



PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

The provisions of direct tax laws, as amended by the Finance Act, 2025 and the significant notifications and circulars issued upto 31.10.2025, are relevant for May 2026 examination. The relevant assessment year is A.Y.2026-27. The September, 2025 edition of the Study Material contains the provisions of direct tax laws as amended by the Finance Act, 2025 and notifications and circulars issued upto 31.7.2025. The said study material has to be read along with the Judicial Update for May, 2026 Examination webhosted at <https://resource.cdn.icai.org/90669bos-aps4077-ju-may2026.pdf>. Since there are no significant notifications/circulars issued between 1.08.2025 and 31.10.2025, Statutory Update is not issued for May 2026 Examination.



QUESTIONS

Case Scenario I

Mr. Nylon, a citizen of Country X, came to India on 14.07.2025. On 13.10.2025, he left India for China on a business trip. He came back on 28.02.2026 and stayed in India till 14.4.2026. He visits India every year for 85 days for providing technical services to Indian customers.

During his visits to India, Mr. Nylon carried on his professional activities from the same premises where he stayed as a paying guest. The premises were used as his base for rendering technical services, meeting client, and performing professional work relating to M/s PQR LLP only. He paid rent of ₹ 85,000 per month or part thereof to Mr. Amit (a salaried employee) for use of premises, and accordingly, the said premises constituted his fixed place of profession in India.

He earned the following income in India during the Previous Year 2025–26:

S. No.	Particulars of Income	Amount (₹)
(i)	Fees for technical services from XYZ Ltd. (under an agreement approved by Government of India)	25,00,000
(ii)	Fees for technical services from M/s PQR LLP (agreement not approved by the Government of India)	14,00,000
(iii)	Expenditure incurred for providing services at (i) above	4,00,000
(iv)	Expenditure incurred for providing services at (ii) above	4,00,000
(v)	Rental Income a let-out property located in Country X	12,50,000
(vi)	Interest on loan borrowed for let-out house property located in Country X	(2,80,000)
(vii)	Dividend income from Indian companies	8,00,000
(viii)	Income from mutual funds specified under section 10(23D) (units purchased in foreign currency)	75,000
(xi)	Interest on debentures of Indian company subscribed in foreign currency	1,50,000

Mr. Nylon is paying tax as per section 115BAC(1A).

His sister Mrs. Nile married to an Indian Citizen and reside in India. She is proprietor of M/s Dynasty Beauty Lounge. The assessment for the A.Y. 2024-25 of M/s Dynasty Beauty Lounge, was made under section 143(3) on 01.12.2025. The Assessing officer added ₹ 16,00,000 on account of unexplained expenditure. However, she contended before the CIT(A) that this is professional fees paid to a consultant but could not substantiate with any invoice. The CIT(A) did not accept the contention of the assessee and pass the order against her on 15.03.2026.

Note - DTAA between India and Country X need not be considered while answering the MCQs unless specified.

From the information given above, choose the most appropriate answer of MCQs 1 to 6:

1. What would be the residential status of Mr. Nylon in India for the P.Y. 2025-26?

- (a) Non-resident
 - (b) Resident and Ordinarily Resident
 - (c) Resident but Not Ordinarily Resident
 - (d) Deemed Resident but not Ordinarily Resident
2. What would be the total income of Mr. Nylon for the Assessment Year 2026-27?
- (a) 51,20,000
 - (b) 54,95,000
 - (c) 45,25,000
 - (d) 41,25,000
3. What would be tax liability of Mr. Nylon for the Assessment Year 2026-27?
- (a) ₹ 10,28,460
 - (b) ₹ 7,74,800
 - (c) ₹ 9,42,940
 - (d) ₹ 6,91,600
4. Determine the amount of tax to be deducted at source on Fees for technical services, considering that DTAA between India and Country X provides that fees for technical services is taxable in India @25% irrespective of the agreement being approved by the Central Government?
- (a) TDS of ₹ 5,20,000 by XYZ Ltd. and ₹ 3,50,000 by M/s PQR LLP
 - (b) TDS of ₹ 5,20,000 by XYZ Ltd. and ₹ 4,36,800 by M/s PQR LLP
 - (c) TDS of ₹ 5,20,000 by XYZ Ltd. and ₹ 3,64,000 by M/s PQR LLP
 - (d) TDS of ₹ 6,25,000 by XYZ Ltd. and ₹ 3,50,000 by M/s PQR LLP
5. What is the remedy available to the Mrs. Nile in respect of appeal which was decided against her on 15.03.2026?

