

Roll No.

Total No. of Questions – 6

Total No. of Printed Pages – 16



Maximum Marks – 70

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.**
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit the descriptive answer books with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the descriptive answer book.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having / using mobile phone or smart watch will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 Marks

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.
4. All questions relate to Assessment Year 2025-26 unless stated otherwise in the questions. Significant notification and circulars issued upto 31st October, 2024 would be relevant.

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PART – II

1. Krisha, Kinara and Komal were three partners in a partnership firm, KKK Enterprises. The firm carried on the business of running banquet halls for marriages and other parties or events purposes from the date of its formation i.e. 20.12.2015 till 31.03.2020. The partners converted the firm into a company from 01.04.2020 by the name KKK Private Ltd. and transferred the entire business to the company. All the partners' of the firm became the shareholders of the company in the same proportion as per their capital balance stood in the books of the firm. No other consideration was paid to the partners. 14

The company earned a net profit of ₹ 1,19,25,000 after debiting/ crediting the following items in its Statement of Profit and Loss for the year ended 31.03.2025 :

- (i) During the Financial year 2024-25, a sum of ₹ 1,17,000 was paid to a resident transport operator, Mr. Milan, for transporting necessary goods to the banquet halls. The payments were made in cash as follows :

Date	Amount in ₹
4 th May, 2024	26,000
23 rd July, 2024	37,000
14 th September, 2024	22,000
16 th February, 2025	32,000

The company did not deduct tax at source from such payment as Mr. Milan submitted a certificate under section 197(1) issued to him by the Assessing Officer for no deduction of tax at source.

- (ii) Depreciation as per books – ₹ 13,56,000
- (iii) Out of the debtors that were transferred to the company, one debtor, M/s. M Travels LLP, from whom ₹ 6 lakhs were due since FY 2019-20, went bankrupt on 01.12.2024 and nothing could be recovered from them. The company debited the amount of ₹ 6 lakhs in the Statement of Profit and Loss.
- (iv) Dividend received from listed companies – ₹ 5,40,000.

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Additional Information :

- (i) The company invested in shares of listed companies through a stock broker. During the FY 2024-25, the company paid ₹ 1,25,000 to its resident stock broker as commission for the purchase of shares. No shares were sold during the year. No TDS was deducted on such payment.
- (ii) Depreciation as per Income-tax Rules – ₹ 15,78,000. A machinery (HYC) that the firm had used earlier was transferred to the company at the time of succession. The machinery formed part of 15% depreciation block. The WDV of the machinery was ₹ 12 lakhs as on 01.04.2024. On 01.09.2024, the machinery was discarded. The amount of depreciation as per Income-tax Rules given above (₹ 15,78,000) includes depreciation on this machine as well.
- (iii) The share-holding structure of the company at the start of the F.Y., i.e. 01.04.2024 was as follows :
- | | |
|---------|-----|
| Krishna | 30% |
| Kinara | 25% |
| Komal | 20% |
| Others | 25% |
- During FY 2024-25, Krishna sold 95% of her holdings to her daughter-in-law, Keerat.
- (iv) Brought forward business loss – ₹ 14 lakhs (relating to A.Y. 2020-21)
- (v) The company holds 65% stake in Adar Hospitality Services Pvt. Ltd., a closely held Indian company. On 12th April 2024, the company took a loan of ₹ 15 lakhs from Adar Hospitality Services Pvt. Ltd. Accumulated profits of Adar Hospitality Services Pvt. Ltd. was ₹ 31 lakhs on 01.04.2024. The company repaid the loan in full on 25th March, 2025.

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- (vi) The long-term capital gains on transfer of capital assets amounting to ₹ 55 lakhs which arose at the time of succession of firm to company was exempt at the time of conversion of firm into company in the hands of the firm as per conditions laid under section 47(xiii).

The turnover of the company for the previous year 2023-24 was ₹ 390 crores and for the previous year 2022-23 was ₹ 408 crores. You are required to compute the total income and tax payable of the company for A.Y. 2025-26 by giving brief reasons for the treatment of each item.

Would it be beneficial for the company to opt for the concessional tax regime under section 115BAA of the Act for the AY 2025-26? Examine. Ignore the provisions relating to MAT.

2. (a) M/s Mittal Metals is a Limited Liability Partnership firm (LLP) consisting of three partners J, K and L. Mr. J and Mr. K are working partners as per deed. Partnership deed authorizes interest to partners @ 14% p.a.. The deed also authorizes remuneration to the working partners @ ₹ 75,000 per month.

