



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 30.04.2026, are relevant for November 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 November, 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 30.04.2026 [except Notification No. 54/2026 dated 31.3.2026 which is included as a Note below the AAR (Income-tax) v. Tiger Global International II Holdings (2026) 485 ITR 214 (SC), in the said Judicial Update], Statutory Update is not issued for November 2026 Examination.



QUESTIONS

Case Scenario I

Nordica International Bank AG is a banking company incorporated in, and a tax resident of Switzerland. It has been carrying on banking business in India through a single branch at Mumbai since 2018, and that branch constitutes its permanent establishment in India. The bank is included in the Second Schedule to the Reserve Bank of India Act, 1934.

For the previous year 2025-26, the Mumbai branch reported a net profit of ₹ 21.75 crores after debiting to its profit and loss account, *inter alia*, the following items:

- (i) Provision made towards advances classified as sub-standard, doubtful and loss assets in accordance with the prudential norms of the Reserve Bank of India – ₹ 38.75 crores.
- (ii) Amount allocated to the Mumbai branch by the Zurich Head Office through a head office debit note of ₹ 6.60 crores comprise of the following:
 - (a) ₹ 2.50 crores, being rent, rates and insurance of the Zurich head office premises used for the purposes of the bank's business, and salary and allowances of personnel employed in that office. This expenditure relates to the bank's operations across all jurisdictions and has been allocated to the Mumbai branch on the basis of turnover.
 - (b) ₹ 1.70 crores, being salary and allowances of personnel employed in the Zurich head office who deal exclusively with the Indian operations, together with the travelling expenditure of such personnel for the internal audit of the Mumbai branch. This expenditure relates wholly and exclusively to the Mumbai branch.
 - (c) ₹ 2.40 crores, being professional and regulatory compliance charges for services rendered in India by Indian firms engaged for the Mumbai branch. The Indian firms raised their invoices on the Mumbai branch, which deducted and paid tax thereon under Chapter XVII-B within the prescribed time; the Head Office settled those invoices on behalf of the branch.

The expenditure referred to in (a) and (b) above was incurred and borne outside India by the bank and was met out of the funds of the Zurich head office.

- (iii) Interest of ₹ 7.25 crores payable to the Zurich Head Office on funds provided by the Head Office for use in the banking business of the Mumbai branch. The amount was credited to the account of the Head Office during the previous year 2025-26 but remained unpaid as on 31st March 2026. No tax was deducted at source thereon by the Mumbai branch considering that HO and branch are not separate entities.
- (iv) Interest of ₹ 6.00 crores credited on 1st January 2026 to the accounts of resident depositors. Tax is deductible under Chapter XVII-B on this interest of ₹ 0.60 crores, however, such tax was actually deducted on

28th February 2026 and was deposited into the credit of the Central Government on 18th June 2026.

The following further information is available:

- (1) Advances aggregating ₹ 6.40 crores became irrecoverable during the previous year 2025-26 and were written off by debit to the provision for bad and doubtful debts account made under section 36(1)(viiia); the write-off has accordingly not been charged to the profit and loss account for the year. The opening credit balance as on 1st April, 2025 in that account for the purposes of the proviso to section 36(1)(vii) was ₹ 4.85 crores.
- (2) Interest of ₹ 18.90 crores accrued during the previous year 2025-26 on certain advances classified in accordance with the prudential norms of the Reserve Bank of India, being categories of bad and doubtful debts of the description prescribed under the Income-tax Rules, 1962. No part of this interest was credited to the profit and loss account. Of this amount, ₹ 5.30 crores was actually received during the previous year 2025-26 and was credited to an interest suspense account; the balance of ₹ 13.60 crores was neither credited to any income account nor received during that year.
- (3) The adjusted total income of the Mumbai branch for the previous year 2025-26, computed in accordance with the requirements of section 44C is ₹ 150 crores.
- (4) The total income of the Mumbai branch for the previous year 2025-26, computed before making any deduction under section 36(1)(viiia) and before deduction under Chapter VI-A is ₹ 110 crores.
- (5) The branch has furnished its return of income for the Assessment Year 2026-27 within the due date specified under section 139(1).

Note - The provisions of the agreement entered into between India and Switzerland under section 90 are *not* to be considered; the questions are to be answered with reference to the provisions of the Income-tax Act, 1961 only.

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

1. The aggregate amount deductible under section 44C in respect of the head office debit note of ₹ 6.60 crores, while computing the business income of the Mumbai branch for the Assessment Year 2026-27, is:
 - (A) ₹ 4.90 crores
 - (B) ₹ 6.60 crores
 - (C) ₹ 4.20 crores
 - (D) ₹ 7.50 crores
2. In MCQ 1, if the entire amount is not deductible under section 44C, would any part of it be deductible under any other provision of the Income-tax Act, 1961? If so, how much and under which provision?
 - (A) No, the entire amount is allowable as deduction under section 44C.
 - (B) Yes, ₹ 4.2 crores u/s 37
 - (C) Yes, ₹ 2.4 crores u/s 37
 - (D) Yes, ₹ 2.5 crores u/s 37
3. What would be the tax treatment of interest on certain advances falling within the category of bad and doubtful debts in accordance with the prudential norms of RBI, while computing the total income of the Mumbai branch for the Assessment Year 2026-27?
 - (A) The entire interest of ₹ 18.90 crores is chargeable to tax on accrual basis.
 - (B) No part of the ₹ 18.90 crores is chargeable to tax as no part thereof is credited to the profit and loss account of the branch
 - (C) ₹ 5.30 crores is chargeable to tax in the A.Y. 2026-27 and the balance of ₹ 13.60 crores will be chargeable to tax in the previous year in which it is credited to the profit and loss account or is actually received, whichever is earlier.
 - (D) ₹ 13.60 crores is chargeable to tax in the Assessment Year 2026-27; ₹ 5.30 crores is not chargeable, having been credited to an interest suspense account and not to the profit and loss account.

