

FINAL COURSE

PAPER – 4

DIRECT TAX LAWS & INTERNATIONAL TAXATION

[RELEVANT FOR MAY 2026, SEPTEMBER 2026 AND JANUARY 2027 EXAMINATIONS]

BOOKLET ON CASE SCENARIOS



BOARD OF STUDIES (ACADEMIC)
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This booklet has been prepared by the faculty of the Board of Studies (Academic). The objective of the booklet is to provide practice material to the students to enable them to prepare for the examination. In case students need any clarifications or have any suggestions to make for further improvement of the booklet, they may write to the Joint Director, Board of Studies (Academic).

All care has been taken to provide answers and its reasoning in a manner useful for the students. However, the booklet has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

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BEFORE WE BEGIN.....

Under the New Scheme of Education and Training which was introduced on 1st July, 2023, 30% of the examination assessment is by the way of Objective Type Questions at Intermediate and Final level. Therefore, to provide hands-on practice for such type of questions, BOS(A) launched MCQ Paper Practice Dashboard on 1st July, 2023. This Dashboard contains independent MCQs as well as case scenario based MCQs both for conceptual clarity and practice of the students.

In continuation to this handholding initiative and to provide quality academic inputs to the students to help them grasp the intricate aspects of the subject, the Board of Studies (Academic) has brought forth subject-wise booklets on Case Scenarios at the Intermediate and Final level. These booklets are meticulously designed to assist Chartered Accountancy (CA) students in their preparation of the CA course.

At Final level, the '**Booklet on Case Scenarios for Paper 4: Direct Tax Laws and International Taxation**' contains the case scenarios which have been answered on the basis of the provisions of the Direct Tax Laws as amended by the Finance Act, 2025, including significant circulars and notifications issued and other legislative amendments made upto 31.10.2025. The case scenario-based MCQs are all application oriented MCQs and arise from the facts of the case. At the end of each case scenario followed by MCQs, we have also provided explanations/hints for each MCQ which will enable the students to evaluate their performance and identify areas requiring further attention.

This booklet is relevant for May 2026, September 2026 and January 2027 examinations. Please note that before working out the MCQs of this booklet, students have to be thorough with the provisions discussed in the September, 2025 edition of the Study Material, which is based on the provisions of the direct tax laws as amended by the Finance Act, 2025, including significant circulars and notifications issued and other legislative amendments made upto 31.07.2025 and Judicial Update for May, 2026 examination.

Students appearing for September 2026 examination and January 2027 examination also need to go through the Statutory Update and Judicial Update for respective examinations which will be web-hosted at the BoS

Knowledge Portal containing the significant notifications, circulars and other legislative amendments made and Judicial Update upto 28.02.2026 and upto 30.06.2026, respectively.

After attaining conceptual clarity by reading the Study Material (and Statutory Update, if applicable) and Judicial Update, you are expected to apply the concepts learnt in answering the MCQs given in this booklet. You have to read the case scenarios and the MCQs, identify the provisions of tax law involved, apply the provisions correctly in addressing the issue raised/making the computation required in the MCQ, and finally, choose the correct answer. This process of learning concepts and provisions of tax laws and solving MCQs based thereon will help you attain conceptual clarity and hone your application and analytical skills so that you are able to approach the examination with confidence and a positive attitude.

We are confident that this booklet will serve as a valuable companion in your preparation journey. We encourage students to make the most of this resource by engaging deeply with the scenarios, reflecting on the MCQs, and embracing the learning process.

Best wishes for your studies and success in the CA Final Examination!

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ICAI - MCQ Case Scenario - MAY/SEP - 2026 / JAN - 2027 -

CASE SCENARIO 1

The following details pertain to Mr. Arvind and his three brothers, Mr. Arjun, Mr. Anand and Mr. Aakash. Mr. Arvind, Mr. Arjun and Mr. Anand are engaged in retail trade business. Mr. Aakash is engaged in the profession of interior decoration. All of them maintain books of account under section 44AA. While the brothers engaged in retail trade business follows mercantile system of accounting, Mr. Aakash engaged in interior decoration profession follows cash system of accounting. The details pertaining to their business for the year ending 31.3.2026 are as under –

	Particulars	Arvind B	Arjun B	Anand B
(i)	Turnover of P.Y.2025-26	₹ 95 lakhs	₹ 2.80 crore	₹ 5.00 crore X
(ii)	Amount received in cash [out of (i) above]	₹ 5 lakh	₹ 8 lakh	₹ 4 lakh
(iii)	Amount received through NEFT/RTGS on or before 31.7.2026 [out of (i) above]	₹ 85 lakh	₹ 2.65 crore CR ≤ 5% of Total T10	₹ 4.80 crore
(iv)	Total receipts in the P.Y.2025-26	₹ 1.07 crore	₹ 3.00 crore	₹ 5.50 crore
(v)	Cash receipts [out of (iv) above]	₹ 7 lakh	₹ 10 lakhs	₹ 27 lakhs
(vi)	Total payments in the P.Y. 2025-26	₹ 80 lakhs	₹ 1.60 crore	₹ 4.50 crore
(vii)	Cash payments [out of (vi) above]	₹ 5 lakhs	₹ 8.10 lakhs	₹ 22 lakhs
(viii)	Profits and gains as per books of account u/s 44AA	₹ 5.90 lakhs N ✓	₹ 15.50 lakhs P ✓	₹ 30 lakhs N ✓

Mr. Aakash's gross receipts for P.Y.2025-26 are ₹ 52 lakhs, out of which ₹ 2 lakhs has been received in cash and the remaining ₹ 50 lakhs through NEFT/RTGS. His profits as per books of account u/s 44AA for P.Y.2025-26 are ₹ 24.75 lakhs.

$$\frac{2}{52} \times 100 = 3.85\%$$

75 lakhs

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1 Which of the following individuals are eligible to declare income on presumptive basis under the provisions of the Income-tax Act, 1961 for A.Y.2026-27?

- (a) Mr. Arvind and Mr. Aakash
- (b) Mr. Arvind, Mr. Arjun, Mr. Anand and Mr. Aakash
- (c) Mr. Arvind, Mr. Arjun and Mr. Aakash
- (d) Mr. Arvind and Mr. Arjun

2 Which of the following individuals have to mandatorily get their books of account audited under section 44AB for A.Y.2026-27?

- (a) Mr. Arjun and Mr. Anand
- (b) Mr. Arjun and Mr. Arvind
- (c) Only Mr. Anand
- (d) None of them

Arvind, Arjun & Aakash are fall. presumptive income. ∴ No Audit.

$$\text{Anand} \rightarrow \frac{CP}{TP} = \frac{27}{550} \times 100 = 4.91\% \quad \left| \quad \frac{CP}{TP} = \frac{22}{450} \times 100 = 4.89\%$$

3 What is the amount of profits and gains of business chargeable to tax in the hands of Mr. Arvind, Mr. Arjun and Mr. Anand, assuming that they wish to make maximum tax savings without getting their books of account audited?

- (a) ₹ 5.50 lakhs, ₹ 16.54 lakhs and ₹ 29.12 lakhs, respectively
- (b) ₹ 5.90 lakhs, ₹ 17.10 lakhs and ₹ 30.40 lakhs, respectively
- (c) ₹ 5.90 lakhs, ₹ 17.10 lakhs and ₹ 30 lakhs, respectively
- (d) ₹ 5.50 lakhs, ₹ 15.50 lakhs and ₹ 30 lakhs, respectively.

Arvind = Normal Provision = 5.9 lakhs. → is more beneficial

$$\text{Arjun} = 280 \text{ lakhs} \begin{cases} \rightarrow 265 \text{ lakhs} \times 6\% = 15.9 \text{ lakhs} \\ \rightarrow 15 \text{ lakhs} \times 8\% = 1.2 \text{ lakhs} \end{cases} \quad \underline{17.1 \text{ lakhs}}$$

Anand = 30 lakhs → presumptive N.A. for him.

4. Would your answer to MCQ 3 (i.e., the profits and gains of business chargeable to tax in the hands of Mr. Arvind, Mr. Arjun and Mr. Anand) undergo a change, if they decide to get their books of account audited?
- (a) The profits and gains of business chargeable to tax in the hands of Mr. Arjun and Mr. Anand would undergo a change; however, there would be no change in the case of Mr. Arvind.
- (b) The profits and gains of business chargeable to tax in the hands of Mr. Anand would undergo a change; however, there would be no change in the hands of Mr. Arvind and Mr. Arjun.
- (c) The profits and gains of business chargeable to tax in the hands of Mr. Arjun would undergo a change; however, there would be no change in the hands of Mr. Arvind and Mr. Anand.
- (d) The profits and gains of business chargeable to tax in the hands of Mr. Arvind and Mr. Arjun would undergo a change; however, there would be no change in the hands of Mr. Anand.
5. What is the due date of filing of return of income of Mr. Arvind, Mr. Arjun, Mr. Anand and Mr. Aakash for A.Y.2026-27, if they wish to make maximum tax savings?
- (a) 31st July, 2026 for all of them.
- (b) 31st July, 2026 for Mr. Arvind and Mr. Aakash; and 31st October, 2025 for Mr. Arjun and Mr. Anand
- (c) 31st July, 2026 for Mr. Arvind, Mr. Aakash and Mr. Arjun; and 31st October, 2026 for Mr. Anand
- (d) 31st July, 2026 for Mr. Arvind, Mr. Aakash and Mr. Anand; and 31st October, 2026 for Mr. Arjun

will change

For Arvind
Normal is
more
beneficial.
For Anand
Audit is
N.A.

Arvind → Normal

Arjun → Audit

Anand → Normal

Aakash → Normal

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Mr. Arvind, Mr. Arjun and Mr. Aakash

Reason

Mr. Arvind is eligible to declare income on presumptive basis as his turnover is less than ₹ 1 crore. Mr. Arjun is eligible to declare income on

presumptive basis since in his case, threshold limit of ₹ 3 crore is applicable as the aggregate amount received during the previous year in cash, does not exceed 5% of the total turnover. Mr. Aakash is eligible to declare income on presumptive basis since threshold limit ₹ 75 lakhs is applicable to him as the aggregate amount received during the previous year in cash, does not exceed 5% of the total gross receipts.

