

FINAL EXAMINATION

June 2026

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) Ganesh, a resident individual (age 42) has a total income of ₹ 3,50,000 comprising of salary income and interest from bank deposits for the financial year 2025-26. During the same year he incurred an expenditure of ₹ 1,40,000 each, on himself and his wife, for a travel to Singapore. Which of the following statements is correct assuming Ganesh has not opted out of default tax regime for the A.Y. 2026-27?
- (A) He is not required to file the return of income for the A.Y. 2026-27 since his total income does not exceed the basic exemption limit.
- (B) He is not required to file the return of income for the A.Y. 2026-27 since his expenses on foreign travel does not exceed ₹ 2 lakhs.
- (C) He is required to file the return of income for the A.Y. 2026-27 since his aggregate expenses on foreign travel exceeded ₹ 2 lakhs.
- (D) He is required to file the return of income for the A.Y. 2026-27 since his total income before standard deduction u/s 16(i)(a) exceeds the basic exemption limit.
- (ii) Cheetah Ltd. a domestic company has a total tax liability of ₹ 10,00,000 for A.Y. 2026-27. The company has a TDS credit of ₹ 2,00,000. The advance tax instalments paid by the company during P.Y.2025-26 are as follows: 12.06.2025 = ₹ 1,00,000; 14.09.2025 = ₹ 2,00,000; 13.12.2025 = ₹ 2,60,000 and 18.03.2026 = ₹ 2,40,000. How much of interest is payable under section 234C by Cheetah Ltd.?
- (A) ₹ 1,200
- (B) ₹ 3,600
- (C) ₹ 4,800
- (D) ₹ 6,000

- (iii) "Save Trees", a charitable trust registered under section 12AB of the Income-tax Act, 1961 received total donation amounting to ₹ 15 lakhs during the financial year 2025-26 and it includes anonymous donation of ₹ 2,50,000. How much of anonymous donation is taxable @30%?
- (A) ₹ 1,00,000
 - (B) ₹ 1,50,000
 - (C) ₹ 75,000
 - (D) ₹ 1,75,000
- (iv) There is an estimated lump sum addition of ₹ 5 lakhs for admitting low gross profit in the assessment of Boyce & Co LLP. What is the time limit for filing appeal before Commissioner (Appeals)?
- (A) 30 days from the date of assessment order
 - (B) 30 days from the date of payment of tax as per assessment order
 - (C) 30 days from the date of service of the notice of demand
 - (D) 30 days from the date of communication of the order to the assessee
- (v) A domestic company who had entered into multiple international transactions with its Associated Enterprises failed to furnish such documents relating thereto when asked by the Assessing Officer. How much would be the penalty leviable for the said failure?
- (A) ₹ 1000 for each day of default till the date of assessment
 - (B) No penalty for not furnishing documents relating to international transactions
 - (C) Fixed penalty of ₹ 1,00,000, irrespective of the transaction value
 - (D) 2% of the value of each international transaction for which documentation was not furnished
- (vi) Anand (P) Ltd. made timely payment of the advance tax due and thereby, avoided the interest under sections 234B and 234C. What would you call this act of Anand (P) Ltd, out of the following?
- (A) Tax management
 - (B) Tax planning
 - (C) Tax evasion
 - (D) Tax avoidance

