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CA EXAM FEEDBACK

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Direct Tax Laws & International Taxation · 17/9/25

37.75 / 64

59.0%

10 questions evaluated

3 not attempted

Examiner's actual mark: 30

This score is an **AI estimate**, built by reading your handwriting and comparing it to the official model answer — it's for self-study, not an official grade. Each question below shows what you actually wrote, and the examiner's real mark is shown wherever it's known.

Question-by-question

Question 1a

The net profit of Mahi Ltd. as per its statement of profit and loss for the year ended 31.03.2026 amounted to ₹ 27,22,000 after...

Show full question

The net profit of Mahi Ltd. as per its statement of profit and loss for the year ended 31.03.2026 amounted to ₹ 27,22,000 after debiting/ crediting following items:

- (i) Interest of ₹ 2,00,000 was paid on a bank loan borrowed for construction of factory building. Approval for construction of the factory building from the local authority was pending as on 31 March 2026.
- (ii) Commission of ₹ 1,00,000 paid in the month of February, 2026 on which tax was deducted in February, 2026 itself. Commission of ₹ 1,25,000 paid in the month of March, 2026 on which tax was deducted in May, 2026. Tax deducted at source on these payments was deposited to the Government on 28.09.2026.
- (iii) Travelling expenses amounting to ₹ 90,000 were incurred on a foreign tour undertaken by a director for negotiating a collaboration with a foreign manufacturer for commencing a new line of business.
- (iv) As part of the restructuring of its debt, arrears of interest amounting to ₹ 3,00,000 on a term loan were converted into a new term loan with a revised repayment schedule. During the year, ₹ 50,000 was paid towards such funded interest. The entire amount of ₹ 3,00,000 was debited to the Statement of Profit and Loss.
- (v) EPABX and mobile phones, exclusively used for business purposes, were purchased during the year. Depreciation of ₹ 18,00,000 was claimed thereon @ 40%, treating these assets as computers.
- (vi) A sum of ₹ 5,00,000 was contributed to South Ltd., a wholly-owned subsidiary company, towards the construction of a school for the benefit of the employees of the Mahi company.
- (vii) Dividend received from P Ltd. on 10,000 listed equity shares of ₹ 10 each purchased at ₹ 100 per share on 10th October, 2017. The rate of dividend declared is 100%, the record date being 10th December, 2025. These shares were sold on 15.3.2025 at ₹ 130 per share. Long term capital gain of ₹ 3 lakhs is credited in statement of profit and loss. Fair market value of shares as on 31.1.2018 is ₹ 110. STT is paid both at the time of sale and purchase of such shares.
- (viii) Provision for gratuity based on actuarial valuation ₹ 6,00,000 was debited to statement of profit and loss. Actual gratuity paid ₹ 1,50,000 was debited to provision for gratuity account.

Other information:

- (1) Provision for bonus for the assessment year 2025-26 paid on 15.12.2025 ₹ 98,000. It is inclusive of payment by bearer cheque of ₹ 34,000 to one employee.
- (2) The company has purchased and put to use a commercial vehicle of ₹ 8,00,000 for the purpose of business on 21.03.2026 and calculated

depreciation@15% for the full year. Depreciation debited to the statement of profit and loss is calculated on all other assets as per the rates prescribed in the Income-tax Act, 1961.

10.25 / 14

73.2%

Compute the total income of the company chargeable to tax for the A.Y. 2026-27, ignoring the provisions of section 115JB. Company is not opting for any concessional tax regimes.

What you wrote

I Q 1 I

PY25-26 AY26-27

Computation of total Income

I Particulars I Amt I

I :--- I :--- I

I Net profit as per books of a/c's I 27,22,000 I

I (i) Interest an bank loan for factory building
[As, when loan taken for capital asset interest
is capitalised until the asset is put to use] I 1200000 I

I (ii) Commission

(As tds not paid in case of commission of
100000, 30% disallowed and
case where tds late deducted/not.
deducted and not paid 30% disallow

∴ 100000 + 125000 x 30%] I 67500 I

I (iii) Travel expense of a director for new line of
business

[Expense incurred for ongoing business
allowed and not for new business] I 90000 I

I (iv) Debt Restructuring

[Disallowed expenditure, allowed if
converted into equity but here outstandy
loan converted into new loan] I 300000
(-)50000 I

``markdown

I I I I

I :--- I :--- I :--- I

I (v) EPABX and Mobile Phone Depreciation I I 720000 I

I [to be charged @ 15% as they I I I

I come under Plant and Machinery I I I

I and not computer 1800000 x 40%] I I I

I Depreciation to be charged I I (270000) I

I [15% x 1800000] I I I

I (vi) Contribution to wholly owned subsidiary I I 500000 I

I [not allowed as expense, as it is I I I

I a capital contribution] I I I

I (vii) Long term capital gain I I (300000) I

I [to be shown under income from I I I
 I capital gain] I I I
 I ~Dividend~ I I I
 I (viii) Provision on actuarial valuation I I 450000 I
 I (disallow, allowed to the I I I
 I extent paid) (600000 - 150000) I I I
 I (ix) Cash expense / Bonus (98000-34000) I I ~34000~ (64000) I
 I [Allowed only 10000 per person I I I
 I per day here 34000 so disallow] I I I
 I (x) Dep. on Commercial vehicle I I (60000) I
 I [800000 x 15% / 2 as put to use less than I I I
 I 180 days] I I I
 I Profit and Gain on Business and Profession I I 4355500 I
 I Income from other sources I I I
 I Dividend I I 100000 I
 I (10000 x 10 x 100%) I I I
 I Income from capital Gain I I I
 I Fair value of consideration (10000 x 130) I 1300,000 I I
 I Less: Cost of Acquisition (10000 x 110) I 1100,000 I 200000 I
 I a) Purchase Price 100 I I I
 I b) Fair Market value 31/1/18 110 I I I
 I whichever is higher 110 I I I
 I Total Income I I 4655500 I
 ...

How to improve

- Read the question carefully to distinguish between asset cost and depreciation claimed. For the EPABX/mobiles, `18,00,000 was the depreciation claimed at 40%, not the asset cost. You needed to gross this up to find the cost (`45,00,000) before applying the correct 15% rate.
- Pay close attention to whether an item was already debited/credited to the P&L. For the vehicle depreciation, the excess `60,000 was already debited, so it must be added back, not deducted. Similarly, dividend income credited to P&L must be deducted from net profit to assess it under IFOS.
- Staff welfare expenditures (like the `5,00,000 school contribution for employees) are allowable revenue expenses under Section 37(1), even if contributed to a subsidiary. Do not disallow them as capital contributions.
- For TDS on commission, if the tax is deducted and deposited before the return filing due date (as was the case for the February payment), no disallowance is attracted. You incorrectly disallowed 30% of the `1,00,000 commission.

Covered

Add back ` 2,00,000 for interest on borrowed capital, noting that under Section 36(1)(iii) it must be capitalized until the asset is put to use. (1)

The student correctly reasoned that interest on borrowed capital for a capital asset must be capitalized until put to use. (The amount transcribed as '1200000' is a clear OCR error for the ' 200000' written in handwriting).

Incorrect

State that no adjustment is required for the commission paid in February, as TDS was deposited before the return filing due date. (0.5)

The student incorrectly added back 30% of the ` 1,00,000 commission paid in February, failing to recognize that the TDS was deposited before the return filing due date and thus allowable.

Covered

Add back ` 37,500 (30% of ` 1,25,000) for commission paid in March, noting that 30% is disallowed since TDS was deposited in the subsequent year. (1)

The student correctly disallowed 30% of the ` 1,25,000 commission paid in March (calculating ` 37,500 as part of their combined addition).

Covered

Add back ` 90,000 for travelling expenses, identifying it as a capital expenditure since it was for initiating a new line of business. (1)

The student correctly added back ` 90,000, noting it is for a new business line and thus not an allowable ongoing business expense.