4. What would be the aggregate amount of deduction allowable in respect of both provision for doubtful debts and advances written off as irrecoverable for the Assessment Year 2026-27?
- (A) ₹ 10.90 crores
(B) ₹ 7.05 crores
(C) ₹ 11.90 crores
(D) ₹ 5.50 crores
5. Which of the following correctly states the position in respect of the interest of ₹ 7.25 crores payable by the Mumbai branch to the Zurich Head Office?
- (A) The interest is not chargeable to tax in India and no tax is deductible at source thereon.
(B) The interest is chargeable to tax in India in the hands of the Head Office, but no tax is deductible at source under Chapter XVII-B, the Mumbai branch and the Head Office not being distinct persons.
(C) The interest is chargeable to tax in India in the hands of the Head Office; tax was deductible at source under section 195 and, in the absence of deduction of tax at source, 30% of ₹ 7.25 crores is disallowable under section 40(a)(ia).
(D) The interest is chargeable to tax in India in the hands of the Head Office; tax was deductible at source under section 195 and, in the absence of deduction, the entire ₹ 7.25 crores is disallowable under section 40(a)(i).
6. In respect of the interest of ₹ 6.00 crores credited to resident depositors, what would tax consequences for non-deduction and deposit of tax deducted at source by the for the Assessment Year 2026-27 is:
- (A) ₹ 1.8 crores is disallowable under section 40(a)(ia), however, no interest under section 201(1A) is payable
(B) No disallowance under section 40(a)(ia) and no interest under section 201(1A) is payable

- (C) No disallowance under section 40(a)(ia), however, interest under section 201(1A) is payable
- (D) ₹ 1.80 crores is disallowable under section 40(a)(ia) and interest under section 201(1A) is payable

Case Scenario II

Bharat Infra Projects Limited ("BIPL") is a listed Indian public limited company engaged primarily in the engineering, procurement and construction of Hybrid Annuity Model highway projects and related infrastructure works, and it also owns and operates renewable energy generating activities of its own.

During the previous year 2025-26, BIPL continued its core construction operations. In respect of one long-term Hybrid Annuity Model highway contract, which commenced on 1st April 2025, the following are the particulars:

Particulars	Amount (₹)
Total contract price inclusive of retention money of ₹ 18 crore	₹ 480 crores
Estimated total contract costs	₹ 400 crores
Net contract costs as recorded in the books of BIPL after reducing ₹ 4 crores of interest earned on temporary deployment of the mobilisation advance	₹ 256 crores
Amount billed up to 31st March, 2026	₹ 285 crores

With effect from 1st April 2025, SRPG, a wholly owned solar and renewable power generation subsidiary of BIPL amalgamated into BIPL under a scheme of amalgamation satisfying all the conditions of section 72A.

On 15th December 2025, BIPL acquired, commissioned and put to use certain solar power generating systems. The details of which are as follows:

Particulars	Amount (₹)
Cost of acquisition and installation	₹ 90 crores
Subsidy from the Ministry of New and Renewable Energy directly relatable to the cost of the solar power generating systems	₹ 22 crores
Written down value, as on 1 st April, 2025, of the block of assets of BIPL in which the said systems fall	₹ 20 crores

Written down value, as on 1 st April, 2025, of the corresponding block of the SRPG, transferred to BIPL under the scheme of amalgamation	₹ 30 crores
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In March 2026 the Assessing Officer issued a notice under section 148 for Assessment Year 2024-25 in the name of the erstwhile amalgamating subsidiary. BIPL had duly intimated the fact and the effective date of the amalgamation to the Assessing Officer, and the Assessing Officer was aware thereof before issuing the notice. Therefore, BIPL did not participate in the proceedings pursuant to the notice and objected to it.

Following the amalgamation and increased funding requirements, BIPL reviewed its capital allocation strategy in order to reduce leverage and to fund future projects and decided to monetise one of its undertakings located in Punjab State (established in the year 2018) for Highway Projects by way of a slump sale. The particulars are given below:

Particulars	₹ crores
Actual Monetary consideration received	170
Fair market value of Equity shares of the transferee received as consideration	40
Written down value as per Income-tax Rules, 1962 of the Depreciable assets of the undertaking	85
Book value of the depreciable assets of the undertaking	95
Book value of other assets of the undertaking (not being land, shares and securities, jewellery and artistic work)	35
Book value of the land forming part of the undertaking	55
Stamp duty value of the land forming part of the undertaking	70
Book value of liabilities of the undertaking	45

The tax attributes inherited on amalgamation and the business profit of BIPL for the year are as follows:

Particulars	₹ crores
Business profit of BIPL for the previous year 2025-26, computed under the head "Profits and gains of business or profession" as per the Income-tax Act.	96
Accumulated business loss of the amalgamating company, being an ordinary business loss not attributable to any special deduction. Such Business loss was first computed for Assessment Year 2021-22, and no part of it had been set off up to 31st March, 2025	48
Unabsorbed normal depreciation of A.Y. 2024-25	19
Unabsorbed capital expenditure on scientific research related to the business carried on transferred to BIPL, under the scheme of amalgamation	7

BIPL had exercised the option under section 115BAA in assessment year 2025-26, and that option continues to be in force.