2. Option (d) None of them

Reason

Mr. Anand is not liable for tax audit since threshold limit of ₹ 10 crores is applicable in his case since cash receipts and cash payments do not exceed 5% of aggregate of all receipts and all payments, respectively. Mr. Arvind, Mr. Arjun and Mr. Aakash may opt for presumptive taxation provisions, hence, not liable for tax audit.

3. Option (c) ₹ 5.90 lakhs, ₹ 17.10 lakhs and ₹ 30 lakhs, respectively

Reason

Mr. Arvind = 6% of ₹ 85 lakhs + 8% of ₹ 10 lakhs

Mr. Arjun = 6% of ₹ 2.65 crore + 8% of ₹ 15 lakhs

Mr. Anand = ₹ 30 lakhs, as per the books of account, as he is not eligible for presumptive taxation provisions.

4. Option (c) The profits and gains of business chargeable to tax in the hands of Mr. Arjun would undergo a change; however, there would be no change in the hands of Mr. Arvind and Mr. Anand.

Reason

In case of Mr. Arjun, the amount of profit as per the books of account is lower than profit computed on presumptive basis.

5. Option (d) 31st July, 2026 for Mr. Arvind, Mr. Aakash and Mr. Anand; and 31st October, 2026 for Mr. Arjun

Reason

To make maximum savings, Mr. Arjun is required to get his books of account audited. Thus, due date of filing return of income, in his case, would be 31st October 2026.

CASE SCENARIO 2

The following are the details relating to four resident entities, AB & Co., LM & Co., PQ & Co. and XY & Co. for the P.Y.2025-26 –

	Particulars	AB & Co. (Firm)	LM & Co. (Firm)	PQ & Co. (LLP)	XY & Co. (Firm)
(1)	Nature of business/ profession	Retail trading 44AD	Business of plying, hiring or leasing goods carriages	Wholesale trading No Presumptive	Interior decoration 44ADA-
(2)	System of accounting	Mercantile	Cash 44AE	Mercantile	Cash
(3)	Turnover/ Gross receipts	₹ 200 lakhs	₹ 101 lakhs	₹ 100 lakhs	₹ 50 lakhs
(4)	Amount received by way of RTGS/ NEFT in the P.Y. 2025-26 [included in (3) above]	₹ 150 lakhs	₹ 80 lakhs	₹ 70 lakhs	₹ 45 lakhs
(5)	Amount received by way of cash in the P.Y.2025-26 [included in (3) above]	₹ 30 lakhs	₹ 21 lakhs	₹ 10 lakhs	₹ 5 lakhs
(6)	Amount received by way of RTGS/ NEFT between 01.04.2026 & 31.7.2026	₹ 20 lakhs	-	₹ 20 lakhs	-
(7)	Working partners' salary	₹ 5 lakhs	₹ 1.50 lakhs	₹ 3 lakhs	₹ 5 lakhs

(8)	Interest on capital@12% to partners	₹ 1 lakh	₹ 0.50 lakh	-	₹ 2 lakhs
(9)	Profit as per books of account maintained as per section 44AA [after deducting working partners' salary and interest on capital]	₹ 5.60 lakhs	₹ 4.10 lakhs	₹ 4.50 lakhs	₹ 20 lakhs
(10)	No. of vehicles owned	-	10 (See Note 2 below for details)	-	-

Additional information:

- It may be assumed that partners' salary and interest are authorized by the partnership deed, relates to a period after the partnership deed and is within the permissible limits laid down under section 40(b).
- The details of vehicles owned by M/s. LM & Co. are as follows –

	Gross Vehicle Weight (in kgs)	Number	Date of purchase	Date when first put to use
(1)	8,000	3	28.5.2025	1.6.2025
(2)	9,000	2	31.7.2025	1.8.2025
(3)	10,000	1	17.8.2025	20.8.2025
(4)	11,000	1	30.9.2025	1.10.2025
(5)	12,000	1	11.11.2025	13.11.2025
(6)	13,000	2	31.12.2025	1.1.2026

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Which of the four entities are eligible to declare income on presumptive basis under the Income-tax Act, 1961 for A.Y.2026-27?

- (a) Only AB & Co and LM & Co.
- (b) Only AB & Co and XY & Co.
- (c) AB & Co, PQ & Co and XY & Co.
- (d) AB & Co, LM & Co and XY & Co.

LLP not eligible.

2. What is the business income to be declared by AB & Co. and PQ & Co. for A.Y.2026-27, assuming that the entities wish to make maximum tax savings without getting their books of account audited?

- (a) ₹ 12.60 lakhs and ₹ 4.50 lakhs, respectively
- (b) ₹ 6.60 lakhs and ₹ 3.20 lakhs, respectively
- (c) ₹ 5.60 lakhs and ₹ 4.50 lakhs, respectively
- (d) ₹ 13 lakhs and ₹ 6.60 lakhs, respectively

PQ & Co. :-
 PGBP = 4.5 l
 after remuneration

3. What is the business income to be declared by LM & Co. for A.Y.2026-27, assuming that the firm wishes to make maximum tax savings without getting its books of account audited?

- (a) ₹ 4,48,000
- (b) ₹ 6,36,500
- (c) ₹ 4,36,500
- (d) ₹ 4,10,000

636500
 (-) Rem & Int } (200000)
 436500

4. What is the income to be declared by XY & Co. under the head "Profits and gains of business or profession" for A.Y.2026-27, assuming that the firm wishes to make maximum tax savings, without getting its books of account audited?

- (a) ₹ 18 lakhs
- (b) ₹ 20 lakhs

PGBP = 50% x 50l = 25l
 44ADA
No dedn of Rem & Int.

AB & Co
 200l
 170l x 6% + 30l x 8%
 = 12.6l
 No dedn of Rem & Int. to partner

- TF Audit done then PGBP will be lower i.e.
 ₹ 410000
- IF Audit done, then PGBP will be lower i.e.
 ₹. 201015
- (c) ₹ 25 lakhs
- (d) ₹ 22.50 lakhs
5. Would your answer to MCQ 3 and 4 change, if the firms decide to get their books of account audited?
- (a) No, there would be no change in the answer to either MCQ 3 and 4
- (b) Yes, there would be change in the answer to both MCQ 3 and 4
- (c) There would be a change in the answer to MCQ 3 but not in the answer to MCQ 4
- (d) There would be a change in the answer to MCQ 4 but not in the answer to MCQ 3

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** AB & Co, LM & Co and XY & Co.

Reason

As PQ & Co. is an LLP, it is not eligible for presumptive taxation provisions. Other entities are satisfying the provisions of presumptive taxation.

2. **Option (a)** ₹ 12.60 lakhs and ₹ 4.50 lakhs, respectively

Reason

AB & Co. = 6% of ₹ 1.70 crore + 8% of ₹ 0.30 crore

PQ & Co. = ₹ 4.50 lakhs, being profits as per books of accounts

3. **Option (c)** ₹ 4,36,500

Reason

₹ 6,36,500 [For heavy goods vehicle = ₹ 1,000/ton x 13 x 4 x 2 + For Other = ₹ 7,500/month x [(3x11) + (9x2) + (1x8) + (1x7) + (1x5)] less ₹ 1.5 lakhs, being remuneration to partners and ₹ 0.5 lakhs, being interest on capital

4. **Option (c)** ₹ 25 lakhs

Reason

₹ 25 lakhs, being 50% of ₹ 50 lakhs

5. **Option (b)** Yes, there would be change in the answer to both MCQ 3 and 4

Reason

Business income computed as per books of account is lower than the profits computed as per presumptive provisions for both LM & Co. and XY & Co.

CASE SCENARIO 3

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer of automobile spare parts, for ₹ 100 lakhs on 1.1.2026, when the stamp duty value was ₹ 120 lakhs. The agreement was, however, entered into on 1.9.2025 when the stamp duty value was ₹ 110 lakhs. Mr. Hari had received a down payment of ₹ 15 lakhs by NEFT from Mr. Rajesh on the date of agreement. Mr. Hari has purchased the building for ₹ 50 lakhs on 12.7.2024.

Mr. Hari's brother, Mr. Ravi, a retail trader, sold a residential house to Mr. Vallish, a wholesale trader for ₹ 50 lakhs on 1.2.2026, when the stamp duty value was ₹ 70 lakhs. The agreement was, however, entered into on 1.8.2025 when the stamp duty value was ₹ 55 lakhs. Mr. Ravi had received a down payment of ₹ 5 lakhs by a crossed cheque from Mr. Vallish on the date of agreement. Mr. Ravi has purchased the building for ₹ 32 lakhs on 17.8.2024. STCA.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. What is the amount of income chargeable to tax in the hands of Mr. Hari in respect of the transaction of sale of the building to Mr. Rajesh and under which head is it taxable?

- (a) ₹ 70 lakh is taxable as his business income
 (b) ₹ 60 lakh is taxable as his business income
 (c) ₹ 50 lakh is taxable as his business income
 (d) ₹ 50 lakh is taxable as short-term capital gains

PGBP Income:-
 SDU on Date of Agreement → Rs. 110. Lakhs
 SP → 100L.
 ∴ FVC → 43CA → 100L

2. Is any amount taxable in the hands of Mr. Rajesh in respect of the transaction of purchase of building from Mr. Hari? If so, what is the amount and under which head is it taxable?

- (a) No amount is taxable in the hands of Mr. Rajesh
 (b) ₹ 20 lakh is taxable under the head "Income from Other Sources"

FVC → 100L
 (-) COST → (50L)
PGBP 50L

Not Taxable as
 difference between
 SW & Price is
 upto 110%.

- (c) ₹ 10 lakh is taxable under the head "Income from Other Sources"
- (d) ₹ 10 lakh is taxable as his business income

3. What is the amount of income chargeable to tax in the hands of Mr. Ravi in respect of the transaction of sale of residential house to Mr. Vallish and under which head is it taxable?

- (a) ₹ 18 lakh is taxable as short-term capital gains
- (b) ₹ 23 lakh is taxable as short-term capital gains
- (c) ₹ 38 lakh is taxable as short-term capital gains
- (d) ₹ 18 lakh is taxable as his business income

FVC
(-) COA
STCG
as PPT is less than 2 years.

FOL
(32-l)
38l

SDV = FOL ✓
SP = SOL

4. Is any amount taxable in the hands of Mr. Vallish in respect of the transaction of purchase of residential house from Mr. Ravi? If so, what is the amount and under which head is it taxable?