Covered

Add back ` 2,50,000 for interest on the term loan. Note that conversion of arrear interest into a fresh loan is not actual payment under Section 43B, but the ` 50,000 funded interest actually paid is allowable. (1.5)

The student correctly added back the net amount of ` 2,50,000 (` 3,00,000 less ` 50,000 paid) and cited that converting a loan into a new loan is disallowed unless actually paid.

Partial

Add back excess depreciation of ` 11,25,000. State that EPABX and mobiles are not computers, so the general plant & machinery rate of 15% applies, making the allowable depreciation ` 6,75,000. (1.5)

The student correctly identified that EPABX/mobiles are Plant & Machinery eligible for 15% depreciation, not computers. However, they mistakenly treated the ` 18,00,000 depreciation claimed as the cost of the asset, resulting in incorrect calculations.

Incorrect

State that the ` 5,00,000 contribution for the employee school is allowable under Section 37(1), requiring no adjustment. (0.5)

The student incorrectly added back the ` 5,00,000 contribution, classifying it as a capital contribution instead of an allowable expense under Section 37(1).

Covered

Add back a net amount of ` 4,50,000 for gratuity. State that provision for gratuity is disallowed under Section 40A(7), but actual gratuity paid (` 1,50,000) is allowed. (1)

The student correctly added back the net provision of ` 4,50,000 (` 6,00,000 - ` 1,50,000) and noted that gratuity is allowed only to the extent paid.

Incorrect

Add back excess depreciation of ` 60,000. State that since the vehicle was acquired in March (used for less than 180 days), only 50% of the normal depreciation is allowable. (1)

The student calculated the correct excess depreciation amount (` 60,000) but incorrectly deducted it from the net profit instead of adding it back (since the full year's depreciation was already debited).

Covered

Deduct ` 64,000 from the net profit. Note that bonus is allowed on a payment basis, but the ` 34,000 paid via bearer cheque is disallowed under Section 40A(3). (1)

The student correctly deducted ` 64,000 for the allowable bonus, specifically disallowing the ` 34,000 bearer cheque payment.

Covered

Deduct the Long-Term Capital Gain of ` 3,00,000 from the net profit so it can be taxed under the Capital Gains head. (0.5)

The student correctly deducted the ` 3,00,000 Long-Term Capital Gain from the net profit computation.

Missing

Deduct the Dividend of ` 1,00,000 from the net profit so it can be taxed under Income from Other Sources. (0.5)

The student wrote "Dividend" in the PGBP section but crossed it out without deducting the ` 1,00,000 amount from the net profit.

Covered

Compute the correct Cost of Acquisition for the shares as ` 11,00,000 by applying grandfathering rules (Higher of actual cost of ` 10L, and lower of FMV ` 11L or Sale Consideration ` 13L). (1)

The student correctly computed the cost of acquisition as ` 11,00,000 using the grandfathering rules (comparing actual purchase price and FMV).

Covered

Compute the taxable Long-Term Capital Gain as ` 2,00,000 (Sale consideration of ` 13,00,000 less Cost of Acquisition of ` 11,00,000). (1)

The student correctly calculated the final taxable Long-Term Capital Gain as ` 2,00,000.

Partial

Present the Dividend of ₹ 1,00,000 under 'Income from Other Sources' and accurately sum up PGBP (₹ 44,70,500), Capital Gains (₹ 2,00,000), and IFOS (₹ 1,00,000) to reach the final Total Income of ₹ 47,70,500. (1)

The student correctly classified the dividend under 'Income from Other Sources' and the LTCG under 'Capital Gains', but the final Total Income computation was incorrect due to preceding errors.

Question 2a

4.0 / 5

M/s. Gaurav & Co., a partnership firm in India, is engaged in development of software and providing IT enabled services through two...

80.0%

Examiner: 5 / 5

Show full question

M/s. Gaurav & Co., a partnership firm in India, is engaged in development of software and providing IT enabled services through two units, one of which is located in a notified Special Economic Zone (SEZ) in Noida (commenced operations from 01.04.2013) and the other located in a domestic tariff area (DTA). The particulars relating to previous year 2025-26 furnished by the assessee are as follows:

Total Turnover: SEZ unit ₹ 210 lakhs; DTA unit ₹ 90 lakhs

Export Turnover: SEZ unit ₹ 150 lakhs received in India in convertible foreign exchange on or before 30.9.2026; DTA unit ₹ 50 lakhs

Profit as per Statement of Profit and Loss: SEZ unit ₹ 50 lakhs; DTA unit ₹ 40 lakhs.

Amount debited to Statement of Profit and Loss and credited to Special Economic Zone Re-Investment Reserve Account ₹ 20 lakhs.

Considering that the firm has no other income during the year, compute the tax liability of the firm for the A.Y. 2026-27 by integrating, analysing and applying the relevant provisions of income-tax law.

What you wrote

2(a)

Computation normal scheme (Amt in lakhs)

|||

| :--- | :--- |

| Profit SEZ | 50 |

| Add: Amount t/f to SEZ Reinvest a/c | 20 |

|| 70 |

| Less: 10AA exemption. | (20) |

|| 50 |

| DTA profit | 40 |

| total Income | 90 |

10AA exemption [11th year]

(i) $\text{Export Profit} \times \text{Export T/O} \times 50\% = 70 \times 150 \times 50\% = 35$
total T/O 210

(ii) Amt trf to Reinvestment A/C = 20

whichever is lower = 20

Tax computation

$90 \times 30\% = 27$

+ HEC 4% = 1.08

28.08

As per Alternate Minimum tax

| | |

| :--- | :--- |

| total taxable Income | 90 |

| + 10AA exemption. | 20 |

| total Income | 110 |

| | | |

| :--- | :--- | :--- |

| Amt is | $110 \times 18.5\% =$ | 20.35 |

| | + add Surcharge 12% | 2.442 |

| | + hec 4% | 0.917 |

| | | 23.7037 |

Tax payable by M/s Gaurav & Co 28.08 |

No Amt credit as tax as per normal
provision is more then tax as per
amt provision.

How to improve

- Double-check arithmetic in your formulas. For the Section 10AA deduction, $70 \times (150/210) = 50$ lakhs, and 50% of that is 25 lakhs, not 35 lakhs. While the final answer was unaffected due to the lower reserve amount limit, incorrect intermediate calculations will lose marks.
- Carefully calculate the number of years the SEZ unit has been operational. Since it commenced on 01.04.2013, PY 2025-26 is its 13th year of operations, not the 11th year.

Covered

Compute the business income of the SEZ unit by adding back the 20 lakhs debited to the SEZ Re-investment Reserve to get an adjusted SEZ profit of 70 lakhs, and determine Gross Total Income as 110 lakhs (70 lakhs + 40 lakhs from DTA). (1)

The student correctly added back the 20 lakhs to the SEZ profit to get an adjusted SEZ profit of 70 lakhs, and accurately aggregated it with the DTA profit of 40 lakhs.

Incorrect

Calculate the eligible deduction under section 10AA by applying the export turnover ratio to the SEZ profit ($70 \times 150/210 = 50$ lakhs) and restricting it to 50% (25 lakhs) since it is the 13th year of operations. (1)

The student applied the correct formula but made an arithmetic error, calculating the 50% export profit as 35 lakhs instead of 25 lakhs ($70 \times 150 / 210 \times 50\% = 25$). Additionally, the student incorrectly identified it as the 11th year instead of the 13th year.

Covered

Apply the condition that the deduction cannot exceed the amount actually credited to the SEZ Re-investment Reserve Account, making the allowable deduction 20 lakhs. (0.5)

The student correctly compared the computed 10AA amount against the amount transferred to the Reinvestment Account (20 lakhs) and restricted the deduction to 20 lakhs.

Covered

Compute Total Income ($110 - 20 = 90$ lakhs) and the tax liability under normal provisions (28.08 lakhs, comprising 30% tax + 4% HEC). (0.5)

The student correctly computed the Total Income as 90 lakhs and the normal tax liability as 28.08 lakhs.

Covered

Compute Adjusted Total Income for Alternate Minimum Tax (AMT) purposes by adding back the section 10AA deduction to the normal total income ($90 + 20 = 110$ lakhs). (0.5)

The student correctly added back the 20 lakhs 10AA exemption to the total income to arrive at an Adjusted Total Income of 110 lakhs.