From the information given above, choose the most appropriate answer to MCQs 7 to 12:

7. Can BIPL set-off the accumulated losses of SRPG, amalgamating company? If yes, upto which assessment year up to such loss can be carry forward and set-off?
 - (A) No, BIPL cannot carry forward and set-off the accumulated losses of the SRPG as such loss would be lapsed on the dissolution of the amalgamating company
 - (B) Yes, BIPL can carry forward and set-off the accumulated losses of SRPG upto Assessment Year 2029-30
 - (C) Yes, BIPL can carry forward and set-off the accumulated losses of SRPG upto Assessment Year 2034-35
 - (D) Yes, BIPL can carry forward and set-off the accumulated losses of SRPG upto Assessment Year 2033-34

8. What amount of contract revenue required to be recognised in respect of the Hybrid Annuity Model highway contract in accordance with section 43CB for the Assessment Year 2026-27?
- (A) ₹ 285 crores
(B) ₹ 294 crores
(C) ₹ 307.20 crores
(D) ₹ 312 crores
9. The depreciation allowable to BIPL for the Assessment Year 2026-27 in respect of the Solar power generating system is:
- (A) ₹ 40.40 crores
(B) ₹ 38.00 crores
(C) ₹ 21.60 crores
(D) ₹ 33.60 crores
10. In respect of the notice under section 148 issued on SRPG amalgamating company, which of the following statements is correct?
- (A) The notice is valid because BIPL, as the successor, became liable in respect of the liabilities of the amalgamating company, including those relating to earlier assessment years
(B) The notice is valid and any defect in the name of the assessee is cured by section 292B
(C) The notice is invalid because it was issued in the name of an entity that had ceased to exist, the Assessing Officer having already been intimated of the amalgamation
(D) The notice is valid because it relates to Assessment Year 2024-25, being a period prior to the amalgamation
11. Compute the capital gains chargeable to tax under section 50B on the slump sale of its undertaking in the state of Punjab for the Assessment Year 2026-27.
- (A) ₹ 25 crores, being long-term capital gain

- (B) ₹ 80 crores, being long-term capital gain
- (C) ₹ 55 crores, being long-term capital gain
- (D) ₹ 70 crores, being long-term capital gain
12. What would be the total income and tax liability of BIPL for the Assessment Year 2026-27? It may be noted that the long-term capital gain determined in MCQ 11 is the only capital gain of BIPL for the previous year 2025-26.
- (A) ₹ 102 crores and ₹ 16.98 crores
- (B) ₹ 109 crores and ₹ 18.74 crores
- (C) ₹ 91 crores and ₹ 14.21 crores
- (D) ₹ 102 crores and ₹ 25.67 crores
13. M/s Alpha Investments Ltd., an investment company, held 2,00,000 shares of Beta Alloys Ltd. as stock-in-trade. Pursuant to a court-approved scheme of amalgamation, Beta Alloys Ltd. was amalgamated with Gamma Metals Ltd. Under the scheme, Alpha Investments Ltd. was allotted 90,000 shares of Gamma Metals Ltd. in exchange for its shares in Beta Alloys Ltd.
- The shares of Gamma Metals Ltd. allotted to Alpha Investments Ltd. were freely marketable, had an ascertainable market value and could be sold immediately after allotment. Alpha Investments Ltd. contended that the receipt of Gamma Metals Ltd. shares was merely a statutory substitution and, therefore, no taxable income arose until those shares were actually sold.
- Based on the principles laid down by the Supreme Court, which of the following is the most appropriate?
- (A) The receipt is exempt under section 47(vii), since shares were allotted pursuant to an amalgamation scheme, irrespective of whether the original shares were capital assets or stock-in-trade.
- (B) No taxable income arises until Alpha Investments Ltd. actually sells the shares of Gamma Metals Ltd., since section 28 applies only when there is an actual sale of stock-in-trade.

- (C) The allotment of shares of Gamma Metals Ltd. gives rise to taxable business income under section 28, since the original shares were held as stock-in-trade and the substituted shares were freely realisable and capable of definite valuation.
- (D) The transaction is taxable only under the capital gains provisions because the extinguishment of the shares of Beta Alloys Ltd. constitutes a transfer under section 2(47).
14. Ritz. Ltd., an Indian company engaged in manufacture of solar panels, set-up and commenced manufacturing on 01/11/2019, in West Bengal, provides following particulars for A.Y. 2026-27:

Profits as per statement of profit and loss for the P.Y. 2025-26 (prepared as per the Companies Act 2013) is ₹ 4,70,00,000 after debiting or credited the following items:

Particulars	₹Amount
(i) Dividend from Indian companies (gross)	₹ 2,00,00,000
(ii) Excess realized on sale of land held as investment	₹ 30,00,000
(iii) Depreciation	₹ 90,00,000
(iv) Amount spent for Corporate Social Responsibility (CSR)	₹ 10,00,000
(v) Scientific Research Expenses (In-house)	₹ 1,00,00,000
(vi) Provision for loss of subsidiary company	₹ 50,00,000
(vii) Dividend declared	₹ 2,50,00,000

Additional Information:

- (i) Short-term capital gains on sale of land mentioned in point (ii) above as computed under Income-tax Act 1961- ₹ 40,00,000.
- (ii) Dividend declared was distributed on 31/05/2026.
- (iii) Depreciation allowable as per the Income-tax Rules 1962, on assets other than value of new plant & machinery ₹ 60,00,000.
- (iv) Value of new Plant & Machinery (15% block) installed and put to use on 11.10.2025 - ₹ 6,00,00,000.

- (v) Losses brought forward as per books of accounts and as per Income-tax Act [Not attributable to any deduction referred to in section 115BAA/115BAB]

Business Loss - ₹ 40,00,000

Unabsorbed depreciation - ₹ 35,00,000

- (vi) Brought forward MAT credit under section 115JAA is ₹ 40,00,000
- (vii) Scientific Research Expenses includes ₹ 20,00,000 spent on land acquisition for in-house R&D

Turnover of Ritz Ltd. for the P.Y. 2023-24 was ₹ 390 crores.