- (a) No amount is taxable in the hands of Mr. Vallish
- (b) ₹ 20 lakh is taxable under the head "Income from Other Sources"
- (c) ₹ 5 lakh is taxable under the head "Income from Other Sources"
- (d) ₹ 5 lakh is taxable as his business income

Vallish:
Purchase = SOL
price
SDV = FOL
IFOS: 20l

5. Is tax deductible by Mr. Rajesh and Mr. Vallish on making payment to the seller?

- (a) Yes, tax is deductible at source by both Mr. Rajesh and Mr. Vallish
- (b) No, tax is not deductible at source by either Mr. Rajesh or Mr. Vallish
- (c) Tax is deductible at source by Mr. Rajesh but not by Mr. Vallish
- (d) Tax is deductible at source by Mr. Vallish but not Mr. Rajesh

Yes: as per sec 194-IA
SP or SDV is
→ Rs 50-lacs.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 50 lakh is taxable as his business income

Reason

Since Mr. Hari is a property dealer, the profit on sale of building will be business income.

₹ 100 lakhs, the actual consideration would be full value of consideration as stamp duty value (SDV) as on the date of agreement does not exceed 110% of the sale consideration. SDV as on the date agreement would be considered since part of the consideration is received by way of NEFT on the date of agreement.

Accordingly, business income would be ₹ 100 lakhs less ₹ 50 lakhs.

2. Option (a) No amount is taxable in the hands of Mr. Rajesh

As per section 56(2)(x), SDV as on agreement date ₹ 100 lakhs will be considered in this case as part of the consideration is paid by way of NEFT on the date of agreement and the SDV as on that date does not exceed 110% of the sale consideration. Hence, no amount will be taxable in the hands of Mr. Rajesh

3. Option (c) ₹ 38 lakh is taxable as short-term capital gains

Reason

₹ 70 lakhs, SDV as on the date of transfer would be the full value of consideration as stamp duty value (SDV) as on that date exceed 110% of the actual sale consideration. SDV as on the date of agreement would not be considered since down payment is received by way of crossed cheque on that date.

Accordingly, STCG would ₹ 38 lakhs [₹ 70 lakhs – ₹ 38 lakhs]

4. Option (b) ₹ 20 lakh is taxable under the head "Income from Other Sources"

Reason

The difference between the sale consideration and the SDV as on transfer date will be taxable as per section 56(2)(x) in the hands Mr. Vallish, since it exceeds higher of ₹ 50,000 and 10% of actual consideration.

5. Option (a) Yes, tax is deductible at source by both Mr. Rajesh and Mr. Vallish

Tax is deductible as per section 194-IA since actual consideration or SDV are more than ₹ 50 lakhs.

CASE SCENARIO 4

The following are the particulars relating to four Indian companies, namely, A Ltd., B Ltd., C Ltd. and D Ltd. –

Particulars	A Ltd.	B Ltd.
Date of setting up/registration	1.9.2020	1.11.2025
Main object	Manufacture of steel	Manufacture of apparel
Place	Madhya Pradesh	Warangal in Telangana
Value of new plant and machinery installed and put to use on the date of setting up of the company	₹ 10 crore	₹ 4 crore
Gross Total Income of P.Y.2025-26	₹ 4.90 crore	₹ 2.80 crore
No. of new employees employed on the date of setting up of the company	1000	1000
Monthly emoluments to employees by account payee cheque:		
500 employees	₹ 24,000 per employee	₹ 24,000 per employee
500 employees	₹ 25,100 per employee	₹ 26,000 per employee
Particulars	C Ltd.	D Ltd.
Date of setting up/ registration	1.4.2000	1.1.2005
Main object	Trading in leather goods	Trading in food grains
Place	Tamil Nadu	Karnataka
Turnover		
P.Y.2021-22	₹ 347 crore	₹ 201 crore
P.Y.2022-23	₹ 395 crore	₹ 225 crore
P.Y.2023-24	₹ 499 crore	₹ 251 crore
P.Y.2024-25	₹ 350 crore	₹ 342 crore
P.Y.2025-26	₹ 424 crore	₹ 380 crore

x 10% Addn
Deq = 40%

307. ₹ 499 crore → 257

Details of income returned & assessed for A.Y.2026-27		
As per return of income filed	₹ 14 crores	₹ 17 crores
Income determined u/s 143(1)(a)	₹ 16 crores	₹ 20 crores
Income assessed u/s 143(3)	₹ 20 crores	₹ 22 crores

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. What would be the tax liability (rounded off) of B Ltd. for A.Y.2026-27, if it avails the beneficial tax rates under the concessional tax provisions of section 115BAA, by fulfilling the conditions specified thereunder? Assume that the gross total income reflects the computation under the special provisions.

(a) ₹ 70,47,040

(b) ₹ 22,88,000

(c) ₹ 25,16,800

(d) ₹ 17,16,000

G.T.I. : 2,80,00,000

(-) 80JJA -

24,00,000 x 5 x 500 x = (1,80,00,000)
30%

1,00,00,000 x 22% + 10% + 4%
= 25,16,800/-

115BAA -

No Add'n
Depn

2. What would be the tax liability (rounded off) of A Ltd. for A.Y.2026-27, if it avails the beneficial tax rates under the special provisions of section 115BAA, by fulfilling the conditions specified thereunder? Assume that the gross total income reflects the computation under the special provisions.

(a) ₹ 1,23,32,320

(b) ₹ 59,89,980

(c) ₹ 14,59,740

(d) ₹ 9,95,280

G.T.I. 4,90,00,000

(-) 80JJA (N.A. as 3 yrs expired)

4,90,00,000 x 22% + 10% + 4%

Tax = 1,23,32,320/-

3. What would be the total income (rounded off) of A Ltd. and B Ltd. for A.Y.2026-27, if they do not opt for the special provisions of section 115BAA? Assume that the gross total income reflects the computation under the special provisions.

A Ltd.:

4,90,00,000

B Ltd.:

G.T.I. : 2,80,00,000

(-) CHVA → (1,80,00,000)

(-) Add'n Depn → (40,00,000)

60,00,000/-

- (a) ₹ 2,90,00,000; ₹ 2,40,00,000
 (b) ₹ 58,00,000; ₹ 2,40,00,000
 (c) ₹ 2,90,00,000; ₹ 60,00,000
 (d) ₹ 4,90,00,000; ₹ 60,00,000
4. What would be the quantum of penalty payable by C Ltd. under section 270A, assuming that the under-reporting of income is not due to misreporting and none of the additions made in the assessment qualifies under section 270A(6)? Assume that C Ltd. has not opted for the special provisions under section 115BAA.

- (a) ₹ 58,24,000
 (b) ₹ 69,88,800
 (c) ₹ 87,36,000
 (d) ₹ 1,04,83,200
- UPI = 20cr - 16cr = 4cr
 Tax = 4cr x 30% + 12% + 4% = 13977600
 Penalty = 50% = 69,88,800/-

5. What would be the quantum of penalty payable by D Ltd. under section 270A, assuming that the under-reporting of income is due to misreporting? Assume that D Ltd. has not opted for the special provisions under section 115BAB.

- (a) ₹ 1,16,48,000
 (b) ₹ 1,39,77,600
 (c) ₹ 2,91,20,000
 (d) ₹ 3,49,44,000
- UPI = 22cr - 20cr = 2cr
 Tax = 2cr x 25% + 12% + 4% = 5824000
 Penalty = 200% = 1,16,48,000/-

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 25,16,800

Reason

Even if B Ltd. opt for concessional tax regime under section 115BAA, deduction under section 80JJAA is allowable. Accordingly, total income would be ₹ 2.8 crores less deduction u/s 80JJAA of ₹ 1.8 crores. Tax liability would be computed @25.168% of ₹ 1 crore.

2. Option (a) ₹ 1,23,32,320**Reason**

As per section 115BAA, tax liability would be computed @25.168% of ₹ 4.9 crores.

3. Option (d) ₹ 4,90,00,000; ₹ 60,00,000**Reason**

A Ltd. - No additional deduction available

B Ltd.- Eligible to claim additional depreciation @10% (being 50% of the rate of 20%) of ₹ 4 crores and deduction under section 80JJAA.

4. Option (b) ₹ 69,88,800**Reason**

Penalty = 50% of tax on under-reported income

Under-reported income = ₹ 4 crores

Tax @30% plus surcharge @12% plus HEC @4% on under-reported income = ₹ 6,98,88,000 i.e., tax on ₹ 20 crores [₹ 16 crores computed as per the intimation under section 143(1) + ₹ 4 crores of under-reported income] – ₹ 5,59,10,400 i.e., tax on ₹ 16 crores [income computed as per the intimation under section 143(1)] = ₹ 1,39,77,600

Penalty = ₹ 69,88,800

5. Option (a) ₹ 1,16,48,000**Reason**

Penalty for mis-reporting of income = 200% of tax on under-reported income

Under-reported income = ₹ 2 crores

Tax @25% plus surcharge @12% plus HEC @4% on under-reported income = ₹ 6,40,64,000 i.e., tax on ₹ 22 crores [₹ 20 crores computed as per the intimation under section 143(1) + ₹ 2 crores of under-reported income] – ₹ 5,82,40,000 i.e., tax on ₹ 20 crores [income computed as per the intimation under section 143(1)] = ₹ 58,24,000

Penalty = ₹ 1,16,48,000

CASE SCENARIO 5

A business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the P.Y.2025-26:

- (i) Interest income from Z Ltd. – ₹ 10 lakh;
- (ii) Dividend income from Z Ltd. – ₹ 5 lakh;
- (iii) Short-term capital gains on sale of listed shares on 31.10.2025 (STT paid both at the time of purchase and sale) of Indian companies – ₹ 4 lakh;
- (iv) Short-term capital gains on sale of developmental properties on 13.4.2025 – ₹ 8 lakh
- (v) Interest received from investments in unlisted debentures of real estate companies – ₹ 1 lakh;
- (vi) Rental income from directly owned real estate assets – ₹ 20 lakh

Z Ltd. is an Indian company in which the business trust holds 100% of the shareholding. Z Ltd. does **not** opt to pay tax under section 115BAA.