- (a) She can file an application for revision to the Commissioner under section 264.
 - (b) She can file an application for rectification under section 154, if it is a mistake apparent from the record.
 - (c) She can file appeal to Appellate Tribunal under section 253
 - (d) She would be liable to pay penalty but cannot file the appeal against CIT(A) order because it is related to unexplained expenditure.
6. Whether Mr. Nylon is required to deduct tax at source on rent paid or payable to Mr. Amit? If yes, at what rate tax is to be deducted at source?
- (a) No, tax is not required to be deducted at source as Mr. Nylon is a non-resident
 - (b) Yes, tax is required to be deducted at source @2%
 - (c) Yes, tax is required to be deducted at source @ 2.08%
 - (d) Yes, tax is required to be deducted at source @ 10%

Case Scenario II

Mr. Kunal Verma, a resident individual and partner in a consulting firm, filed his return of income for the assessment year 2026-27 under section 139(1). During the previous year 2025-26, he sold listed equity shares through a recognised stock exchange on which Securities Transaction Tax was paid at the time of acquisition and transfer, resulting in long-term capital gains of ₹ 68,00,000. On 16.12.2025, he also sold a residential house property for ₹ 115 lakhs which he had acquired for ₹ 25 lakhs on 31.5.2011. Out of the sales proceed, he invested ₹ 30,00,000 in a new residential house. Share of profit and remuneration from the consulting firm was ₹ 2,50,000 and ₹ 35,00,000, respectively. Such remuneration is fully allowable as deductible u/s 40(b) in the hands of consulting firm.

Further, during the year, Mr. Verma purchased a foreign tour package for ₹ 28,00,000, on which tax was collected at source under section 206C(1G) and correctly reflected in his Form 26AS; however, he failed to claim credit for such TCS in the return of income and also did not properly disclose the transaction in the relevant schedule. The return was processed under section 143(1), wherein excess tax liability was computed due to incorrect treatment of long-term capital

gains, credit for TCS was not allowed, and interest under sections 234A, 234B and 234C was levied.

By the time Mr. Verma noticed these errors, the time limit for filing revised return under section 139(5) as well as for seeking rectification under section 154 had expired. Consequently, he filed a revision petition under section 264 before the Principal Commissioner of Income-tax, enclosing contract notes, investment proofs and Form 26AS, and contended that the mistakes were bona fide and had resulted in undue hardship. The Principal Commissioner, however, rejected the revision petition on the ground that once the assessee had consciously offered the income to tax, the return could not be altered by invoking the provisions of section 264.

Mr. Kunal Verma is paying tax as per section 115BAC(1A).

Cost Inflation Index for F.Y. 2011-12: 184; F.Y. 2025-26: 376

From the information given above, choose the most appropriate answer of MCQs 7 to 11:

7. Compute the amount of capital gains includible in the total income of Mr. Kunal Verma and tax thereon (ignore cess and surcharge, if any) for the A.Y. 2026-27:
 - (a) ₹ 1,00,66,304 and ₹ 15,84,375
 - (b) ₹ 1,28,00,000 and ₹ 15,12,636
 - (c) ₹ 1,26,75,000 and ₹ 15,12,636
 - (d) ₹ 1,01,91,304 and ₹ 15,28,261
8. Compute the total income and tax liability of Mr. Kunal Verma for the A.Y. 2026-27. Ignore TCS/TDS if any collected or deducted while computing tax liability:
 - (a) ₹ 1,63,00,000 and ₹ 25,62,590
 - (b) ₹ 1,61,75,000 and ₹ 28,62,640
 - (c) ₹ 1,39,41,304 and ₹ 26,52,290
 - (d) ₹ 1,35,66,304 and ₹ 26,48,390

9. What amount of tax deducted at source and tax collected at source can be claimed as tax credit by Mr. Kunal Verma while paying self-assessment tax for the A.Y. 2026-27?
- (a) ₹ 8,75,000
 - (b) ₹ 7,60,000
 - (c) ₹ 5,25,000
 - (d) ₹ 10,25,000
10. Which of the following statements are correct while processing return under section 143(1)?
- (i) Re-computation of long-term capital gains based on figures available in the return and schedules can be made if the claim is incorrect and apparent from the information furnished.
 - (ii) Credit of TCS reflected in Form 26AS must be allowed even if the assessee has neither claimed the credit nor disclosed the transaction properly in the return.
 - (iii) Levy of interest under sections 234A, 234B and 234C
- (a) (i), (ii) & (iii)
 - (b) (i) only
 - (c) (ii) & (iii) only
 - (d) (i) & (iii) only
11. Which of the following is the correct legal position with respect to reject of revision petition under section 264 before the Principal Commissioner of Income-tax?
- (a) The PCIT was correct, as section 264 cannot be invoked to correct mistakes committed by the assessee
 - (b) The assessee should have filed a rectification application under section 154 and revision petition cannot be filed under section 264
 - (c) The PCIT has the power under section 264 to grant relief even where the mistake is committed by the assessee

- (d) Once the time limit for filing a revised return expires, no relief can be granted under the Act
12. A search was conducted on Mr. A in March 2026, and proceedings under section 158BC were initiated. Consequently, the regular assessment proceedings for A.Y. 2024-25 were considered abated. The Assessing Officer completed the block assessment under section 158BC in December 2026. Thereafter, Mr. A filed an appeal, and in May 2027, the appellate authority annulled the block assessment. The annulment order was received by the Principal Commissioner on 30th June 2027. Which of the following statements is correct?
- (a) The annulment has no impact, since the block assessment was already completed.
 - (b) The earlier abated assessment for A.Y. 2024-25 will automatically revive with effect from 30th June 2027.
 - (c) The annulment of the block assessment permanently closes the right of the Revenue to reassess the income of the assessment years falling within the block period.
 - (d) The Assessing Officer must seek directions from the Tribunal before taking up the revived assessment.
13. M/s Strong Private Limited is a domestic company engaged in the business of manufacturing steel. The statement of Profit and Loss for the previous year ended 31st March, 2026 shows a net profit of ₹ 85.20 lakhs after debiting and crediting the following items:
- (a) Depreciation charged on property, plant and equipment - ₹ 10,15,000.
 - (b) Employer's contribution to EPF of ₹ 8 lakhs together with similar amount of employees' contribution for the month of March, 2026 was remitted on 20th July, 2026.
 - (c) Contribution of ₹ 1.50 lakhs to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority

