan (P) Ltd. provides the following information relating to the securities held as stock-in-trade as on 31.03.2025:

Security	Cost	Net realizable value as on 31.03.2025
	₹ in lakhs	
Equity shares		
A Ltd.	800	900
B Ltd.	1,500	1,200
Debt security		
L Co. Ltd.	1,500	1,400
M Co. Ltd.	1,000	2,000
Total	4,800	5,500

What would be the cost of securities as per ICDS VIII for the assessment year 2025-26?

(A) ₹ 4,600 lakhs

(B) ₹ 5,800 lakhs

(C) ₹ 4,400 lakhs

(D) ₹ 5,900 lakhs

(ix) Ramesh sold his residential house for ₹ 80 lakhs and the long-term capital gain (computed) was ₹ 55 lakhs. He purchased capital gain bonds of NHAI for ₹ 50 lakhs before the end of the previous year. What would you call the action of Ramesh as regards acquisition of capital gain bond?

(A) Tax evasion

(B) Tax planning

(C) Tax avoidance

(D) Tax compliance

(x) Which method is generally considered most appropriate for determining ALP in the case of transfer of unique intangibles?

(A) Cost Plus Method

(B) CUP Method

(C) Profit Split Method

(D) Resale Price Method

(xi) PQR Ltd. has been supplying goods to its Associate Enterprise (AE) located in foreign country. It applied for Advance Pricing Agreement (APA) in respect of the transactions with its AE which amounted to ₹ 150 crores. How much is the fee payable by PQR Ltd in this regard?

(A) ₹ 2 lakhs

(B) ₹10 lakhs

(C) ₹ 15 lakhs

(D) ₹ 20 lakhs

(xii) What is the meaning of the term "Safe harbour"?

(A) A sea port where it is safe for the ships to park.

(B) Circumstances in which the income-tax authorities shall accept the transfer price as declared by the assessee.

(C) A fixed percentage of net income to gross sales admitted and there is no need for any transfer pricing adjustment.

(D) A fixed percentage of equity shareholding below which entities are not treated as associated enterprises.

(xiii) Laxmi, a resident individual earned ₹ 35 lakhs as consultancy income in Country Y on which she paid tax in Country Y at the rate of 20%. Country Y does not have a Double Taxation Avoidance Agreement (DTAA) with India. She wants to know whether she can claim any relief in India in respect of the income tax she has paid on the said income in Country Y. Which of the following statements is correct in this regard?

(A) Laxmi will not be able to get any relief of the tax paid in Country Y as there is no DTAA between India and Country Y.

(B) Laxmi will be able to get relief of the tax paid in Country Y only if Country Y also provides tax credit to its residents in respect of the tax paid by them in India.

(C) Laxmi will be able to get relief of the tax paid in Country Y even though there is no DTAA between India and Country Y.

(D) Laxmi will be able to get relief of the tax paid in Country Y only if Country Y agrees to share information of Indian residents in Country Y with Indian tax authorities.

(xiv) Which of the following Articles is present in UN Model Convention but absent in OECD Model Convention?

(A) Article 14 – Independent Personal Services

(B) Article 12A – Fee for technical services

(C) Article 29 – Entitlements of benefits

(D) Article 22 – Capital

(xv) The Assessing Officer of ABC Ltd. finds a transaction to be an impermissible transaction. The Principal Commissioner made a reference to the Approving Panel after fully complying with the legal provisions. What is the time limit for the Approving Panel to issue its directions under Section 144BA(6) of the Income-tax Act, 1961?

(A) Within 6 months from the date of reference.

(B) Within 30 days from the date of reference.

(C) Before the end of the financial year in which the reference was made.

(D) Within 6 months from the end of the month in which the reference was made.

Section - B

Answer any five questions from Question No.2 to Question No.8.

