

PAPER - 15 : DIRECT TAX LAWS AND INTERNATIONAL TAXATION

SUGGESTED ANSWERS

SECTION-A

1.

- (i) (D)
- (ii) (B)
- (iii) (C)
- (iv) (B)
- (v) (A)
- (vi) (A)
- (vii) (C)
- (viii) (A)
- (ix) (B)
- (x) (C)
- (xi) (C)
- (xii) (B)
- (xiii) (C)
- (xiv) (A)
- (xv) (D)

SECTION B

2. (a)

Computation of total income of Sitaram Charitable Trust for the Asst. year 2025-26

Particulars	₹ in lakhs	
Gross receipts from hospital (excluding corpus donation) (540-8)	532	
Gross receipts from Nursing college	168	
		700
Less: 15% set apart		105
Less: Fee not received – Since the trust follows the cash system of accounting, unpaid fee would not have been added in the gross receipts, thus there is no need to deduct the amount of unpaid fee.		NIL
		595
Less: Amount applied for charitable purposes		
Administrative expenses for the hospital [Fee paid to Mr. Jacob – 100% disallowed since TDS was not deducted (95 – 5 = 90)]	90	
Administrative expenses for the Nursing college	76	
Acquisition of a building for the purpose of expansion of nursing college– treated as application of income.	215	
Repayment of a loan taken for the repair of the hospital building during the FY 2023-24 – treated as application of income in the year of repayment.	4	
		385
		210
Total income		210
Suggestion: The trust can seek deferment of application of income to the extent of ₹ 210 lakhs to next financial year by filing the appropriate Form in this regard.		
As per CBDT circular 6/2023, this Form can be filed on or before the ‘due date’ of furnishing the ROI u/s 139(1).		

2. (b)

Computation of income of the firm VSM & Co. and tax liability

Particulars	(₹)	(₹)
Income from business before adjustment of stock given to partner.	4,50,000	
Add: NRV of stock given to retiring partner (unrealized profit)	1,50,000	
Income from Business		6,00,000
Long-term capital gain		
Stamp duty value as per section 50C	30,00,000	
Less: Cost of acquisition.	12,00,000	
No indexation benefit where transfer is made on or after 23.7.2024.		
LTCG chargeable to tax		18,00,000
Total income		24,00,000
Tax thereon:		
On business income @30% on ₹ 6,00,000	1,80,000	
On LTCG @12.5% on ₹ 18,00,000	2,25,000	
	4,05,000	
Add: HEC @4%	16,200	
		4,21,200

Tax liability of retiring partner Mohan on account of the above transactions

First we need to see whether there will be any impact of the given transitions to the total income of Mohan.

Particulars	Taxable Amount (₹)
Share of profit from firm up to retirement ₹ 1,50,000 (1,50,000/3) [Exempt u/s 10(2A)]	NIL
Stock received on retirement (NRV ₹ 9,50,000) Not taxable to Mohan; taxed in firm under Sec. 9B	NIL
Land received on retirement (SDV ₹ 30,00,000) Not taxable to Mohan; taxed in firm under Sec. 45(4)	NIL
Cash received on settlement Not taxable to Mohan; forms part of Sec. 45(4) mechanics in firm	NIL
Total income of Mohan on account of above transactions	NIL
Tax effect of the given transactions (current year)	NIL

3. (a)

Computation of total income of Sridhar and tax payable for the AY 2025-26

Particulars	(₹)	(₹)
Income under Old Regime	Normal Provisions	Section 115BAC
Business Income	17,00,000	17,00,000
Add: LTCG u/s 112A [Listed shares-STT paid]	1,20,000	1,20,000
Gross Total Income	18,20,000	18,20,000
Deduction u/s 80C – LIC premium (restricted to 10% of SA i.e. ₹ 1,20,000)	(1,20,000)	Nil
Deduction under section 80-G for contribution to PM's National Relief Fund @100%	(2,00,000)	Nil
Total Income (TI)	15,00,000	18,20,000

Tax on Business portion (15,00,000 – 1,20,000 LTCG = 13,80,000) as per old slabs.	2,26,500	
Tax on Business income ₹ 17,00,000 as per New Regime slab		2,00,000
Tax on LTCG u/s 112A: ₹ 1,20,000. Less than ₹ 1,25,000	0	0
Add H&EC @ 4%	9,060	8,000
Total Tax = 226,500; Add: HEC @ 4% = 9060	2,35,560	2,08,000
Decision Old Regime Tax = ₹ 2,35,560; New Regime Tax = ₹ 2,08,000 → New Regime is beneficial by ₹ 27,560		