From the above details compute optimized tax liability of Ritz Ltd. for the A.Y. 2026-27, if-

- (a) Company has not opted for any concessional rates earlier but want to avail the beneficial tax rates under special provisions for the AY 2026-27 by fulfilling the conditions specified thereunder.
- (b) Company has opted for concessional rates u/s 115BAB before the due date for furnishing its very first return of income.

Would it be beneficial to opt for concessional tax rates this year instead of paying tax under regular provisions of Income-tax Act 1961? Examine Calculate MAT Credit to be carried forward also, if available, assuming that company is not required to comply with the Indian Accounting Standards.

15. Mr. Abhishek and his wife, Mrs. Neetu has provided following information of some transactions for the previous year 2025-26:
- (i) Mr. Abhishek gifted some shares of Red Chillies Pvt. Ltd. (a closely held manufacturing Co.) carrying 11% voting power in the company to Mrs. Neetu on 05/08/2025, On 15/03/2026, a loan of ₹ 4,40,000 was obtained by Mrs. Neetu (a beneficial owner) from the company. The Company has accumulated profit of ₹ 34,00,000 on such date.
- (ii) One plot of land was gifted by Mrs. Neetu to Mr. Abhishek on 19/01/2026. The land was purchased by Mrs. Neetu for ₹ 20,00,000

on 23/05/2025 and stamp duty @12% of ₹ 30,00,000 was also paid. Mr. Abhishek transferred such plot of land to Mr. Saurav on 21/03/2026 for ₹ 44,00,000. On that date stamp duty value of the land was ₹ 50,00,000.

- (iii) On 01/06/2025, Mr. Abhishek gifted a sum of ₹ 20,00,000 to his brother's minor son, Master Y. On the same date, his brother also gifted a sum of ₹ 18,00,000 to Mrs. Neetu. Both Mrs. Neetu and Master Y invested the amount in fixed deposit with a scheduled bank at the interest rate of 9% per annum.

Apart from the above, Mr. Abhishek earned interest on fixed deposits of ₹ 5,40,000 and Mrs. Neetu earned commission income of ₹ 7,20,000.

Compute gross total income of Mr. Abhishek and Mrs. Neetu for the A.Y. 2026-27.

16. Explain the applicability of TDS/ TCS provisions in the following independent cases and also compute the amount of TDS/TCS, if any.

- (i) M/s MCD Co-operative Society maintains a current account with the State Bank of India. It made following transactions of cash withdrawals during the previous year 2025-26:

On 27-06-2025	:	₹2,50,00,000
On 18-09-2025	:	₹1,30,00,000

M/s MCD Co-operative Society did not furnish its income tax returns for A.Y. 2022-23, A.Y. 2023-24, 2024-25 and 2025-26.

- (ii) Mr. Singh, a resident individual, made the following payments to various persons for the purpose of remitting funds outside India for various specified purposes:
- (a) On 10-09-2025, ₹ 17 lakhs to Mr. Gagan, an Indian resident and a travel agent for purchase of an overseas tour programme package to visit Paris for 20 days. It includes all arrangements of travelling, hotel stay, lodging, boarding etc.
- (b) On 12-01-2026, ₹ 12 lakhs to M/s AM & Associates, an authorized dealer under Liberalized Remittance Scheme (LRS) of RBI for his wife medical treatment in Germany.

- (c) On 26-02-2026, ₹ 8 lakhs to M/s AM & Associates, an authorized dealer under Liberalized Remittance Scheme (LRS) of RBI for purposes other than education and medical treatment.

Mr. Singh has furnished his PAN to both M/s AM & Associates and Mr. Gagan.

17. Comment whether the following transactions undertaken during the financial year 2025-26, are required to be reported under the Statement of Financial Transaction or Reportable Account as required u/s 285BA of the Income-tax Act, 1961. Please give your answer alongwith suitable reasons and Category of Reporting Person.

- (a) Mr. Arihant purchased five bank drafts of ₹ 6 lakh each from his current A/c with State Bank of India, Kanpur;
- (b) Ms. Qatar made two-time deposits with Canara Bank, Faridabad –
- (i) A time deposit of ₹ 8.5 lakhs made on 07-08-2025 and
 - (ii) Renewal of Time deposit of ₹ 5 lakhs originally made on 1.1.2025 and renewed on 1.1.2026;
- (c) Ms. Chetna made following payments in respect of credit card payments-

• For the months of April to July, 2025	-	₹ 21,500 for each month, in cash
• For the months of Aug. to Dec., 2025	-	₹ 55,500 for each month, through bank A/c
• For the months of Jan to Mar, 2026	-	₹ 12,300 for each month, in cash

- (d) Mr. Zahir purchased garments of ₹ 1.9 lakhs in cash from M/s Arnav Designers on the occasion of his marriage. M/s Arnav Designers is liable for audit u/s 44AB of the Income-tax Act, 1961.
18. Mr. Deewan, a resident individual in India aged 46 years, received the following incomes during the FY 25-26:
- Computed Income from house property in Delhi: ₹ 6,20,000.

Incomes from the Country X and Y with whom India has Signed DTAA:

- (i) **Royalty from Country X:** ₹ 8,60,000 (Rate of tax in Country X is 10% and tax deducted at source was ₹ 86,000). As per DTAA with Country X, the royalty is only taxable in the source state.
- (ii) **Interest on securities from Country Y:** YSD 12,000 (Interest became due on 31st December 2025) and tax deducted (on 14th February 2026) YSD 1,200 (Rate of tax 10%). As per DTAA with Country Y, interest can be taxed in both the contracting states and tax credit will be available in resident state in respect of tax payable in source state.