- (d) Advertisement expenses include an amount of ₹ 55,000 paid by way of an account payee cheque for advertisement published in the souvenir issued by a political party on which appropriate tax was deducted.
- (e) The company has made provision for Gratuity based on actuarial valuation of ₹ 5 lakhs. Actual gratuity paid amounting to ₹ 1,20,000 during financial year 2025-26 was debited to provision of Gratuity Account.
- (f) Opening stock is overvalued by ₹ 10,35,000 and closing stock is also overvalued ₹ 8,85,000.
- (g) Dividend from a foreign company in which the company holds 30% equity share capital - ₹ 3 lakhs
- (h) Profit from the transfer of units of equity oriented funds - ₹ 7 lakhs. These units were acquired by company 2 years ago for ₹ 4 lakhs. STT has been paid on both purchase and transfer of such units.
- (i) The company lost cash of ₹ 5,00,000 due to theft when it was withdrawn from the bank and taken to administrative office. It is not insured and hence, fully charged as revenue expenditure.

Additional Information:

- (i) Depreciation on tangible fixed assets as per Income-tax Rules, 1962 - ₹ 8,50,000. This amount does not include depreciation on any assets which were acquired during the year.
- (ii) The company acquired a power generating plant on 01.07.2025 for ₹ 25 lakhs. The payment for the plant was from:

Date	Particulars	₹
1.06.2025	Advance payment for the plant (Paid in cash)	3,00,000
15.06.2025	Grant received from the State Government	7,00,000
01.07.2025	Remaining payment for the plant (through banking channel)	15,00,000

- (iii) The company paid ₹ 85,000 in cash to M/s Naveen Traders, a medium enterprise, on April 15, 2025 for purchase of raw material on March 31, 2025. There was no written agreement between the parties. The expenditure was allowed as deduction on due basis.
- (iv) A regular supplier of raw materials agreed for settlement of ₹ 14 lakhs instead of ₹ 18 lakhs for poor quality of material supplied during the last year.
- (v) The company distributed dividend of ₹ 1.50 lakh on 15th October, 2026 to its shareholders.
- (vi) The company has not entered into any international transaction during the P.Y. 2025-26. Turnover of the company for previous year 2023-24 was ₹ 350 crores.

Compute the total income and tax liability of M/s Strong Private Limited for assessment year 2026-27 giving brief reasons/explanations for the treatment of each item under regular provisions of the Income-tax Act, 1961. Ignore MAT.

Will it be beneficial for the company to opt for the concessional rates in assessment year 2026-27 instead of paying tax under regular provisions of the Income-tax Act, 1961.

14. Examine the following independent case scenarios of charitable trust/institutions based on the provisions of the Income-tax Act, 1961:

- (i) Sahitya charitable trust, having its main object as medical relief, earned the following income during the P.Y.2025-26:

Particulars		Amount in ₹
(i)	Income from tax free bonds issued by Indian Railway Finance Corporation Ltd. (IRFCL)	1,10,000
(ii)	Agricultural income	4,25,000

The trust claims exemption under section 10(1) and 10(15) in respect of its agricultural income, and interest income, respectively, without complying with the conditions laid down under section 11.

- (ii) "Vidya Jyoti Educational Trust" registered under section 12AB owns a building used for educational activities. During the year, one floor was given on rent to a private coaching institute owned by the wife of the founder of the trust. The trust charged rent of ₹ 20,000 per month, whereas similar properties in the same locality fetch rent of ₹ 70,000 per month. The trust justified the lower rent on the ground that the coaching institute supports educational objectives.
- (iii) "Aarogya Welfare Charitable Trust" is registered under section 12AB and is engaged in providing free medical facilities. During the Previous Year 2025-26, Mr. Karan contributed ₹ 75,000. Further, he had contributed ₹ 9,50,000 up to 31.3.2025.

During the same year, the trust sold old hospital furniture to Mr. Karan for ₹ 1,20,000. The fair market value of the furniture was ₹ 2,80,000. The trust claims that since Mr. Karan's donation during the current year does not exceed ₹ 1 lakh, he should not be treated as a specified person.

15. (i) ABC Bank, accepted a Fixed Deposit (FD) for a sum of ₹ 20 lakhs in the name of Registrar General of the Court and issued a Fixed Deposit Receipt (FDR). The said FD was made in compliance of a direction passed by this Court in Execution Petition. The fixed deposits were renewed periodically, and interest accrued thereon. The bank did not deduct tax at source on such interest on the ground that the Registrar General was only a custodian of the funds and the ultimate beneficiary of the deposits could be identified only after the final adjudication of disputes.

The Income-tax Department initiated proceedings and treated the bank as an assessee in default under section 201, alleging non-compliance with section 194A. Examine whether interest accrued on fixed deposits maintained in the name of the Registrar General pursuant to court directions attracts TDS under Section 194A.

