FINAL EXAMINATION **SET - 1**

MODEL QUESTION PAPER **TERM – DECEMBER 2025**

PAPER – 15 **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) What is the due date of filing the return of income in case of a company who is required to furnish a report in Form No. 3CEB under section 92E?

(a) September 30 of the assessment year
(b) July 31 of the assessment year
(c) June 30 of relevant assessment the year
(d) November 30 of the assessment the year

(ii) Vijay Child Welfare Trust is registered under section 12AA of the Income-tax Act. For the Assessment year 2025-2026 its income before allowing exemption under section 11 and under section 12 exceeded the maximum amount which is not chargeable to income-tax. It failed to file its return of income by 'due date' as specified under section 139(1). How much is the quantum of penalty that could be levied on the assessee for its failure to file its ITR on or before the 'due date'?

(a) ₹100 per day for which the default continues
(b) ₹200 per day for which the default continues
(c) ₹500 per day for which the default continues
(d) ₹10,000

(iii) During the P.Y. 2024-25, Mr. Manoj has the following income and brought forward losses:
Short-term capital gains on sale of shares: ₹1,75,000
Brought forward Long-term capital loss (AY 2022-23): ₹96,000
Brought forward Short-term capital loss (AY 2023-24): ₹42,000
Long-term capital gain u/s 112: ₹85,000
As per the provisions of the Income-tax Act, 1961, what will be the taxable capital gain in the hands of Mr. Manoj for AY 2025-26?

(a) ₹1,33,000
(b) ₹1,75,000
(c) ₹85,000
(d) Nil

(iv) In case of an application made by the assessee u/s 154, the income-tax authority shall rectify the order/refuse the rectification within __________ from the end of the month in which the application is received by the authority.

(a) 4 years
(b) 2 years
(c) 1 year
(d) 6 months

(v) Mr. Krishna, a resident individual aged 48 years, did not furnish his return of income for A.Y. 2025-26. His total income was assessed u/s 144 at ₹12,00,000.
As per section 270A of the Income-tax Act, 1961, is penalty attracted in this case, and if so, what is the quantum of penalty leviable?

(a) No penalty is leviable, since tax has been assessed u/s 144.
(b) Yes, penalty is leviable @50% of tax payable, i.e., ₹41,600.
(c) Yes, penalty is leviable @200% of tax payable, i.e., ₹1,66,400.
(d) No penalty, since income is below ₹15,00,000

(vi) The Joint Commissioner of Income-tax (Appeals) is the ________ appellate authority.

(a) First
(b) Second
(c) Third
(d) Fourth

(vii) ICDS is applicable in case of income under the head:

(a) Profits and gains from Business or Profession
(b) Capital Gains
(c) Income from House Property
(d) All heads of income

(viii) The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 extends to:

(a) Whole of India
(b) Whole of India excluding Jammu and Kashmir
(c) Whole of India excluding Jammu and Kashmir and Arunachal Pradesh
(d) None of the above

(ix) According to sec. 2(42C), _______________ means transfer, by any means, of undertaking(s) for a lump sum consideration without assigning values to the individual assets of such undertaking(s).

(a) Amalgamation
(b) Demerger
(c) Slump Sale

(d) None of the above.

(x) The provisions of sec. 92 will apply only if the aggregate value of specified domestic transactions entered into by the taxpayer during the year exceeds a sum of ₹ _____.

(a) 100 crores
(b) 5 crores
(c) 10 crores
(a) 20 crores

(xi) Advance Pricing Agreement shall be valid for such period not exceeding _____ consecutive previous years as may be specified in the agreement.

(a) 5
(b) 3
(c) 10
(d) 2

(xii) B is a foreign company having permanent establishment (namely A) in India. C, a non-resident associated enterprise, has invested ₹ 900 crore through debt in A. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of A during the financial year was ₹ 150 crore. What is the amount of interest allowable in respect of the debt assuming that the debt was invested on the first day of the financial year and the rate of interest is 10% p.a.?

(a) ₹ 45 crore
(b) ₹ 90 crore
(c) ₹ 30 crore
(d) ₹ 27 crore

(xiii) In respect of DTAA, generally, India follows:

(a) UN Model
(b) UK Model
(c) OECD Model
(d) US Model

(xiv) In UN model of DTAA, there are VII chapters which contains ______________ articles.