Incomes from the Country R with whom India has not signed any DTAA:

- Agricultural income in Country R: ₹ 2,40,000 (Taxable in Country R)
- Loss from house property (computed) in Country R - ₹ 1,60,000 which is not eligible for set-off against any other income in Country R.

Income Tax Rate in Country R is 20%.

Income received in India in Foreign convertible currency before due date of filing of Income Tax Return.

TTBR rate of 1 YSD on various dates:

31.03.2025 - ₹ 83; 30.11.2025 - ₹ 80; 31.12.2025 - ₹ 82

31.01.2026 - ₹ 84; 14.02.2026 - ₹ 82; 31.03.2026 - ₹ 81

Compute the total income and net tax liability of Mr. Deewan for the A.Y. 2026-27, assuming that he has shifted out from the default tax regime. As per DTAA with Country X and Y, Mr. Deewan is resident of India.

19. Alphabet Inc., a non-resident foreign company operates a ship for carriage of goods (Marina) and a cruise ship (Bringo) for carriage of passengers between Mumbai and Singapore. It received following amounts for the year ended on 31.03.2026:

From Shipping business of carriage of goods (Marina):

- (1) Freight of ₹ 1.2 crore, demurrages of ₹ 18 lakhs and handling charges of ₹ 12 lakhs in Singapore on account of carriage of goods shipped at Mumbai port.

- (2) Freight of ₹ 1 crore received in India on account of carriage of goods shipped at Singapore port (including ₹ 12 lakhs for demurrages and ₹ 8 lakhs for handling charges).

From operation of cruise ship (Bringo):

- ₹ 8 crores in India on account of carriage of passengers from Mumbai port.
- ₹ 12 crores received outside India for tickets sold abroad for ports touching India.
- ₹ 3.5 crores interest earned (Gross) on fixed deposit maintained with an Indian Bank

Expenditures incurred for operation of these ships were ₹ 4 crores (₹ 2.90 crores with respect to Cruise Ship - Bringo and ₹ 1.10 crores for cargo ship - Marina)

Compute total income of Alphabet Inc. for the A.Y. 2026-27. Alphabet Inc. wants to opt for the applicable presumptive taxation regimes. Assuming both the ships, i.e., Marina and Bringo, fulfill all the conditions prescribed for the applicable presumptive taxation regime provided in the Income-tax Act, 1961.

20. Euphoric Ltd. having its registered office in Chennai is engaged in multiple businesses. It buys mobile phones from its parent company, Apex Inc. of Country Z. The credit period offered by Apex Inc. to Euphoric Ltd. is 3 months, whereas for other customers, the credit period is 1.5 months.

During the financial year 2025-26, 10 lakhs mobile phones were bought for an aggregate sum of ₹ 2,500 crore by Euphoric Ltd. The purchase has been uniform throughout the year. The cost of capital may be adopted as 11% per annum. Apex Inc. would have billed ₹ 2,280 crore (excluding interest component for the delay beyond 1.5 months) for supply of identical quantity of similar mobile phones to other customers.

Is there any need of any adjustments as per transfer pricing provisions?

Elaborate its impact on assessable income for the assessment year 2026-27 assuming that such adjustments are made *suo-moto* by Euphoric Ltd. Assume international transactions are denominated in Indian rupees.


SUGGESTED ANSWERS

MCQ No.	Most Appropriate Answer	
1.	(C)	₹ 4.20 crores
2.	(C)	Yes, ₹ 2.4 crores u/s 37
3.	(C)	₹ 5.30 crores is chargeable to tax in the A.Y. 2026-27 and the balance of ₹ 13.60 crores will be chargeable to tax in the previous year in which it is credited to the profit and loss account or is actually received, whichever is earlier.
4.	(B)	₹ 7.05 crores
5.	(D)	Interest is chargeable to tax in India in the hands of the Head Office; tax was deductible at source under section 195 and in the absence of deduction, the entire ₹ 7.25 crores is disallowable under section 40(a)(i).
6.	(C)	No disallowance under section 40(a)(ia), however, interest under section 201(1A) is payable
7.	(B)	Yes, BIPL can carry forward and set-off the accumulated losses of SRPG upto Assessment Year 2029-30
8.	(D)	₹ 312 crores
9.	(D)	₹ 33.60 crores
10.	(C)	The notice is invalid because it was issued in the name of an entity that had ceased to exist, the Assessing Officer having already been intimated of the amalgamation
11.	(B)	₹ 80 crores, being long-term capital gain
12.	(A)	₹ 102 crores and ₹ 16.98 crores
13.	(C)	The allotment of shares of Gamma Metals Ltd. gives rise to taxable business income under section 28, since the original shares were held as stock-in-trade and the substituted shares were freely realisable and capable of definite valuation.

14. (a) **Computation of total income and tax liability of Ritz Ltd. as per the normal provisions of the Act for A.Y. 2026-27**

Particulars	Amount (₹)	Amount (₹)
Profits and gains of business or profession		
Net profit as per Statement of Profit and loss		4,70,00,000
<i>Add:</i> Items of expenditure not allowable as deduction while computing business income		
Depreciation debited to statement of profit and loss	90,00,000	
Provision for loss of subsidiary company [Not allowable, since it is not wholly and exclusively for the purpose of business of the assessee]	50,00,000	
CSR Expenditure [Not allowable, since it is not wholly and exclusively for the purpose of business of the assessee]	10,00,000	
Capital Expenditure on Land for R&D [Not allowed as deduction by virtue of section 35(1)(iv) read with proviso to section 35(2)(ia)]	20,00,000	
Dividend declared	2,50,00,000	4,20,00,000
		8,90,00,000
<i>Less:</i> Allowable expenditure		
Depreciation as per the Income tax Rules on:		
(i) Assets other than new Plant & Machinery (P&M)	60,00,000	