- (vii) Which of the following is not a fundamental accounting assumption as per the Income Computation and Disclosure Standards?
- (A) Going Concern
 - (B) Materiality
 - (C) Consistency
 - (D) Accrual
- (viii) What is the aggregate monetary limit for foreign assets (other than immovable property) not reported in the ITR, in order to be not liable for penalty under the Black Money Act, 2015?
- (A) ₹ 10,00,000
 - (B) ₹ 20,00,000
 - (C) ₹ 30,00,000
 - (D) ₹ 40,00,000
- (ix) Which of the following assets cannot be seized during a search operation under Section 132 of the Income-tax Act, 1961?
- (A) Unaccounted cash found at the premises
 - (B) Jewellery not recorded in the books of account
 - (C) Stock-in-trade of the business
 - (D) Undisclosed bank account balances
- (x) Atom Ltd., an Indian company, is a wholly owned subsidiary of Bull Inc., of USA. During FY 2025-26, Atom Ltd. transferred semi-finished products to Bull Inc., which was used by Bull Inc., to process further and manufacture a final product. To determine the arm's length price of the transactions between Atom Ltd. and Bull Inc., which of the following would be the most appropriate method?
- (A) Comparable Uncontrolled Price Method
 - (B) Cost-plus method
 - (C) Profit-split method
 - (D) Transactional Net Margin method
- (xi) PMQ Ltd. applied for APA on 20.10.2025 and the APA was entered into on 10.04.2026. For which of the financial years, the APA would be applicable?
- (A) F.Y. 2025-26 to F.Y.2029-30
 - (B) F.Y. 2026-27 to F.Y.2030-31
 - (C) F.Y. 2024-25 to F.Y.2029-30
 - (D) F.Y.2026-27 to F.Y. 2029-30

- (xii) The total income of Xavier Ltd. an Indian company, for the assessment year 2023-24 was enhanced by the Assessing Officer, by ₹ 210 lakhs, in conformity with the Arm's Length Price determined by the Transfer Pricing Officer in respect of its international transactions with AE. How much is the additional income-tax payable by Xavier Ltd. to avoid secondary adjustment?
- (A) ₹ 43,24,320
(B) ₹ 37,80,000
(C) ₹ 39,31,200
(D) ₹ 44,02,944
- (xiii) Which of the following can be termed as Juridical Double Taxation?
- (A) When two different persons are taxed on the same income
(B) When the same income is taxed in the hands of the same person by more than one country
(C) When the same income is taxed at different tax rates in different countries
(D) When both a company and its shareholders are taxed on dividends
- (xiv) OECD Model Tax Convention is primarily designed for treaties between which of the following?
- (A) A developed country and a developing country
(B) Two developed countries
(C) Two developing countries
(D) Only member States of the United Nations
- (xv) Butter Ltd., an Indian company, set up a unit in a Special Economic Zone (SEZ) during F.Y. 2020-21 for manufacture of chemicals. It claimed deduction under section 10AA in respect of profits earned from that unit in F.Y. 2025-26 (amount of deduction ₹ 15 crore). Which of the following statement is correct?
- (A) Yes, GAAR is applicable since the tax benefit exceeds ₹ 3 crore.
(B) Yes, GAAR is applicable since the transaction is impermissible and lacks commercial substance.
(C) No, GAAR is not applicable since it is taking advantage of the beneficial tax provisions.
(D) Both GAAR and SAAR would be applicable in this case.

Section – B**Answer any five questions from Question No.2 to Q.No.8.****Each question carries 14 marks.**

14×5=70

2. (a) Happy Foundations, a charitable institution registered under section 12AB of the Income-tax Act, 1961 runs a hospital and an engineering college. The following particulars pertain to the previous year 2025-26:
- (i) Gross receipts of hospital ₹ 350 lakhs
 - (ii) Gross receipts of Engineering college ₹ 141 lakhs
 - (iii) Voluntary contributions received from public in respect of hospital ₹ 28 lakhs, which is included in the gross receipts given above
 - (iv) Dividend from Indian companies (net) ₹ 9 lakhs
 - (v) Agricultural income in India ₹ 2.80 lakhs
 - (vi) Hospital and College administrative and operating expenses are ₹ 65 lakhs and ₹ 40 lakhs respectively
 - (vii) The trust gave corpus donation of ₹ 10 lakhs to Smile Foundations, Mysore a charitable trust registered under section 12AB
 - (viii) Gave non-corpus donation of ₹ 20 lakhs to Sanskar Charitable Trust, Patna being a trust registered under section 12AB
 - (ix) Acquired a building for the hospital for ₹ 180 lakhs (cost of land included therein ₹ 90 lakhs), Stamp duty value of land and building on the date of registration of sale deed was ₹ 210 lakhs

Required:**Calculate** the total income of the trust for the A.Y. 2026-27.

