

FINAL COURSE – FAST (Full)

Paper – 4: Direct Tax

Detailed Test Series – Paper 1

Total No. of Questions in Part I – 15

Minimum Marks – 30

Total No. of Questions in Part II – 6

Maximum Marks – 70

Total No. of Pages - 24

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answer
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the Institute.
5. Answers to MCQs in Part I are to be mentioned in the first page of your answer copy. Students need to only mention their choice of correct option like (a) or (b) or so. No explanations or reasonings are required for MCQs.
6. Answers to descriptive questions in Part 2 should be given from the next page of your answer sheet
7. **Student should mention their Name, Batch, Course (CA Inter / Final), Subject Name, Date of Test and Test Code as given on top of this sheet on the first page before answering the MCQs.**
8. Once the test is complete, student need to scan the answer sheet and make single pdf file for all the pages and upload on fast test series app.(Help video link shared in mail from fasttestseries.com)
9. Duration of the examination is 1.5 hours You will be required to upload the answer sheets on the same date / time of test as defined in your live class else the answer sheet will not be evaluated. In such case you should do a self-evaluation using the suggested answer which will be posted in the same folder after one day of the date of test.
10. The FAST examiner team will check the copy and give the marks along with feedbacks for your improvements. We take utmost care in checking however being subjective in nature the checking may differ from examiner to examiner.
11. Candidate are advised not to cheat and have self-discipline as these tests are preparing you better for your real exams and hence realistic assessment will help you take corrective actions at the right time.
12. FAST reserves the right to display any answers or answer sheets or share with other students for your benefits without any prior written or express consent.
13. Your suggestions on the test paper or evaluation or else can be shared at casj@fast-india.com

PART 1**MULTIPLE CHOICE QUESTION****Case study -1**

Mr. B is an interior decorator by profession. He also delivers online lectures on interior decoration via an e-commerce platform – Indeco-Academy. The relevant information from Mr. B's Indeco-Academy account is given hereunder:

Date of Credit of services to account of Mr. B	Date of Payment to Mr. B	Value of Services Provided (₹)
31.05.2025	10.06.2025	2,00,000
31.10.2025	10.10.2025	1,50,000
31.03.2025	10.04.2026	1,40,000

In addition to the above, Mr. B received ₹ 20,000 on 18.02.2026 directly from a student instead of through the Indeco-Academy payment portal. Mr. B has not furnished his PAN or Aadhar number to Indeco-Academy but has furnished his driving license for KYC requirements.

On 05.05.2025, Mr. B provided interior decorating services to Mr. N in Mumbai having business turnover of ₹ 1.2 crores during P.Y. 2024-25 for his office premises as well as residential premises, the consideration for which was ₹ 80,000 and ₹ 60,000, respectively. Mr. B has provided his PAN details to Mr. N for invoicing purpose.

Mr. B's gross receipts from interior decoration profession (excluding fees for online lectures) from clients in India (including Mr. N) in total in the P.Y.2025-26 is ₹ 40 lakhs.

Fortunately, Mr. B got one client based in Country A (with which India does not have a DTAA) from whom he received ₹ 3,50,000 as net income after deduction of ₹ 50,000 as foreign tax.

Profits of Mr. B computed as per books of account maintained under section 44AA is ₹ 24 lakhs. He has, however, not got his books of account audited.

From the information given above, choose the most appropriate answer to the following questions: (1 to 4):-

1. Is Indeco-Academy required to deduct tax at source on amount received/receivable by Mr. B? If so, what is the amount of tax to be deducted? **2**
 - (a) No tax is required to be deducted at source
 - (b) Yes; ₹ 5,100
 - (c) Yes; ₹ 25,500
 - (d) Yes; ₹ 510
2. Is Mr. N required to deduct tax at source under section 194J? If so, what is the amount of tax to be deducted? **2**
 - (a) No tax is required to be deducted at source u/s 194J
 - (b) Yes; ₹ 1,000
 - (c) Yes; ₹ 8,000
 - (d) Yes; ₹ 10,000
3. Is Mr. N required to deduct tax at source under section 194M? If so, what is the amount of tax to be deducted? **2**