It has a unit in SEZ which started its operations w.e.f. 01.06.2019. Its total turnover, export turnover and net profits for the F.Y. 2024-25 are ₹ 120 Lakh, ₹ 90 Lakh and ₹ 24 Lakh respectively. The unit fulfills all the conditions of section 10AA of Income Tax Act 1961.

The firm has commenced the operations of a warehousing facility for storage of sugar on 01.05.2024. It incurred capital expenditure of ₹ 60 lakh on purchase of land and construction of building during the period January 2024 to April 2024 (It includes ₹ 35 lakh for cost of land) for such warehouse. This expenditure has been capitalized in the books of accounts but no depreciation has been charged on the same. The warehousing facility fulfills all the conditions of section 35AD.

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Profits from operation of warehousing facility are ₹ 30 lakh, before considering deduction u/s 35AD, for the F.Y. 2024-25 and after debiting the following items :

1. Interest on capital @ 14% ₹ 11,48,000/-

2. Salary credited to all 3 partners ₹ 9,00,000 each.

(i) Compute the total income and income tax payable by the firm Mittal Metals for the A.Y. 2025-26 giving explanations for each item. (Ignore AMT provisions and Tax payable as per AMT u/s. 115JC)

(ii) Assuming that The LLP filed its return of Income for A.Y. 2025-26 in December 2025 i.e. after the due date of filing return of income as prescribed under the Act, Will it make any impact on deduction under section 10AA or deduction u/s. 35AD for A.Y. 2025-26 ? (No need to recompute total income and tax payable)

(b) Mr. Joseph, a non-resident and a person of Indian origin (aged 49 years), furnished following information for the previous year ended 31st March, 2025 :-

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Particulars	Amount in ₹
Sale proceeds of listed equity shares in A Limited, an Indian company on 31.05.2024	6,00,000
Cost of acquisition (in convertible foreign exchange) of equity shares of A Limited acquired on 01.06.2020	1,10,000
Expenditure wholly and exclusively incurred in connection with transfer of listed equity shares of A Limited	50,000

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Interest on Government Securities (net of TDS) (Acquired in convertible foreign exchange)	81,000
Interest on deposits with public limited companies (Gross) (acquired in convertible foreign exchange) Expenditure incurred in earning such income ₹ 7,500	3,25,000
Interest on deposits held with Private limited companies (Gross) (These deposits were made when Mr. Joseph was resident in India out of his taxable income in India during F.Y. 2014-15)	5,55,000
Fresh Investment in shares of Indian public limited companies on 11.11.2024	2,20,000

You are required to compute the total income of Mr. Joseph and Gross amount of tax payable for assessment year 2025-26 in accordance with special provisions prescribed under chapter XII-A applicable to non-residents and other provisions of the Act. Mr. Joseph has opted to shift out of default tax regime provided under section 115BAC(1A). He has no other income. The applicable tax was deducted at source from interest income. Ignore interest calculations u/s 234A, 234B and 234C and the effect of first proviso to section 48.

(Cost Inflation Index F.Y. 2020-21 : 301, F.Y. 2024-25 : 363)

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3. (a) Examine and Discuss each of the following independent cases of charitable trust/institutions based on the relevant provisions of Income Tax Act, 1961 and judicial pronouncements for the assessment year 2025-26 :

(i) KRA Foundation is a charitable trust registered under section 12AB engaged in the activity of providing old-age homes to senior citizens. The total receipts of the trust for the financial year 2024-25 was ₹ 145 Lakhs. This receipt of ₹ 145 lakhs includes a voluntary contribution received from Mr. Keshav, a resident individual, amounting to ₹ 70,000. During F.Y. 2024-25, out of the total receipts, the trust gave an unsecured loan of ₹ 5 lakhs to Mr. Keshav at an interest rate of 12% p.a. The scheduled banks charge interest at the rate of 11.50% for a similar kind of loan. The trust has always applied 85% of the total receipts for its objects. Discuss the implications in the hands of the trust as per the provision of the Income-tax Act. 4

(ii) M/s Medi Care Foundation, a trust registered u/s 12AB of the Income-tax Act, 1961, runs a hospital. During the financial year 2023-24, it received a voluntary contribution of ₹ 95 lakhs with a specific direction that it should form part of the corpus of the trust. The trust invested such amount in the shares of M/s Healthy Care Ltd., a public sector company. 2

On March 31, 2025, due to disinvestment by the Government, M/s Healthy Care Ltd. ceases to be a public sector company.