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- (b) Hardy Components, a partnership firm is engaged in the business of computer hardwares. It has two partners viz. Mr. X and Mr. Y who share the profits and losses in the ratio of 3 : 2. For F.Y. 2025-26, the firm reported a Net Profit of ₹ 8,50,000 after debit of the following:
- (i) Interest on capital @ 12% p.a. on partners' capital was authorised in the partnership deed. Interest was ₹ 6,00,000 for Mr. X and ₹ 4,00,000 for Mr. Y. [Note: Firm did not deduct TDS on the interest on capital paid to partners]
 - (ii) Partners' remuneration ₹ 12,00,000 (₹ 6,00,000 to each partner) as authorized by the partnership deed. [Note: Tax deduction was made on partners' salary]
 - (iii) A payment of ₹ 5,00,000 made to a resident technical engineer without deducting tax at source.

(iv) An invoice of ₹ 2,00,000 for supply of goods issued by Anil LLP (a micro enterprise under MSMED Act, 2015) dated 1st March, 2026 was paid thru NEFT on 5th April, 2026 (i.e. within 45 days). However, the agreed term between the parties was a credit period of 30 days.

(v) Depreciation ₹ 12,00,000

Additional information: Depreciation allowable as per Income-tax Rules, 1962 was ₹ 10,00,000.

You are required to **Calculate** the total income and tax payable by the firm and the total income of Partner Mr. X for the A.Y. 2026-27, assuming that he has no other income except income from the firm.

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3. (a) Paras, a resident individual aged 35 years, furnishes following particulars of his income relating to the assessment year 2026-27:

- (i) Basic salary of Paras is ₹ 1,00,000 per month. He is entitled to dearness allowance, @ 40% of basic salary. 50% of dearness allowance forms part of the retirement benefits. His employer contributed 15% of the basic salary to the pension scheme referred to in section 80CCD.
- (ii) He sold a residential property in April 2025 for ₹ 20,00,000. The property was purchased in July 2023 for ₹ 20,00,000 and he made some additions to the property incurring ₹ 2,00,000 in August 2023. Out of the sale proceeds, he purchased another residential property in September 2025 for ₹ 8,00,000.
- (iii) He deposited a sum of ₹ 60,000 with LIC every year for the maintenance of his disabled father (more than 80% disabled) who is wholly dependent on him.
- (iv) Short-term capital loss on sale of equity oriented mutual funds ₹ 2 lakhs (computed)

Required:

Calculate the total income and tax liability of Paras for the A.Y. 2026-27 under the regular provisions and default tax regime. You are required to **suggest** which one is better.

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(b) RST Ltd., Chennai was incorporated on 01.06.2022. It is engaged in the manufacture of automobile spare parts. It showed a net profit of ₹ 80,00,000 after debiting or crediting the following items:

- (i) Sales commission paid to Clive (resident of India) without deducting tax at source ₹ 17,00,000.
- (ii) Depreciation as per Companies Act, 2013 ₹ 9,40,000
- (iii) Short term capital gain on sale of vacant land ₹ 1,20,000

Additional Information:

- (i) The company employed 400 employees since 01.07.2022. During the FY 2025-26, it employed 245 additional employees. The details of these employees are as follows:

Date of joining	No. of employees	Regular or casual	Wages per month (₹)
01/06/2025	35	Regular	22,000
01/05/2025	10	Regular	30,000
01/04/2025	200	Casual	18,000

- (ii) The company made cash payment of ₹ 20,000 to a supplier of raw material on 15.10.2025 for the purchases made in the financial year 2024-25 as the supplier had discontinued the business and has no bank account.
- (iii) The turnover of RST Ltd during the FY 2023-24 was ₹ 350 crore.
- (iv) Depreciation as per Income-tax Rules, 1962 was ₹ 9,20,000.