- (a) No tax is required to be deducted at source u/s 194M
- (b) Yes; ₹ 600
- (c) Yes; ₹ 1,200
- (d) Yes; ₹ 3,000
4. What is Mr. B's gross income-tax liability for the P.Y.2025-26, assuming that he has opted out of the default tax regime u/s 115BAC? **2**
- (a) ₹ 5,70,960
- (b) ₹ 4,91,400
- (c) ₹ 5,08,560
- (d) ₹ 5,53,800

**Case study -2**

Ganga LLP is a limited liability partnership set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for manufacture of textiles. The unit fulfills all the conditions under section 10AA of the Income-tax Act, 1961. During the financial year 2024-25, it has also set up a warehousing facility in Pune for storage of sugar, fulfilling the conditions for claim of deduction under section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 97 lakhs (including cost of land ₹ 32 lakhs). The warehouse became operational with effect from 1st April, 2025 and the expenditure of ₹ 97 lakhs was capitalized in the books on that date.

The details for the financial year 2025-26 are given hereunder:

Particulars	₹
Profit of unit located in SEZ	60,00,000
Export sales of above unit received in India in convertible foreign exchange on or before 30.9.2026	1,20,00,000
Domestic sales of above unit	40,00,000
Profit from operation of warehousing facility (before considering deduction under section 35AD)	1,60,00,000

Mr. Ganesh, one of the partners of the LLP, commenced the business of manufacture of leather on 1.4.2024. His turnover in the P.Y.2024-25 is ₹ 180 lakh and in the P.Y.2025-26 is ₹ 200 lakhs. The payments made in the P.Y.2025-26 is ₹ 190 lakhs. The profit for P.Y.2025-26 as per books of account maintained u/s 44AA is ₹ 12.10 lakhs. Out of the turnover of ₹ 200 lakhs, ₹ 190 lakhs is received through RTGS and NEFT and ₹ 10 lakhs is received by way of cash. Out of the payments of ₹ 190 lakhs made (including expenditure incurred), ₹ 180 lakhs is through RTGS/ NEFT and the remaining ₹ 10 lakhs through cash.

From the information given above, choose the most appropriate answer to the following questions: (5 to 9):-

5. What is the amount of deduction under section 10AA and 35AD available to Ganga LLP while computing income under the regular provisions of the Income-tax Act, 1961 for A.Y.2026-27? 2
- (a) ₹ 45 lakhs and ₹ 65 lakhs, respectively
- (b) ₹ 22.50 lakhs and ₹ 65 lakhs, respectively
- (c) ₹ 45 lakhs and ₹ 97 lakhs, respectively
- (d) ₹ 22.50 lakhs and ₹ 97 lakhs, respectively
6. What is the tax liability of Ganga LLP computed under the regular provisions of the Income-tax Act, 1961 for A.Y.2026-27? 2

- (a) ₹ 38,43,840
- (b) ₹ 31,70,000
- (c) ₹ 46,30,080
- (d) ₹ 19,65,600
7. What is the alternate minimum tax (rounded off) payable by Ganga LLP as per section 115JC for A.Y.2026-27? **2**
- (a) ₹ 39,49,750
- (b) ₹ 41,07,740
- (c) ₹ 43,95,280
- (d) ₹ 46,00,670
8. Is there any AMT credit to be carried forward under section 115JEE? If so, what is the amount of such credit? **2**
- (a) Yes; ₹ 5,22,340
- (b) Yes; ₹ 7,56,830
- (c) Yes; ₹ 2,63,900
- (d) No
9. What is the income to be declared by Mr. Ganesh for A.Y.2026-27 under the head “Profits and gains of business or profession”, so that he makes maximum tax savings without getting his books of account audited? **2**
- (a) ₹ 12 lakhs

- (b) ₹ 12.10 lakhs
- (c) ₹ 12.20 lakhs
- (d) ₹ 16 lakhs

Case study -3

X Pvt. Ltd. (“X”) is an Indian company. Y Inc (“Y”) is a private company incorporated in the USA and its income is not chargeable to tax in India. Both are promoted by Mr. Ayush who holds 30% equity share capital and voting power in both X and Y. The balance sheet of X as on 31st March, 2026 is as follows:

Liabilities	Amount (₹ million)	Assets	Amount (₹ million)
Paid up capital	250	Fixed Assets	700
Loans:	800	Investments	300
From Y 620		Cash and bank	200
From others <u>180</u>		balance	
Current liabilities	150		
Total	1,200	Total	1,200

Additional information:

- (i) The loan was advanced by Y to X on 1st July, 2025 in rupee terms and carries 6.5% p.a. rate of interest. For borrowers with similar risk profile who are not associated enterprises of Y, Y advances loan at 4% p.a. interest rate.
- (ii) X has maintained such information and document in respect of the international transaction as has been prescribed under section 92D but has not reported the transaction as an international transaction. X does not make any adjustment to its total income on account of application of provisions of

Chapter X of the Income-tax Act, 1961 in its return of income.