(iii) M/s Medi Care Foundation, a trust registered u/s 12AB of the Income-tax Act, 1961, which runs a hospital also paid consultancy fees ₹ 1,00,000 to Mr. Suresh, a doctor on 31.08.2024. The trust did not deduct the TDS on consultancy fees paid to doctors. The accountant of the trust claims that the trust is not liable to tax audit under section 44AB (being a trust), therefore it is out of the purview of section 194J. 2

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(b) Miss. Meera, aged 28 years, a resident individual, provides management consultancy to small and medium-sized corporations in India and abroad. She regularly travels to country K for providing consultancy services to her clients. It provides the following information to you in respect of its income during the FY 2024-25:

(i) Amount received from providing consultancy:

In India – ₹ 35,70,000

In Country K – ₹ 12,00,000

(ii) Amount spent in earning these incomes:

In India – ₹ 9,60,000

In Country K – ₹ 2,50,000

(iii) Rent received from a shop in Country K – ₹ 55,000 p.m.

(iv) Expenses incurred in earning this rental income in Country K – ₹ 1,20,000

Additional information

(i) Country K provides 2 option to the assessee as far as taxation of income from management consultancy is concerned –

Option 1 - at a flat rate of 20% without deduction of any expenses;
or

Option 2 – at the rate of 37% after deduction of expenses in earning the income.

(ii) Country K taxes rental incomes at a flat rate of 27% after giving a standard deduction of 20% for regular expenses. No other expense is allowed to be deducted.

(iii) Country K does not have any tax deduction regulations at the source. Miss Meera will opt for lowest possible tax in country K.

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You are required to compute the total income and tax payable by Miss Meera in India for A.Y. 2025-26 assuming she chooses to pay tax as per default tax regime as per Section 115BAC(1A). Ignore the provisions of section 44ADA. India does not have any Double Taxation Avoidance Agreement with country K. Your calculations should be made upto 2 decimal points.

4. (a) Examine the applicability of tax deducted at source/tax collected at source and calculate the amount of TDS/TCS in the following independent cases as per the provisions applicable for A.Y. 2025-26 :

(i) Ubclick Inc., a non-resident company (incorporated in Country Y) is engaged in the manufacturing of paints and has factories across the world including India. The factory in India produces paints and sells in the Indian market as well as worldwide since past 10 years. Its turnover for the last 3 years in India was F.Y. 2021-22 ₹ 200 crores, F.Y. 2022-23 ₹ 490 crores and F.Y. 2023-24 ₹ 540 crores. On 1.5.2024, it bought raw materials from Colours Private Ltd., a domestic company for ₹ 1 crore. Colours Private Ltd.'s turnover for the F.Y. 2021-22 was ₹ 5 crores, F.Y. 2022-23 was ₹ 8 crores and F.Y. 2023-24 was ₹ 9 crores. India does not have a DTAA with Country Y. Discuss the TDS/ TCS implications of this transaction.

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(ii) M/s Seal India Pvt. Ltd., a domestic company, engaged in business of manufacturing and selling of washing powder and bars. For the purpose of promoting and to boost sales of its products it hires agents, to whom incentives and commission is paid on the basis of percentage of sales made through them. During the P.Y. 2024-25, Mr. Prakash a resident individual, is working as an agent for the company. The company paid him following commissions and incentives on the basis of target achieved by him :

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Date of payment/credit	Particulars	Amount (₹)
13-07-2024	Commission for achieving sales target of Quarter 1	1,75,000
10-01-2025	Commission for achieving sales target of Quarter 3	1,60,000
15-01-2025	Other Incentives	1,60,000

The figure of other incentives includes reimbursement of expenses of ₹ 1,00,000/- incurred on booking of air tickets for an event in Singapore for Mr. Prakash and his family members who accompany him. The company has also given Mr. Prakash laptop worth ₹ 60,000 for achieving sales target for the month of September, 2024 in October 2024.