- (ii) M/s GreenEarth Resources Ltd. is engaged in extraction and sale of forest produce and minerals. During F.Y 2025-26, it sold timber obtained under a forest lease to M/s BuildWell Infrastructure Pvt. Ltd. and sold scrap generated from such operations to a resident

scrap dealer. In the same year, it supplied coal to M/s PowerGen Ltd. for generation of electricity, against which PowerGen Ltd. furnished a declaration stating that coal would be used only for power generation and not for trading. Further, GreenEarth Resources Ltd. granted a licence to operate a toll plaza near its mining site to M/s National Highways Authority Ltd., a public sector company, for business purposes. All amounts were debited to the respective parties' accounts before actual receipt.

Examine the applicability or otherwise of collection of tax at source, in respect of each transaction.

16. The regular assessment of Ms. Preeti for the A.Y. 2023-24 was completed u/s 143(3) on 16-07-2025. On 18-01-2026, she received a notice issued u/s 148 for income escaping assessment for the A.Y. 2023-24. Further, on 25-03-2026, during the pendency of such proceeding for income escaping assessment, the A.O. attaches the house property of Ms. Preeti.

Now, aggrieved Preeti seeks your opinion (being a Chartered Accountant) as to:

- (i) The circumstances under which the A.O. can make provisional attachment of property of the assessee.
- (ii) The period of time for which such attachment can take place.
- (iii) Can such attachment be revoked by the A.O. and if yes, how?

Discuss the relevant provisions of law to satisfy the aggrieved assessee, Ms. Preeti.

17. Lime Inc is a company incorporated under the laws of Country X. The value of its global assets are ₹ 510 crores. The value of assets in India are ₹ 256 crores. Its turnover during the P.Y. 2025-26 is Country X \$ equivalent to ₹ 900 crores. Out of 10 board meetings held during the F.Y.2025-26, only 4 meetings are held in India. The key management and commercial decisions for conduct of the company's business as a whole are, however, made by the directors located in India at the meetings held in India.

Your client, Hide Rise Ltd, an Indian company, wishes to remit an amount towards professional fees to Lime Inc. on which tax is required to be deducted in India.

Determine the residential status of Lime Inc. for A.Y.2026-27 under the Income-tax Act, 1961. Advise Hide Rise Ltd as to whether tax on fees for professional services paid to Lime Inc. has to be deducted under section 194J or section 195.

18. Mr. Ricardo, a non-resident holding 10% of the units of a REIT, earned the following income distributed by the REIT during the P.Y.2025-26:

(i)	Rental Income from real estate property owned by REIT	2,51,000
(ii)	Interest Income of REIT from Grey Ltd.	86,000
(iii)	Dividend Income of REIT from Grey Ltd.	42,000

He acquired units in the REIT at an issue price of ₹ 15 lakhs. He does not have any other income during the year. During the P.Y. 2025-26, apart from interest, rental income, dividend income and the income taxable in the hands of REIT, ₹ 2 crore also distributed to its unit holders.

Grey Ltd. is an Indian company in which the REIT holds controlling interest. The REIT holds 100% of shareholding of Grey Ltd. Grey Ltd. does not exercise option under section 115BAA.

Examine whether the above components of the income distributed by REIT would be chargeable to tax in the hands of Mr. Ricardo. Also, examine whether the REIT is required to deduct tax at source on such income distributed to Mr. Ricardo.

Would your answer change if Grey Ltd. exercises option under section 115BAA for A.Y.2026-27?

19. Trex Ltd., an Indian Company, on 01-04-2024 has borrowed ₹ 90 crores from M/s Refine Inc, a Company incorporated in Country S, at an interest rate of 8% p.a. The said loan is repayable over a period of 12 years. Further, loan is guaranteed by Prestige Inc incorporated in Country P. Bright Inc, a non-resident, holds shares carrying 40% of voting power both in Trex Ltd. and Prestige Inc. Bright Inc has also deposited ₹ 90 crores with M/s Refine Inc. Trex Ltd. repaid ₹ 10 crores on 31.3.2025.

The net profit of the Financial Year 2025-26 of Trex Ltd. was ₹ 18 crores after debiting the above interest, depreciation of ₹ 4 crores and income-tax of ₹ 2.70 crores. For Financial Year 2024-25, disallowance under section 94B was ₹ 7.5 crores.

Trex Ltd. wants to know the amount of interest allowable as deduction under the head "Profits and gains of business or profession" for the P.Y. 2025-26.

20. Mr. Shrestha, a resident individual aged 34 years, furnishes the following information relating to the previous year 2025-26:

Gross receipts from business carried on from Jaipur - ₹ 26,00,000

Expenditure incurred in respect of earning such receipts (to the extent allowable as per the provisions of the Income-tax Act) - ₹ 3,50,000

Rent received in Country M in respect of a residential property situated therein - ₹ 95,000 per month.

Expenditure incurred in relation to current repairs and maintenance of the property - ₹ 5,25,000

Receipt from agricultural operations in Country M's companies - ₹ 18,00,000

Expenditure incurred in earning such agricultural income - ₹ 8,50,000

Dividend income from Country M - ₹ 4,20,000

The taxation regime of Country M provides the following:

- (i) Agricultural income is exempt in country M
- (ii) All other incomes (after providing for deductions for expenses) taxable at flat rate of 20%.