From the information given above, choose the most appropriate answer to the following questions: (10 to 15):-

10. Are X and Y associated enterprises? If so, why? **2**
- (i) Yes, X and Y are associated enterprises because Mr. Ayush holds voting power of 30% in both the companies.
 - (ii) Yes, X and Y are associated enterprises as not less than 75% of X's total loans have been availed from Y.
 - (iii) Yes, X and Y are associated enterprises since the loan advanced by Y to X is not less than 51% of the book value of X's total assets.
 - (iv) No, X and Y are not associated enterprises The most appropriate answer is -
- (a) Only (i)
 - (b) (i) and (ii)
 - (c) (i) and (iii)
 - (d) Only (iv)
11. What is the amount of primary adjustment required to be made to the total income of X for A.Y.2026-27? **2**
- (a) ₹ 1,16,25,000
 - (b) ₹ 58,12,500
 - (c) ₹ 1,55,00,000
 - (d) ₹ 77,50,000
12. If X has accepted the primary adjustment made by the Assessing Officer on 31.3.2027, what should X do if it does not want to treat the excess money as **2**

deemed advance?

- (a) The excess money which is available to Y, has to be repatriated to India within 90 days from the due date of filing of return.
- (b) The excess money which is available to Y, has to be repatriated to India within 90 days from the date of order of the Assessing Officer.
- (c) X has to pay additional income-tax @20.9664% on the excess money.
- (d) Either (b) or (c)

13. If X has accepted the primary adjustment made by the Assessing Officer on 31.3.2027 and the excess money has not been repatriated into India upto 31.3.2028, what would be the consequence if X has not opted to pay additional income-tax? Assume that SBI one-year marginal cost of lending rate is 10% on 1.4.2027 and 11% on 1.4.2028. **2**

- (a) Interest of ₹ 16,56,563 has to be added to its total income for P.Y.2027-28
- (b) Interest of ₹ 11,60,509 has to be added to its total income for P.Y.2027-28
- (c) Interest of ₹15,40,313 has to be added to its total income for P.Y.2027-28
- (d) Interest of ₹ 20,53,750 has to be added to its total income for P.Y.2027-28

14. Which factor is relevant in determining whether penalty under section 270A of the Income-tax Act, 1961 will be leviable in respect of the primary **2**

adjustment to X's total income?

- (a) Since X has maintained information and documents as prescribed under section 92D, that by itself is sufficient for holding that X has not under-reported its income
- (b) If the Assessing Officer/Transfer Pricing Officer makes adjustment to X's total income on account of an international transaction not being in accordance with arm's length price, that by itself is sufficient to hold that X has under-reported its income; consequently, penalty u/s 270A is leviable
- (c) Since X has not reported the transaction as an international transaction, X will be considered to have under-reported its income and penalty will be 50% of the amount of tax payable on the under-reported income
- (d) Since X has not reported the transaction as an international transaction, X will be considered to have misreported its income and penalty will be 200% of the amount of tax payable on the misreported income

15. In the scenario given above, what would be the situation on account of application of transfer pricing provisions if X, the Indian company would have been the lender and Y, the US company, the borrower? **2**

Rate of interest on loan by X to Y = 6.5% p.a.

For borrowers with similar risk profile who are not associated enterprises of X, advances loan at 4% p.a. interest rate.