- (iii) AntiqueMasters.com is an online portal that provides e-auction for antique items like coins, artifacts etc. and operates only in India. The owners list their items on the portal and interested buyers place bids for them on the portal itself. The portal provides the details of the buyers who make the top 3 bids. The seller chooses the buyer and intimates the portal. The portal takes money from the buyer and transfers the amount to the seller's bank account after deducting the agreed commission. The seller then delivers the item directly to the buyer's address. What will be the TDS obligations on the portal with respect to a sale amounting to ₹ 11 lakhs made by Mr. Sonu, an Indian resident, on the portal on 28th February 2025 ?

- (b) Indiana Ltd., an Indian company engaged in the manufacturing and trading of electronic projectors. Indiana Ltd. has the following stakes in different foreign entities :

It holds 30% voting rights in Star GmbH, a German company.

It appoints 6 directors in Moon Inc., an American company. Moon Inc. has 15 directors on its board.

It has given guarantee for a loan amounting to Euro 12 million taken by Astroid Ltd. of the UK. The value of total borrowing of Astroid Ltd. is Euro 150 million and the book value of total assets of Astroid Ltd. is Euro 160 million.

Indiana Ltd. entered into the following transactions with these entities during the F.Y. 2024-25 :

Transaction with Star GmbH

Indiana Ltd. bought 1,000 units of electronic projectors from Star GmbH for ₹ 15,000 per unit for the purpose of resale in India. It sold these projectors in India without doing any modification thereon. The gross profit margin earned from such resale was 20% of Sale price. Star GmbH provided after-sales warrantee of 1 year. The cost of warrantee is 3% of sale price.

Transaction with Moon Inc.

Indiana Ltd. bought 1,000 units of similar electronic projectors (as purchased from Star GmbH) from Moon Inc. for ₹ 14,000 per unit for the purpose of resale in India. It sold these projectors in India without doing any modification and earned gross profit margin of 30% of sale price. Moon Inc. provided after-sales warrantee of 9 months. The cost of warrantee is 3% of sale price.

Transaction with Astroid Ltd.

Indiana Ltd. provided consultancy services to Astroid Ltd. for ₹ 8,000 per hour for 5,000 hours. It provided similar services to Ms Comet Ltd., an unrelated Indian company for ₹ 9000 per hour.

You are required to discuss :

- (i) Whether Star GmbH, Moon Inc and Astroid Ltd. are associated enterprises/deemed associated enterprises of Indiana Ltd. as per section 92A of the Act.
 - (ii) Compute the Arm Length Price (ALP) of the international transactions made between them, wherever applicable.
5. (a) Answer any **two** out of the following three sub-parts viz (i), (ii) and (iii) :
- (i) Mr. Rajneesh, a resident individual, during the course of assessment proceedings, was found guilty of making false entries in his books of accounts to evade payment of taxes. The assessing officer initiated penalty proceedings against him under section 271AAD. The penalty that is likely to be levied is ₹ 3 crores. The assessing officer passed an order to provisionally attach the properties of the assessee on 31st May 2024, since the AO is of the opinion that it is necessary to do so to protect the interest of the revenue. AO also took prior approval from the Principal Commissioner of Income-tax for passing such order. You are required to answer the following questions in this regard :
 - (A) Is the action of the Assessing Officer valid ? Is there any monetary limit with respect to the provisional attachment of properties in the present case ?
 - (B) Assume all the procedural aspects of the provisional attachment have been met, discuss the validity period of such provisional attachment. Can it be extended ?
 - (C) Is there any option available to Mr. Rajneesh where such provisional attachment of property can be avoided? If, yes, explain the relevant provisions in this regard.
 - (ii) Please answer the following question covering aspects relating to Issue Involved, Provision applicable, Analysis and Conclusion as per latest Court rulings.

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The assessee, M/s TQR LLP, a registered LLP, is engaged in the wholesale and retail trade of beverages. The assessee debited ₹ 5 crores to the Profit & Loss account in respect of surcharge on sales tax and turnover tax paid to the State Government. In the assessment order under section 143(3) of the Income-tax Act, 1961 the Assessing Officer made an addition of ₹ 5 crores on account of disallowance of surcharge on sales tax and turnover tax to the returned income.

The assessee contends that the order of the assessment is bad in law as no notice was issued under section 143(2) even though the assessee had participated in the assessment proceedings. The assessing officer, relying on Section 292BB, contends that when assessee has participated in assessment proceedings, now he cannot raise any objection on the assessment order. On the basis of relevant case laws and provisions of the Act, Examine the validity of the contentions of both.