3. (b)

Computation of tax liability to decide regular provisions or under section 115BAB

Particulars	Normal Provisions ₹ in lakhs
Income from business before certain deductions	1500
Less: Additional depreciation	(125)
	1375
Less: Brought forward business loss	(700)
Gross total income	675
Deduction under Chapter VIA	
Deductions other than section 80JJAA	(50)
Deduction U/s.80M	(25)
Total Income	600
Tax Liability Calculation	
Income tax @ 30%	180
Surcharge @ 7%	12.6
Subtotal	192.600
Cess@ 4%	7.704
Total tax liability	200.304
Conclusion:	

Section 115BAB (7) reads as under:

“Nothing contained in this section shall apply unless the option is exercised by the person in the prescribed manner on or before the due date specified under sub-section (1) of section 139 for furnishing the first of the returns of income for any previous year relevant to the assessment year commencing on or after 1st day of April, 2020 and such option once exercised shall apply to subsequent assessment years.”

The question specifically states that in the earlier years, the company has been paying tax as per normal provisions, which means that the company had not exercised the option earlier for section 115BAB in the previous year relevant to the assessment year 2020-21.

Therefore, the assessee cannot opt for the provisions of section 115BAB during the AY 2025-26.

4. (a)**Computation of capital gains in the hands of Sunil on the transfer of shares of Tall (P) Ltd and Salt (P) Ltd.**

As per section 47(vii), any transfer or issue of shares by the resulting company, in a scheme of demerger to the shareholders of the demerged company is not regarded as transfer if the transfer or issue is made in consideration of the demerger of the undertaking.

Therefore, no capital gain shall be calculated for Sunil on receipt of shares of Salt P Ltd (resulting Company) in consideration of surrender of shares of Tall P Ltd (demerged company).

As per section 49(2C), where the shares are issued in the scheme of demerger, the cost of acquisition of such shares in the hands of shareholders shall be computed as follows:

Cost of acquisition of the shares in the resulting company (Salt (P) Ltd.) = Cost of acquisition of shares held by assessee in the demerged company x Net book value of the assets transferred in a demerger / net worth of the demerged company immediately before the demerger.

On subsequent transfer of Salt (P) Ltd shares, the period of holding, as per Explanation 1 to section 2(42A) shall also include the period for which the shares were held in the demerged company by the shareholders.

Therefore, the cost of acquisition of shares received by Sunil in Salt (P) Ltd. shall be

$$(15,000 \times ₹ 150) \times ₹ 20 \text{ crore} / ₹ 50 \text{ crore} = ₹ 9,00,000$$

Computation of capital gains on transfer of shares in Salt (P) Ltd.	₹
Sales consideration (assuming sold at FMV) (75,000 x ₹ 20)	15,00,000
Less: Cost of acquisition	9,00,000
Long-term capital gain	6,00,000

4. (b)**Computation of total income and tax liability of Aditya for the A.Y.2025-26 under Chapter XII-A**

Particulars	₹	₹
Income from Salary Salary from Global Ltd (Salary received by a non-resident from a foreign company is not deemed to accrue or arise in India. Hence not taxable in India.)		Nil/--
Income from House Property Rent received (₹ 20,000X12) Less: Deduction u/s 24(a) @30%	2,40,000 72,000	1,68,000
Capital Gains Sales consideration Less: Cost of acquisition	5,25,000 4,00,000	
Long-term capital gain	1,25,000	
[As per section 115D, the indexation benefit would not be available for computing long term capital gain under Chapter XII-A)		
Less: Exemption u/s 115F (Not available) (since whole of the sale consideration is invested in the purchase of specified assets after a period of six months after the date of such transfer)	Nil	
		1,25,000
Income from Other Sources		
Dividend from Indian Companies	1,50,000	

Interest on debentures	4,00,000	
		5,50,000
Gross Total Income/Total Income		8,43,000
Computation of tax liability		
Tax on Dividend i.e., ₹ 1,50,000 @ 20% u/s 115E	30,000	
Tax on Interest on debenture i.e., ₹ 4,00,000 @ 20% u/s 115E	80,000	
Tax on LTCG ₹ 1,25,000 @ 10% u/s 115E	12,500	
Tax on other income of ₹1,68,000 (Below basic exemption limit)	Nil	
	1,22,500	
Add: HEC @4%	4,900	
Tax Liability		1,27,400

5. (a)

a) Time Limit for Filing appeal u/s 246A

As per Section 249(2) of the Income-tax Act, 1961, an appeal to the CIT(A) is required to be filed within 30 days from the date of service of notice of demand relating to the assessment order.