(ii) New P & M @7.5% of ₹ 6 crore and additional depreciation @10%, since P&M has been put to use for less than 180 days in P.Y. 2025-26	1,05,00,000	
Less: Items of income to be treated separately under the respective head of income		
Dividend from India companies	2,00,00,000	
Excess realized on sale of land	30,00,000	3,95,00,000
		4,95,00,000
Less: Set off of brought forward business loss		40,00,000
Business income		4,55,00,000
Capital Gains		
Short term capital gains on sale of land		40,00,000
Income from other sources		
Dividend		2,00,00,000
		6,95,00,000
Less: Set-off of unabsorbed depreciation (can be set-off against any head of income except "Salaries")		35,00,000
Gross Total Income		6,60,00,000
Less: Deduction u/s 80M (Lower of dividend received and dividend distributed before one month prior to the date for furnishing the return of Income)		2,00,00,000
Total Income		4,60,00,000

Computation of tax liability	
Tax @ 25% (since turnover of P.Y 2023-24 is less than 400 crores)	1,15,00,000
Add: Surcharge @ 7% (since total income is > ₹ 1 crore < ₹ 10 crore)	8,05,000
	1,23,05,000
Add: Health and Education Cess @4%	4,92,200
Total tax liability	1,27,97,200

In order to determine the optimum tax liability, the provision of MAT also need to be checked while computing tax liability as per normal provisions of the Act.

Applicability of minimum alternate tax: As per section 115JB, if income tax payable on total income is less than 15% of its book profit, such book profit shall be deemed to be total income and tax payable shall be at the rate of 15%.

Computation of book profit u/s 115JB

Particulars	Amount (₹)	Amount (₹)
Net profit as per statement of profit and loss		4,70,00,000
Add: Depreciation debited to statement of profit and loss:	90,00,000	
Add: Provision for loss of subsidiary company	50,00,000	
Add: Dividend declared	2,50,00,000	3,90,00,000
		8,60,00,000
Less: Depreciation as per books of accounts	90,00,000	

Less: Business loss or unabsorbed depreciation whichever is lower	35,00,000	1,25,00,000
Book Profit		7,35,00,000
Computation of minimum alternate tax		
Tax @ 15% of book profit of ₹ 735 lakhs		1,10,25,000
Add: Surcharge @ 7% (since total income exceeds ₹ 1 crore)		7,71,750
		1,17,96,750
Add: Health and Education Cess@4%		4,71,870
Minimum Alternate tax payable		1,22,68,620
Since 15% of book profit is less than tax payable as per normal provisions (₹ 1,22,68,620 < ₹ 1,27,97,200), total tax liability would be computed as under:		
Tax liability as per normal provisions		1,27,97,200
Less: MAT credit brought forward to the extent of (₹ 1,27,97,200 – ₹ 1,22,68,620)		5,28,580
Tax payable under normal provisions		1,22,68,620
<u>MAT Credit to be carried forward:</u>		
MAT credit brought forward	40,00,000	
Less: MAT credit Utilized	5,28,580	
MAT Credit to be carried forward		34,71,420

**Computation of total income and tax liability of Ritz Ltd.
as per section 115BAA**

Particulars	Amount (₹)
Total Income (as computed above as per normal provisions)	4,60,00,000
<i>Add:</i> Additional depreciation on new plant & Machinery @ 10% of ₹ 6,00,00,000. Since P&M has been put to use for less than 180 days in P.Y. 2025-26	60,00,000
Total Income	5,20,00,000
Computation of tax liability under section 115BAA	
Tax @ 22% on ₹ 5,20,00,000	1,14,40,000
<i>Add:</i> Surcharge @10%	11,44,000
	1,25,84,000
<i>Add:</i> Health and Education Cess @ 4%	5,03,360
Total tax liability	1,30,87,360

Note - Companies exercising option u/s 115BAA are not liable to minimum alternate tax u/s 115JB.

Since tax liability under regular provisions is ₹ 1,22,68,620 after set-off MAT credit vis-à-vis tax liability of ₹ 1,30,87,360 computed u/s 115BAA is lower, it is not beneficial to opt for special provision u/s 115BAA for A.Y. 2026-27.

- (b) Company had opted for concessional rates u/s 115BAB:**
Company is a domestic manufacturing company set up after 01.10.2019, and it has opted for section 115BAB in its very first year, its tax liability would be computed u/s 115BAB only. Further, companies exercised option u/s 115BAB are not liable to minimum alternate tax u/s 115JB.

**Computation of total income and tax liability of Ritz Ltd.
under section 115BAB for A.Y. 2026-27**

Particulars	Amount (₹)
Total Income as computed as per section 115BAA	5,20,00,000
Computation of tax liability u/s 115BAB	
Tax @ 22% on 5 lakhs [₹ 40 lakhs - ₹ 35 lakhs, it would be beneficial to set off unabsorbed depreciation against STCG since it is taxable @ 22%]	1,10,000
Tax @ 15% on ₹ 515 lakhs (being income derived from manufacturing business)	77,25,000
	78,35,000
Add: Surcharge @ 10%	7,83,500
	86,18,500
Add: Health and Education Cess @ 4%	3,44,740
Total tax liability	89,63,240

Since company has already exercised the options under special provision of section 115BAB, there is no question of regular provisions as option cannot be withdrawn subsequently. So, tax liability would be ₹ 89,63,240.