- (a) Identical adjustment would be made to the income of Y instead of X

- (b) No adjustment would be required in the hands of X or Y
- (c) Identical adjustment would made to the income Y as well as X
- (d) Adjustment would still be made to the income of X and no adjustment would be made to the income of Y



Part-2**DESCRIPTIVE QUESTIONS**

- 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. Maximum Mark 70*

- Q.1** On, 1.4.2025, Binu Ltd. of Delhi, a domestic company, engaged in the business of manufacturing of metro rail seats, converted into an LLP by name M/s. Soumya LLP fulfilling all the conditions specified in section 47(xilib) of the Income-tax Act, 1961. Some of the relevant information is given below in respect of Binu Ltd., as on 31.3.2026: **14**
- (a) Voluntary Retirement Scheme (VRS) expenditure incurred by the company during the PY 2023-24 is ₹20 lakhs. The company was allowed deduction of ₹4 lakhs each for the PYS 2023-24 & 2024-25 u/s 35DDA.
 - (b) 150 equity shares in Toyo Ltd., an Indian company listed in Bombay Stock Exchange was acquired for ₹1,900 per share on 31.7.2017. On conversion, these shares become the property of M/s. Soumya LLP.
 - (c) Besides other assets transferred to M/s. Soumya LLP by M/s. Binu Ltd., it also transferred two factory buildings. On 1.4.2025, M/s. Soumya LLP leased out one factory building along with plant and machineries and furniture etc. at a consolidated lease rent of ₹50,000 per month.

During the previous year 2025-26, the M/s. Soumya LLP earned a profit of ₹25,40,000 after debit/credit of the following items to its Profit and loss account:

- (i) Mr. Binu is the working partner of the LLP. He is also a working partner in another firm. He is actively engaged in the business of both the firms. Binu gets, a salary of ₹55,000 p.m. from M/s. Soumya LLP and the same is authorised in the deed of LLP.
- (ii) Mr. Ayushman, an employee, was deputed to work in the client's office in Mumbai for three months. The LLP has paid his salary in cash for the months when he was in Mumbai, amounting to ₹3,45,000 (net of TDS and other deductions), since he did not have a bank account in Mumbai. This payment was included in amount of "salary" debited to profit and loss account. Mr. Ayushman is normally posted in Delhi being the headquarter of M/s. Soumya LLP.
- (iii) Amount of ₹25,000 was paid towards penalty for non-fulfilment of delivery conditions of a contract for sale for the reasons beyond its control.
- (iv) The LLP had provided an amount of ₹18 lakhs being the sum estimated as payable to workers based on agreement to be entered with workers union towards periodical wage revision once in 3 years. The provision, is based on a fair estimation of wage and reasonable certainty of revision once in 3 years.
- (v) Depreciation debited to profit and loss account ₹5,40,000.
- (vi) Gratuity provisions based on actuarial valuations ₹6.5 lakhs. (Gratuity actually paid ₹4 lakhs to retired employees debited in Gratuity provision account).

- (vii) Profit on sale of shares of M/s. Toyo Ltd. ₹1,27,500. These shares were sold on 31.5.2026 for ₹2,750 per share. The highest price of Toyo Ltd. quoted on the stock exchange as on 31.1.2018 was ₹2,500 per share.
- (viii) Repairs to plant and machinery include ₹59,000 in respect of plant and machinery given on lease.
- (ix) Factory licence fee paid ₹15,000 for each factory building.
- (x) Legal fee includes ₹26,000 paid to an advocate for drafting and registering the lease agreement.

Additional Information:

- (1) Under an agreement of debt restructuring, the bank has converted unpaid interest amounting to ₹9,00,000 up to 31.7.2025 into a new loan account repayable in 3 equal annual instalments. The first instalment was paid in March 2026 by debiting the new loan account.
- (2) Mr. Binu, being a working partner, bought a car which is registered in his own name out of the funds of LLP. The car was used exclusively for the purposes of the business of the LLP only. The depreciation on the car amounts to ₹15,000 for the PY 2025-26 which is not included in the depreciation amount debited to profit and loss account.
- (3) Depreciation as per Income-tax Rules ₹8,10,000 (including depreciation on the assets given on lease amounting to 90,000). It does not include depreciation on car.
- (4) The LLP sold import entitlements on 1.5.2025 for ₹1,50,000.

This sum is not included in profit and loss account by treating it as capital receipt.

You are required to discuss the implication of such conversion and calculate the total income in the hands of M/s Soumya LLP for the Assessment Year

2026-27.