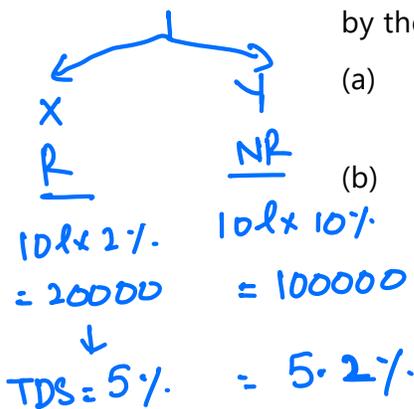
Assume that the business trust has distributed the entire ₹ 48 lakh to the unit holders in P.Y. 2025-26 in the month of March, 2026. Mr. X is a resident holder holding 100 units and Mr. Y is a non-resident holder holding 500 units. The total number of units subscribed to by all unit holders is 5,000.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. In respect of the component of interest income from Z Ltd. distributed by the business trust to unit-holders X and Y -

- (a) No tax is deductible by the business trust, since such income is not taxable in the hands of unit holders
- (b) Tax is deductible @5% on ₹ 20,000 distributed to Mr. X and @5.2% on ₹ 1 lakh distributed to Mr. Y



- (c) Tax is deductible@10% on ₹ 20,000 distributed to Mr. X and @5.2% on ₹ 1 lakh distributed to Mr. Y
- (d) Tax is deductible@10% on ₹ 20,000 distributed to Mr. X and 10.4% on ₹ 1 lakh distributed to Mr. Y
2. In respect of short-term capital gains of ₹ 4 lakh on sale of listed shares of Indian companies and ₹ 8 lakh on sale of developmental properties. -

BIT will pay:
 STCG u/s-111A=
 20%+4%

STCG on Prop=
 MMR →

- (a) The business trust is liable to pay tax@15% plus HEC @4% and at MMR, respectively
- (b) The business trust is liable to pay tax at MMR
- (c) The business trust enjoys pass through status and hence, it need not pay any tax on such short-term capital gains; such income is subject to tax in the hands of unit-holders
- (d) The business trust is liable to pay tax@20% plus HEC @4% and at MMR, respectively
3. The dividend component of income from Z Ltd., distributed to unit-holders X and Y -

Exempt for REIT

&

Exempt for unitholders
 as SPV not opted
 for 115BAA.

- (a) would be subject to distribution tax in the hands of Z Ltd., hence exempt in the hands of the business trust and the unit holders
- (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of the unitholders X and Y
- (c) is taxable in the hands of the business trust; hence, exempt in the hands of the unitholders
- (d) is exempt in the hands of the business trust and in the hands of the unit holders

4. If Z Ltd. exercises option under section 115BAA, then, the dividend component of income from Z Ltd., distributed to unit-holders X and Y-

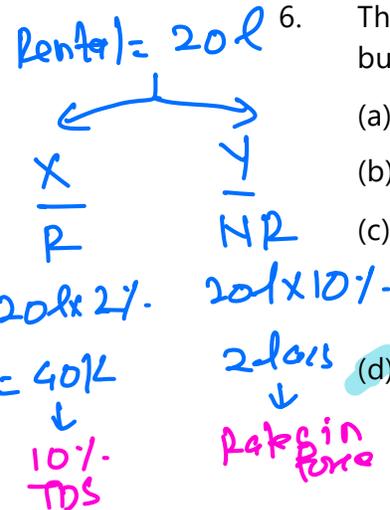
Exempt for
 REIT, &
 Taxable for
 X & Y.

- (a) would be subject to distribution tax in the hands of Z Ltd., hence exempt in the hands of the business trust and the unit holders
- (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of X and Y

- (c) is taxable in the hands of the business trust; hence, exempt in the hands of the X and Y
 - (d) is exempt in the hands of the business trust and in the hands of the unit holders X and Y
5. Interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be -
- (a) subject to tax in the hands of the unit holders
 - (b) subject to tax in the hands of the business trust @30%
 - (c) subject to tax in the hands of the business trust at MMR
 - (d) subject to tax in the hands of the business trust at the average rate of tax

6. The rental component of income from real estate assets received by the business trust and distributed to its unit holders X and Y would be-

- (a) subject to tax in the hands of the business trust at MMR
- (b) subject to tax in the hands of the business trust@31.2%
- (c) subject to tax in the hands of the unit-holder X@10% (on ₹ 40,000) and Y@ the rates in force (on ₹ 2,00,000); such tax has to be deducted at source by the business trust
- (d) subject to tax in the hands of the unit-holders X and Y; business trust has to deduct tax@10% on ₹ 40,000 distributed to X and at the rates in force on ₹ 2,00,000 distributed to Y



ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Tax is deductible@10% on ₹ 20,000 distributed to Mr. X and @5.2% on ₹ 1 lakh distributed to Mr. Y

Reason

TDS rates as per section 194LBA are applicable.

2. **Option (d)** The business trust is liable to pay tax@20% *plus* HEC @4% and at MMR, respectively

Reason

STCG on sale of listed shares of Indian companies and STCG on sale of developmental properties are taxable in the hands of business trust @20% *plus* HEC @4% as per section 111A and at MMR, respectively.

3. **Option (d)** is exempt in the hands of the business trust and in the hands of the unit holders

Reason

Dividend income is exempt in the hands of unitholders as well as Z Ltd., since Z Ltd., being a SPV, has not exercised the option under section 115BAA.

4. **Option (b)** is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of X and Y

Reason

Dividend income would not be exempt in the hands of unitholders since Z Ltd., being a SPV has exercised the option under section 115BAA.

5. **Option (c)** subject to tax in the hands of the business trust at MMR

Reason

Interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be subject to tax in the hands of the business trust at MMR.

6. **Option (d)** subject to tax in the hands of the unit-holders X and Y; business trust has to deduct tax@10% on ₹ 40,000 distributed to X and at the rates in force on ₹ 2,00,000 distributed to Y

Reason

The rental component of income from real estate assets received by the business trust and distributed to its unit holders is taxable in the hands of unit holders at the applicable tax rates. In respect of such income, tax is deductible by the business trust at the rates specified under section 194LBA.

CASE SCENARIO 6

M/s. MNO is a firm liable to tax@30%. The following are the particulars furnished by the firm for A.Y.2026-27:

	Particulars of total income	₹
(1)	As per the return of income furnished u/s 139(1)	40,00,000
(2)	Determined under section 143(1)(a)	50,00,000
(3)	Assessed under section 143(3)	65,00,000
(4)	Reassessed under section 147	85,00,000

Mr. N, a resident individual (aged 58 years) and a partner of the above firm, has not furnished his return of income for A.Y.2026-27. However, his total income assessed in respect of such year under section 144 is ₹ 15 lakh.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

- M/s. MNO is deemed to have under-reported its income since its:
 - income determined u/s 143(1)(a) exceeds its income declared as per return of income furnished u/s 139(1) ✗
 - income assessed u/s 143(3) exceeds its income determined u/s 143(1)(a) ✓
 - income reassessed u/s 147 exceeds its income assessed u/s 143(3) ✓

The correct answer is -

- (1) and (2) above
 - (1) and (3) above
 - (2) and (3) above
 - (1), (2) and (3) above
- Mr. N is deemed to have under-reported his income since:
 - He is a partner of a firm which has under-reported its income ✗

- (2) He has not filed his return of income ✓
 (3) His assessed income exceeds the maximum amount not chargeable to tax ✓

The correct answer is -

- (a) (1) and (2) above
 (b) (1) and (3) above
 (c) (2) and (3) above
 (d) (1), (2) and (3) above
3. Assuming that the underreporting of income is **not on account of misreporting** and none of the additions or disallowances made in assessment qualifies u/s 270A(6), penalty leviable on M/s. MNO u/s 270A at the time of assessment u/s 143(3) would be:

- (a) ₹ 3,12,000
 (b) ₹ 1,56,000
 (c) ₹ 4,68,000
 (d) ₹ 2,34,000

$$\begin{aligned} \text{UPI} &= 65\text{l} - 50\text{l} = 15\text{l} \\ \text{Tax on } 15\text{l} &= 15\text{l} \times 31.2\% = 468000 \\ \text{Penalty} &= 50\% = 234000. \end{aligned}$$

4. Assuming that the underreporting of income **is on account of misreporting**, penalty leviable on M/s. MNO under section 270A at the time of reassessment u/s 147 would be:

- (a) ₹ 3,12,000
 (b) ₹ 2,34,000
 (c) ₹ 12,48,000
 (d) ₹ 6,24,000

$$\begin{aligned} \text{UPI} &= 85\text{l} - 65\text{l} = 20\text{l} \\ \text{Tax on } 20\text{l} &= 20\text{l} \times 31.2\% = 624000 \\ \text{Penalty} &= 200\% = 12,48,000/- \end{aligned}$$

5. Assuming that the under-reporting of income is **not on account of misreporting**, the under-reported income of Mr. N and penalty leviable on Mr. N u/s 270A would be:

- (a) Under-reported income ₹ 15,00,000; penalty ₹ 1,36,500
 (b) Under-reported income ₹ 12,50,000; penalty ₹ 52,000
 (c) Under-reported income ₹ 11,00,000; penalty ₹ 54,600 ✓
 (d) Under-reported income ₹ 11,00,000; penalty ₹ 1,09,200

$$\begin{aligned} \text{UPI} &= \text{Assed Income} - \text{Basic exemption limit} \\ &= 15\text{l} - 4\text{l} = 11\text{l} \\ \text{Tax on Rs } 15\text{l} &= 1,05,000/- \end{aligned}$$

$$\text{Penalty} = 50\% = 54,600/-$$

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** (2) and (3) above

Reason

As per section 270A, if income determined u/s 143(1)(a) exceeds its income declared as per return of income furnished u/s 139(1), such excess would not be deemed as under-reported income.

2. **Option (c)** (2) and (3) above

As per section 270A, a person is considered to have under-reported his income if he has not filed his return of income and his assessed income exceeds the maximum amount not chargeable to tax.