15. Computation of Gross Total income of Mr. Abhishek and Mrs. Neetu for the A.Y. 2026-27

Particulars	Mr. Abhishek	Mrs. Neetu
Capital Gains		
Net Sales Consideration [Since the Stamp Duty Value exceed 110% of actual sales consideration, SDV is taken as sales consideration]		50,00,000
Less: Cost of Acquisition (₹ 30,00,000 + 12% of ₹ 30 lakhs)		<u>33,60,000</u>

[As per section 49(4), value considered for section 56(2)(x) would be the cost of acquisition]		
Short term capital gain on transfer of plot of land [Capital arising on transfer of land by Mr. Abhishek is taxable in the hands of Mrs. Neetu, by virtue of section 64(1)(iv). Since land is held for not more than 24 months, capital gain would be STCG]		16,40,000
Income from Other Source		
Interest on fixed deposits	5,40,000	
Commission income		7,20,000
Deemed Dividend u/s 2(22)(e)	4,40,000	
[If a closely held company gives a loan or advance to a shareholder (who holds 10% or more equity shares in the company), such loan or advance (to the extent it does not exceed accumulated profit of the company) is treated as deemed dividend u/s 2(22)(e). Accordingly, ₹ 4,40,000, being deemed dividend in the hands of Mrs. Neetu would be taxable in the hands of Mr. Abhishek by virtue of section 64(1)(iv)].		
Interest on Fixed Deposits on cross transfers	1,35,000	
[These transfers are in the nature of cross transfers. In the hands of Mr. Abhishek, interest received by Mrs. Neetu on Fixed Deposits will be included, since the cross transfer is only to the extent of ₹ 18 lakhs.		

Hence, proportionate interest i.e. ₹ 18,00,000 x 9% 10/12 = ₹ 1,35,000 will be included in the hands of Mr. Abhishek].		
Income arising on purchase of land for inadequate consideration.		10,00,000
Difference between the consideration and Stamp Duty Value at the time of acquisition since such difference is more than the higher of ₹ 50,000 and ₹ 2,00,000 (10%) of ₹ 20 lakhs. Thus, ₹ 10 lakhs (₹ 20 lakhs – ₹ 30 lakhs)		
Gross Total Income	11,15,000	33,60,000

16. **Tax deducted at source under section 194N:** Since, M/s MCD Co-operative society did not furnish income tax returns, the bank needs to deduct tax at source under section 194N as follows:

Date	Amount withdrawn	Accumulated amount of withdrawn	Rate of TDS	Amount of TDS (₹)
27.06.2025	2,50,00,000	2,50,00,000	2%	4,60,000 (2,30,00,000*2%)
18.09.2025	1,30,00,000	3,80,00,000	2% & 5%	5,00,000 (50 lakhs *2%) (80 lakhs * 5%)

TCS under section 206C(1G):

When an authorized dealer, who receives an amount for remittance from a buyer, being a person remitting such amount under the Liberalized Remittance Scheme of the Reserve Bank of India, shall collect tax at source on the amount in excess of ₹ 10 lakhs in a financial year @ 5% if such remittance is for education or medical treatment or @20% if remittance for purposes other than education and medical treatment.

When a seller of an overseas tour programme package receives any amount from a buyer of such package, shall at the time of debiting the amount or receipt of such amount, whichever is earlier, collect tax at source from the buyer, a sum equal to 5% up to ₹ 10 lakhs and 20% above ₹ 10 lakhs.

Accordingly, the following is the amount of tax collection at source:

Date	Amount of remittance	Amount of TCS (₹)	Tax collected at source by
10.09.2025	17,00,000	₹ 1,90,000 = (@ 5% on ₹ 10 lakhs)+(@20% on ₹ 7 lakhs)	Mr. Gagan
12.01.2026	12,00,000	₹ 10,000 = (5% of ₹ 2 lakhs)	M/s AM & Associates
26.02.2026	8,00,000	₹ 1,60,000 = (20% of ₹ 8 lakhs)	M/s AM & Associates

17. (a) State Bank of India, Kanpur, is **not** required to report value of bank drafts purchased by Mr. Arihant, even though aggregate value of such bank drafts i.e., ₹ 30 lakhs, exceed ₹ 10 lakhs in the F.Y. 2025-26, since such bank drafts are purchased from his current A/c and not in cash.
- (b) Canara Bank, Faridabad is **not** required to report time deposits made by Ms. Qatar, since the value of time deposits other than time deposit renewed on 1.1.2026 is only ₹ 8.5 lakhs, and hence, does not aggregate to ₹ 10 lakhs or more in the F.Y.2025-26.
- (c) The bank or institution issuing credit card is required to report cash payment made by Ms. Chetna in respect of credit card, since aggregate cash payments of ₹ 1,22,900 (₹ 21,500 x 4 + ₹ 12,300 x 3) exceeds ₹ 1 lakh in the F.Y.2025-26.

However, payment of ₹ 55,500 for each month from August 2025 to December 2025 need **not** be reported by such bank or company or institution since, aggregate value of such transactions, being ₹ 2,77,500, is less than ₹ 10 lakhs.

- (d) Payment of ₹ 1.9 lakhs by Mr. Zahir is not required to be reported by M/s Arnav Designers, since receipt of cash payment against sale of garments from Mr. Zahir does not exceed ₹ 2 lakhs.