Compute total income and the net tax liability of Shrestha on the assumption that there is no DTAA between India and Country M and he has not opted out of default tax regime contained in section 115BAC(1A).

**SUGGESTED ANSWERS**

MCQ No.	Most Appropriate Answer		MCQ No.	Most Appropriate Answer
1.	(a)		7.	(b)
2.	(c)		8.	(a)
3.	(b)		9.	(a)
4.	(a)		10.	(d)
5.	(c)		11.	(c)
6.	(b)		12.	(b)

13. Computation of total income of M/s Strong Private Limited for the A.Y. 2026-27 under regular provisions of the Act

	Particulars	Amount in ₹	
I	Profits and gains of business and profession		
	Net profit as per Statement of profit and loss		85,20,000
	Add: Items debited but to be considered separately or to be disallowed		
	(a) Depreciation as per books	10,15,000	
	(b) Employee's contribution to EPF	8,00,000	
	[Since employee's contribution to EPF has not been deposited on or before the due date under the PF Act, the same is not allowable as deduction under section 36(1)(va). Since the same has been debited to statement of profit and loss, it has to be added		

	back while computing business income.		
(b)	Employer's contribution to EPF [As per section 43B, employer's contribution to EPF is allowable as deduction since the same has been deposited on or before the due date of filing return of income under section 139(1). Since the same has been debited to statement of profit and loss, no further adjustment is required.]	-	
(c)	Contribution to National Laboratory [Contribution to National laboratory for scientific research qualifies for deduction under section 35(2AA). Since the same has been debited to the statement of profit and loss, no adjustment is required.]	-	
(d)	Advertisement expenses [The amount of ₹ 55,000 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). Since the expenditure has been debited to statement of profit and loss, the same has to be added back while computing business income. However, such expenditure is eligible for deduction u/s 8DGGGB]	55,000	
(e)	Provision for gratuity [Provision of ₹ 5 lakhs for gratuity based on actuarial valuation is not allowable as deduction as per section 40A(7). However, actual gratuity of	3,80,000	

	₹ 1,20,000 paid is allowable as deduction. Hence, the difference is added back]		
(f)	Overvaluation of Opening and Closing stock [The difference between ₹ 10,35,000, being overvaluation in opening inventory - ₹ 8,85,000 being cost included in closing inventory is added back]	1,50,000	
(i)	Loss of cash in transit [Since the loss is due to theft which took place when cash was withdrawn from bank and taken to administrative office, it is incidental to business and thus, allowable as revenue expenditure. Since the same has already been charged as revenue expenditure, no further adjustment is required]	-	
Al. (iii)	Expenditure pertaining to last year paid in cash [Since the expenditure was allowed on due basis in last year and the payment exceeding ₹ 10,000 is made in cash in a day, the ₹ 85,000 will be deemed as income under section 40A(3A) in P.Y. 2025-26.]	85,000	
Al. (iv)	Waiver of liability [Amount waived by the supplier of raw materials is a deemed income under section 41(1), as the expenditure was allowed as deduction in the last year and there is a benefit by way of remission or cessation of a trading liability]	4,00,000	28,85,000
			1,14,05,000

Less: Items credited but chargeable to under another head/expenses tax allowed but not debited			
(g) Dividend received from foreign company [Dividend received from foreign company is taxable under the head "Income from other sources". Since the said dividend has been credited to the statement of profit and loss, the same has to be deducted while computing business income.]	3,00,000		
(h) Profit on sale of units of the equity oriented fund [Profit on sale of units of the equity oriented fund is taxable under the head "Capital Gains". Since the profit on sale of shares has been credited to the statement of profit and loss, the same has to be deducted while computing business income.]	7,00,000	10,00,000	
			1,04,05,000
Less: Depreciation as per Income-tax Rules, 1962			
- Depreciation given in the question	8,50,000		
- Depreciation on power generation plant Normal Depreciation [₹ 15,00,000 x 15%] (₹ 25,00,000 - ₹ 3,00,000 - ₹ 7,00,000 = ₹ 15,00,000)	2,25,000		
- Additional Deprecation [₹ 15,00,000 x 20%]	3,00,000	13,75,000	
[As per second proviso to section 43(1), any amount more than ₹ 10,000			

	paid in a single day to a single person otherwise by account payee cheque or account payee bank draft or electronic clearing system then it should not be part of actual cost, so advance paid to supplier is not part of actual cost. As per <i>Explanation 10</i> of section 43(1), Government grant related to acquisition of asset shall be reduced while calculating actual cost]		
			90,30,000
II Capital Gain	Long term capital gain on sale of units of the equity oriented fund [Since units were held for more than 12 months]		
	Full value of consideration	11,00,000	
	Less: Cost of acquisition	4,00,000	7,00,000
III Income from Other Source			
	Dividend received from foreign company		3,00,000
	Gross Total Income		1,00,30,000
	Less: Deduction under Chapter VI-A		
	Deduction u/s 80GGB [Contribution to Political party]		55,000
	Deduction u/s 80M in respect of inter corporate dividends [Since M/s Strong Private Limited distributed dividend after the due date, being the date one month prior to the date for furnishing return of income specified u/s 139(1), no deduction will be allowed during the P.Y. 2025-26]		-
	Total Income		99,75,000