3. **Option (d)** ₹ 2,34,000

Reason

Penalty = 50% of tax on under-reported income

Under-reported income = ₹ 15 lakhs

Tax on under-reported income = ₹ 20,28,000 i.e., tax @30% plus HEC @4% on ₹ 65 lakhs [₹ 50 lakhs computed as per the intimation under section 143(1)(a) + ₹ 15 lakhs of under-reported income] – ₹ 15,60,000 i.e., tax @30% plus HEC @4% on ₹ 50 lakhs [income computed as per the intimation under section 143(1)(a)] = ₹ 4,68,000

Penalty = ₹ 2,34,000

4. **Option (c)** ₹ 12,48,000

Reason

Penalty = 200% of tax on under-reported income

Under-reported income = ₹ 20 lakhs

Tax on under-reported income = ₹ 26,52,000 i.e., tax @30% plus HEC @4% on ₹ 85 lakhs [₹ 65 lakhs computed as per the order under section 147 + ₹ 20 lakhs of under-reported income] – ₹ 20,28,000 i.e., tax @30% plus HEC @4% on ₹ 65 lakhs [income computed as per the order under section 147] = ₹ 6,24,000

Penalty = ₹ 12,48,000

5. **Option (c)** Under-reported income ₹ 11,00,000; penalty ₹ 54,600

Reason

Tax is required to be computed as per default tax regime under section 115BAC after adding basic exemption limit of ₹ 4,00,000 to the under-reported income of ₹ 11,00,000.

Penalty = 50% of (tax on ₹ 15,00,000 *plus* HEC @4%)

CASE SCENARIO 7

Mr. Manoj (aged 45 years) is a resident Indian who has the following life insurance policies, some of which are ULIPs. The details of such policies are given hereunder:

Particulars	A	B	C (ULIP)	D (ULIP)	E (ULIP)	F (ULIP)
Date of issue	1.4.2016	1.4.2017	1.2.2021	1.1.2021	1.3.2021	1.4.2021
Annual premium	₹ 50,000	₹ 40,000	₹ 1,00,000	₹ 3,00,000	₹ 1,40,000	₹ 2,50,000
Date when premium falls due every year	1 st April	1 st April	1 st Feb	1 st Jan <i>Exempt</i>	1 st March	1 st April
Date of maturity	31.3.2026	31.3.2026	31.1.2030	31.12.2030	28.2.2030	31.3.2030
Consideration received on maturity (including bonus)	₹ 7,00,000 <i>80C 50000 ✓ = 85,000</i>	₹ 4,00,000 <i>35000 80C = 85,000</i>	₹ 11,00,000	₹ 32,00,000	₹ 17,00,000	₹ 28,00,000
Sum assured	₹ 6,00,000	₹ 3,50,000	₹ 10,00,000	₹ 30,00,000	₹ 15,00,000	₹ 25,00,000

Mr. Manoj has exercised the option to shift out of the default tax regime under section 115BAC. *OLD Regime.*

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Which are the life insurance policies (excluding ULIPs) in respect of which Mr. Manoj would be eligible for exemption under section 10(10D) in respect of maturity proceeds and what is the quantum of deduction which would be available under section 80C in respect of premium paid on such policies for A.Y.2026-27? Assume that Mr. Manoj does not have any ULIPs only for the purpose of answering this MCQ.

(a) A and B; ₹ 90,000

Policy A:-

$$\frac{50000}{600000} \times 100$$

$$= 8.33\%$$

Policy B is Taxable as AP > 10%.

- (b) A and B; ₹ 85,000
 (c) Only A; ₹ 50,000
 (d) Only A; ₹ 85,000 → 50000 + 35000

2. Which are the ULIPs in respect of which Mr. Manoj would be eligible for exemption under section 10(10D) in respect of maturity proceeds? Choose the option most beneficial to Mr. Manoj.

- (a) Only C and E
 (b) Only F
 (c) Only C, D and E
 (d) Only D and F

D is exempt as it was issued before 1/2/2004. Option ②: only F.

Taxable Amt = 28l - 2.5l * 9 = 50000

3. Considering the option chosen in MCQ 2 above, what would be the capital gains computed under section 45(1B) in the hands of Mr. Manoj for A.Y.2030-31? Assume that, for the purpose of this MCQ, no consideration was received prior to the maturity date in case of any ULIP.

- (a) ₹ 11,40,000
 (b) ₹ 10,50,000
 (c) ₹ 5,50,000
 (d) ₹ 6,40,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** Only A; ₹ 85,000

Reason

Since annual premium of policy A does not exceed 10% of the sum assured, the same would be exempt, by virtue of section 10(10D). Deduction u/s 80C would be ₹ 85,000, i.e., ₹ 50,000 (Policy A) and ₹ 35,000, being 10% of actual sum assured (Policy B).

2. Option (c) Only C, D and E**Reason**

Since the Policy D is issued before 01.02.2021 and the annual premium does not exceed 10% of the sum assured, the same is exempt.

Since taxable maturity proceeds ₹ 2,00,000 (₹ 11,00,000 - ₹ 9,00,000) of Policy C and ₹ 4,40,000 (₹ 17,00,000 - 12,60,000) of Policy E together is higher than maturity proceeds of ₹ 5,50,000 of Policy F and aggregate premium in respect of such policies does not exceed ₹ 2,50,000, it would be beneficial to claim policy C and E as exempt.

3. Option (c) ₹ 5,50,000**Reason**

Refer calculation of maturity proceeds given in MCQ 2.

CASE SCENARIO 8

Mr. Sunil, Mr. Sriram and Mr. Shyam are three brothers, who are resident Indians engaged in independent retail trade business of food grains in Pune, Thane and Nagpur, respectively. Their turnover for F.Y.2024-25 were ₹ 9 crores, ₹ 10 crores and ₹ 12 crores, respectively. They regularly purchase food grains from another resident, Mr. Ashwath, a wholesaler in Mumbai. The turnover of Mr. Ashwath for F.Y.2024-25 was ₹ 18 crores.

They all follow mercantile system of accounting. The aggregate amount credited by the brothers to the account of Mr. Ashwath during each month of the F.Y.2025-26 is shown in the table below. It may be assumed that the entire amount relating to Mr. Ashwath for a particular month is credited to his account on the last date of that month and is paid entirely on the last date of the immediately following month. Likewise, Mr. Ashwath also debits the accounts of Mr. Sunil, Mr. Sriram and Mr. Shyam on the last date of the month with the amount of sales effected during each month.

Month	Value of purchases from Mr. Ashwath		
	Mr. Sunil	Mr. Sriram	Mr. Shyam
	₹	₹	₹
April, 2025	5.90 lakhs	7.50 lakhs	9.80 lakhs
May, 2025	7.10 lakhs	6.85 lakhs	8.75 lakhs
June, 2025	8.20 lakhs	8.20 lakhs	9.45 lakhs
July, 2025	6.80 lakhs	6.45 lakhs	6.80 lakhs
August, 2025	4.90 lakhs	5.95 lakhs	6.30 lakhs
September, 2025	5.80 lakhs	7.10 lakhs	8.15 lakhs
October, 2025	7.20 lakhs	8.60 lakhs	7.80 lakhs
November, 2025	6.70 lakhs	6.80 lakhs	9.10 lakhs
December, 2025	8.10 lakhs	7.85 lakhs	7.90 lakhs
January, 2026	9.00 lakhs	8.90 lakhs	8.25 lakhs
February, 2026	7.90 lakhs	6.70 lakhs	7.95 lakhs
March, 2026	8.40 lakhs	9.10 lakhs	7.75 lakhs
Total	86 lakhs	90 lakhs	98 lakhs

57-051
→ Paid in NOV.

Mr. Sunil's friend Mr. Krishna, who commenced retail trade business in April, 2025, entered into a one-time transaction with Mr. Ashwath for purchase of food grains for ₹ 60 lakhs on 30th June, 2025, on which date he credited the said sum to the account of Mr. Ashwath. He, however, paid the said sum to him only on 2nd July, 2025.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Are the provisions of TDS under the Income-tax Act, 1961 attracted in respect of purchase transactions with Mr. Ashwath? If so, in whose hands, at what rate and at what point of time? Ignore one time transaction of Mr. Sunil's friend, Mr. Krishna, for the purpose of this MCQ.
 - (a) Mr. Sriram and Mr. Shyam are liable to deduct tax at source @1% on the amount of each purchase made (after crossing the threshold limit of ₹ 50 lakhs), at the time of payment to Mr. Ashwath towards such purchase (i.e., from 30.11.2025 onwards)
 - (b) Mr. Sriram and Mr. Shyam are liable to deduct tax at source @0.1% on the amount of each purchase (after crossing the threshold limit of ₹ 50 lakhs), at the time of credit of such amount to Mr. Ashwath's account (i.e., from 31.10.2025 onwards)
 - (c) Mr. Shyam is liable to deduct tax at source @0.1% on the amount of each purchase (after crossing the threshold limit of ₹ 50 lakhs) at the time of credit of such amount to Mr. Ashwath's account (i.e., from 31.10.2025 onwards).
 - (d) Mr. Shyam is liable to deduct tax at source @1% on the amount of each purchase made (after crossing the threshold limit of ₹ 50 lakhs) at the time of payment to Mr. Ashwath towards such purchase (i.e., from 30.11.2025 onwards).

2. What would be the applicable rate of TDS, if Mr. Ashwath fails to furnish PAN to the deductor (based on answer to MCQ 1)?
- (a) 20%
- (b) 5%
- (c) 0.5%
- (d) 1%
3. What would be the TDS/TCS implication in respect of the single purchase transaction by Mr. Krishna from Mr. Ashwath?
- (a) Mr. Krishna has to deduct tax at source on 30.6.2025 on ₹ 10 lakhs, being the amount in excess of the threshold of ₹ 50 lakhs.
- (b) Mr. Krishna has to deduct tax at source on 2.7.2025 on ₹ 10 lakhs
- (c) Mr. Ashwath has to collect tax at source on 30.6.2025 on ₹ 10 lakhs, being the amount in excess of the threshold of ₹ 50 lakhs.
- (d) No TDS/TCS implication in the above case.

No TDS u/s- 194Q as it is first year of Business,

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Mr. Shyam is liable to deduct tax at source @0.1% on the amount of each purchase (after crossing the threshold limit of ₹ 50 lakhs) at the time of credit of such amount to Mr. Ashwath's account (i.e., from 31.10.2025 onwards).

Reason

Since Mr. Shyam's turnover for the F.Y. 2024-25 exceeds ₹ 10 crores, he is liable to deduct tax at source u/s 194Q.

2. **Option (b)** 5%

Reason

As per section 206AA tax is to be deducted at higher rate of 5% on account of non-furnishing of PAN.

3. **Option (d)** No TDS/ TCS implication on the above case.