Covered

Calculate the Alternate Minimum Tax (AMT) liability by applying the 18.5% rate to Adjusted Total Income, adding a 12% surcharge (which applies because Adjusted Total Income exceeds Rs. 1 crore), and adding 4% HEC to arrive at 23.704 lakhs. (1)

The student correctly computed the AMT by applying the 18.5% rate, adding the 12% surcharge (since ATI exceeds 1 crore), and applying the 4% HEC to reach 23.7037 lakhs.

Covered

Compare the two tax amounts and conclude that since the normal tax liability (28.08 lakhs) is higher than the AMT (23.704 lakhs), the final tax payable for A.Y. 2026-27 is 28.08 lakhs. (0.5)

The student correctly compared the normal tax against the AMT, concluding that 28.08 lakhs is payable and noting that no AMT credit arises.

Question 2b**2.5 / 3**

M/s. Manav, a firm, consists of four partners namely, X, Y, Z and M. They shared profits and losses equally during the year ended...

83.3%

Examiner: 2 / 3

Show full question

M/s. Manav, a firm, consists of four partners namely, X, Y, Z and M. They shared profits and losses equally during the year ended 31.3.2025. The assessed business loss of the firm for the assessment year 2025-26 which it is entitled to carry forward amounts to ₹ 3,60,000. A new deed of partnership was executed among X, Y, Z and M on 1.4.2025 in terms of which they agreed to share profits and losses in the ratio of 15:15:20:50 respectively.

Compute the amount of business loss relating to the assessment year 2025-26, which the firm is entitled to set off against its business income for the assessment year 2026-27. The business income of the firm for the assessment year 2026-27 is ₹ 3,30,000. Your answer should be supported by reasons.

What you wrote

2(b)

In case of partnership, where there is change in profit sharing ratio and no admission, death, retirement and all previous partner continue the losses can be setoff to the whole extent.

Here, M/S Manav can carry forward business loss of 360000 and setoff the same.

Business Income AY 26-27 330000

Business loss AY 25-26 330000

taxable Income -

Business loss to be c/f from AY 26-27 30000

(360000 - 330000)

Conditions for c/f of loss

[a] Partners before and after reconstitution shall have
51% of voting power
[b]

How to improve

- Remove the reference to the '51% of voting power' condition. This condition (under Section 79) applies only to closely held companies, not partnership firms. Including it demonstrates a conceptual mix-up that examiners may penalize.
- Explicitly cite Section 78(1) when explaining the rule that restrictions on carrying forward losses apply only upon the retirement or death of a partner, not upon a mere change in the profit-sharing ratio.
- When stating the unabsorbed loss to be carried forward, explicitly mention the specific Assessment Year it is being carried forward to (i.e., AY 2027-28), rather than just stating it is carried forward 'from' the current year.

Covered

Calculate and state that the firm is entitled to set off the brought forward business loss to the extent of the current year's business income (₹ 3,30,000) under Section 72(1). (1)

The student correctly computed and showed the set-off of the brought forward business loss against the current year's business income of ₹ 3,30,000.

Covered

State that the balance unabsorbed business loss of ₹ 30,000 will be carried forward to the assessment year 2027-28. (0.5)

The student correctly calculated the remaining balance of ₹ 30,000 to be carried forward.

Partial

Explain the rule that Section 78(1) applies only in cases of retirement or death of a partner, and not to a mere change in the profit-sharing ratio among existing partners. (1)

The student correctly explained that losses can be fully set off because there is only a change in the profit-sharing ratio and no death or retirement. However, the student failed to cite Section 78(1) and incorrectly introduced a condition regarding 51% voting power, which applies to companies under Section 79.

Covered

Conclude that Section 78(1) restriction is not applicable to M/s. Manav because only the profit-sharing ratio changed. (0.5)

The student correctly concluded that the restriction does not apply to M/s. Manav and that they can carry forward and set off the loss.

Question 2c

5.25 / 6

S Ltd. is a company incorporated in Canada and 65% of its shares are held by G (P) Ltd., an Indian company. S Ltd. has its presence in...

87.5%

Examiner: 6 / 6

Show full question

S Ltd. is a company incorporated in Canada and 65% of its shares are held by G (P) Ltd., an Indian company. S Ltd. has its presence in India also. The details relating to S Ltd. for the P.Y.2025-26, are as under:

Particulars | India | Canada

Fixed assets at depreciated values for tax purposes (₹ in crores) | 120 | 80

Intangible assets (₹ in crores) | 50 | 200

Other assets (value as per books of account) (₹ in crores) | 40 | 120

Income from trading operations (₹ in crores) | 25 | 50

The above figure includes:

(i) Income from transactions where purchases are from associated enterprises and sales are to unrelated parties: 2 | 4

(ii) Income from transactions where sales are to associated enterprises and purchases are from unrelated parties: 3 | 5

(iii) Income from transactions where both purchases and sales are from/to associated enterprises: 5 | 10

Interest and dividend from investments (₹ in crores) | 20 | 15

Number of employees (Residents in respective countries) | 70 | 90

Payroll expenses on employees (₹ in crores) | 8 | 12

Determine the residential status of S Ltd. for A.Y.2026-27, if during the F.Y. 2025-26, eight board meetings were held – 3 in India and 5 in Canada.

What you wrote

Question 2

2 c 2 c (Amt in crores)

Active Business outside India test. shall be fulfilled only when all the condition fulfilled

- (i) passive income < 50% of total income
- (ii) Assets in India < 50% of total assets
- (iii) no of number of employee in India < 50% total employee
- (iv) payroll expenditure in India < 50% of total payroll exp.

and also check the board meetings.

here,

(i) passive Income = 5 + 10 + 20 + 15 = 50

[passive Income includes, interest, dividend, royalty, rent and Income from transaction where both sale and purchase from associated enterprise)

total Income = 25 + 50 + 20 + 15 = 110

$\therefore$ passive Income to total Income = $50 / 110 \times 100 = 45.45\%$

less than 50% $\therefore$ fulfilled.

(ii) Asset in India = 120 + 50 + 40 = 210

total asset = 120 + 80 + 50 + 200 + 40 + 120 = 610

$\therefore$ Indian Asset to total asset = $210 / 610 \times 100 = 34.43\%$

Which is less than 50% , $\therefore$ Condition fulfilled.

(iii) no of employee = India = 70 total 70 + 90 = 160

$\therefore$ % = $70 / 160 = 43.75\%$ Condition fulfilled

(iv) payroll expenditure India = 8 total 8+12 = 20

$\therefore$ $8 / 20 \times 100 = 40\%$ Condition fulfilled

$\therefore$ Active place outside India test is fulfilled

total board meeting 8 and 3 conducted in India

and 5 conducted outside India. $\therefore$ majority

board meeting conducted outside India and major decisions also made outside India ,

$\therefore$ S Ltd is non resident for AY 26-27

How to improve

- Explicitly introduce and use the term "Place of Effective Management (POEM)". State that because the company is engaged in ABOI and the majority of board meetings are held outside India, its POEM is presumed to be outside India, which makes it a non-resident. Skipping the legal concept of POEM costs conceptual marks.
- State the condition for passive income as "not more than 50%" (i.e., $\leq 50\%$), rather than "less than 50%". Be precise with statutory thresholds.

Covered

States the four cumulative conditions for a foreign company to be engaged in "Active Business Outside India" (ABOI) (passive income $\leq 50\%$, assets in India $< 50\%$, employees in India $< 50\%$, payroll in India $< 50\%$). (0.5)

The student lists the four cumulative conditions for ABOI, although slightly imprecise with the passive income sign (" $< 50\%$ " instead of " $\leq 50\%$ "), the substance is present.

Covered

Calculates Total Income as 110 crores and correctly identifies Passive Income as 50 crores (15 cr from both-way Associated Enterprise transactions + 35 cr from interest/dividend). (1)

The student correctly calculates total income as 110 crores and passive income as 50 crores, showing the correct components.