Computation of tax liability as per normal provisions of the Act

Particulars	Amount (₹)
Tax on long-term capital gains in excess of ₹ 1.25 lakhs @12.5% u/s 112A [₹ 5,75,000 x 12.5%]	71,875
Tax on business income @25% of ₹ 92,75,000 [since the turnover for the previous year 2023-24 does not exceeds ₹ 400 crores]	23,18,750
	23,90,625
Add: Health and education cess @4%	95,625
Tax liability	24,86,250

Computation of total Income of M/s Strong Private Limited chargeable to tax for the A.Y. 2026-27 under concessional regime u/s 115BAA

Particulars	Amount (₹)
Total Income under regular provisions of the Act	99,75,000
Add: Additional depreciation on plant [Not allowable u/s 115BAA]	3,00,000
Add: Contribution to National Laboratory [Deduction u/s 35(2AA) is not allowable u/s 115BAA]	1,50,000
Add: Deduction under Chapter VI-A Under section 80GGB [Not allowable under section 115BAA]	55,000
Total Income as per section 115BAA	1,04,80,000
Computation of tax liability	
Tax on long-term capital gains in excess of ₹ 1.25 lakh @12.5% u/s 112A [₹ 5,75,000 x 12.5%]	71,875
Tax on other income of ₹ 97,80,000 @ 22%	21,51,600
	22,23,475
Add: Surcharge @ 10%	2,22,348
	24,45,823

Add: Health and education cess @4%	97,833
Tax liability	25,43,656
Tax liability (Rounded off)	25,43,660

Since the tax liability of M/s Strong Private Limited computed under regular provisions of the Act is lower than the tax liability computed under section 115BAA, it is beneficial for M/s Strong Private Limited not to opt for the special provisions under section 115BAA for A.Y.2026-27.

14. (i) Section 11(7) provides that where a trust has been granted registration under section 12AB and the registration is in force for a previous year, then, such trust cannot claim any exemption under any provision of section 10 [other than exemption of agricultural income under section 10(1)].

Therefore, a charitable trust cannot claim exemption under section 10(15) in respect of interest income, since it has voluntarily opted for the special dispensation under sections 11 to 13, and consequently has to be governed by the provisions of these sections. However, it can claim exemption under section 10(1) in respect of agricultural income, since section 11(7) provides an exception in respect of such income.

Therefore, the claim of Sahitya charitable trust, as regards exemption under section 10(15), is not correct.

- (ii) As per section 13(3), a relative (wife, in this case) of the founder is regarded as a specified person, and therefore any use or application of the income or property of the trust for her benefit attracts examination under section 13. Further, section 13(2)(b) provides that where any land, building or other property of the trust is made available for the use of a specified person without charging adequate rent or compensation, such use shall be deemed to be application of trust property for the benefit of that person.

In the present case, the trust has charged rent of ₹ 20,000 per month whereas the prevailing market rent for similar properties is ₹ 70,000 per month, which clearly indicates that the rent charged is not adequate. Consequently, the provisions of section 13(1)(c)

become applicable and such part of income or property would not be eligible for exemption and would be taxed under section 115BBI at 30%. Further, to avoid income of the trusts or institutions to be used for the benefit of specified persons under section 13(3), penalty is leviable under 271AAE on the amount of income provided as a benefit.

- (iii) Mr. Karan's status has to be examined with reference to section 13(3)(b), which provides that any person whose contribution during the relevant previous year exceeds ₹ 1 lakh, or whose aggregate contribution up to the end of the relevant previous year exceeds ₹ 10 lakh, shall be treated as a specified person.

In the present case, although Mr. Karan contributed only ₹ 75,000 during the Financial Year 2025-26, his aggregate contribution to the trust amounts to ₹ 10,25,000, which exceeds the prescribed aggregate limit of ₹10 lakh. Therefore, he qualifies as a person referred to in section 13(3), and any use or application of the income or property of the trust for his direct or indirect benefit will attract the provisions of section 13(1)(c).

During the year, the trust sold hospital furniture to Mr. Karan for ₹ 1,20,000 against a fair market value of ₹ 2,80,000. Since the property has been sold for inadequate consideration to a specified person, the transaction falls within the scope of section 13(2)(f), which deems such arrangements as application of trust property for the benefit of a specified person.

As a result, the provisions of section 13(1)(c) become applicable and such part of income or property would not be eligible for exemption and would be taxed under section 115BBI at 30%. Further, to avoid income of the trusts or institutions to be used for the benefit of specified persons under section 13(3), penalty is leviable under 271AAE on the amount of income provided as a benefit.

15. (i) The same issue came before the Delhi High Court in the case of *UCO Bank v. Dy. CIT (2014) 369 ITR 335*, wherein the High Court noted that the expression "payee" u/s 194A would mean the recipient of income

whose account is maintained by the person paying interest. The Registrar General is neither recipient of the amount credited to his account nor to interest accruing thereon. Therefore, he cannot be considered as a 'payee' for the purposes of section 194A. In the absence of a payee, the machinery provisions for deduction of tax to his credit are ineffective. The credit by the bank in the name of the Registrar General would, thus, not attract the provisions of section 194A.