Reason

Since Mr. Krishna commenced his business in the P.Y. 2025-26, the condition of turnover exceeding ₹ 10 crores cannot be satisfied. Thus, in the present case, Mr. Krishna is not required to deduct tax at source in respect of purchase made from Mr. Ashwath. Further, w.e.f. 1.4.2025, on sale of goods, no TCS is required to be collected even if seller's turnover of the preceding financial year exceeds ₹ 10 crores and provisions of section 194H are not applicable.

CASE SCENARIO 9

Mr. B is an interior decorator by profession. He also delivers online lectures on interior decoration via an e-commerce platform – Indeco-Academy. The relevant information from Mr. B's Indeco-Academy account is given hereunder:

Date of Credit of services to account of Mr. B	Date of Payment to Mr. B	Value of Services Provided (₹)
31.05.2025	10.06.2025	2,00,000 ✓
31.10.2025	10.10.2025	1,50,000 ✓
31.03.2025	10.04.2026	1,40,000 ✓

In addition to the above, Mr. B received ₹ 20,000 on 18.02.2026 directly from a student instead of through the Indeco-Academy payment portal. Mr. B has not furnished his PAN or Aadhar number to Indeco-Academy but has furnished his driving license for KYC requirements. *Not Relevant - 5% TDS.*

On 05.05.2025, Mr. B provided interior decorating services to Mr. N in Mumbai having business turnover of ₹ 1.2 crores during P.Y. 2024-25 for his office premises as well as residential premises, the consideration for which was ₹ 80,000 and ₹ 60,000, respectively. Mr. B has provided his PAN details to Mr. N for invoicing purpose.

Mr. B's gross receipts from interior decoration profession (excluding fees for online lectures) from clients in India (including Mr. N) in total in the P.Y. 2025-26 is ₹ 40 lakhs. ✓ ①

Fortunately, Mr. B got one client based in Country A (with which India does not have a DTAA) from whom he received ₹ 3,50,000 as net income after deduction of ₹ 50,000 as foreign tax. ④

Profits of Mr. B computed as per books of account maintained under section 44AA is ₹ 24 lakhs. He has, however, not got his books of account audited.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Is Indeco-Academy required to deduct tax at source on amount received/receivable by Mr. B? If so, what is the amount of tax to be deducted?

- (a) No tax is required to be deducted at source
 (b) Yes; ₹ 5,100
 (c) Yes; ₹ 25,500
 (d) Yes; ₹ 510

$510000 \times 5\%$ as PAN not given.
 otherwise @ 0.1% X

2. Is Mr. N required to deduct tax at source under section 194J? If so, what is the amount of tax to be deducted?

- (a) No tax is required to be deducted at source u/s 194J
 (b) Yes; ₹ 1,000
 (c) Yes; ₹ 8,000
 (d) Yes; ₹ 10,000

$80000 \times 10\%$
 $8,000$

LY TPO of Mr N > 1cr.
 \therefore 194J is applicable on office & not personal use

3. Is Mr. N required to deduct tax at source under section 194M? If so, what is the amount of tax to be deducted?

- (a) No tax is required to be deducted at source u/s 194M
 (b) Yes; ₹ 600
 (c) Yes; ₹ 1,200
 (d) Yes; ₹ 3,000

No, as ≤ 50 lacs.

4. What is Mr. B's gross income-tax liability for the P.Y.2025-26, assuming that he has opted out of the default tax regime u/s 115BAC?

- (a) ₹ 5,70,960
 (b) ₹ 4,91,400
 (c) ₹ 5,08,560
 (d) ₹ 5,53,800

$$= 510000 + 40,00,000 + 400000$$

$$= 49,10,000 \times 50\%$$

$$= 24,55,000 \rightarrow T.I$$

$$\text{Tax as per OLD Regime} = 570960/-$$

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Yes; ₹ 25,500

Reason

Amount of ₹ 20,000 paid by a student directly to Mr. B would be deemed to be amount credited or paid by the e-commerce platform – Indeco-Academy to Mr. B as per section 194-O.

As the PAN is not provided by Mr. B, tax will be deducted at higher rate of 5% as per section 206AA.

2. **Option (c)** Yes; ₹ 8,000

Reason

TDS is applicable only on ₹ 80,000 u/s 194J @10% as second payment of ₹ 60,000 is for personal purposes. Thus, TDS is not applicable on such payment.

3. **Option (a)** No tax is required to be deducted at source u/s 194M.

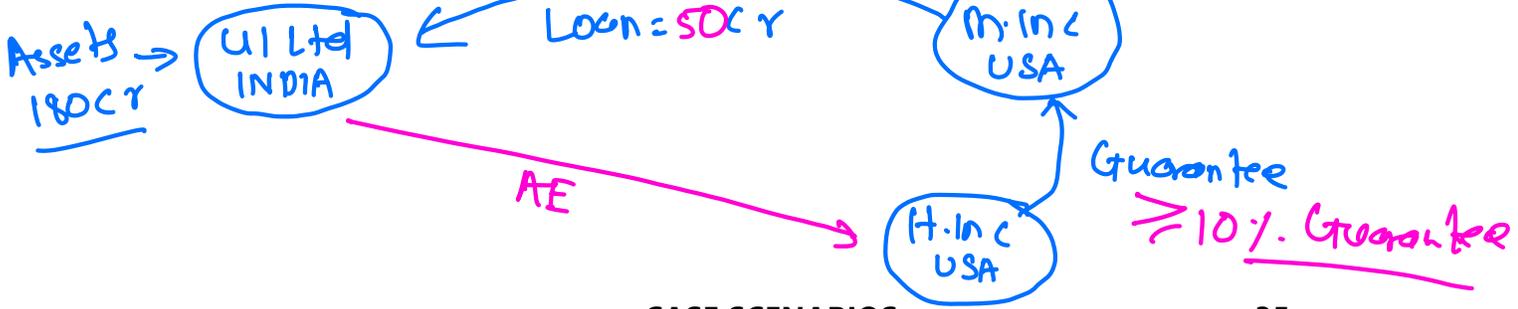
Reason

Section 194M is not applicable, as payment to Mr. B does not exceed ₹ 50 lakhs.

4. **Option (a)** ₹ 5,70,960

Reason

As per section 44ADA, the income will be 50% of total receipts of ₹ 49,10,000 (₹ 5,10,000 from Indeco-Academy + ₹ 40,00,000 from interior decoration + ₹ 4,00,000 from Country A) = ₹ 24,55,000. Tax on ₹ 24,55,000 as per the normal provisions of the Act would be ₹ 5,70,960.



CASE SCENARIOS

CASE SCENARIO 10

On 1.4.2025, UI Ltd., an Indian company, borrowed ₹ 50 crores @ 9.5% p.a. from M Inc., a US entity, thereby increasing its total borrowings to ₹ 65 crores. The said loan is guaranteed by H Inc., another US entity. The place of effective management of both M Inc. and H Inc. is in the USA. The total assets of UI Ltd. is ₹ 180 crores.

UI Ltd. imported turbo equipment worth ₹ 30 crores from H Inc. Import duty of ₹ 4.50 crores on the same was paid by UI Ltd. The equipment was sold to T Ltd. for ₹ 40 crores. Normal GP margin of UI Ltd. in similar uncontrolled transaction is 20% on sale.

Net profit of UI Ltd. of A.Y.2026-27 was ₹ 8 crores after debiting interest of ₹ 6 crores (out of which ₹ 1.25 crores interest pertaining to local borrowings), depreciation of ₹ 2.5 crores and income tax of ₹ 1.5 crores.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. What is the amount of interest to be allowed in the computation of total income of UI Ltd. for A.Y. 2026-27, if for A.Y. 2025-26 there was an interest expenditure disallowed to the extent of ₹ 4 crores under section 94B?

- (a) ₹ 6,65,00,000
- (b) ₹ 4,75,00,000
- (c) ₹ 6,00,00,000
- (d) ₹ 3,65,00,000

EBITDA = 8Cr + 6Cr + 2.5Cr + 1.5Cr = 18Cr
 ∴ upto 30% of EBITDA Allowed: 5.4Cr
 Local Borrow(+) 1.25Cr
 = 6.65Cr

2. The transfer pricing adjustment for the arm's length purchase price to be made in the computation of total income of UI Ltd. for A.Y. 2026-27 would be -

- (a) ₹ 3,00,00,000
- (b) ₹ 2,50,00,000

R.P method:
 Resale price 40Cr
 (-) GP margin (20%)

 32Cr
 (-) Import Duty (4.5Cr)

 27.5Cr
 ALP 27.5Cr
 Actual Price 30Cr
 (+) Add. -> 2.5Cr

Break up:
 ① 50Cr x 9.5% = 4.75
 ② LY DIA = 0.65
 5.4Cr
 1.25Cr
 (f)

- (c) ₹ 2,00,00,000
- (d) No adjustment is required, since transfer pricing adjustment cannot result in reduction of income
3. If UI Ltd. repatriated the excess money on 31.03.2027, what will be the interest income that would be added to its total income of A.Y.2027-28, if SBI's one-year marginal of lending rate is 11.25% on 1.4.2026 and 10.25% on 1.4.2027? Assume that UI Ltd. *suo motu* made the primary adjustment in its books of account and filed its return for A.Y.2026-27 on 30.11.2026.
- (a) ₹ 12,01,712 $2.5 \text{ cr} \times 14.5\% \times \frac{121}{365} = 1201712$
 (11.25% + 3.25%)
- (b) ₹ 12,08,333
- (c) ₹ 9,32,363
- (d) ₹ 8,49,486
4. If UI Ltd. decides not to repatriate the excess money and instead, pay additional income-tax on the entire excess money, then, what would be the additional income-tax payable?
- (a) ₹ 62,89,920
- (b) ₹ 52,41,600 $2.5 \text{ cr} \times 20.9664\%$
- (c) ₹ 41,93,280
- (d) ₹ 53,87,200
5. If UI Ltd. decides to pay additional income-tax on the entire excess money on 15.03.2027, should interest be calculated and added to its total income of A.Y.2027-28? If so, what is the amount to be added? Assume that SBI one-year marginal cost of lending rate is 11.25% on 1.4.2026 and 10.25% on 1.4.2027 -
- (a) No, since it has paid additional income-tax on the entire excess money in the P.Y.2026-26
- (b) Yes; ₹ 9,70,890
- (c) Yes; ₹ 10,42,808 $2.5 \text{ cr} \times 14.5\% \times \frac{105}{365}$
- (d) Yes; ₹ 8,09,075

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** ₹ 6,65,00,000

Reason

H Inc. is deemed to be the AE of UI Ltd. since it guarantees 76.92% (which exceeds 10% or more) of the total borrowings of UI Ltd. Since H Inc., being an AE provides guarantee to M Inc., the loan would be deemed to have been issued by an AE to UL Ltd.