You are required to **calculate** the total income of the company and Assess the tax payable, both as per the normal tax regime and under section 115BAA and suggest which one is better.

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4. (a) Raj Ltd has 2 units engaged in manufacture of medicine and textile. Unit 1 established in the year 2020 is engaged in manufacture of medicine and Unit 2 established in April, 2023 engaged in manufacture of textile. The company transferred Unit 1 by way of slump sale for a lump sum consideration of ₹ 1600 lakhs on 01.04.2025.

Balance Sheet as on 31.03.2025

(₹ in lakhs)

Liabilities	Total	Assets	Unit 1	Unit 2	Total
Share capital	6,000	Land	3,000	1,000	4,000
Revaluation reserve (land of unit 1)	1,000	Machinery	1,800	4,000	5,800
Bank loan (80% for unit 1)	3,000	Debtors	400	800	1,200
Trade creditors (30% for unit 1)	2,000	Patents	400	600	1,000
	12,000				12,000

Other information:

- (i) Revaluation reserve was created by revaluing the land of unit 1. The stamp duty value of the said land as on 01.04.2025 is ₹ 2,400 lakhs.
- (ii) Patents acquired on 10.08.2024 and on which no depreciation was charged right from the date of acquisition. Book value may be taken as the FMV on the date of slump sale.
- (iii) The value of machinery represents WDV as per the Income-tax Act, 1961.

Calculate the capital gain for the assessment year 2026-27 arising on the slump sale of unit 1.

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- (b) Ms. Sophia, a Non-Resident Individual (NRI) and an international cricketer, participated in the Women's Premier League (WPL) 2025 held in India. She also made certain investments in Indian securities. The following details are furnished for the financial year 2025–26:

Particulars		(₹)
(i)	Match fees received for playing in WPL matches in India	12,00,000
(ii)	Income from advertisement endorsements in India	5,00,000
(iii)	Interest on bonds of an Indian public company issued in accordance with the scheme of the Central Government. (purchased in convertible foreign currency)	4,00,000
(iv)	Long-term capital gain on sale of such bonds	3,00,000
(v)	Income received from units of UTI (purchased in convertible foreign currency)	2,50,000
(vi)	Interest from savings bank account in India	60,000

Additional Information:

1. She invested ₹ 1,50,000 in her PPF account and ₹ 50,000 in National Pension Scheme.
2. Stay and incidental expenses incurred for playing matches in India ₹ 5,00,000.

You are required to **calculate** the total income and **assess** the tax liability of Ms. Sophia for AY 2026–27. Ignore the provisions of Chapter XII-A of the Act.

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5. (a) Evergreen Ltd. has the following income-tax issues:

- (i) **For the assessment year 2023-24**, the assessment was completed under section 143(3) on 30.10.2024 by accepting the returned income. There was a reference to Valuation Officer for cost of construction of its corporate office at Mumbai and the valuation report was not received up to the date of completion of assessment. Subsequently, it was received with a difference of ₹ 80 lakhs between the cost admitted by the assessee and valuation made by the Valuation Officer. On the basis of the said valuation report, the Commissioner of Income-tax issued a notice under section 263 in November, 2025, to set aside the completed assessment. **Discuss** the validity of the revision under section 263.
- (ii) **For the assessment year 2024-25**, the company admitted ₹ 45 lakh as its total income. The assessment under section 143(3) was completed on 20.10.2025 with an addition of ₹ 18 lakhs. The company **wants you** to give an opinion as to whether it can avail the benefit of Dispute Resolution Committee in respect of the assessment.

Note: Assume that there is no change in legal provisions as regards the above issues for the assessment year 2026-27.