Each question carries 14 marks. **14×5=70**

2. (a) Sitaram Charitable Trust registered under Section 12AB, runs a hospital and a nursing college. The trust follows cash system of accounting. It furnishes the following information relating to the financial year 2024-25:

Particulars	₹ in lakhs
Gross receipts of the hospital	540
Gross receipts of the nursing college	168
Fees which could not be realized from patients	10
Administrative expenses of the hospital	95
Administrative expenses of the nursing college	76
Acquisition of a building for the purpose of expansion of nursing college	215
Corpus donations (included in gross receipts of the hospital given above)	8
Repayment of loan taken during financial year 2023-24 for repair of the hospital building	4

Additional information:

(i) Administrative expenses of the hospital include payment of ₹ 5,00,000 to Dr. James, a non-resident, for training doctors of the hospital run by the trust. No tax was deducted at source on the said payment.

(ii) The trustees express their inability to apply the entire income for the objects of the trust as the major portion of receipts were realized at the end of the year.

Required :

Assess the total income of Sitaram Charitable Trust for the Assessment Year 2025-26 by giving brief reasons for the treatment of each item. Also, suggest any possibility of avoiding tax liability as regards the major portion of receipts that were realized at the end of the financial year. 7

(b) Vijay, Shyam and Mohan are partners in a firm by name VSM & Co at Delhi. They share profits and losses equally. The firm is engaged in manufacturing activity. Partner Mohan retired on 31st August, 2024. Net profit up to that date (i.e. up to 31st August, 2024) was ₹ 4.50 lakhs (computed). Capital of Mohan as on 1st April, 2024 was ₹ 35 lakhs. For the purpose of settlement of account of retiring partner Mohan, the firm transferred stock in trade at cost price viz., ₹ 8 lakhs when its regular sale price was ₹ 9.50 lakhs. The firm transferred a plot of land to partner Mohan which was acquired in the FY 2020-21 for ₹ 12 lakhs and whose stamp duty value on the date of transfer (i.e.) on 1st September, 2024 was ₹ 30 lakhs. The balance amount of capital due to Mohan was paid by cash / cheque.

Cost Inflation Index for FY 2020-21 =301; FY 2024-25= 363

Required :

Assess the total income and the tax liability of the firm and of the retiring partner Mohan for the Assessment Year 2025-26 in respect of the above transactions. 7

3. (a) Sridhar, a resident individual (age 42) furnishes the following particulars of his income relevant for the Assessment Year 2025-26:

(i) Business income ₹ 17,00,000 (computed).

(ii) Long-term capital gain ₹ 1,20,000 from sale of listed equity shares (STT paid). Sale made in March, 2025.

(iii) Paid life insurance premium ₹ 1,50,000 on 3rd January, 2025. The policy was taken on self in April, 2022. The sum assured being ₹ 12,00,000.

(iv) Paid ₹ 2,00,000 to Prime Minister's National Relief Fund in September, 2024 on the occasion of Operation Sindhoor.

Required :

Assess the tax liability of Sridhar under default regime and old regime. Suggest which one should be opted by him. 7

(b) RTP Ltd., Kolkata is a domestic company incorporated and operational from May, 2020. It has been assessed to tax as per normal provisions with a tax rate of 30%. The Board of Directors of the company want you to take note of the following data and suggest whether to continue the same or opt for Section 115BAB of the Act. The company's income from business for the year ended 31st March, 2025 was ₹ 1,500 lakhs before deduction of the following:

Particulars	**₹ in lakhs**
Additional Depreciation (Sec 32(1) (iia))	125
Brought Forward Business Loss (of AY 2024-25)	700
Deduction under Section 80JJAA	50
Deduction under Section 80M	25

Required :

Assess the total income and income-tax liability as per normal provisions and under Section 115BAB for the Assessment Year 2025-26 to suggest which one to be opted. 7