Q.2

- (A) M/s Rehman Dakait a partnership firm, commenced operations of the business of a new three-star hotel in Pune, Maharashtra on 1.4.2025. The firm consisting of two working partners, with equal shares, reports a net profit of ₹ 26,00,000 after deduction of the following items: 8
- (i) Depreciation as per books of accounts ₹ 15,80,000.
 - (ii) Interest on capital @ 15% per annum (as per the deed of partnership).
The amount of interest is ₹ 50,00,000.
 - (iii) Interest on loan includes an amount of ₹ 6,00,000 paid to Mr. Rajveer, a resident, on which tax was not deducted.

The firm purchased a new motor car for the above business for ₹ 7 lakh on 10th March, 2025 and capitalized the same in its books of account as on 1 April, 2025. Further, in April, 2025, it incurred capital expenditure of ₹ 2 crores (out of which ₹ 1.50 crores was for acquisition of land and ₹ 50 lakhs on building) exclusively for the above business. The firm also installed and put to use new centralised air conditioners on 15.5.2025 costing ₹ 3,20,000.

The capital expenditure incurred by the firm were paid by account payee cheque or use of ECS through bank account.

The firm also has another existing business of running a four-star hotel in Mumbai, which commenced operations fifteen years back, the profits from which are ₹ 41,38,000 computed as per Income-tax Act for the A.Y.2026-27. Compute total income and tax payable by the firm for the A.Y.2026-27, assuming that the firm has fulfilled all the conditions specified for claim of deduction under section 35AD and opted for claiming deduction under section

35AD; and has not claimed any deduction under Chapter VI-A under the heading "C.- Deductions in respect of certain incomes".

Q.2

- (B)** Rahul inc. (incorporated in UK) has a branch office (PE) in India. The Net Profit of the Branch as per the statement of profit and loss for the year ended 31.03.2026 was 83 lakhs. It includes the following: **6**
- (i) Dividend from Indian companies (listed) ₹8,00,000.
 - (ii) Dividend from Indian companies (unlisted) ₹4,00,000.
 - (iii) Interest received from MMS Ltd. of Mumbai ₹7,00,000. The amount was received by the Indian company MMS Ltd. in foreign currency as per loan agreement dated 01.04.2015 (section 194LC applicable).
 - (iv) Fee for technical services received from Barun Co. Ltd., Kolkata ₹25,00,000. The agreement was made on 10.08.2008 and was approved by Central Government. Expenditure incurred for providing technical service amounts to ₹6,00,000.

Additional information:

Total income chargeable to tax as per regular provisions of the Income-tax Act, 1961 (Act) is ₹20,00,000 (without considering the items (i) to (iv) above).

You are required to compute the book profit tax u/s 115JB of the Act for the assessment year 2026-27 and also the total income-tax liability of the assessee.

Your working should be supported by notes.

Q.3

(A) Examine the following independent case scenarios of charitable trust/institutions based on the provisions of the Income-tax Act, 1961: 8

- (i) Shiksha charitable trust, having its main object as medical relief, earned the following income during the P.Y.2025-26:

Particulars		Amount in ₹
(i)	Income from tax free bonds issued by Indian Railway Finance Corporation Ltd. (IRFCL)	1,10,000
(ii)	Agricultural income	4,25,000

The trust claims exemption under section 10(1) and 10(15) in respect of its agricultural income, and interest income, respectively, without complying with the conditions laid down under section 11.

- (ii) “Vidya Jyoti Educational Trust” registered under section 12AB owns a building used for educational activities. During the year, one floor was given on rent to a private coaching institute owned by the wife of the founder of the trust. The trust charged rent of ₹ 20,000 per month, whereas similar properties in the same locality fetch rent of ₹ 70,000 per month. The trust justified the lower rent on the ground that the coaching institute supports educational objectives.
- (iii) “Aarogya Welfare Charitable Trust” is registered under section 12AB and is engaged in providing free medical facilities. During the Previous Year 2025-26, Mr. Karan contributed ₹75,000. Further, he had contributed ₹ 9,50,000 up to 31.3.2025.

During the same year, the trust sold old hospital furniture to Mr. Karan for ₹ 1,20,000. The fair market value of the furniture was ₹ 2,80,000. The trust claims that since Mr. Karan’s donation during the current year

does not exceed ₹ 1 lakh, he should not be treated as a specified person.