- (iii) Mr. Baljit, a resident individual, e-filed his return of income for assessment year 2024-25 on 30.07.2024, offered entire interest income of ₹ 25 Lacs received from M/s Sanjay Finance Ltd., Delhi (deductor) and claimed the credit for Tax Deducted at source (TDS) by the said deductor.

TDS credit was not allowed by the department, pursuant to intimation issued u/s 143(1). The application filed under section 154 was also rejected for the reason that TDS credit is not reflected in Form 26AS and consequently, the said tax was recovered from the assessee itself. Advise, Mr. Baljit, on the basis of latest Court rulings, whether the department can recover tax due from him. Discuss the relevant Provisions and give conclusion.

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- (b) (i) Under BEPS Action Plan 13, BEPS report recommends that countries adopt a standardised approach to transfer pricing documentation, wherein it mandates the three tier structure of (i) Master File (ii) Local File and (iii) Country-by-Country report. What are the advantages of the three-tier structure mandated by BEPS Action Plan 13 ? 3
- (ii) Explain "Static approach" and "Ambulatory approach" with regard to meaning of a term as per the domestic law, not defined in the International Tax treaty. 3
6. (a) (i) Mr. Ram is engaged in trading of mobiles and is the proprietor of M/s. Narang Mobiles. His turnover and aggregate receipts for the Financial year 2024-25 are ₹ 5,12,00,000. He received ₹ 22,00,000 from Sundry debtors in cash and remaining ₹ 4.90 crores were received through online banking channel before 31.03.2025. He also made a total business payment of 5,50,00,000 against purchase of goods, Rent, Salary and other business expenses during Previous year 2024-25, out of which total cash payments amounted to ₹ 28,00,000 and remaining all kind of payments made through online banking channel. No other amount received or paid during the year on business account. He has no other business in his name. 6
- Whether Mr. Ram is required to get books of accounts of Narang Mobiles compulsory audited for the A.Y. 2025-26 as per Section 44AB of the Income Tax Act, 1961 ? Discuss.
- Assuming Mr. Ram is required to get his accounts audited and in the light of the Tax Audit applicability u/s. 44AB of the Act, Also discuss whether the following issue need to be reported by the Chartered Accountant of Mr. Ram in the tax audit report as applicable for A.Y. 2025-26 u/s. 44AB in relation to Tax audit of M/s. Narang Mobiles in view of section 269ST. You need to give the relevant provisions of law in support of your answer.

- Narang Mobiles issued an invoice of ₹ 3,50,000 to M/s. XYZ and co for sale of mobiles on 10.02.2025. M/s. XYZ and co made payment of ₹ 2,50,000 through account payee cheque. The balance of ₹ 1,00,000 has been paid on 10 different dates in cash, through payment of ₹ 10,000 on each day before 31.03.2025.

Ignore the Clause numbers given in Form 3CD prescribed for Tax Audit Report u/s. 44AB for such reporting.

- (ii) M/s RH Steels Ltd. is a company incorporated in India. It sets up two units one in a Special Economic Zone (SEZ) and another in non-SEZ area for manufacturing of steel bottles. The company transfers the product of non-SEZ unit to SEZ unit at a price lower than the fair market value. In respect of such products transferred from non-SEZ unit, only insignificant manufacturing activity takes place in the SEZ unit. In this way, the company is able to show higher profits in SEZ unit than in non-SEZ unit, and consequently claims higher deduction in computation of income. The sales from bottles transferred from non-SEZ unit constitutes 15% of the total turnover of SEZ unit. Can provisions of GAAR be invoked ? 4

- (b) ABC Ltd., an Indian company has entered into an agreement for providing technical knowhow with PQR Inc., a company registered in Country A. PQR Inc. has a sister concern, XYZ LLC., in Country A, which has obtained Advance Ruling on an identical technical know-how agreement with another Indian company, MNC Ltd. 4

The agreement is expected to be of ₹ 500 crores and expected tax liability would be ₹ 150 crores. ABC Ltd. wants to make use of this advance ruling for its assessment proceedings. So it applied to Board for Advance Rulings to issue same ruling for ABC Limited, being identical ruling. To verify the transaction between ABC Ltd and PQR Inc., the Board for Advance Rulings compel the production of books of accounts.

Can ABC Ltd make an application for advance ruling with Board for Advance Rulings as per the Act. Also Examine whether the Board can ask for production of books of accounts when ruling on similar issue has already been given. Examine in the context of the provisions of the Income-tax Act, 1961 ?