4. (a) Tall (P) Ltd., Kanpur an Indian company engaged in the manufacture of leather bags and synthetic bags through two units viz. Unit A for leather bags and Unit B for synthetic bags. The management of the company decided to demerge and sell Unit A to another Indian company by name Salt (P) Ltd. The book value of assets minus liabilities of Tall (P) Ltd. was ₹ 50 crores. The book value of assets minus liabilities of Unit A was ₹ 20 crores. The date of demerger was 5th June, 2024. It was decided in the scheme of demerger that for each equity share of ₹ 10 each in Tall (P) Ltd. 5 equity shares of Salt (P) Ltd. of ₹ 10 each shall be issued. Sunil, a resident individual held 15,000 shares in Tall (P) Ltd. He had acquired all the shares of Tall (P) Ltd. on 4th January, 2020 at ₹ 150 per share. He received 75,000 equity shares of Salt (P) Ltd. on demerger. He sold all the shares of Salt (P) Ltd on 15th March, 2025 @ ₹ 20 per share.

Cost Inflation Index: FY 2020-21= 301; FY 2024-25 = 363

With appropriate reasons to support your computation, you are required to compute capital gains in the hands of Sunil on the transfer of shares of Tall (P) Ltd. and Salt (P) Ltd. 7

(b) Aditya, a non-resident Indian (age 45), is an employee of Global Ltd. UK and settled in UK. During the previous year 2024-25, he received a monthly salary of £ 12,000 which was credited to his bank account in UK. He had acquired certain shares and debentures in Indian companies in India by remitting foreign currency and during the previous year 2024-25 earned a dividend income of ₹ 1,50,000 (gross) and interest income of ₹ 4,00,000 (gross) which were credited to his bank account in India. Apart from the above, he purchased shares for ₹ 4,00,000 of X Ltd., Pune by remitting foreign currency on 10th June, 2020 and sold these shares on 30th June, 2024 for ₹ 5,25,000.

He invested the entire sale consideration in the shares of another Indian company Y Ltd., Delhi, on 15th February, 2025. He has a let-out property in Mumbai fetching a monthly rent of ₹ 20,000 which was credited to his bank account in India.

Cost Inflation Index: FY 2020-21= 301; FY 2024-25 = 363

Required :

Assess the total income and tax liability of Aditya for the Assessment Year 2025-26 under Chapter XII-A. Ignore the provisions of Section 115BAC. (Assume 1 £ = ₹ 105) 7

5. (a) Dr. Mathew Cherian is a resident individual and reputed surgeon. His assessment for the assessment year 2024-25 was completed under Section 143(3) vide order dated 15th September, 2025. He received the said assessment order and a notice of demand on 25th September, 2025. In the assessment, the Assessing Officer had disallowed certain deductions and finally added ₹ 28,00,000 to the returned income. He filed an appeal before CIT (Appeals) on 15th November, 2025 as he was outside India from 1st September, 2025 to 13th November, 2025.

Required :

Based on the above facts state (i) time limit for filing appeal; (ii) legal remedy in case it is filed beyond the time limit; (iii) time limit for disposal of appeal by CIT(Appeals); and (iv) whether any deposit of tax to be made for additional income assessed by the Assessing Officer before filing the appeal. 7

(b) Fox Ltd., Nagpur an Indian company, engaged in the manufacturing of electronic cables, chargers etc., acquired the following assets during the financial year 2024–25:

(i) Machinery A (Rate of depreciation 15%): Acquired on 23rd June, 2024 from Healy Ltd. Raipur (a reputed manufacturer of such machine). It was put to use from 15th October, 2024 by Fox Ltd.

(I) Consideration: Fox Ltd. issued 10,000 equity shares in the company. The face value of these shares is ₹ 100 per share. The fair market price of the shares was ₹ 150 per share as on the date of acquisition of the machinery and ₹ 240 per share as on 31st March, 2025.

(II) Fair value of the machinery acquired as on the date of acquisition (i. e, 23rd June, 2024) was ₹ 20,00,000. [A valuation report of the approved valuer is available on record for determining the fair value of machinery].

(III) Installation cost incurred for the machinery to bring it to the working condition was ₹ 5,00,000 (10th October, 2024).

