



FINAL EXAMINATION
PRACTICE TEST PAPER
PAPER – 15

TERM – JUNE 2026
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.

SECTION – A (Compulsory)

- 1) **Choose the correct option:** **[15 x 2 = 30]**
- (i) A return filed under which of the following sections of the Income Tax Act can be revised under Section 139(5)?
- (a) Section 139(1) – Return filed within due date
 - (b) Section 139(4) – Belated return
 - (c) Both (a) and (b)
 - (d) Section 142(1) – Return filed in response to notice
- (ii) When an assessee has paid advance tax more than the tax due on the returned income and the return is filed before the ‘due date’ specified in section 139(1), the refund amount is eligible for interest @ _____.
- (a) 1% per month
 - (b) ½% per month
 - (c) ¾% per month
 - (d) 1.50% per month
- (iii) The minimum percentage of income that must be applied for charitable purposes to claim exemption is:
- (a) 70%
 - (b) 75%
 - (c) 80%
 - (d) 85%
- (iv) Time limit for rectification under Section 154 is:
- (a) 4 years
 - (b) 2 years
 - (c) 5 years
 - (d) 6 years
- (v) Penalty for failure to maintain books of accounts as required under Section 44AA is:
- (a) ₹25,000
 - (b) ₹50,000
 - (c) ₹1,00,000
 - (d) ₹ 10,000
- (vi) Which of the following sections provides deduction for specified investments in tax planning?
- (a) Section 80C



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- (b) Section 10
(c) Section 24
(d) Section 194A
- (vii)** ICDS are applicable to:
(a) Only companies
(b) Only individuals
(c) All assesseees following mercantile system of accounting
(d) Only partnership firms
- (viii)** An assessee acquired a house property outside India in the previous year 2009-10 for ₹50 lakh. Out of this investment, ₹20 lakh had already been assessed to tax in earlier years. The asset came to the notice of the Assessing Officer in FY 2025 (AY 2026-27). The value of the asset in the year 2025-26 is ₹ 1 crore. What will be the amount chargeable to tax under the Black Money Act?
(a) ₹40,00,000
(b) ₹60,00,000
(c) ₹50,00,000
(d) ₹80,00,000
- (ix)** If a slump sale occurs after holding the undertaking for more than 24 months, the capital gain is treated as:
(a) Short-term capital gain
(b) Long-term capital gain
(c) Business income
(d) All of the above
- (x)** Which of the following is not a method for determining Arm's Length Price?
(a) CUP Method
(b) Resale Price Method
(c) Profit Split Method
(d) Historical Cost Method
- (xi)** APA provisions are covered under which section of the Income-tax Act?
(a) Section 92A
(b) Section 92C
(c) Section 92CC
(d) Section 94
- (xii)** Thin Capitalisation rules were introduced in India following recommendations of:
(a) IMF
(b) OECD BEPS Project
(c) World Bank
(d) RBI
- (xiii)** Which method is commonly used to avoid double taxation under DTAA?
(a) Depreciation method



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- (b) Credit method
- (c) Installment method
- (d) Deduction method

(xiv) Which Article of DTAA generally deals with Business Profits?

- (a) Article 5
- (b) Article 12
- (c) Article 7
- (d) Article 10

(xv) GAAR is introduced mainly to:

- (a) Increase corporate tax rate
- (b) Prevent aggressive tax planning
- (c) Promote exports
- (d) Reduce customs duty

SECTION – B

(Answer any five questions out of seven questions given. Each question carries 14 marks.)

[5 x 14 = 70]

- 2) (a) A charitable institution registered under section 12AB furnishes the following details for the Previous Year 2025-26 (A.Y. 2026-27):

| Particulars | (₹ in Lacs) |
|--|-------------|
| (a) Gross receipts from students (educational institution) | 60.00 |
| (b) Voluntary contributions (not forming part of corpus) | 10.00 |

Additional Information

- During the year, the institution applied ₹ 35.00 lacs towards revenue and capital expenditure for education.
- The institution wants to accumulate ₹ 20.00 lacs for the construction of a new auditorium. It has deposited this amount in modes specified u/s 11(5) and furnished the statement in Form 10 to the Assessing Officer two months prior to the due date of filing the return of income.

Calculate the taxable income of the institution for A.Y. 2026-27.

[7]

- (b) M/s. Global Traders provides the following Profit & Loss Account for the year ending 31-3-2026. The firm has three partners: Leo, Mike, and Neo.