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(b) You are required to **state** with reasons the applicability or correctness of treatment under Income Computation and Disclosure Standards in the following independent scenarios:

- (i) Buildcon Ltd. is a contractor. In the first year of a 4-year project, the stage of completion is 15%. The company did not recognize any revenue, citing the uncertainty of the project outcome.
- (ii) On 31st March 2026, an Indian company had an outstanding trade payable of \$1,00,000. The exchange rate on the date of transaction was ₹ 90 per \$ and on 31st March, 2026 it was ₹ 93 per \$. The company treated ₹ 3,00,000 loss as "Notional" and did not claim it as an expense in its return of income.
- (iii) A partnership firm by name Nyle & Co. had three partners viz. L, M and N. The firm was dissolved on 31st December, 2025 and the business was continued by L. On the date of dissolution, the firm valued its closing stock at "Cost," whereas the Net Realisable Value was 20% higher.
- (iv) True Ltd. followed a policy of creating a provision for "Expected Future Losses" on a long-term contract based on the "Marked-to-Market" (MTM) principle. The company argued that since it follows the mercantile system, it must recognize the loss.

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6. (a) Double Taxation Avoidance Agreements (DTAAs) have become vital in the present-day global business decisions. Section 90 of the Income-tax Act, 1961 empowers the Central Government to enter into agreements with foreign jurisdictions for this purpose. In this context, **write a note** addressing (i) The primary objectives of DTAAs; (ii) The broad classification/types of DTAAs generally entered into by countries; and (iii) Name the prominent International Models of DTAAs used globally for drafting these agreements and highlight the key difference between the two major Models. 7

(b) Angad, a resident individual aged 68 years furnishes the following particulars of his income for the financial year 2025-26:

- (i) Business income in India ₹ 6,00,000
- (ii) Dividend income (gross) ₹ 1,80,000, from a company in Country T. Tax rate in country T was @20% without basic exemption limit.
- (iii) Royalty ₹ 8,00,000 earned from Country W on authoring a book. (₹ 5,60,000 was received in India on 30.06.2026. ₹ 80,000 was TDS in Country W on royalty). The expenses incurred for earning royalty ₹ 1,20,000
- (iv) Rent from house property situated in Country W ₹ 2,00,000
- (v) Income-tax rate in Country W is 10% without any basic exemption limit
- (vi) Paid interest on housing loan to State Bank of India ₹ 1,70,000 for the residential property in Mumbai, where his family resides.
- (vii) He deposited ₹ 1,75,000 in Public Provident Fund account of his wife during the year.

Required:

Calculate the total income and **assess** the tax payable by Angad for the A.Y. 2026-27 under the default tax regime, assuming India does not have DTAA with Country T and Country W.

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7. (a) Laxman Ltd, Cochin is engaged in software development and support services worldwide. Peter Inc. of USA, holds 45% voting rights in Laxman Ltd. During the FY 2025-26, Laxman Ltd. developed software for Peter Inc.

The following information is provided as regards the development of software for Peter Inc:

- (i) Total cost incurred ₹ 50 crore. Total price billed ₹ 70 crore.
- (ii) Peter Inc. provides technical know-how for development of software. The value of such know-how can be taken at 8% of normal gross profit.
- (iii) A discount of 12% of normal gross profit was given to Peter Inc.
- (iv) Credit period given to Peter Inc. 90 days. Interest cost can be taken at 2% on the normal billing rate.

Laxman Ltd. provided similar service to an unrelated party Roshan Ltd. of UK and the details as regards its service to Roshan Ltd. are as under:

- (i) Gross profit earned from the transaction with Roshan Ltd. 75% on cost.
- (ii) Roshan Ltd. does not provide any technical know-how.
- (iii) No discount was given to Roshan Ltd.
- (iv) Roshan Ltd. had to pay the entire amount upfront and no credit period was allowed.

Required:

Calculate the arm's length price of the international transaction between the associated enterprises as per the most appropriate method by giving reasons for the same.