(ii) Machinery B (Rate of depreciation 15%): Imported a second-hand machinery from Bricks LLC, USA on 18th October, 2024. Put to use from 1st November, 2024 by Fox Ltd.

(I) Consideration: Original cost USD 40,000.

(II) Paid USD 35,000 on 18th October, 2024 (exchange rate 1 USD = ₹ 82)

(III) Remaining amount of USD 5,000 was still outstanding as on 31st March, 2025.
(Exchange rate on 31st March, 2025: 1 USD = ₹ 87)

(IV) Customs duty ₹ 4,00,000 and installation charges ₹ 1,50,000 paid on 25th October, 2024.

Required :

Analyze the actual cost of each machinery as per the relevant ICDS. Also, calculate the depreciation as per the Income-tax Rules, 1962 for the Assessment Year 2025-26. 7

6. (a) **Explain** Exemption Method, Credit Method and Tax Sparing Method of providing double taxation relief. 7

(b) Anand, a resident individual aged 55 years, is a CEO of Ace Ltd., Chennai. He furnishes following particulars of income earned by him in India and Country Z for the previous year 2024-25:

(i) Salary from Ace Ltd. = ₹ 24,00,000.

(ii) Loss from self-occupied house property (because of interest on housing loan) = ₹ 2,50,000.

(iii) Interest on bank fixed deposit = ₹ 1,50,000.

(iv) Income from business in Country Z = USD 15,000.

(v) Royalty income from Country Z for a fictional book, due and received on 10th April, 2025 = USD 10,000. (Not eligible for deduction under Section 80QQB)

(vi) Long term capital gain on sale of shares of companies registered in Country Z (sale proceeds were credited in the bank account held in Country Z on 28th March, 2025) = USD 6,000.

India has not entered in to DTAA with Country Z. The fiscal year is the same for income-tax in India and Country Z. Rate of tax in Country Z is 20% in respect of all incomes. Income-tax was paid by Anand in Country Z on 25th May, 2025 for the incomes of the year ended 31st March, 2025.

The exchange rates of Indian currency per 1 USD as per the reference rate of the RBI on the various dates are as under:

31.03.2024 = ₹ 74	28.02.2025 = ₹ 74.50	28.03.2025 = ₹ 74.75
31.03.2025= ₹ 75	30.04.2025 = ₹ 75.50	10.04.2025= ₹ 76

Required :

Analyze and Assess the total income and tax payable by Anand in India for the Assessment Year 2025-26 under the default tax regime assuming that he satisfied all the conditions for the purpose of Section 91. 7

7. (a) Real Ltd., Mumbai is an Indian company, in which Reel Inc., an Italian company, has 27% shareholding. Real Ltd. is engaged in importing and selling mobile phones manufactured by Reel Inc. in India without any modification thereof. Reel Inc. also sells similar mobile phones to another unrelated Indian company by name Yolo Ltd., Delhi for resale in India. Following details are provided in this regard:

   (i) Number of mobile phone handsets sold to Real Ltd. by Reel Inc. during the FY 2024-25 = 50,000 units.

   (ii) Number of mobile phone handsets sold to Yolo Ltd. by Reel Inc. during the FY 2024-25 = 55,000 units.

   (iii) Price charged for sale made to Real Ltd. = ₹ 25,000 per unit.

   (iv) Price charged for sale made to Yolo Ltd. = ₹ 20,000 per unit.

   (v) Reel Inc. does not provide any warranty to Real Ltd. However, Reel Inc. provides a warranty for 3 months to Yolo Ltd. The cost of warranty to Reel Inc. is 3% of the sale price (for 3 months).

Required :

Determine the arm's length price of the transaction and the effect of that on the total income of the Real Ltd. 7

(b) Anita Ltd., an Indian Company is engaged in the manufacture of electronic goods for export as well as domestic consumption. Raw material and consumables required in the production during the Financial Year 2024-25 amounting to ₹ 90 crores was imported from Europe. Out of this, goods for ₹ 82 crores was supplied by Allan GmbH., Germany.