Covered

Calculates the Passive Income percentage as 45.45% and concludes Condition 1 (not more than 50%) is satisfied. (0.5)

The student calculates the passive income percentage correctly as 45.45% and concludes the condition is fulfilled.

Covered

Computes total assets (610 crores), India assets (210 crores), and the percentage (34.43%), concluding Condition 2 (less than 50% in India) is satisfied. (1)

The student correctly calculates total assets (610), Indian assets (210), and the percentage (34.43%), concluding the condition is fulfilled.

Covered

Computes total employees (160), India employees (70), and the percentage (43.75%), concluding Condition 3 (less than 50% in India) is satisfied. (0.5)

The student correctly calculates total employees (160), Indian employees (70), and the percentage (43.75%), concluding the condition is fulfilled.

Covered

Computes total payroll (20 crores), India payroll (8 crores), and the percentage (40%), concluding Condition 4 (less than 50% in India) is satisfied. (0.5)

The student correctly calculates total payroll (20), Indian payroll (8), and the percentage (40%), concluding the condition is fulfilled.

Covered

Concludes that since all four conditions are cumulatively satisfied, S Ltd. is engaged in Active Business Outside India (ABOI). (0.5)

The student states "Active place outside India test is fulfilled" (meaning Active Business Outside India).

Partial

States the rule that for a company engaged in ABOI, the Place of Effective Management (POEM) is presumed to be outside India if the majority of board meetings are held outside India. (0.5)

The student checks the board meetings and notes the majority are outside India, but completely fails to mention the concept of "Place of Effective Management (POEM)" being presumed outside India.

Partial

Applies the facts (5 out of 8 board meetings were held in Canada) to conclude that POEM is outside India and S Ltd. is a Non-Resident for the year. (1)

The student uses the fact that 5 out of 8 board meetings were held outside India to conclude the company is a non-resident, but skips the intermediate conclusion that its POEM is outside India.

Question 3a

4.25 / 8

Examine and discuss each cases mentioned below. All Charitable Trusts registered under section 12AB as per the provisions of the...

53.1%

Examiner: 5 / 8

Show full question

Examine and discuss each cases mentioned below. All Charitable Trusts registered under section 12AB as per the provisions of the Income-tax Act, 1961 for the A.Y. 2026-27. Each case is independent to each other.

(i) Shiva Charitable Trust having its main object as "advancement of object of general public utility" provide electrical scooter to the various corporate employees of Cyber Hub Gurugram for their daily commute. With this business activity, it generates receipts of ` 45 lakh, which has been applied for the object of general public utility. The total receipts for the F.Y. 2025-26 of Shiva Charitable Trust was ` 190 Lakh.

(ii) 'Vidyut' a Charitable Trust, a vocational training institute offers certificate courses in sewing, handloom weaving, and handicrafts. It operates a clothing shop at the entrance of the training institute. The shop derived income of ` 60 lakh in the F.Y. 2025-26 and the income completely applied towards the object of trust providing training. The trust maintains separate books of accounts for the shop.

(iii) "Jal" Charitable Trust having objective of providing 'clean drinking water' started its welfare activities in 2019 by providing clean water to some villages of Uttar Pradesh. In August 2025, a similar objective trust named 'Water for everyone' was formed by a group of people in Jharkhand. They also provide clean drinking water to villagers on a small scale. "Jal" offers the 'Water for everyone' trust to merge with them so that they can scale the benefits and share resources. However, they are concerned about the exit tax levied at the time of merger of trusts

What you wrote

Question 3

3(a)

3(a)

(i) As per section 12AB, all charitable trust is a trust formed and operated, its main objective being either of relief of poor, preservation of wildlife, environment, art and culture, education, medicine etc. For the object of advancement of public utility also it can be considered a charitable trust subject to a condition that income from other business activity is not more than 20% of its total receipts.

Here, in case of Shiva charitable trust, the business income is 45 lakhs which is more than 38 lakh which is 20% of total receipt being 190 lakh. So, in this case shiva charitable trust will lose its charitable nature and shall pay tax on whole income. The registration is not cancelled and can check the same for the next year.

(ii) Vidyut charitable trust is correct in its actions.

(iii) Jal Charitable trust and Water for Everyone trust of Jharkhand can merge to scale the benefits and share resources.

Exit tax @ 34.944% is to be paid if applicable.

Cases where exit tax not applicable,

-> Both trust registered under the 12AB

-> Same object of both trust

So in this case exit tax shall not be required to pay by both parties as both the object of both trust is same and assuming that both trust are registered on date of merger. If both trust not registered then exit tax @ 34.944% will be attracted.

How to improve

- For case (ii), you provided a bare conclusion without any legal reasoning. You must explicitly state that vocational training qualifies as 'education' under Section 2(15), and explain the rule under Section 11(4A) that business income is exempt if the business is incidental to the trust's objectives and separate books of account are maintained.
- In case (iii), cite the relevant sections (Section 12AC / Chapter XII-EB) for exit tax on merger of trusts. Additionally, when listing the conditions for exemption from exit tax, ensure you include the requirement that the merger must fulfill prescribed conditions, rather than just mentioning similar objects and registration.

Covered

State the rule that a trust with the main object of 'general public utility' loses its charitable status if business receipts are 20% or more of total receipts, even if the income is applied for its main object. (1)

The student states that for advancement of public utility, income from business activity must not be more than 20% of its total receipts.

Covered

Calculate the 20% threshold for the given case: 20% of total receipts (₹ 190 lakhs) is ₹ 38 lakhs. (0.5)

The student calculates 20% of the total receipt being 190 lakh as 38 lakh.

Covered

Apply the facts: the business receipts of ₹ 45 lakhs exceed the 20% threshold of ₹ 38 lakhs. (0.5)

The student compares the business income of 45 lakhs to the 38 lakh threshold.

Covered

Conclude that Shiva Charitable Trust loses its charitable status for P.Y. 2025-26 and is not eligible for exemption under sections 11 and 12. (1)

The student concludes that the trust loses its charitable nature and shall pay tax on the whole income.

Missing

Identify that the objective of providing vocational training falls under 'education', which is a charitable purpose under section 2(15). (0.5)

The student did not identify that vocational training falls under 'education' as a charitable purpose.

Missing

State the rule that business income is eligible for exemption if the business is incidental to the attainment of the trust's objectives and separate books of account are maintained. (1)

The student failed to state the rule about incidental business and separate books of account.

Missing

Conclude that the profit from the clothing shop is eligible for exemption under section 11, assuming the business is incidental to the objects of the trust. (1)

The student only wrote that the trust is "correct in its actions" without concluding properly on the exemption of profit under Section 11.

Partial

Cite Section 12AC / Chapter XII-EB and state that exit tax does not apply on a merger if the other trust has the same or similar objects. (0.5)

The student correctly states the exception regarding same objects but fails to cite Section 12AC or Chapter XII-EB.

Partial

State the remaining conditions for the exit tax exception: the other trust is approved under section 10(23C) or registered under section 12AB, and the merger fulfills prescribed conditions. (1)

The student mentions the requirement for both trusts to be registered under 12AB but misses the condition that the merger must fulfill prescribed conditions.

Partial

Conclude that exit tax would not apply to the merger since both trusts have similar objects, assuming both are registered and fulfill the prescribed conditions. (1)

The student concludes that exit tax will not apply because they have the same objects and assumes both are registered, but omits the assumption about fulfilling prescribed conditions.

Question 3b

1.75 / 6

(I) Xylo Ltd., operating in India, is the dealer for the goods manufactured by Yoyo Ltd. of Japan. Yoyo Ltd. owns 55% shares of Xylo...

29.2%

Show full question

(I) Xylo Ltd., operating in India, is the dealer for the goods manufactured by Yoyo Ltd. of Japan. Yoyo Ltd. owns 55% shares of Xylo Ltd. and out of 7 directors of the company, 4 were appointed by them. The Assessing Officer, after verification of international transactions of ₹ 300 lakhs of Xylo Ltd. for the relevant year and by noticing that the company had failed to maintain the requisite records and had also not obtained the accountants report, adjusted its income by making an addition of ₹ 30,00,000 to the declared income and also issued a show cause notice to levy various penalties. Xylo Ltd seeks your expert opinion. Assumed that Xylo Ltd. has not entered into an APA and has also not opted to be subject to Safe Harbour Rules.