Thus, the provisions of section 94B would be applicable with respect to the interest of ₹ 4.75 cr. (₹ 50 cr. x 9.5%).

Maximum allowance interest = 30% of EBIDTA of ₹ 18 crores (₹ 8 cr. + ₹ 6 cr. + ₹ 2.5 cr. + ₹ 1.5 cr.) = ₹ 5.4 crores

Interest allowed as deduction = ₹ 4.75 crores + ₹ 0.65, being interest disallowed of P.Y. 2024-25 + ₹ 1.25 (interest on local borrowings)

2. **Option (b)** ₹ 2,50,00,000

Reason

Arm's length price = ₹ 32 crores [₹ 40 crores – ₹ 8 crores (20% on ₹ 40 crores)]

Transaction price = ₹ 34.50 crores

Transfer pricing adjustments = ₹ 2.5 crores

3. **Option (a)** ₹ 12,01,712

Reason

₹ 12,01,712 = ₹ 2.5 crores x 14.5% (11.25% + 3.25%) x 121/365.

4. **Option (b)** ₹ 52,41,600

Reason

The additional income-tax will be calculated @20.9664% on the amount of adjustment of ₹ 2.5 crores.

5. **Option (c)** Yes; ₹ 10,42,808

Reason

₹ 10,42,808 = ₹ 2.5 crores x 14.5% x 105/365

CASE SCENARIO 11

A co-operative bank provides the following information relating to cash withdrawals by its two customers during the P.Y.2025-26:

Date of cash withdrawal	Mr. A (Savings Account) (₹)	Mr. B (Current Account) (₹)
05.04.2025	20,00,000	-
10.05.2025	-	18,00,000
25.06.2025	25,00,000	-
17.07.2025	-	5,00,000
28.10.2025	35,00,000	-
10.11.2025	-	38,00,000
12.12.2025	25,00,000	-
02.01.2026	-	37,00,000

Mr. B has not filed his return of income for the last three years whereas Mr. A has been regularly filing his return of income. No other customer of the co-operative bank had withdrawn more than ₹ 10 lakhs during the P.Y. 2025-26.

One of the customers of the co-operative bank, Mr. K paid ₹ 12 lakhs out of bills for ₹ 15 lakhs raised in respect of the credit card account by account payee cheque and was declared bankrupt thereafter. The actual bad debts of the bank (including bad debts on account of Mr. K) during the P.Y. 2025-26 were ₹ 20 lakhs. The aggregate average advances made by its rural branches were ₹ 120 lakhs. The gross total income of the bank, before any deduction under section 36(1)(vii)/36(1)(viii) for A.Y. 2026-27 is ₹ 100 lakhs.

A notice was issued to the co-operative bank on 30.09.2026 by the prescribed income tax authority requiring it to furnish the statement of financial transaction by 30.10.2026 as the co-operative bank had failed to do so. The co-operative bank, however, furnished the statement only on 25.11.2026.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. The amount of income-tax that is required to be deducted by the co-operative bank under section 194N during the P.Y.2025-26 in respect of withdrawals by Mr. A and Mr. B are -

- (a) ₹ 25,000 and Nil, respectively
- (b) ₹ 10,000 and ₹ 3,90,000, respectively
- (c) ₹ 10,000 and ₹ 1,56,000, respectively
- (d) ₹ 2,10,000 and ₹ 1,96,000, respectively

Mr A :-
105L
5L x 2%.
 Regularly files

Mr B :-
98L
78L x 2%.
 = 156000
 NOT Regular.

2. Identify the accounts which are required to be reported in relation to the specified financial transactions in the statement of financial transaction by the co-operative bank, based on the above-mentioned facts, for P.Y. 2025-26.

- (a) Only B
- (b) K and B
- (c) A and B
- (d) A, K and B

① Current A/c withdrawal of ₹ 5L or more
 ② Credit card bill of ₹ 1L or more.

3. What is the amount of penalty leviable under section 271FA?

- (a) ₹ 1,01,500
- (b) ₹ 1,17,000
- (c) ₹ 89,000
- (d) ₹ 1,02,000

₹ 500 x Delay no. of day
 day (1/6 → 30/10)
 ₹ 1000 after notice period end.

4. Let us assume that, on 26.02.2026, as a result of business reorganisation, the co-operative bank got succeeded by another co-operative bank. Assuming that the deduction allowable u/s 32 for the P.Y. 2025-26 is ₹ 3,50,000 and that the predecessor co-operative bank had incurred expenditure of ₹ 30,00,000 during the P.Y.2023-24 on voluntary retirement scheme for its employees, what is the aggregate deduction allowable to predecessor co-operative bank u/s 32 and 35DDA for the P.Y.2025-26?

- (a) ₹ 8,64,110
- (b) ₹ 3,17,397

Sec 44DB:
 Predecessor : Successor -
 331 : 34 DAYS
 Dep 317397
 VPS 544110
 6L ←
 881507

(c) ₹ 8,61,507

(d) ₹ 9,17,397

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 10,000 and ₹ 1,56,000, respectively

Reason

For Mr. A – TDS rate will be 2% on withdrawals above ₹ 1 crores. For Mr. B – TDS rate will be 2% on withdrawals above ₹ 20 lakhs, since he has not filed his return of income for the last three years.

2. **Option (b)** K and B

Reason

Co-operative bank is required to report in relation to the specified financial transactions of -

Mr. K, since he paid ₹ 10 lakhs or more in respect of the credit card account by account payee cheque.

Mr. B, since his cash withdrawals exceed ₹ 50 lakhs in a financial year from current account.

3. **Option (d)** ₹ 1,02,000

Reason

Penalty = ₹ 1,02,000 [₹ 500 per day x 152 days (from 01.06.2026 to 30.10.2026) and ₹ 1,000 per day x 26 days (from 31.10.2026 to 25.11.2026)]

4. **Option (c)** ₹ 8,61,507

Reason

As per section 44DB, the amount will be apportioned to the predecessor co-operative bank as per the number of days comprised from 1st April of the P.Y. and ending on the day immediately preceding the date of business reorganization i.e., 25.02.2026, in the present case. Accordingly, deduction to the predecessor co-operative bank would be ₹ 8,61,507 [₹ 9,50,000 (₹ 3,50,000 + ₹ 6,00,000, being 1/5th of ₹ 30,00,000) x 331/365].

CASE SCENARIO 12

X Pvt. Ltd. ("X") is an Indian company. Y Inc ("Y") is a private company incorporated in the USA and its income is not chargeable to tax in India. Both are promoted by Mr. Ayush who holds 30% equity share capital and voting power in both X and Y. The balance sheet of X as on 31st March, 2026 is as follows:

Liabilities	Amount (₹ million)	Assets	Amount (₹ million)
Paid up capital	250	Fixed Assets	700
Loans:	800	Investments	300
From Y	620	Cash and bank balance	200
From others	180		
Current liabilities	150		
Total	1,200	Total	1,200

$\frac{620}{1200} = 51.67\%$
 $\therefore AE$

Additional information:

- (i) The loan was advanced by Y to X on 1st July, 2025 in rupee terms and carries 6.5% p.a. rate of interest. For borrowers with similar risk profile who are not associated enterprises of Y, Y advances loan at 4% p.a. interest rate.
- (ii) X has maintained such information and document in respect of the international transaction as has been prescribed under section 92D but has not reported the transaction as an international transaction. X does not make any adjustment to its total income on account of application of provisions of Chapter X of the Income-tax Act, 1961 in its return of income.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Are X and Y associated enterprises? If so, why?
- Yes, X and Y are associated enterprises because Mr. Ayush holds voting power of 30% in both the companies.
 - Yes, X and Y are associated enterprises as not less than 75% of X's total loans have been availed from Y.
 - Yes, X and Y are associated enterprises since the loan advanced by Y to X is not less than 51% of the book value of X's total assets.
 - No, X and Y are not associated enterprises

The most appropriate answer is -

- Only (i)
 - (i) and (ii)
 - (i) and (iii)
 - Only (iv)
2. What is the amount of primary adjustment required to be made to the total income of X for A.Y.2026-27?
- ₹ 1,16,25,000
 - ₹ 58,12,500
 - ₹ 1,55,00,000
 - ₹ 77,50,000
- $62cr \times 2.5\% \times \frac{9}{12} = 1,16,25,000/-$
(6.5% - 4%)
3. If X has accepted the primary adjustment made by the Assessing Officer on 31.3.2027, what should X do if it does not want to treat the excess money as deemed advance?
- The excess money which is available to Y, has to be repatriated to India within 90 days from the due date of filing of return.
 - The excess money which is available to Y, has to be repatriated to India within 90 days from the date of order of the Assessing Officer.

- (c) X has to pay additional income-tax @20.9664% on the excess money.
- (d) Either (b) or (c)
4. If X has accepted the primary adjustment made by the Assessing Officer on 31.3.2027 and the excess money has not been repatriated into India upto 31.3.2028, what would be the consequence if X has not opted to pay additional income-tax? Assume that SBI one-year marginal cost of lending rate is 10% on 1.4.2027 and 11% on 1.4.2028.
- (a) Interest of ₹ 16,56,563 has to be added to its total income for P.Y.2027-28
- (b) Interest of ₹ 11,60,509 has to be added to its total income for P.Y.2027-28
- (c) Interest of ₹ 15,40,313 has to be added to its total income for P.Y.2027-28
- (d) Interest of ₹ 20,53,750 has to be added to its total income for P.Y.2027-28
5. Which factor is relevant in determining whether penalty under section 270A of the Income-tax Act, 1961 will be leviable in respect of the primary adjustment to X's total income?
- (a) Since X has maintained information and documents as prescribed under section 92D, that by itself is sufficient for holding that X has not under-reported its income
- (b) If the Assessing Officer/Transfer Pricing Officer makes adjustment to X's total income on account of an international transaction not being in accordance with arm's length price, that by itself is sufficient to hold that X has under-reported its income; consequently, penalty u/s 270A is leviable
- (c) Since X has not reported the transaction as an international transaction, X will be considered to have under-reported its income and penalty will be 50% of the amount of tax payable on the under-reported income

$$1,16,25,000 \times 13.25\% = 15,40,313$$

- (d) Since X has **not reported** the transaction as an international transaction, X will be **considered to have misreported** its income and penalty will be **200%** of the amount of tax payable on the misreported income

6. In the scenario given above, what would be the situation on account of application of transfer pricing provisions if X, the Indian company would have been the lender and Y, the US company, the borrower?