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|-----------------------|------------|-------------|------------|
| To Cost of Goods Sold | 65,00,000 | By Sales | 85,00,000 |



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| | | | |
|-------------------------------|-----------|---|-----------|
| To Salary to Partners | 6,50,000 | By Long Term Capital Gain (Sale of Plot purchased in 2010) | 2,00,000 |
| To Interest on Capital @ 10% | 1,00,000 | By Dividend | 10,000 |
| To Donation (Political Party) | 25,000 | | |
| To Municipal Taxes (Shop) | 15,000 | | |
| To Net Profit | 14,20,000 | | |
| | 87,10,000 | | 87,10,000 |

Additional Information:

- Partners share profits equally.
- Salary is paid only to Leo and Mike (Working Partners). Neo is a sleeping partner.
- The donation was made by cheque to a registered political party.
- Long Term Capital Gain is computed as per provisions of IT Act.

Compute the Total Income and Tax Liability for the A.Y. 2026-27.

[7]

- 3) (a) Mr. A Naresh, who is neither a director nor has a substantial interest in any company, is offered employment by Freewheel Ltd., Mumbai with the following two alternatives:

| Particulars | I | II |
|--|-----------|-----------|
| Basic pay | 17,66,000 | 17,66,000 |
| Bonus | 90,000 | 90,000 |
| Education allowance for 2 children | 30,200 | - |
| Education facility for 2 children in school maintained by employer | - | 30,200 |
| Sweeper allowance | 10,000 | - |
| Sweeper facility | - | 10,000 |
| Entertainment allowance | 6,000 | - |
| Club facility | - | 6,000 |
| Transport allowance for personal use | 1,800 pm | - |
| Free car (1200 cc) facility for performing journey between office to home and vice versa (car owned by employer) | - | 12,000 |
| Medical allowance | 18,000 | - |
| Medical bills reimbursement facility | - | 18,000 |
| Allowance for gas, electricity and water supply | 4,500 | - |
| Free gas, electricity and water supply (bills will be in the name of the employer) | - | 4,500 |
| Holiday home allowance | 8,000 | - |
| Holiday home facility | - | 8,000 |
| Lunch allowance | 18,000 | - |
| Free lunch (₹ 70 × 200 days + ₹ 80 × 50 days) | - | 18,000 |
| Diwali gift allowance | 7,500 | - |



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| | | |
|---|----------|----------|
| Gift on Diwali | - | 7,500 |
| A rent-free unfurnished home – lease rent | 2,40,000 | 2,40,000 |

Which of the two alternatives Naresh should opt for on the assumption that both employer and employee will contribute 10% of salary towards unrecognized provident fund? Suggest the better alternative.

Interest free loan of ₹ 20,000 will be given to him for purchasing household items. Assume that he has opted for the old tax regime

[7]

- (b) Sure Success Ltd. wants to acquire an asset costing ₹ 1,00,000. It has two options are available, the first one is buying the asset by taking a loan repayable in five instalments of ₹ 20,000 each with 14% interest per annum. The second is leasing the asset for which the annual lease rental charge is ₹ 30,000 up to 5 years. The lessor charges 1% as a processing fee in the first year. Assume the internal rate of return to be 10%. The present value factors are:—

| Year | 1 | 2 | 3 | 4 | 5 |
|------------|------|------|------|------|------|
| P/V Factor | .909 | .826 | .751 | .683 | .621 |

Assuming that the payments are made at the end of the year, suggest which alternative is better for the company. The rate of depreciation is 15% while the tax rate is 33.22%.

[7]

- 4) (a) X Ltd. has several undertakings carrying on several businesses. During the year 2025-26, the company sold one of its undertaking (as it was continuously generating loss since last 5 years) for a lump sum value of ₹ 300 lacs without assigning value to individual asset and liabilities. The fair market value of the capital asset of that unit is ₹ 350 lacs. Book value of sundry assets and liabilities of the undertaking as on the date of sale is as under:

| Items | Book Value |
|-----------|---|
| Land | ₹ 50 lacs (Value for the purpose of Stamp duty ₹ 70,00,000) |
| Machinery | ₹ 70 lacs (WDV as per IT Act ₹ 60 lacs) |
| Furniture | ₹ 50 lacs (WDV as per IT Act ₹ 90 lacs) |
| Stock | ₹ 30 lacs |
| Debtors | ₹ 40 lacs |
| Creditors | ₹ 50 lacs |

Brokerage on transfer paid @ 5%. Compute capital gain.

[7]

- (b) Mr. Crown, a non-resident, gives you the following information for the year ended 31-3-2026
- | | |
|---|-----------|
| Interest on Government securities (gross) | 12,21,000 |
| Dividend on shares of foreign companies received aboard | 52,000 |
| Interest from deposits in Indian companies (gross) | 30,000 |
| Income from horse races in India | 20,000 |



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He has donated a sum of ₹ 2,00,000 to Municipal Corporation of Delhi for promotion of family planning. He has paid ₹ 20,000 by cheque to New India Assurance Co. for Mediclaim for himself. He has also spent ₹ 16,000 on medical treatment of his minor son who is physically handicapped.