18. Computation of total income of Mr. Deewan for A.Y.2026-27 under normal provisions of the Income-tax Act

Income from House Property		
Income from House property in Delhi (Computed)	6,20,000	
Less: Loss from House Property in Country R (Computed)	<u>1,60,000</u>	4,60,000
Profits and gains of business or profession		
Royalty from Country X (Taxable in the source state only, hence not taxable in India)	-	
Income from other Sources		
Interest on securities from Country Y (YSD 12,000 x ₹ 80, being the TTBR as on 30.11.2025, being the last day of the month immediately preceding the month in which income is due)	9,60,000	
Agricultural income in Country R	<u>2,40,000</u>	<u>12,00,000</u>
Gross Total Income		16,60,000
Computation of Net tax liability		
Tax on total income (30% of 6,60,000 plus ₹ 1,12,500)		3,10,500
Add: Health and Education Cess @4%		<u>12,420</u>
Tax liability		3,22,920
Less: Deduction u/s 91 with respect to income from Country R with which India has no DTAA (See Working Note 1 Below)		15,560

Less: Deduction u/s 90 with respect to income from Country Y with which India has DTAA (See Working Note 2 Below)		<u>1,00,800</u>
Net Tax Liability		2,06,560
Working Note 1: Deduction with respect to Country R with which India has no DTAA		
Indian Average Rate of tax = ₹ 3,22,920 / ₹ 16,60,000 x 100	19.45%	
Average rate of tax in Country R	20%	
Doubly taxed income pertaining to Country R		
Agricultural income	2,40,000	
Less: Loss from house property	<u>1,60,000</u>	
	80,000	
Deduction u/s 91 on ₹ 80,000 @19.45%, being lower average rate of tax in India (19.45%) and tax rate in Country R (20%)		15,560
Working Note 2: Deduction with respect to Country Y with which India has DTAA shall be lower of		
Tax paid in India in respect of interest on securities [₹ 9,60,000 x 19.45%]	1,86,720	
Tax paid in Country Y in respect of royalty [YSD 1,200 x ₹ 84, being the TTBR on 31.1.2026]	100,800	
Foreign tax credit = Lower of tax paid in India and Country Y		<u>1,00,800</u>

19. As per section 44B, in the case of a non-resident engaged in the business of operation of ships (other than cruise ship), 7.5% of the following amounts would be deemed to be the profits and gains from such business:

- (a) paid or payable, whether in or out of India, to the assessee or to any person on his behalf on account of the carriage passengers, livestock, mail or goods shipped at any port in India; and
- (b) received or deemed to be received in India by on behalf of the assessee on account of the carriage of passengers, livestock, mail or goods shipped at any port outside India.

The above amounts will include demurrage and handing charges.

As per section 44BBC, in the case of a non-resident engaged in the business of operation of cruise ships and satisfying the conditions specified thereunder, 20% of the following amounts would be deemed to be the profits and gains from such business:

- (a) paid or payable to the assessee or to any person on his behalf on account of the carriage of passengers and
- (b) received or deemed to be received by or on behalf of the assessee on account of the carriage of passengers.

Since Alphabet Inc. satisfy all the conditions prescribed for the purpose of section 44BBC, its total income would be computed as follows:

Particulars	Amount in crores
<u>Income from Ship for carriage of goods</u>	
Amount received in Singapore on account of carriage of goods Shipped at Mumbai port	
• Freight	1.20
• Demurrages charges	0.18
• Handling charges	0.12
Amount received in India on account of carriage of goods shipped at Singapore port	
• Freight including demurrage and handling charges	1.00
Total receipt	2.50
Less: Expenses incurred – Not allowed	Nil
Presumptive income u/s 44B @ 7.5% of 2.5 crores	0.1875

Income from Cruise Ship	
Amount received in India on account of carriage of passengers from Mumbai port	8.00
Amount received outside India for tickets sold abroad for ports touching India.	12.00
Less: Expenses incurred – Not allowed	Nil
Presumptive income u/s 44BBC @20% of ₹ 20 crores	4.00
Income from Other Sources	
Interest on Fixed Deposits	3.50
Total Income	7.6875

20. Euphoric Ltd., an Indian company, and Apex Inc. a Country Z based company are associated enterprises, since Apex Inc. is a parent company of Euphoric Ltd. Thus, the transaction of purchase of mobile phones would be an international transaction.

Apex Inc. is selling mobile phones to unrelated customers, which would be the comparable uncontrolled transaction in this case. The purchase price for unrelated customers has to be adjusted by taking into consideration the functional differences existing between the transactions of Apex Inc. with associated enterprise and other unrelated parties.

Accordingly, the arm's length price for purchase of mobile phones has to be computed for working out the impact on assessable value as per CUP method. It is called Primary Adjustment.

Computation of Arm's Length Price

	₹ In crores
Purchase price of mobile phones by unrelated parties from Apex Inc.	2,280.00
Add: Adjustment for credit period which is more than what given to unrelated party (11% x ₹ 2,280 crore/12 x 1.5 months)	31.35
Arm's length price of 10 lakh mobile phones	2,311.35

Purchase price of mobile phones by Happy Ltd. from Apex Inc.	2,500.00
Amount to be added to its Total Income (Primary adjustment)	188.65

Since amount of primary adjustment exceeds ₹ 1 crore, there is need of secondary adjustment as follows:

It has to repatriate the excess money of ₹ 188.65 crores on or before 90 days from the due date of filing of return u/s 139(1) for A.Y. 2026-27 as adjustments are made *suo moto* by Euphoric Ltd.

If the excess money is not repatriated to India within 90 days from the due date of filing of return u/s 139(1) for A.Y. 2026-27, the same shall be deemed to be an advance made by Happy Ltd to Apex inc. and the interest on such advance shall be computed at the one year marginal cost of fund lending rate of SB1 as on 1st April of the relevant previous year + 3.25%. In a case where the excess money of ₹ 188.65 crores has not been repatriated within 90 days from the due date of filing of return u/s 139(1) for A.Y. 2026-27, Euphoric Ltd. has the option to pay additional income-tax @ 20.9664% (i.e., tax@18% plus surcharge@12% plus cess@4%) on ₹ 188.65 crores.

Where additional income-tax is so paid by Euphoric Ltd., it will not be required to make secondary adjustment and compute interest from the date of payment of such tax.