(a) 32
(b) 31
(c) 30
(d) None of the above

(xv) GAAR provisions shall not apply to:

(a) an arrangement where the tax benefit in the relevant assessment year arising, in aggregate, to all the parties to the arrangement does not exceed a sum of ₹ 3 crore

(b) an arrangement where the tax benefit in the relevant assessment year arising, in aggregate, to all the parties to the arrangement does not exceed a sum of ₹5 crore

(c) an arrangement where the tax benefit in the relevant assessment year arising, in aggregate, to all the parties to the arrangement does not exceed a sum of ₹1 crore

(d) None of the above

SECTION – B

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

[5 x 14 = 70]

2) (a) Compute taxable income of a charitable trust for the A.Y. 2025-26 under the following cases:

Particulars	Case 1 (₹)	Case 2 (₹)	Case 3 (₹)
Income other than voluntary contribution	4,00,000	5,00,000	15,00,000
Voluntary contribution	1,00,000	80,000	2,00,000
Voluntary contribution in the corpus of the trust	2,00,000	1,50,000	5,00,000
Income applied for the purpose for which trust is created	4,50,000	4,93,000	2,00,000

[7]

(b) X & Co., a firm, is engaged in the business of trading of cloth (turnover of 2024-25 being ₹ 1,57,80,000, out of which ₹ 25,00,000 has been received in account payee cheque). It wants to claim the following deductions:

Particulars	Amount (₹)
Salary and interest to partners [as permitted by sec. 40(b)]	60,000
Salary to employees	4,90,000
Depreciation	2,70,000
Cost of materials used	1,20,90,000
Other expenses	13,45,000
Total	1,42,55,000
Net profit (₹ 1,57,80,000 – ₹ 1,42,55,000)	15,25,000

Determine the net income of X & Co. for the assessment year 2025-26 assuming that (i) taxable interest income is ₹ 90,000; (ii) Long term capital gain is ₹ 1,40,000; and (iii) the firm is eligible for a deduction of ₹ 15,000 under sec. 80G. **[7]**

3) (a) Mr. A owned two residential house for his own residential purpose, details of which are as follows –

Particulars	House 1 (₹)	House 2 (₹)
Gross Annual value	4,00,000	5,00,000
Municipal tax (paid)	2,000	10,000
Interest on loan taken for construction of house	20,000	25,000

On 1/4/2024, Mr. A gifted ₹25,00,000 to her wife. Out of such money, she acquired a house property for her own residential purpose. The new house has a gross municipal value of ₹2,50,000. She paid a corporation tax of ₹2,000. Compute income from house property of Mr. & Mrs. A. (Assume that Mrs. A does not own any other property). Assume that he has opted for the old tax regime.

[7]

(b) A business entity requires ₹50 lakhs for expansion of business. The entity has two options

Particulars	Option 1	Option 2	Option 3
	₹	₹	₹
Equity Share of ₹10 each	40,00,000	30,00,000	30,00,000
12% Debentures	10,00,000	10,00,000	20,00,000
18% Loan from Bank		10,00,000	

Expected rate of return is 15% (before tax). Tax Rate is 31.2% (including Cess).

Required:

1. Calculate the profit after tax in Option 1.
2. Calculate the profit after tax in Option 2.
3. Calculate the profit after tax in Option 3.
4. Advise which financing option is the most beneficial for the business entity.

[7]

4) (a) M/s S & Co., a sole proprietary concern is converted into a company, Sid Co. Ltd. with effect from November 29, 2024. The written down value of assets as on April 1, 2024 are as follows:

Items	Rate of Depreciation	WDV as on 1 April, 2024
Building	10%	₹3,50,000
Furniture	10%	₹50,000
Plant & Machinery	15%	₹2,00,000

Further, on 15-10-2024, M/s S & Co. purchased a plant for ₹1,00,000 (rate of depreciation 15%). After conversion, the company added another plant worth ₹50,000 (rate of depreciation 15%). Compute the depreciation available to (i) M/s S & Co, and (ii) Sid Co. Ltd. for the A.Y. 2025-26.

[7]

(b) The following data is furnished by Mr. Anand, a non-resident and a person of Indian Origin, for the financial year ended 31-3-2025:

(A)	
Long-term capital gains arising on transfer of foreign exchange asset on 21.7.2024 (computed)	₹5,50,000
Expenditure wholly and exclusively incurred in connection with such transfer (not considered above)	₹80,000

Interest on Government Securities	₹85,000
Interest on Deposits with public limited companies	₹2,60,000
(B)	
Savings and Investments	
Investment in notified savings certificates referred to in section 10 (4B) on 30.3.2025	₹1,00,000
Investment in shares of Indian public limited companies on 31.12.2025	₹4,00,000
(C)	
Tax deducted at source	₹1,91,000

Compute balance tax payable/refund due for the assessment year 2025-26 in accordance with special provision applicable to non-residents. Assume assessee opted out from section 115BAC.