(II) PT Inc, a US company having its place of effective management also in the USA, has advanced a loan equivalent to ₹ 170 crores to Myra Ltd., an Indian company on 10-4-2025. The total book value of assets of Myra Ltd. is ₹ 300 crores. The market value of the assets, however, is ₹ 320 crores. Myra Ltd. repaid ₹ 30 crores before 31-3-2026. Examine with reasons whether these two enterprises can be deemed to be associated enterprises under the Indian transfer pricing.

What you wrote

3(b)

3(b)(i)

Here, As YoYo has more than 26% voting power in Xylo and has appointed more than half the board of directors of Xylo, YoYo and Xylo are associated enterprises. As the assessing

officer has increased income by 300 lakh and also imposed penalty Xylo can raise the concern with high court with proper evidence.

3 (b) (ii) If one enterprise has given loan of more than 51% of book value of assets of the other company they are deemed to be associate enterprise.

In this case, PT Inc has advanced loan of ₹ 170 cr which is more than 51% of book value of assets of Myra Ltd which is ₹ 153 cr [300 x 51%]
Here market value of assets is not considered as the provision explicitly states book value.
In this case, PT Inc and Myra Ltd are associate enterprises.

How to improve

- Identify and state the specific penalties applicable for transfer pricing defaults: Section 270A for misreporting (200% of tax), Section 271AA for failure to maintain records (2% of transaction value), and Section 271BA for failure to furnish the accountant's report (Rs. 1 lakh).
- In Part II, address the repayment of Rs. 30 crores. Explicitly clarify that the deeming fiction for Associated Enterprises is triggered when the loan is advanced (at 51% or more), and subsequent repayment during the same year does not negate their AE status.
- In Part I, explicitly define the transaction between the Associated Enterprises as an 'international transaction' under section 92B that requires computation at Arm's Length Price (ALP).
- When evaluating the Assessing Officer's actions, confirm whether the additions and notices were justified, but also note the AO's obligation to provide an opportunity of being heard before determining the ALP.

Partial

Conclude that Xylo Ltd. and Yoyo Ltd. are Associated Enterprises (AEs) due to the 55% shareholding and appointment of more than half of the directors, and state that the transaction is an 'international transaction' u/s 92B requiring computation at Arm's Length Price (ALP). (0.5)

The student correctly identified the companies as Associated Enterprises due to shareholding and board control, but failed to mention that it constitutes an 'international transaction' under section 92B requiring computation at Arm's Length Price (ALP).

Missing

State that failure to report the international transaction constitutes misreporting of income under Section 270A(9) read with Section 270A(8), attracting a penalty of 200% of the tax payable. (1)

The student did not mention the penalty for misreporting income under Section 270A.

Missing

Identify the penalty under Section 271AA for failure to maintain requisite records under Section 92D, which is 2% of the value of each international transaction. (1)

The student failed to identify the penalty under Section 271AA for not maintaining the requisite records.

Missing

Identify the penalty under Section 271BA for failure to furnish the accountant's report under Section 92E, which is a fixed penalty of Rs. 1 lakh. (1)

The student failed to state the penalty under Section 271BA for failure to furnish the accountant's report.

Missing

Confirm the Assessing Officer's action is correct, but state that the AO must provide an opportunity of hearing to the assessee before determining the ALP on the basis of material in their possession. (0.5)

The student incorrectly suggested appealing to the high court instead of addressing the AO's correct action and the procedural requirement of providing an opportunity of being heard before determining the ALP.

Covered

State the rule for deemed AEs: enterprises are deemed AEs if the loan advanced by one is 51% or more of the book value of the borrowing enterprise's assets. (0.5)

The student correctly stated the rule that if a loan is more than 51% of the book value of assets, the enterprises are deemed Associated Enterprises.

Covered

Apply the rule to the facts: PT Inc advanced Rs. 170 crores, which is 56.67% (more than 51%) of the book value of Myra Ltd.'s assets (Rs. 300 crores), concluding that they are deemed AEs. (1)

The student accurately applied the rule, calculating that the Rs. 170 crore loan exceeds 51% of the Rs. 300 crore book value, correctly concluding they are deemed AEs.

Missing

Clarify that the deeming provisions are still attracted even if repayment of the loan during the same previous year reduces the percentage below 51%. (0.5)

The student completely missed addressing the impact of the Rs. 30 crore repayment mentioned in the prompt, failing to clarify that the AE status remains despite the repayment.

Question 4a

0.5 / 8

You are required to discuss the provisions related to tax deducted/collected at source for the below mentioned independent scenarios and...

6.2%

Show full question

You are required to discuss the provisions related to tax deducted/collected at source for the below mentioned independent scenarios and amount of tax deductible/ collectable for the year ended 31st March 2026:

- (i) During the previous year 2025-26, Mr. Rajesh purchased scrap of ₹ 65 lakhs from Mr. Suresh for the purpose of his manufacturing unit. Mr. Rajesh also furnished a declaration to Mr. Suresh that the scrap shall be utilized for manufacturing process carried on by him and shall not be used for trading purposes. Mr. Rajesh made the payment of ₹ 49 lakhs during F.Y 2025-26 to Mr. Suresh. Assume turnover of both Mr. Rajesh and Mr. Suresh from the business carried on by them exceeds ₹ 10 crores in the financial year 2024-25.
- (ii) Gayatri Ltd., a real estate development company, entered into a Joint Development Agreement with Mr. Jaspal, a resident individual, whereby Mr. Jaspal would transfer a plot of land measuring 10 acres for a part consideration of ₹ 6.5 crores to be paid on the date of agreement, i.e., 1.6.2025. Gayatri Ltd. has planned to develop a high-rise apartment complex on such land by 31.3.2028. Upon completion of the project, Gayatri Ltd would transfer 6 flats in the apartment to Mr. Jaspal as final settlement. The FMV of the flats is estimated to be ₹ 1.35 crores each as on 31.3.2028.
- (iii) State Government of Uttar Pradesh grants a lease of coal mine to M/s Turbo Co. Ltd. on 01.09.2025 and charged ₹ 12 crores for the lease. M/s Turbo Co. Ltd. sold coal for ₹ 1 crore to M/s Quick Pvt. Ltd. during the previous year 2025-26. The turnover of M/s Turbo Co. and M/s Quick Pvt. Ltd. for the financial year 2024-25 amounted to ₹ 7 crores and ₹ 8 crores, respectively.

What you wrote

Question 4

(4) (a)

(4) (a)

(i) As per Sec 206C(1) , buyer shall Collect tcs and then pay to the seller where he purchases metal scrap @ 1% . However, tcs shall not be applicable if it is further used to manufacture something.

Here in this case, As Mr Rajesh (Buyer) has already furnished that he will use it to manufacture other goods and not for trading purpose, he is not liable to collect tax at source.

As per section 194Q, when payee is Individual / HUF, and previous year turnover business > 10cr tax is to be deducted at source by payee in case of trade of goods where the amount exceeds Rs 50 lakhs

in current year @ 0.1% .

Here as the amount is 65 lakhs, tds is applicable under 194Q

Here tds amount = $65 \times 0.1\% = 0.065$ lakh or 6500

4(a)

(ii) In case of joint development agreement, tds is deducted only on consideration paid in cash. Here, consideration is only 6 flat of value 1.35 cr each and no money. Therefore no tds is to be deducted.

(iii) 194I, tds is to be deducted @ 2% for land / building where payer is any person having if Ind / HUF t/o > 1cr and gross receipts > 50 l.

Here for the ₹ 12 crore lease tds will deducted @ 2% which is Rs 24000.

194Q not applicable as turnover of does not exceed 10 cr even if value of goods sold more than 50 lakh.