Note - The CBDT has accepted the aforesaid judgment and accordingly, vide Circular No. 23/2015 dated 28.12.2015, clarified that interest on FDR made in the name of Registrar General of the Court or the depositor of the fund on the directions of the Court, will not be subject to TDS till the matter is decided by the Court. However, once the Court decides the ownership of the money lying in the fixed deposit, the provisions of section 194A will apply to the recipient of the income.

- (ii) Under section 206C(1), a seller is required to collect tax at source (TCS) at the time of debit to the buyer's account or receipt of consideration, whichever is earlier, on sale of specified goods.

(i) Sale of timber obtained under a forest lease

Timber obtained under a forest lease is a specified good under section 206C(1). Accordingly, M/s GreenEarth Resources Ltd. is liable to collect TCS at 2% on the sale value of timber at the time of debit or receipt, whichever is earlier.

(ii) Sale of scrap

Scrap is also a specified good under section 206C(1). Hence, TCS is required to be collected by M/s GreenEarth Resources Ltd. @1% at the time of debit or receipt of sale consideration, whichever is earlier.

(iii) Sale of coal for power generation

Coal is a specified mineral under section 206C(1), liable to TCS @ 1%. However, since the buyer furnished a declaration stating that coal would be used for generation of power and not for trading purposes, no TCS is required to be collected in view of section 206C(1A).

(iv) Licence to operate toll plaza to a public sector company

Section 206C(1C) applies to collection of TCS at 2% on grant of licence for operating a toll plaza, except where the licensee is a public sector company. Since the licence is granted to M/s National Highways Authority Ltd., a public sector company, TCS is not applicable in this case.

- 16.** (i) As per section 281B(1), the Assessing Officer is empowered to provisionally attach any property of Ms. Preeti, by an order in writing, during the pendency of assessment or reassessment proceedings, with the prior approval of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner or Principal Director General or Director General or Principal Director or Director, if he is of the opinion that it is necessary to do so for the purpose of protecting the interests of the revenue.

- (ii) As per section 281B(2), the provisional attachment shall be valid for a period of 6 months from the date of the order issued for provisional attachment.

However, the above mentioned income-tax authority may extend the period of provisional attachment, for reasons to be recorded in writing, by a further period as he thinks fit.

However, the total period of extension shall not exceed two years or sixty days after the date of assessment or reassessment, whichever is later.

- (iii) Section 281B(3) empowers the Assessing Officer to revoke, by an order in writing, provisional attachment of property if Ms. Preeti furnishes a guarantee from a scheduled bank, for an amount not less than the fair market value of such provisionally attached property or for an amount which is sufficient to protect the interests of the revenue.

- 17.** In the given case, Lime Inc. is a company incorporated under the laws of Country X. It is a foreign company under the Income-tax Act, 1961. However, the said company shall be considered to be resident in India if its place of effective management is in India.

In this case, the company does not satisfy the active business outside India test since 50% of its assets are located in India. Therefore, since it has failed the active business outside India test on account of 50% of its assets being located in India, the persons who take key management and commercial decisions for conduct of the company's business as a whole and the place where the decisions are made are the key factors in determining whether the POEM of the company is in India. The facts of the case clearly state that the key management decisions and commercial decisions for conduct of the company's business as a whole are made by the directors located in India and at the meetings held in India.

Therefore, the POEM of Lime Inc. is in India in the P.Y.2025-26, irrespective of the fact that majority of the board meetings are held outside India.

Section 194J applies when professional fees are being paid to a resident, whereas section 195 applies when payments are made to a non-corporate non-resident or a foreign company. Section 194J is income specific and section 195 is payee specific. CBDT *vide Notification No. 29/2018 dated 22nd June 2018* has clarified that where more than one provision of Chapter XVII-B of the Act applies to the foreign company as resident as well as a foreign company, the provision applicable to the foreign company alone shall apply.

Hence, Hide Rise Ltd shall deduct tax under section 195 while making payment of fees for professional services to Lime Inc., a foreign company resident in India.

18. The REIT enjoys pass-through status in respect of rental income from real estate asset owned by it directly, interest income and dividend from special purpose vehicle, (i.e., Grey Ltd., in this case, since it is an Indian company in which REIT holds controlling interest). Therefore, rental income from real estate asset owned by it directly and interest income is taxable in the hands of the unit holders. In respect of dividend income from special purpose vehicle, REIT enjoys pass-through status. However, if SPV is not opting for the provisions of section 115BAA, the dividend income component would be exempt in the hands of the unit holder. If the SPV is exercising the option under section 115BAA, dividend income component would be taxable in the hands of unit holder. Any specified

sum received by a unitholder from a REIT would be chargeable to tax in the hands of unitholder as "Income from other sources".

- (1) **Rental income component of income distributed by REIT:** The distributed income or any part thereof, received by Ricardo from the REIT, which is in the nature of income by way of renting or leasing or letting out any real estate asset owned directly by such REIT is deemed income of the unit-holder as per section 115UA(3). Accordingly, ₹ 2,51,000 would be deemed income of Ricardo as per section 115UA(3). The REIT has to deduct tax at source under section 194LBA@31.2% (being the rate in force) in case of distribution to Ricardo, being a non-resident.
- (2) **Interest component of income distributed by REIT:** Interest component of income received from a special purpose vehicle, Grey Ltd., in this case, and distributed to a unit holder is taxable in the hands of the unit holder. Accordingly, such interest component of ₹ 86,000 is taxable in the hands of Ricardo. The REIT has to deduct tax at source under section 194LBA @5.2%, on ₹ 86,000, since Ricardo is a non-resident.
- (3) **Dividend component of income distributed by REIT:** By virtue of section 10(23FD), ₹ 42,000, being the dividend component of income distributed to Ricardo would be exempt in his hands. Therefore, there is no liability on the REIT to deduct tax at source on the dividend component of income distributed by it to Mr. Ricardo.