[7]

5) **(a)** Briefly explain the remedial measures and time limit to the assessee who is aggrieved of the following:

(i) Order passed under section 143(3) by the Assessing Officer.

(ii) Order passed under section 263 by the Commissioner of Income-tax.

(iii) Order passed under section 254 by ITAT.

[7]

(b) Mr. Gugu (age 77) was the Senior Officer of Rx Motors (P) Ltd. at Gujrat. He retired in June, 2009 and left India permanently in January, 2012. It came to the notice of the Joint Director of Income-tax (Investigation) in June, 2024 that Mr. Gugu had accumulated assets during the previous year 2008-09 exceeding ₹500 lakhs outside India (consisting of residential apartments and deposits in banks) which were not disclosed for income-tax purposes up to the assessment year 2012-13 for which the return of income was filed in India. Mr. Gugu was served with a notice under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 in August, 2024.

Mr. Gugu is of the opinion that since 10 years have elapsed from the last assessment year in which he was assessed in India, no proceedings could be initiated against him under the Income-tax Act, 1961 and the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015. Mr. Gugu is a non-resident for the assessment year 2024-25.

Discuss the liability of Mr. Gugu under the Black Money law and state the procedure and methodology for determination of the value of undisclosed asset outside after evaluating the validity of the contentions raised by him. **[7]**

6) **(a)** Describe the methods of Bilateral relief in Double Taxation Avoidance Agreements (DTAAs) and briefly explain how unilateral relief is provided in the Income-tax Act, 1961.

[7]

(b) Ankit (Age 53 yeas) is the CFO of Bharat India Ltd. since 01.04.2020. his income in India consists of:

(i) Salary (before standard deduction) of ₹25.25 lakhs;

(ii) Interest in respect of self-occupied property of ₹1,80,000;
(iii) Interest of bank fixed deposits ₹1,50,000.

He has the following income for the year ended 31st March 2025 in Country 'A'.

(i) Income from business in Country A = USD 25,000;
(ii) Rent from house property in Country A = USD 4,500;
(iii) Municipal taxes in respect of the above house (Not allowed as deduction in Country A) = USD 450;
(iv) Dividend from shares held in Country 'A' where dividend was declared and paid in March, 2025 = USD 10,000;
(v) Short term capital gain of USD 5,000 on sale of shares of companies registered in Country 'A' and sale proceeds were credited in bank account outside India on 28.03.2025.

India has DTAA with Country 'A' and the tax paid in Country 'A' is eligible for tax credit in India. The fiscal year for income-tax is the same both in Indian and Country 'A'. Rate of tax is 20% in Country 'a' in respect of all incomes. Income-tax was paid by Ankit on 25.05.2025 for the incomes of the year ended 31st March 2025 in Country 'A'.

Compute the total income and net tax liability of Ankit for the A.Y. 2025-26. Assume Ankit pays tax u/s 115BAC.

The TT buying rate of 1 USD on various dates: 29.02.2025 = ₹70; 28.03.2025 = ₹71; 31.03.2025 = ₹72; 30.04.2025 = ₹74; and 25.05.2025 = ₹75.

[7]

7. (a) Compute ALP through following information:

- A Ltd. is a distributor of IT products.
- A Ltd. purchases these products from its related party, P Ltd.
- A Ltd. also trades in laptops manufactured by X Ltd.
- P Ltd as well as X Ltd would supply the warranty replacements free of cost to A Ltd.
- Other details are as under:

Particulars	P Ltd (AE)	X Ltd
Purchase price of A Ltd.	INR 15,000	INR 22,000
Sale price of A Ltd	INR 18,000	INR 26,000
Other expenses incurred by A Ltd	INR 500	INR 700

[7]

(b) Discuss the cases where an assessee shall make a secondary adjustment in the context of transfer pricing.

[7]

8. (a) The net profit of Renuka Ltd., an Indian company, as per its profit and loss account prepared as per the Income-tax Act, 1961 is ₹ 90,00,000 after debiting and crediting following items:

	(₹)
Provision for income-tax	5,00,000
Provisions for deferred tax	3,00,000
Proposed dividend	7,50,000
Depreciation including depreciation on revaluation of assets ` 20,00,000 debited to profit and loss account	60,00,000
Profit from industrial unit in SEZ area	80,000
Provision for permanent diminution in the value of investments	70,000

Compute tax liability under section 115JB for the assessment year 2025-26. **[7]**

(b) Discuss the conditions which needs to be satisfied for Deemed to be Associated Enterprises. **[7]**