Compute total income of Mr. Crown for the assessment year 2026-27, assuming that he has opted for old regime.

[7]

5) (a) Explain the meaning of “Advance Ruling” under Section 245N(a) of the Income-tax Act and discuss the matters covered under it. [7]

(b) A firm furnished its return of income on 30th June, 2026 showing income of ₹ 1,00,000. The return shows other particulars as follows -

Advance tax ₹ 20,000

TDS ₹ 1,000

The AO passed the assessment order enhancing income by ₹ 5,000 on 29-3-2027. Compute interest u/s 234B.

[7]

6) (a) Explain the provisions relating to Advance Pricing Agreement under Section 92CC of the Income-tax Act. [7]

[7]

(b) Amar, an individual, resident of India, receives the following payments after TDS during the previous year 2025-26:

| | | |
|------|---------------------------------|-----------|
| (i) | Professional fees on 17.08.2025 | 12,40,000 |
| (ii) | Professional fees on 04.03.2026 | 1,60,000 |

Both the above services were rendered in country X on which TDS of ₹ 50,000 and ₹ 30,000 respectively have been deducted. He had incurred an expenditure of ₹ 2,00,000 for earning both these receipts / incomes. His income from other sources in India is ₹ 5,00,000 and he has made payment of ₹ 70,000 towards LIC. Compute the tax liability of Amar and the relief u/s 91, if any, for A.Y.2026-27.

[7]

7. (a)

Compute J Inc. of Korea and CD Ltd, an Indian Company are associated enterprises. CD Ltd manufactures Cell Phones and sells them to J.K.& F Inc., a Company based in Nepal. During the year CD Ltd. supplied 2,50,000 Cellular Phones to J Inc. Korea at a price of ₹ 3,000 per unit and 35,000 units to JK & F Inc. at a price of ₹ 5,800 per unit. The transactions of CD Ltd with JK & F Inc. are comparable subject to the following considerations:

Sales to J Inc. are on FOB basis, sales to JK & F Inc. are CIF basis. The freight and insurance paid by J Inc. for each unit @ ₹ 700. Sales to JK & F Inc. are under a free warranty for Two Years whereas sales to J Inc. are without any such warranty. The estimated cost of executing such warranty is ₹ 500. Since J Inc.'s order was huge in volume, quantity discount of ₹ 200 per unit was offered to it.

Compute the Arm's Length Price and the subsequent amount of increase in the Total Income of CD Ltd, if any.

[7]



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(b) Explain the provisions relating to computation of interest income pursuant to secondary adjustments under Rule 10CB.

[7]

8. (a)

Following is the profit and loss account of Z Ltd. for the year ended on 31-3-2026

| Particulars | Amount | Particulars | Amount |
|--------------------------------|-----------|------------------|-----------|
| To Raw material consumed | 20,00,000 | By Sale | |
| To Rent | 5,00,000 | Export | 50,00,000 |
| To Salary & Wages | 10,00,000 | Domestic | 30,00,000 |
| To Depreciation | 5,00,000 | By Closing Stock | 10,00,000 |
| To Provision for contingencies | 75,000 | | |
| To Wealth Tax of earlier year | 50,000 | | |
| To Loss of subsidiary co. | 50,000 | | |
| To Custom Duty | 40,000 | | |
| To Proposed dividend | 1,00,000 | | |
| To Provision for Income tax | 1,05,000 | | |
| To Net Profit | 45,80,000 | | |
| | 90,00,000 | | 90,00,000 |

Additional Information

- (i) Interest on bank loan relating to year 2023-24 has been paid during the previous year ₹ 1,00,000.
- (ii) Whole of Custom duty is unpaid.
- (iii) Company is entitled to get deduction u/s 80G ₹ 1,00,000
- (iv) For the purpose of Income tax, depreciation is ₹ 4,00,000.
- (v) Turnover of the company during the previous year was ₹ 65 crores and it is lifetime highest turnover achieved by the company.
- (vi) In past few years, company had suffered losses, following balances are still unabsorbed:

| | <u>As per Income tax Act</u> | <u>As per books of Accounts</u> |
|--------------|------------------------------|---------------------------------|
| Depreciation | - | ₹ 3,50,000 |
| Losses | ₹ 42,50,000 | ₹ 4,00,000 |

Compute tax liability of the company.

[7]

(b) Explain the meaning of Specified Domestic Transactions under Section 92BA of the Income-tax Act.

[7]