However, if Grey Ltd. has exercised option under section 115BAA, then, the dividend income distributed by it would be subject to tax in the hands of the unitholders. Accordingly, ₹ 42,000 is taxable in the hands of Mr. Ricardo. The REIT has to deduct tax at source@10.4% on ₹ 42,000, since Mr. Ricardo is a non-resident.
- (4) **Specified sum distributed by the REIT:** Any sum other than interest, dividend received from SPV, rental income and income which are chargeable to tax in the hands of REIT, would be chargeable to tax under section 56(2)(xii) in the hands of unitholders as income from other sources. Accordingly, in the present case, ₹ 5,00,000 [₹ 20 lakhs, being 10% of ₹ 2 crores

Less ₹ 15 lakhs, being the issue price of units held by Mr. Ricardo would be taxable as Income from other sources. On such sum, no tax is required to be deducted at source by the REIT.

19. If an Indian company, being the borrower, incurs any expenditure by way of interest in respect of any debt issued by its non-resident associated enterprise (AE) and such interest exceeds ₹ 1 crore, then, the interest paid or payable by such Indian company in excess of 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is lower, shall not be allowed as deduction as per section 94B.

Further, where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise and limitation of interest deduction would be applicable.

In the present case, since Bright Inc. holds 40% of voting power i.e., 26% or more of voting power in both Trex Ltd and Prestige Inc., Trex Ltd. and Prestige Inc. are deemed to be associated enterprises.

Since loan of ₹ 90 crores taken by Trex Ltd., an Indian company from Refine Inc, is guaranteed by Prestige Inc, an associated enterprise of Trex Ltd., such debt shall be deemed to have been issued by an associated enterprise and interest payable to Refine Inc shall be considered for the purpose of limitation of interest deduction under section 94B.

Computation of interest to be allowed in the computation of income under the head profits and gains of business or profession of Trex Ltd.

Particulars	₹
Net profit	18,00,00,000
Add: Interest already debited (₹ 80 crores x 8%)	6,40,00,000
Depreciation	4,00,00,000
Income tax	<u>2,70,00,000</u>
EBITDA	<u>31,10,00,000</u>

Interest paid or payable by Trex Ltd.	6,40,00,000
Less: Excess interest – Lower of Interest paid or payable in excess of 30% of EBITDA - ₹ 6,40,00,000 (-) ₹ 9,33,00,000	Nil
Interest paid or payable to non-resident AE	₹ 6,40,00,000
Interest disallowed during the P.Y. 2024-25 can be set-off to the extent of maximum allowable interest after reducing the current year interest i.e., ₹ 2,93,00,000	Nil
Interest allowable as deduction for P.Y. 2025-26	2,93,00,000
	<u>9,33,00,000</u>

Note – Since Bright Inc., an associated enterprise of Trex Ltd., has deposited a matching amount with Refine Inc., the interest payable by Trex Ltd. to Refine Inc. on loan of ₹ 80 crores borrowed from Refine Inc. would be subject to limitation of interest deduction on the basis of this line of reasoning also.

20. Computation of total Income and net tax liability of Mr. Shrestha for AY 2026-27

	₹	₹
Income from House Property in country M		
Net Annual Value [Rent received (₹ 95,000 x 12)]	11,40,000	
Less: Standards Deduction @30%	<u>3,42,000</u>	7,98,000
Profits and gains from business or profession		
Gross receipts from business in India	26,00,000	
Less: Expenditure incurred in earning such receipts	<u>3,50,000</u>	22,50,000
Income from other sources		
Agricultural Income [not exempt u/s 10(1)]	18,00,000	

Less: Expenditure Incurred in earning such income	<u>8,50,000</u>	
Since agricultural income from country M is not exempt, expenses incurred will be allowed as deduction		
	9,50,000	
Dividend income from Country M's Companies	<u>4,20,000</u>	<u>13,70,000</u>
Gross total income/Total Income		44,18,000
Tax on total income [₹ 3,00,000 (Upto ₹ 24,00,000) + 30% on ₹ 20,18,000]		9,05,400
Add: Health and Education Cess @4%		<u>36,216</u>
		9,41,616
Less: Relief u/s 91		
Average rate of tax in India: ₹ 9,41,616 x 100/ ₹ 44,18,000	21.31%	
Rate of tax in Country M	20%	
Doubly taxed income:		
Rental Income in country M - Lower of the following:	6,15,000	
Taxable in India	7,98,000	
Taxable in Country M [(₹ 95,000 x 12) – ₹ 5,25,000]	6,15,000	
Dividend income	<u>4,20,000</u>	
	10,35,000	
Rebate under section 91 in respect of doubly taxed income of ₹ 10,35,000@20%.		<u>2,07,000</u>
Net tax liability		7,34,616
Net tax liability (Rounded off)		7,34,620