How to improve

- Ensure you accurately calculate the TDS base under section 194Q. Tax is deducted only on the amount exceeding ₹50 lakhs (i.e., ₹15 lakhs in this case), not on the total transaction value of ₹65 lakhs.
- Read the problem facts carefully to capture all consideration components. In the JDA scenario, you stated there was "no money" consideration despite the prompt explicitly mentioning a ₹6.5 crore cash payment, which is subject to TDS under section 194-IC at 10%.
- Review the specific TCS provisions under section 206C. The lease of a coal mine triggers TCS under section 206C(1C) by the State Government, not TDS under section 194-I. Similarly, the sale of coal triggers TCS under section 206C(1), which you omitted.
- Clarify the basic mechanics of TDS vs. TCS, and ensure your calculations are correct. Sellers collect TCS and buyers deduct TDS; you incorrectly stated that the buyer collects TCS and the "payee" deducts TDS. Additionally, verify large numbers carefully (2% of ₹12 crores is ₹24 lakhs, not ₹24,000).

Incorrect

State that under section 206C(1A), the seller (Mr. Suresh) is exempt from collecting TCS because the buyer provided a declaration that the scrap is for manufacturing purposes. (1)

The student swapped the roles of buyer and seller, stating that the buyer collects TCS and pays the seller, and incorrectly concluded that the buyer (Mr. Rajesh) is not liable to collect tax at source. The exemption under 206C(1A) applies to the seller (Mr. Suresh).

Missing

Note that as per CBDT Circulars, TDS under section 194Q is still attracted in the hands of the buyer in cases covered by the 206C(1A) exemption, provided 194Q conditions are met. (1)

The student completely omitted the explanation that TDS under section 194Q is still attracted in cases covered by the 206C(1A) exemption per CBDT circulars.

Partial

Conclude that Mr. Rajesh must deduct TDS u/s 194Q because his previous year turnover exceeds ₹10 crores and purchases exceed ₹50 lakhs, at a rate of 0.1% on the excess amount. (1)

The student correctly identified section 194Q, the ₹10 crore turnover threshold, the ₹50 lakh purchase threshold, and the 0.1% rate, but incorrectly stated that the tax is to be deducted by the "payee", demonstrating confusion between payer and payee.

Incorrect

Calculate the correct TDS base as ₹15,00,000 (total purchase/credit of ₹65 lakhs minus ₹50 lakhs limit) and state that tax is to be deducted at 0.1% on this amount. (1)

The student incorrectly calculated TDS on the entire ₹65 lakhs (₹6,500) rather than strictly on the ₹15 lakhs exceeding the ₹50 lakh threshold (₹1,500).

Incorrect

State that for the specified agreement under section 45(5A), the developer (Gayatri Ltd.) is required to deduct TDS under section 194-IC at 10% on the cash consideration (excluding consideration in kind). (1)

The student incorrectly stated that the consideration was "only 6 flat... and no money", entirely missing the ₹6.5 crore cash consideration specified in the prompt and failing to cite section 194-IC.

Incorrect

Calculate the correct TDS amount under section 194-IC as ₹65 lakhs (10% of ₹6.5 crores). (1)

Because the student missed the cash consideration, they incorrectly concluded that no TDS is to be deducted, missing the ₹65 lakh calculation.

Incorrect

State that the State Government must collect TCS at 2% under section 206C(1C) on the ₹12 crore coal mine lease, amounting to ₹24,00,000. (1)

The student incorrectly applied TDS under section 194-I for the coal mine lease instead of TCS under section 206C(1C), and grossly miscalculated the 2% amount as ₹24,000 instead of ₹24,00,000.

Missing

State that M/s Turbo Co. Ltd. must collect TCS at 1% under section 206C(1) on the ₹1 crore sale of coal, amounting to ₹1,00,000. (1)

The student discussed the non-applicability of section 194Q but entirely failed to address the requirement for M/s Turbo to collect TCS under section 206C(1) on the sale of coal.

Question 4b**4.75 / 6**

Mr. Karan, an individual resident in India aged 52 years, furnishes you the following particulars of income earned in India, Country "X"...

79.2%

Examiner: 6 / 6

Show full question

Mr. Karan, an individual resident in India aged 52 years, furnishes you the following particulars of income earned in India, Country "X" and Country "Y" for the previous year 2025-26. India has not entered into double taxation avoidance agreement with these two countries.

Particulars |`

Income from profession carried on in India | 7,50,000

Agricultural income in Country "X" (gross) | 50,000

Dividend from a company incorporated in Country "Y" (gross) | 1,50,000

Royalty income from a literary book from Country "X" (gross) | 6,00,000

Expenses incurred for earning royalty | 50,000

Business loss in Country "Y" (Proprietary business) | 65,000

Rent from a house situated in Country "Y" (gross) | 2,40,000

Municipal tax paid in respect of the above house in Country "Y" (not allowed as deduction in country "Y") | 10,000

Note: Business loss in Country "Y" not eligible for set off against other incomes as per law of that country. The rates of tax in Country "X" and Country "Y" are 10% and 20%, respectively.

Compute total income and net tax liability of Mr. Karan in India for Assessment Year 2026-27, assuming that he opted out of the default tax regime under section 115BAC.

What you wrote

4(b)

4(b)

Relief u/s 91 applicable as following condition satisfied

\$\rightarrow\$ Resident of India

\$\rightarrow\$ no double tax avoidance agreement

\$\rightarrow\$ foreign Income earned

\$\rightarrow\$ foreign Income tax paid in foreign

\$\rightarrow\$ Income earned / received in India.

Computation of total Income P Y 25-26 A Y 26-27

	:	:	:
Income from House property [Country Y]			
Rent	240000		
Less: Municipal tax	(10000)		
Less: 30% Standard deductn	(69000)	161000	
Income from Business and Profession			
Indian Business	750000		
Business loss (Country Y)	(65000)		
	685000		
Income from Other Sources			
Agriculture Income (Country X)	50000		
Dividend (Country Y)	150000		
Royalty Books (Country X)			
Royalty	600000		
Less: Expenses	(50000)	550000	
	750000		
Total Income	1596000		
Less: Deduction VIA			
80RRB	(300000)		
	1296000		

Computation of tax India

	Rate	Amount
	:	:
0 - 250000	0%	-
2.5 - 5L	5%	12500
5 - 10L	20%	100000
>10L - 1296000	30%	88800
		201300
+ HEC @ 4%		8052
tax payable.		209352

Avg Rate of Indian tax $209352 / 1296000 = 16.15\%$.

~[illegible]~

Cal of Relief U/s 91

Country X Rate 10% Indian Rate 16.15%
Doubly taxed Income $\rightarrow$ ~[illegible]~ + 50000 + 300000
~550000~ - 300000 = ~[illegible]~
Country X Relief $\rightarrow$ ~[illegible]~ x 10% = ~[illegible]~ 30000

Country Y Rate 20%. Indian Rate 16.15%.

Doubly tax Income $\rightarrow 150000 + 161000 - 65000$
 $= 246000$

Country Y Relief $= 246000 \times 16.15\% = 39729$.

Tax Payable

||||

| :--- | :--- | :--- |

| tax as per calculation | | 209352 |

| less : Relief 91 | | |

| X | 30000 | |

| Y | 39729 | (69729) |

| tax payable. | | 139623 |

How to improve

- Cite the correct deduction section: use Section 80QQB for royalty income from literary works, rather than Section 80RRB (which applies to patents).
- Group royalty income from a literary book under Profits and Gains of Business or Profession (PGBP) rather than Income from Other Sources, to arrive at the correct PGBP total.
- Always round off the final net tax liability to the nearest multiple of ten rupees as required by Section 288B (e.g., rounding ₹139,623 to ₹139,620).

Covered

Computation of Income from House Property (Country Y) - deducting municipal taxes and standard deduction of 30% to arrive at ₹1,61,000 (0.5)

The student correctly deducted municipal taxes and the 30% standard deduction to arrive at an Income from House Property of ₹1,61,000.