In the present case, the order u/s 143(3) was received on 25th September 2025. Therefore, the appeal should have been filed on or before 25th October 2025.

Since Dr. Mathew Cherian filed the appeal on 15th November, 2025, it is beyond the prescribed limitation period.

b) Condonation of delay in filing appeal

As per Section 249(3), the CIT(A) may admit an appeal after the expiry of the prescribed period, if he is satisfied that the appellant had sufficient cause for not presenting it within the time allowed.

In this case, Dr. Mathew was outside India from 1st September, 2025 to 13th November, 2025, which constitutes a valid reason for delay.

Accordingly, Dr. Mathew can make an application for condonation of delay, and the CIT(A) may condone the delay in filing of appeal.

c) Time limit for disposal of appeal by CIT(A)

The Income-tax Act does not prescribe any specific statutory time limit for the disposal of appeals by the CIT(A).

However, CBDT has issued administrative instructions to dispose off the appeals expeditiously and preferably within one year from the end of the financial year in which the appeal is filed.

d) Pre-deposit requirement for appeal under Section 246A

In the case of CIT (A), there is no statutory requirement of mandatory pre-deposit of tax for filing an appeal u/s 246A. However, as per Section 249(4), no appeal shall be admitted unless the assessee has paid the tax on the admitted/returned income.

As per Instruction No 1914 dated 21.3.1996, the AO may take proceedings for recovery of tax which could be kept in abeyance if the assessee pays 20% of disputed tax. The pre-deposit is not absolute and in high pitched cases, the appellate authority may waive the same.

5. (b)

Machinery A: ICDS V to be applied

As per ICDS V – when a tangible fixed asset is acquired in exchange for shares or other securities, the fair value of the tangible fixed asset so acquired shall be its actual cost.

The actual cost of Machinery A would be its fair value (i.e.) ₹ 20,00,000. The shares issued in consideration thereof would not be considered.

Moreover, the amount spent on installation of the machinery will also be added to the cost of the machinery as per ICDS V.

So, the total cost of machinery A would be ₹ 20,00,000+₹ 5,00,000 = ₹ 25,00,000.

Depreciation allowable on the machinery = 50% of 15% of ₹ 25,00,000 (since it was ready to use only after installation, i.e., 15th October 2024) = ₹ 25,00,000 x 15% x 50% = ₹ 1,87,500.

Additional depreciation @ 10% since it was used for less than 180 days.

The amount being ₹ 25 lakhs @10%= ₹ 2,50,000.

Machinery B: ICDS VI to be applied

Imported Machinery: Cost includes purchase price + customs duty + installation.

- Purchase cost (on 18th October 2024) = \$40,000 × ₹ 82 = ₹ 32,80,000
- Change in exchange rate to be considered only upon actual payment.
- Add: Customs duty = ₹ 4,00,000
- Add: Installation = ₹ 1,50,000
- Total Cost = ₹ 38,30,000

Depreciation @50% of 15% on ₹ 38,30,000 = ₹ 2,87,250

Since it is a second-hand machinery, additional depreciation is not allowed.

6. (a)

Exemption Method, Tax credit Method and Tax Sparing Method

Exemption Method:

In this method, one country provides an exemption to income which is doubly taxed. Generally, the residence country (State of residence) gives up its right to tax such incomes. The country of source (State of source) is given the exclusive right to tax such income.

Full Exemption Method:

Under this method, the income earned in the State of source is fully exempt in the State of residence.

Exemption with progression Method:

Under this method, income from the State of source is considered by the State of residence only for the rate purpose.

Credit Method:

In this method, the resident remains liable in the country of residence on its global income, however, as far as the quantum of tax liability is concerned credit or deduction for tax paid in the source country is given by the residence country against its domestic tax as if the foreign tax were paid to the country of the residence itself.

In this method there are two methods viz., full credit method and ordinary credit method.