In Financial Year 2024-25, Anita Ltd. has raised following loans/borrowings:

   (i) On 1st June, 2024, raised a loan of ₹ 50 crore from Allan GmbH at an interest rate of 9% p.a. The loan is repayable over 5 years after the holiday period of 2 years.

   (ii) On 1st August, 2024, raised a loan of ₹ 20 crores from Bank of Tokyo, Mumbai branch at an interest rate of 7.50% p.a. The loan is guaranteed by Andrew Ltd., USA which holds 30% of the equity share capital of Anita Ltd. Interest paid / payable to Bank of Tokyo for the financial year 2024-25 was ₹ 0.90 crore.

The net profit reported by Anita Ltd. for the financial year 2024-25 was ₹ 4.80 crores after debiting the interest on borrowed funds, depreciation ₹ 2 crores and provision for income tax ₹ 2.05 crores.

Required :

Discuss the applicability of the provisions of limitation of interest deduction to various borrowings of Anita Ltd. and **Analyze** the amount of interest eligible for deduction for the Assessment Year 2025-26. 7

8. (a) XYZ Ltd., Surat a domestic company furnishes you the following information for the year ended 31st March, 2025:

Net profit as per Statement of Profit & Loss ₹ 126 lakhs.

Items debited to Statement of Profit and Loss:

(i) Expenses towards Corporate Social Responsibility ₹ 5 lakhs.

(ii) Provision for doubtful debts ₹ 3 lakhs.

(iii) Depreciation debited ₹ 12 lakhs (includes ₹ 2 lakhs being depreciation on revalued additional amounts).

(iv) Loss on sale of fixed assets ₹ 2 lakhs.

(v) Deferred tax liability ₹ 6 lakhs.

(vi) Provision for GST ₹ 7 lakhs due for March, 2025, remaining unpaid till the date of filing of ITR.

Items credited to Statement of Profit and Loss:

(i) Income from agriculture in Andhra Pradesh ₹ 6 lakhs.

(ii) Profit from units in SEZ ₹ 10 lakhs (eligible for 100% deduction – Section 10AA).

(iii) Royalty income by allowing its patent being used by Apex Ltd. ₹ 15 lakhs (eligible for the benefits of Section 115BBF).

(iv) Dividend received from foreign companies ₹ 1,50,000.

Additional information:

(i) Depreciation as per Income-tax Act, 1961 ₹ 15 lakhs.

(ii) Brought forward loss as per books (AY 2024-25) ₹ 8 lakhs.

(iii) Brought forward unabsorbed depreciation as per books (AY 2024-25) ₹ 10 lakhs.

(iv) There is unabsorbed depreciation of ₹ 7 lakhs and brought forward business loss of ₹ 4 lakhs as per Income-tax Act, 1961.

Required :

Analyze Book Profit under Section 115JB for the Assessment Year 2025-26. 7

(b) **State with** brief reasons **whether** the following independent transactions are (a) International Transaction; or (b) Specified Domestic Transaction; or (c) Regular Business Transaction (which is neither an international transaction nor specified domestic transaction):

(i) C Ltd. Delhi received ₹ 28 crores from its UK based parent company for export of cloud-based IT service.

(ii) AB Ltd. Jaipur paid ₹ 26 crores for purchase of electronic devices from its subsidiary company located in SEZ in Gujarat at a price 20% more than market price.

(iii) EF Ltd. Chennai sold power generated by it to its holding company located in Mumbai at a premium price of 130% and the amount being ₹ 7.80 crores.

(iv) TD (P) Ltd. Cochin paid ₹ 33 crores to SS (P) Ltd. Mysore for the raw material purchase. SS (P) Ltd. is taxable under Section 115BAB. The transaction was at cost plus 30% for SS (P) Ltd. who sold at cost plus 10% to other parties. In both the companies Amal is the Managing Director and 100% of shareholding in both the companies are held by Amal and his family members. 7