Partial

Computation of Profits and Gains of Business or Profession (PGBP) - grouping Indian profession income, net royalty, and setting off Country Y business loss to arrive at ₹12,35,000 (1)

The student correctly set off the Country Y business loss against the Indian business income. However, they incorrectly classified the Royalty income under Income from Other Sources instead of PGBP, arriving at a PGBP of ₹6,85,000 instead of ₹12,35,000.

Partial

Computation of Income from Other Sources - adding Agricultural income and Dividend to arrive at Gross Total Income of ₹15,96,000 (0.5)

The student successfully calculated the correct Gross Total Income of ₹15,96,000. However, they included the ₹5,50,000 Royalty income under Income from Other Sources rather than grouping only the Agricultural income and Dividend as expected.

Partial

Deduction under Chapter VI-A - applying section 80QBB deduction of ₹3,00,000 for royalty income to arrive at Total Income of ₹12,96,000 (0.5)

The student correctly applied a deduction of ₹3,00,000 for the royalty income to arrive at a Total Income of ₹12,96,000, but incorrectly cited Section 80RRB instead of Section 80QBB.

Covered

Computation of Tax Liability before rebate - calculating tax at normal slab rates plus 4% HEC to arrive at ₹2,09,352 (0.5)

The student correctly calculated the tax at normal slab rates and added the 4% Health and Education Cess to arrive at ₹2,09,352.

Covered

Calculation of Average Indian Tax Rate - computing effective rate as tax divided by total income (16.154%) (0.5)

The student calculated an average rate of 16.15%, which is an acceptable rounding of 16.154%.

Covered

Rebate u/s 91 for Country X - correctly identifying doubly taxed income of ₹3,00,000 (excluding 80QBB portion) and computing rebate at lower rate of 10% = ₹30,000 (1)

The student correctly identified the doubly taxed income of ₹3,00,000 for Country X and accurately computed the 10% rebate as ₹30,000.

Covered

Rebate u/s 91 for Country Y - identifying doubly taxed income of ₹2,46,000 (accounting for set-off of business loss) and computing rebate at lower Indian average rate of 16.154% = ₹39,739 (1)

The student correctly identified the doubly taxed income of ₹2,46,000 (after setting off the business loss) and computed the rebate using their 16.15% average rate to get ₹39,729.

Partial

Final Net Tax Liability - subtracting total section 91 rebate (₹69,739) from tax payable and rounding off to arrive at ₹1,39,610 (0.5)

The student successfully subtracted the total Section 91 rebates from the tax payable, but failed to round off the final tax liability to the nearest ten rupees under Section 288B.

Question 6b

0.75 / 4

In the following independent circumstances, discuss whether the provisions of GAAR would be applicable:

18.8%

Examiner: 2 / 4

Show full question

In the following independent circumstances, discuss whether the provisions of GAAR would be applicable:

(I) Alphabet Inc., a company incorporated in Country X, holds 1200 equity shares in AB Ltd., an Indian listed entity since 1.4.2016. On 1.5.2025, AB Ltd. issued 1200 bonus shares to Alphabet Inc. As per the treaty between India and Country X, the capital gain is taxable in the country where the transferor of shares is a resident. The tax laws of Country X, exempt capital gains. Alphabet Inc. sells all the shareholding in AB Ltd. on 1.1.2026 and earned a capital gain of ₹ 5 crores.

(II) Yes Ltd., an Indian company, incorporates a wholly owned subsidiary Company Nice Ltd, in Country Z which is a Low Tax Jurisdiction with equity share capital of ₹ 150 crores. Out of the equity capital, Nice Ltd. gives loan to Never Ltd., an Indian company at the rate of 5%. There is no other activity in Company Nice Ltd. in Country Z

What you wrote

Question 6

6 a

b (i) Provisions of GAAR will ~~not~~ be invoked, although the amount is more than 3Cr ~~because this is not~~ a planned transaction. As use of tax haven place is made to evade pay capital gain of 3Cr by incorporating a company in country X where such gain is exempt.

(ii) Provisions of GAAR will be invoked as this is an impermissible avoidance ~~of tax~~ arrangement. The company is incorporated to evade tax being a case of round tripping.

How to improve

- For Part I, state the grandfathering rule: GAAR provisions do not apply to investments made prior to 01.04.2017, nor do they apply to bonus shares issued subsequently in respect of such original shares.
- For Part II, explicitly define an 'Impermissible Avoidance Arrangement' (IAA) using statutory terms: state that it requires the main purpose to be obtaining a tax benefit AND that it lacks (or is deemed to lack) 'commercial substance'.
- For Part II, remember to state the monetary threshold exception: GAAR provisions are not invoked if the aggregate tax benefit in the relevant assessment year does not exceed ₹3 crores.
- Elaborate on the application of facts in Part II by specifically explaining how the arrangement of routing money through a wholly-owned subsidiary in a low-tax jurisdiction back to an Indian company constitutes round-tripping and thus lacks commercial substance.

Missing

Part I: State the rule that income arising from the transfer of investments made prior to 1.4.2017 is not subject to GAAR. (0.5)

The student does not state the rule regarding investments made prior to 1.4.2017 being exempt from GAAR.

Incorrect

Part I: Apply the rule to conclude that the transfer of the original shares acquired on 1.4.2016 by Alphabet Inc. would not attract GAAR. (0.5)

The student incorrectly concludes that GAAR provisions will be invoked for the shares acquired on 1.4.2016, rather than stating they are exempt.

Missing

Part I: State the rule and conclude that bonus shares issued after 1.4.2017 (on original shares acquired before that date) also do not attract GAAR provisions on transfer. (1)

The student does not address the treatment of the bonus shares issued after 1.4.2017.

Partial

Part II: Define an Impermissible Avoidance Arrangement as one whose main purpose is obtaining a tax benefit and which lacks (or is deemed to lack) commercial substance, such as involving round tripping of funds. (0.5)

The student mentions it is an 'impermissible avoidance arrangement' to 'evade tax being a case of round tripping', but fails to explicitly mention the key statutory requirement of 'lacking commercial substance'.

Partial

Part II: Apply the facts to state that routing money through a wholly-owned subsidiary in a low-tax jurisdiction to an Indian company involves round tripping of funds. (0.5)

The student briefly identifies the case as 'round tripping' but does not adequately link the specific facts (routing money through a subsidiary in Country Z) to the concept of round tripping.

Partial

Part II: Conclude that the agreement is deemed to lack commercial substance and its main purpose is to obtain a tax benefit (hence GAAR applies). (0.5)

The student correctly concludes that GAAR will be invoked because it is an impermissible avoidance arrangement for round tripping, but fails to conclude explicitly that it 'lacks commercial substance'.

Missing

Part II: State the threshold exception that GAAR provisions would not be invoked if the aggregate tax benefit to all parties in the relevant assessment year does not exceed ₹ 3 crores. (0.5)

The student mentions the ₹3 crore amount in Part I, but does not state the threshold exception rule for GAAR in Part II.

Question 6c

3.75 / 4

Explain the correctness or otherwise of the following statements giving proper reasons thereof:

93.8%

Examiner: 4 / 4

Show full question

Explain the correctness or otherwise of the following statements giving proper reasons thereof:

- (i) Mr. Jatin, a resident individual, is aggrieved by an order passed by the Board for Advance Ruling on 1.11.2026. Since the decision of the Board is binding on the applicant, he has no other option but to accept the ruling of the Board.
- (ii) M/s Zinc Ltd., an Indian public sector company, wants to seek advance ruling from the Board for Advance Rulings (BAR) in respect of a matter relating to computation of its total income involving a question of law relating to such computation. However, the matter is already pending before the Income-tax Appellate Tribunal (ITAT) as on the date of application for advance ruling i.e., 02.02.2026. It cannot seek the BAR ruling till the matter is pending before the ITAT.

What you wrote

c (i) Incorrect
He can appeal against the order ~~~passed~~~ by

board for advance ruling to the high Court within 60 days of receiving such order.
In case of genuine inconvenience additional 30 days may be offered.