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- (b) On 01.04.2025, Board (P) Ltd, Jaipur engaged in construction business, borrowed a loan of ₹ 100 crore from Crow Ltd. of UK. Crow Ltd. is engaged in manufacturing business. The interest rate for the loan was @ 9% p.a. The tenure of the loan was 5 years and no repayment of loan was made in FY 2025-26. This loan was guaranteed by Pity Ltd. of USA. Mr. Rubin, an individual resident in Germany, holds 30% voting rights in both Board (P) Ltd. and Pity Ltd. Board (P) Ltd. does not have any other loan. Its net profit for the FY 2025-26 was ₹ 22 crore after interest on loan, depreciation of ₹ 4 crore and provision for income-tax of ₹ 5 crore.

Required:

Calculate the interest to be disallowed in the hands of Board (P) Ltd. for the AY 2026-27 after discussing legal provisions governing the transactions for allowance of interest.

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8. (a) Eagle Pharma Ltd., a domestic company, provides the following Profit & Loss Account for the year ended 31st March, 2026:

Particulars	₹ (in Lakhs)	Particulars	₹ (in Lakhs)
To Manufacturing Exp.	950	By Sales	4,200
To Depreciation	1,300	By Other Incomes	150
To Provision for Income Tax	120		
To Proposed Dividend	80		
To Provision for Doubtful Debts	50		
To Net Profit	1,850		
	4,350		4,350

Additional Information:

- Depreciation as per Income-tax Rules is ₹ 850 Lakhs, which includes additional depreciation of ₹ 150 lakhs on new machinery.
- Depreciation debited in the Profit and Loss account includes depreciation on revalued amounts ₹ 300 lakhs.
- Brought Forward items:
As per Books of account: Business Loss = Nil; Unabsorbed Depreciation = ₹ 150 Lakhs.
As per Income-tax Act, 1961 : Business Loss of AY 2024-25 = ₹ 250 Lakhs; Unabsorbed Depreciation for AY 2011-12 = ₹ 300 Lakhs.
- The company has not opted for the provisions contained in section 115BAA and its turnover for F.Y.2023-24 was ₹ 100 crore.

You are required to **calculate** the total income as per normal provisions and book profit under section 115JB and determine the final tax liability for the AY 2026-27. 7

- (b) **State with reasons**, whether the following entities can be regarded as associated enterprises/ deemed to be associated enterprises as per the provisions of Income-tax Act, 1961:
- Mano Ltd. an Indian company holds 25% equity shares in PWR LLP of UAE.
 - Red Pte of Singapore is the owner of a patented technology for manufacturing a specific type of fertilizer X. Blue Ltd. of Delhi manufactures fertilizer X exclusively using the technology of Red Pte and for which Blue Ltd. pays royalty to Red Pte as per the market norms. Blue Ltd. does not manufacture or produce any other article or thing.

- (iii) Multi Associates, an Indian partnership firm at Mumbai, has three partners viz., Mr. Ray, Mr. Joy and M/s Bounty Inc. of USA having profit sharing ratio of 50%, 30% and 20% respectively.
- (iv) BiHu Ltd. an Indian company advanced a loan of ₹ 20 crore to Ritu Ltd. of UK which is 5% of total loan taken by Ritu Ltd. from various entities. The book value of total assets of BiHu Ltd. was ₹ 100 crore and of Ritu Ltd. was ₹ 350 crore.
- (v) Mango Ltd., Chennai guarantees a loan taken by Banana Inc. of USA (taken from a bank in USA) of ₹ 12 crore which is 15% of the total loan taken by Banana Inc. The book value of total assets of Mango Ltd. was ₹ 250 crore and of Banana Inc. ₹ 150 crore.
- (vi) Mr. Ranavijay holds a right to appoint 9 directors out of 15 directors on the Board of Directors of both Pigeon Ltd. of India and Cuckoo Inc. of USA. However, he appointed only 5 directors in Pigeon Ltd. and 8 directors in Cuckoo Inc.
- (vii) Mr. Cooper a foreign national and a non-resident in India, controls Carrot Ltd. of Kolkata while Mrs. Cooper controls Cucumber Inc. of USA.