Q.3

- (B) Mr. Ritesh, a resident individual, aged 42 years, earned the following sums during the P.Y. 2025-26:

6

Income from a business in India ₹ 4,85,000

Royalty Income from Country N ₹ 7,80,000 (Rate of Tax in Country N 10%, Tax deducted ₹ 78,000)

Interest (other than interest on securities) from Country Y US \$ 9,500 (interest became due on 01.04.2025) Tax deducted (on 21.02.2026): US \$ 950 (Rate of Tax 10%)

Agriculture income in Country M: ₹ 1,09,000

Additional Information:

- (i) As per DTAA between India and Country N, the royalty will only be taxable in the Source State.
- (ii) As per the DTAA between India and Country Y, interest can be taxed in both the states and tax credit will be available in respect of tax payable in resident state.
- (iii) Agriculture income is exempt in country M. India does not have a DTAA with Country M.
- (iv) Telegraphic transfer buying rate on different dates of US \$:

Date	Rate (₹)
31.03.2025	75
31.01.2026	78
21.02.2026	79
31.03.2026	80

You are required to calculate the total income and tax payable by Mr. Ritesh assuming that he opted out of the default tax regime under section 115BAC

Q.4

(A) Discuss and compute the liability for deduction of Tax source, any, the following cases for Assessment Year 2026-27: **8**

- (i) A notified infrastructure debt fund eligible for exemption u/s 10(47) of the Income-tax Act, 1961 pays interest of ₹ 4.50 lakhs to a company incorporated in USA. The US company incurred expenditure of ₹ 15,000 for earning such interest. The fund also pays interest of ₹ 2.50 lakhs to Mr. R, who is a resident of a notified jurisdictional area.
- (ii) On 17.06.2025, a commission of ₹ 40,000 was retained by the consignee Harshit Packaging Ltd. and not remitted to the consignor 'Hari Developers', while remitting the sales consideration.
- (iii) Param Construction Ltd. sells a flat to Mr. Mani for ₹ 48 Lakhs on 15.01.2026 (SDV ₹ 42 lakhs). The agreement to sell provides that in addition, Mr. Mani has to pay maintenance charges (of ₹ 5,000 per month) for 24 months in advance ₹ 2,00,000 for car parking to be used exclusively by him and ₹ 1,00,000 for club membership fees to Param Construction Ltd. before the flat is registered in the name of Mr. Mani. The flat is registered on 30.03.2026.
- (iv) Tulsi Private Ltd., a company engaged in ship breaking activity, sold some old and used plates, wood etc., in respect of which it did not collect tax from the buyer. The company claimed that such items are usable as such. Hence these are not 'scrap' to attract the provisions for collection of tax at source. The Assessing Officer treated such items in the nature of 'scrap' and raised a demand u/s 201(1) and interest u/s 201(1A).

Is the action of the Assessing Officer in treating such items as 'scrap' tenable in law? Discuss.

Q.4

- (B)** DIY Ltd., a company registered in India and subsidiary of CD Inc., a company registered in Austria. DIY Ltd. engaged in the manufacturing of fabric. To arrive at the arm's length price applicable to its transactions with CD Inc., DIY Ltd. enters into an advance pricing agreement with the Board on 25th November 2025. Accordingly, there will be a substantial change in the income of DIY Ltd. Also, DIY Ltd. wishes to apply for roll back provisions to PY 2021-22, 2022-23, 2023-24 and 2024-25. The AO wants to apply such transfer pricing provisions from the year in which DIY Ltd. became the subsidiary of CD Inc. i.e., A.Y. 2018-19 onwards. **6**

DIY Ltd. had filed its return of income for the A.Y. 2024-25 on 26th August 2024 and for A.Y. 2025-26, on 31 August, 2025. The assessments for the A.YS 2022-23 to 2025-26 are completed but the assessment of A.Y. 2026-27 is pending on the date of entering into APA.

You are required to answer the following questions:

- (i) Whether the AO is correct to apply the transfer pricing provisions from A.Y. 2018-19 onwards?
- (ii) In respect of A.Y. 2022-23, the transfer price arrived at by the Board is resulting in reduction in returned income of the assessee. Discuss whether the roll back provisions can be applied for that assessment year as well.
- (iii) What will happen to completed as well as pending assessments?