Full Credit Method

Total tax paid is allowed as credit in the State of source against tax payable in the State of residence.

Ordinary Credit

State of residence allows credit of tax paid in the State of Source restricted to that part of income tax which is attributable to the income taxable in the State of residence.

Tax sparing Method:

State of residence allows credit for deemed tax paid on income which is otherwise exempt from tax in the State of Source.

6. (b)

Computation of Total income of Anand for the AY 2025-26

Particulars	₹	₹
Salaries		
Salary from Ace Ltd.	24,00,000	
Less: standard deduction u/s 16(ia)	75,000	
		23,25,000
Income from house property		
Loss from self-occupied house property (deduction u/s 24(b) is not allowable in respect of self-occupied house property under default tax regime)		NIL
Profits and gains of business and profession		
Income from business in Country Z (USD 15,000 x ₹ 75, being the last day of the previous year i.e. 31.03.2025 as per Rule 115)		11,25,000
Capital gains		
Long term capital gain on sale of shares of companies registered in Country Z (USD 6,000 x ₹ 74.50, being the last day of the month immediately preceding the month in which shares were transferred i.e. 28.02.2025 as per Rule 115)		4,47,000
Income from other sources		
Interest on bank fixed deposit	1,50,000	
Royalty income from Country Z (USD 10,000 x ₹ 75, being the last day of the previous year (i.e.) 31.03.2025 as per Rule 115)	7,50,000	
		9,00,000
Gross Total Income/Total Income		47,97,000
Tax on Total income	11,29,100	
Add: Health and education cess @4%	45,164	
Total tax Payable		11,74,264
Average rate of tax in India		
(11,74,264 / 47,97,000 x 100)	24.48%	
Average rate of tax in Country Z	20%	
Doubly taxed income (11,25,000 + 4,47,000 + 7,50,000)	23,22,000	
Deduction u/s 91 on ₹ 23,22,000 x 20% (Lower of average Indian tax rate and tax rate in Country X)		4,64,400
Tax Payable in India		7,09,864
Rounded off		7,09,860

7. (a)**Computation of ALP of sale of goods between AEs**

Real Ltd. and Reel Inc. are deemed to be associated enterprises as Reel Inc has 27% shareholding in Real Ltd.

Thus, the transaction between Reel Inc. and Real Ltd will be “international transaction” and subject to transfer pricing provisions.

Since, Reel Inc also sells the products to an unrelated party, i.e., Yolo Ltd., the Comparable Uncontrolled Price (CUP) would be the most appropriate method to determine the arm’s length price of the transactions.

Computation of arm’s length price using the CUP method

Particulars	₹
Sale Price charged by Reel Inc from Yolo Ltd	20,000
Less: Cost of warrantee included in the price charged from Yolo Ltd 3% of 20,000	600
Arm’s length price per unit	19,400
Actual price paid by Real Ltd. to Reel Inc	25,000
Difference in price per unit	5,600
No of units supplied by Reel Inc to Real Ltd.	50,000
ALP adjustment to be made in the income of Real Ltd. [50,000 x 5,600]	2800 lakhs

7. (b)**Thin Capitalization – Section 94B**

Anita Ltd. and Allan GmbH are deemed to be associated enterprises, since 91.11% (90% or more) of the raw material and consumables required for the manufacture are supplied by Allan GmbH (82 crores/90 crores x 100). Anita Ltd and Andrew Ltd. are also deemed to be associated enterprises, since Andrew Ltd. holds shares carrying 30% (26% or more) voting power in Anita Ltd.

Anita Ltd., an Indian company, being the borrower, has incurred interest expenditure in respect of debt issued by its non-resident associated enterprises (NR AE) and such interest exceeds ₹ 1 crore. Accordingly, the interest paid or payable by Anita in excess of 30% of EBITDA shall not be allowed as deduction as per section 94B.

Accordingly, the provisions of section 94B would be attracted in respect of interest on ₹ 50 crores (i.e. 9% on ₹ 50 crores for 10 months= 3.75 Cr) borrowed from Allan GmbH, a non-resident AE.

Further, where the debt is issued by a lender which is not associated but an AE either provides guarantee (implicit or explicit) to such lender, such debt shall be deemed to have been issued by an AE and limitation of interest deduction would be applicable.

However, since the interest amount payable to Bank of Tokyo is less than ₹ 1 crore, section 94B will not apply.