(ii) Incorrect

In case of Resident Public sector undertaking, it can ~~appeal~~ seek advance ruling from board of advance ruling in respect of a matter relating to computation of total income involving question of law, relating to such computation even if the matter is already pending before the Income tax Appellate authority as it is the only exception to the rule of no advance ruling if matter already pending before the Income tax Appellate tribunal or authority.

How to improve

- For the second statement, explicitly mention that a Public Sector Undertaking is eligible to seek an advance ruling because it falls under a "class or category of residents as notified by the Central Government."
- Your answer is otherwise excellent. You correctly stated the exact timelines and exceptions, and even correctly mentioned the 30-day condonation of delay for the High Court appeal.

Covered

States that the statement in (i) is not correct. (0.5)

The student correctly states that the statement is incorrect.

Covered

States that an applicant aggrieved by a ruling from the Board for Advance Rulings may appeal to the High Court. (0.5)

The student mentions the applicant can appeal to the High Court against the order passed by the Board for Advance Rulings.

Covered

Mentions that the appeal must be made within sixty days from the date of communication of the ruling/order. (0.5)

The student correctly states the time limit as 60 days from receiving the order.

Covered

Applies the provision to the case to conclude that Mr. Jatin may appeal to the High Court within the 60-day period. (0.5)

The student applies this to the applicant ("He can appeal...").

Covered

States that the statement in (ii) is not correct. (0.5)

The student correctly states that the statement in (ii) is incorrect.

Partial

Identifies that a public sector undertaking (PSU) falls under a notified class or category of residents eligible to seek an advance ruling. (0.5)

The student identifies that a resident public sector undertaking can seek an advance ruling, but misses mentioning that this is because it falls under a class/category notified by the Central Government.

Covered

Concludes that a PSU can seek an advance ruling even if the question raised is currently pending before the Appellate Tribunal (ITAT). (1)

The student concludes that it can seek an advance ruling even if the matter is pending before the Income Tax Appellate Tribunal.

Topics to revise

Ranked by estimated marks lost across this script — start at the top.

Question 4a

-7.0

- State that under section 206C(1A), the seller (Mr Suresh) is exempt from collecting TCS because the buyer provided a declaration that the scrap is for manufacturing purposes.
State that under section 206C(1A), the seller (Mr. Suresh) is exempt from collecting TCS because the buyer provided a declaration that the scrap is for manufacturing purposes.
- Note that as per CBDT Circulars, TDS under section 194Q is still attracted in the hands...
Note that as per CBDT Circulars, TDS under section 194Q is still attracted in the hands of the buyer in cases covered by the 206C(1A) exemption, provided 194Q conditions are met.
- Calculate the correct TDS base as ₹15,00,000 (total purchase/credit of ₹65 lakhs minus ₹50 lakhs limit) and state that tax is to be deducted at 0.1% on this amount.
Calculate the correct TDS base as ₹15,00,000 (total purchase/credit of ₹65 lakhs minus ₹50 lakhs limit) and state that tax is to be deducted at 0.1% on this amount.
- State that for the specified agreement under section 45(5A), the developer (Gayatri Ltd) is required to deduct TDS under section 194-IC at 10% on the cash consideration (excluding consideration in kind).
State that for the specified agreement under section 45(5A), the developer (Gayatri Ltd.) is required to deduct TDS under section 194-IC at 10% on the cash consideration (excluding consideration in kind).
- Calculate the correct TDS amount under section 194-IC as ₹6.5 crores.
Calculate the correct TDS amount under section 194-IC as ₹65 lakhs (10% of ₹6.5 crores).
- State that the State Government must collect TCS at 2% under section 206C(1C) on the ₹12 crore coal mine lease, amounting to ₹24,00,000.
State that the State Government must collect TCS at 2% under section 206C(1C) on the ₹12 crore coal mine lease, amounting to ₹24,00,000.
- State that M/s Turbo Co. Ltd. must collect TCS at 1% under section 206C(1) on the ₹1 crore sale of coal, amounting to ₹1,00,000.
State that M/s Turbo Co. Ltd. must collect TCS at 1% under section 206C(1) on the ₹1 crore sale of coal, amounting to ₹1,00,000.

Question 3a

- Identify that the objective of providing vocational training falls under 'education',...
Identify that the objective of providing vocational training falls under 'education', which is a charitable purpose under section 2(15).
- State the rule that business income is eligible for exemption if the business is incidental to the attainment of the trust's objectives and separate books of account are maintained.
State the rule that business income is eligible for exemption if the business is incidental to the attainment of the trust's objectives and separate books of account are maintained.
- Conclude that the profit from the clothing shop is eligible for exemption under section...

Conclude that the profit from the clothing shop is eligible for exemption under section 11, assuming the business is incidental to the objects of the trust.

–2.5

Question 6b

–2.5

- Part I: State the rule that income arising from the transfer of investments made prior to...

Part I: State the rule that income arising from the transfer of investments made prior to 1.4.2017 is not subject to GAAR.

- Part I: Apply the rule to conclude that the transfer of the original shares acquired on...

Part I: Apply the rule to conclude that the transfer of the original shares acquired on 1.4.2016 by Alphabet Inc. would not attract GAAR.

- Part I: State the rule and conclude that bonus shares issued after 1.4.2017 (on original...

Part I: State the rule and conclude that bonus shares issued after 1.4.2017 (on original shares acquired before that date) also do not attract GAAR provisions on transfer.

- Part II: State the threshold exception that GAAR provisions would not be invoked if the...

Part II: State the threshold exception that GAAR provisions would not be invoked if the aggregate tax benefit to all parties in the relevant assessment year does not exceed ₹ 3 crores.

Question 1a

–2.0

- State that no adjustment is required for the commission paid in February, as TDS was...

State that no adjustment is required for the commission paid in February, as TDS was deposited before the return filing due date.

- Add back excess depreciation of ₹ 60,000

Add back excess depreciation of ₹ 60,000. State that since the vehicle was acquired in March (used for less than 180 days), only 50% of the normal depreciation is allowable.

- Deduct the Dividend of ₹ 1,00,000 from the net profit so it can be taxed under Income...

Deduct the Dividend of ₹ 1,00,000 from the net profit so it can be taxed under Income from Other Sources.

Question 2a

–1.0

- Calculate the eligible deduction under section 10AA by applying the export turnover ratio...

Calculate the eligible deduction under section 10AA by applying the export turnover ratio to the SEZ profit ($70 \times 150/210 = 50$ lakhs) and restricting it to 50% (25 lakhs) since it is the 13th year of operations.

Section 270A(**–1.0**

- State that failure to report the international transaction constitutes misreporting of...

State that failure to report the international transaction constitutes misreporting of income under Section 270A(9) read with Section 270A(8), attracting a penalty of 200% of the tax payable.

Section 271AA**–1.0**

- Identify the penalty under Section 271AA for failure to maintain requisite records under...

Identify the penalty under Section 271AA for failure to maintain requisite records under Section 92D, which is 2% of the value of each international transaction.

Section 271BA**–1.0**

- Identify the penalty under Section 271BA for failure to furnish the accountant's report...

Identify the penalty under Section 271BA for failure to furnish the accountant's report under Section 92E, which is a fixed penalty of Rs. 1 lakh.

Question 3b**–1.0**

- Confirm the Assessing Officer's action is correct, but state that the AO must provide an...

Confirm the Assessing Officer's action is correct, but state that the AO must provide an opportunity of hearing to the assessee before determining the ALP on the basis of material in their possession.

- Clarify that the deeming provisions are still attracted even if repayment of the loan...

Clarify that the deeming provisions are still attracted even if repayment of the loan during the same previous year reduces the percentage below 51%.

Section 37(**–0.5**

- State that the ₹ 5,00,000 contribution for the employee school is allowable under Section...

State that the ₹ 5,00,000 contribution for the employee school is allowable under Section 37(1), requiring no adjustment.

Not attempted

Questions 5a, 5b, 6a were not attempted and are excluded from the score above.

"What you wrote" is read from your handwritten script by AI and may contain misreadings. Marks shown per point are an AI estimate split across the question's official total — where your examiner's actual mark is also shown, that one is correct.