Q.5

- (A)** Answer any two out of the following three sub-parts, viz. (i), (ii), (iii). **8**

Your answer should cover:

- Issue involved
 - Provision applicable
 - Analysis and Conclusion
- (i) In case of an assessee, the Assessing Officer passed an order u/s 143(3) on 15/12/2023. CIT passed the order u/s 263 on 26.03.2026 holding that the said assessment order passed u/s 143(3) was erroneous and prejudicial to the interests of the revenue. CIT set aside the assessment order and directed the AO to make fresh assessment after conducting necessary enquiries. The order passed u/s 263 was dispatched to assessee on 28.03.2026. The AO issued notice u/s 142(1) to the assessee on 06.05.2026 for making fresh assessment.
- The assessee contended that it had come to know about the revision order only when he received notice u/s 142(1) dated 06.05.2026. The copy of the order passed by CIT u/s 263 was supplied to him on 29.05.2026 on the request made to the Assessing Officer by him after receipt of notice u/s 142(1). Hence, the revision order is beyond the period of limitation u/s 263(2).
- (ii) M/s. Rama Ltd. filed its return of income claiming deduction for bad debts. The return was processed u/s 143(1)(a) of Income-tax Act, 1961. Thereafter, the Assessing Officer noticed that the assessee had wrongly claimed amounts of bad debts, he issued a notice u/s 154 after expiry of the time limit prescribed u/s 154(7). During the pendency of the proceedings initiated by notice u/s 154, the Assessing Officer issued a notice u/s 148A(1) of the Act. It is contention of M/s. Rama Ltd that the notice issued u/s 148A(1) is illegal.
- (iii) AZ Foundation, trust registered u/s 12AB, runs an educational

institution. The trust is paying rent of ₹30 lakhs per annum for the building occupied by it but the trust has not deducted TDS on such rent under the relevant provisions of the Income-tax Act. The ITO TDS has issued a notice to show cause as to why, the trust should not be treated an assessee in default for the tax deductible and the interest should not be imposed for such default. The income of the trust is being exempt, whether ITO TDS was justified in issuing the said show cause notice?

Q.5 (B)

- (1) What do you mean by double taxation? Discuss the connecting factors which lead to double taxation. 3

Q.5 (B)

2. Describe the three tier structure for transfer pricing documentation mandated by BEPS Action Plan 13. 3

Q.6

- (A) XYZ & Co, a firm engaged in interior decoration business, employed 20 new employees on 1.4.2022 on a monthly salary of ₹ 25,000 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 ₹ 3,000 p.m. paid in cash. The gross total income of XYZ & Co. included profits and gains from business of ₹ 62 lakh. 6
- The firm claimed deduction under section 80JJAA of ₹ 18 lakh, being 30% of 60 lakh (20 new employees x ₹ 25,000 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 ₹ 25,000 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.2022-23, the employees would qualify as “additional employees” for the purpose of deduction under section 80JJAA for A.Y.2023-24.

Is his contention correct? Examine the ethical implications in this case.

Q.6

(B) M/s. Motu Limited incorporates a wholly owned subsidiary M/s. Patlu Limited in India. Its main business is to develop infrastructure facility and is eligible for deduction u/s 80-IA. Accordingly the company has claimed deduction u/s 80-IA. **4**

- (i) Patlu Limited derives income other than income from developing infrastructure facilities and discloses such income as income from developing infrastructure facilities, thus enjoying the benefit u/s 80-IA.
- (ii) Patlu Limited purchases the supplies for the development of infrastructure facilities from M/s. Motu Limited at a price lesser than the fair price, thus transferring the income of M/s. Motu Limited to M/s. Patlu Limited and enjoying the benefit of section 80-IA on such income.

Can GAAR be invoked in both the instances mentioned above?

Q.6

- (C) A Non-resident Foreign Company entered into contracts with several Indian Companies for installation of mobile telephone system and made an application to the Board of Advance Rulings, for advance ruling in relation to the tax liability arising out of such transaction. **4**

One of the above said Indian Companies also made an application to its Assessing Officer for determination of a question of law with regard to payments to be made to the said Foreign Company.

The Board of Advance Rulings rejected the application of the Foreign Company on the ground that the question raised is pending before an Income Tax Authority. Is the rejection of the application of the Foreign Company justified in law?