Computation of interest allowable as deduction to Anita Ltd. for the AY 2025-26

Particulars	₹ in lakhs	
Net profit		480
Add: Interest on loan		
On loan from Allan GmbH (9% of ₹ 50 crores x 10/12)	375	
On loan from Bank of Tokyo (7.50% of ₹ 20 crores x 8/12)	90	465
Depreciation		200
Provision for income tax		205
EBITDA		1350
30% of EBITDA		405
Lower of the following shall be disallowed		
Interest paid or payable by Anita Ltd to AE	375	
Total interest paid in excess of 30% of EBITDA	Nil	
Interest disallowed		Nil
Interest allowed On loan from Allan GmbH		375
Interest on loan from bank of Tokyo		90
Total interest amount eligible for deduction		465

8. (a)

Computation of book profits u/s 115JB of XYZ Ltd for the AY 2025-26

Particulars	(₹ in lakh)	
Net Profit as per Statement of Profit and Loss		126
Add:		
CSR expenditure-not to be adjusted.		NIL
Provision for GST for March 2025 remaining unpaid no adjustment required in computing Book Profit		NIL
Depreciation debited		12
Loss on sale of fixed assets Being a realized loss, rightly debited to P & L statement. No prohibition under any Explanation to sec 115JB. Hence no adjustment is required.		NIL
Deferred tax liability		6
Provision for doubtful debts		3
		147
Less:		
Agricultural income (exempt u/s 10) [Expl.1(ii)]	6	
SEZ profit exempt u/s 10AA [Expl.1(ii)]	10	
Royalty income eligible for benefits of section 115BBF to be excluded	15	
Dividend from foreign companies not to be adjusted	NIL	
Depreciation excluding the amount of depreciation on account of revaluation	10	
Less: Lower of brought forward business loss (8L) or unabsorbed depreciation (10L) as per books of account. [Expl.1(iii);	8	
No adjustment is required for brought forward business loss or unabsorbed depreciation as per Income-tax Act, 1961	NIL	
		49
Book Profit under section 115JB		98

Alternative:**Analysis of book profits u/s 115JB of XYZ Ltd for the AY 2025-26**

Particulars	(₹ in lakh)
The following items will have to be added/ignored to net profit to arrive at the book profit:	
CSR expenditure-not to be adjusted. This is a business expenditure, only expressly disallowed for computing total income as per normal provisions.	NIL
Provision for GST for March 2025 remaining unpaid no adjustment required in computing Book Profit Only expressly disallowed for computing total income as per normal provisions.	NIL
Depreciation debited To be considered while computing book profits. To be added back.	12.00
Loss on sale of fixed assets Being a realized loss, rightly debited to P & L statement. No prohibition under any Explanation to sec 115JB. Hence no adjustment is required.	NIL
Deferred tax liability To be considered while computing book profits. To be added back.	6.00
Provision for doubtful debts To be considered while computing book profits. To be added back.	3.00
The following items will have to be deducted/ignored to net profit to arrive at the book profit:	
Agricultural income (exempt u/s 10) [To be deducted from Book profits as per Expl.1(ii)]	6.00
SEZ profit exempt u/s 10AA [To be deducted from Book profits as per Expl.1(ii)]	10.00
Royalty income eligible for benefits of section 115BBF to be excluded	15.00
Dividend from foreign companies not to be adjusted	NIL
Depreciation excluding the amount of depreciation on account of revaluation	10.00
Lower of brought forward business loss (8L) or unabsorbed depreciation (10L) as per books of account. [As per Expl.1(iii) to section 115JB];	8.00
No adjustment is required for brought forward business loss or unabsorbed depreciation as per Income-tax Act, 1961	NIL

8. (b)**(i) International transaction:**

Since it is export of service to its parent company located outside India, it would not be called as SDT. It is an international transaction.

(ii) Specified domestic transaction

Since it is from a subsidiary located in SEZ and the transaction exceeds the threshold limit of ₹ 20 crores.

(iii) Regular business transaction

The company EF Ltd is generating power (which is eligible for section 80-IA benefit) to its parent company, but the transaction does not exceed the threshold limit of ₹ 20 crores and therefore it would not attract SDT nor it is an international transaction.

(iv) Specified domestic transaction

Since the transaction is covered by section 115BAB and also exceeds the threshold limit of ₹ 20 crores.