Rate of interest on loan by X to Y = 6.5% p.a.

For borrowers with similar risk profile who are not associated enterprises of X, X advances loan at 4% p.a. interest rate.

- (a) Identical adjustment would be made to the income of Y instead of X
- (b) No adjustment would be required in the hands of X or Y
- (c) Identical adjustment would be made to the income Y as well as X
- (d) Adjustment would still be made to the income of X and no adjustment would be made to the income of Y

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** (i) and (iii)

Reason

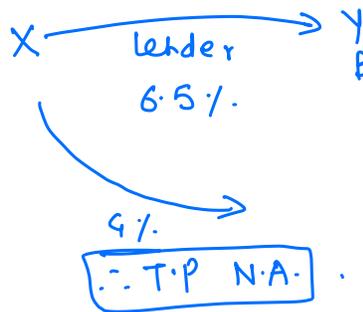
In the present case, X and Y are associated enterprises because of any of the following reasons:

- Mr. Ayush holds voting power of 26% or more in both the companies
- Loan advanced by Y to X is not less than 51% of the book value of X's total assets.

2. **Option (a)** ₹ 1,16,25,000

Reason

Primary adjustment of interest = ₹ 620 million x 2.5% (6.5% - 4%) x 9/12



3. **Option (d)** Either (b) or (c)

X has to repatriate the excess money which is available to Y, to India within 90 days from the date of order of the Assessing Officer or he has the option to pay additional income-tax @20.9664% on the excess money for not deeming excess money as advance.

4. **Option (c)** Interest of ₹ 15,40,313 has to be added to its total income for P.Y.2027-28

Reason

$$₹ 15,40,313 = ₹ 1,16,25,000 \times 13.25\% (10\% + 3.25\%)$$

5. **Option (d)** Since X has not reported the transaction as an international transaction, X will be considered to have misreported its income and penalty will be 200% of the amount of tax payable on the misreported income

6. **Option (b)** No adjustment would be required in the hands of X or Y

Reason

Transfer pricing provisions are not applicable if it has the effect of reducing the income chargeable to tax or increasing the loss. In the present case, since X has given loan to Y at higher rate than to other unrelated entities, no transfer pricing adjustment would be made.

CASE SCENARIO 13

LPG, a partnership firm, is engaged in the business of manufacturing of garments. It furnishes you the following data for the year ended 31.3.2026.

Profit & Loss Account

Particulars	₹	Particulars	₹
Expenses	2,36,00,000	Gross Turnover	2,55,00,000
Interest to partners (including ₹ 1,20,000 paid to Gopal for loan given by Gopal HUF)	5,40,000		
Salary to Partners:			
Jay (₹ 30,000 p.m.) ✓			
Gopal (₹ 28,000 p.m.) ✓			
Madhav (₹ 16,000 p.m.) X	8,88,000		
Net Profit	4,72,000		
	2,55,00,000		2,55,00,000

sleeping →

→ HUF is not a partner

Other Information:

- The partners share profits and losses equally.
- During the P.Y. 2024-25, the firm had incurred a business loss of ₹ 3,00,000 and unabsorbed depreciation of ₹ 1,50,000. *Allowed in Co(b):*
- On 01.04.2025, Mr. Jayesh, a partner died and his legal heir Mr. Jay got admitted on same date. Another partner, Mr. Raj, also retired on the same date. *Prop Loss Not Allowed UAD Fully allowed.*
- Mr. Madhav is not actively engaged in conducting the affairs of the business of the firm while Mr. Jay and Mr. Gopal are actively engaged in conducting the affairs of the business. ✓
- Interest@16% p.a. for the first time on partner's capital was paid from 01.07.2025. The clause for the same was, however, entered in the partnership deed on 01.01.2026. Salary paid to partners is authorized by the partnership deed since inception.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. How much interest can the firm claim as deduction for A.Y. 2026-27?

- (a) ₹ 5,40,000
 - (b) ₹ 4,35,000
 - (c) ₹ 2,25,000
 - (d) ₹ 1,05,000
- Handwritten notes:*
 $120000 (+) 420000 \times \frac{12}{100} = 108000$
 $120000 + 108000 = 228000$
 $228000 \times 12\% \times \frac{3}{12} = 108000$
 $\therefore 228000 - 108000 = 120000$
 (Note: The handwritten calculation in the image seems to be for a different question or contains errors. The correct calculation for interest deduction is based on the principal amount and the rate of interest.)

2. How much salary can the firm claim as deduction for A.Y.2026-27?

- (a) ₹ 10,05,000
- (b) ₹ 8,88,000
- (c) ₹ 8,70,000
- (d) ₹ 6,96,000

3. The business loss and unabsorbed depreciation allowed to be set off while computing total income of the firm for A.Y. 2026-27 are -

- (a) ₹ 3,00,000 and ₹ 1,50,000, respectively
 - (b) ₹ 2,25,000 and ₹ 1,50,000, respectively
 - (c) ₹ 1,50,000 and ₹ 1,12,500, respectively
 - (d) ₹ 2,25,000 and ₹ 1,12,500, respectively
- Handwritten notes:*
 one partner Mr. Raj got retired. \therefore his proportionate shall not be allowed to set off \rightarrow Sec 78(2).
 $\therefore 300000 \times \frac{1}{4} = 75000$ not Allowed

4. What would be the total income of the firm for A.Y.2026-27?

- (a) ₹ 6,30,250
- (b) ₹ 4,12,000
- (c) ₹ 6,04,000
- (d) ₹ 5,29,000

Handwritten note: BIP - Remu Allowed - Loss.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c) ₹ 2,25,000

Reason

As per section 40(b), maximum interest on capital allowable to partner is 12% from the date on which such clause is entered in the partnership deed.

Interest allowable u/s 40(b) = ₹ 1,05,000 [(₹ 5,40,000 – ₹ 1,20,000) × 100/16 × 12/9 × 12% × 3/12]

₹ 1,20,000, being the amount paid to Gopal for loan given by Gopal HUF is also allowed as deduction.

2. Option (d) ₹ 6,96,000

Reason

As per section 40(b), maximum remuneration allowable to working partner is prescribed below.

Prescribed limit

Book Profit	Quantum
On the first ₹ 6 lakhs of book profit or in case of loss	₹ 3,00,000 or 90% of book profit, whichever is higher
On the balance of book profit	60% of book profit

Salary paid to Jay and Gopal will be allowed as deduction, since they both are working partners. Actual salary paid to Jay and Gopal = ₹ 58,000 × 12 = ₹ 6,96,000

Book Profit = ₹ 4,72,000 + ₹ 8,88,000, being salary debited + ₹ 5,40,000, interest debited - ₹ 2,25,000, being interest allowed - ₹ 1,50,000, being unabsorbed depreciation = ₹ 15,25,000

Maximum salary as per prescribed limit = ₹ 10,95,000

Accordingly, allowable salary is lower of prescribed limit or actual salary paid i.e., ₹ 6,96,000.

3. **Option (b)** ₹ 2,25,000 and ₹ 1,50,000, respectively

Reason

As per section 78, loss of retired partner is not allowed to be carried forward and set off. Further, since the business of Jayesh is succeeded by Mr. Jay by way of inheritance in the same capacity in the firm, his share can be carried forward. Thus, in the present case, ₹ 75,000 being 1/4th share of Mr. Raj not allowed to be carried forward and set off.

4. **Option (c)** ₹ 6,04,000

Reason

Book profit = ₹ 15,25,000

Less: Remuneration allowed u/s 40(b) = ₹ 6,96,000

Less: Brought forward business loss = ₹ 2,25,000

Total income = ₹ 6,04,000

CASE SCENARIO 14

X Ltd. ("X") is an Indian company incorporated on 1st October, 2023 with the objective of manufacturing medicines using state-of-the-art technology previously unused in India.

It commences production from 1st December, 2023 from its newly-constructed manufacturing facility in Uttar Pradesh; its registered office is also situated at the said manufacturing facility.

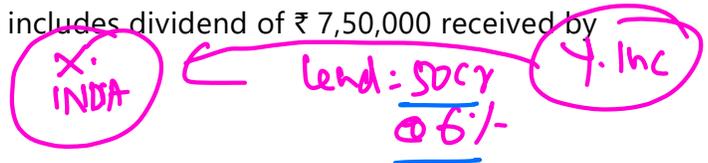
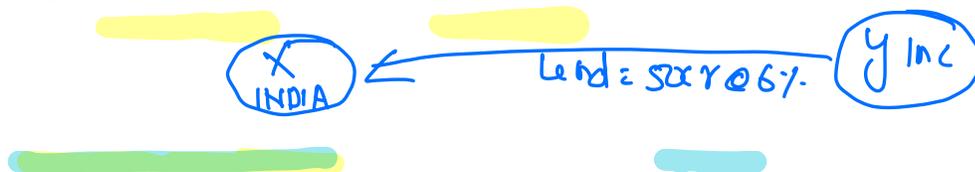
Y Inc ("Y") is a private company incorporated in a foreign jurisdiction. X holds 30% share in the nominal value of the equity share capital of Y. Y lent an amount of ₹ 50 crores @ 6% p.a. to X on 1st April 2025 and X paid the interest due for the F.Y. 2025-26 on 31st March, 2026. The transaction is at arm's length price and X has not availed any other loan.

Profit before giving effect to interest, tax and depreciation allowance of X for F.Y. 2025-26 is ₹ 6,00,00,000, which includes dividend of ₹ 7,50,000 received by X from Y on 1st July, 2025.

Additional information:

- (i) X has registered a patent in India for treatment of a novel virus which it has developed in collaboration with Y. 90% of the total expenditure for developing the patent has been incurred by X in at its manufacturing facility in Uttar Pradesh while the remaining has been incurred by Y outside India.
- (ii) X receives royalty of ₹ 5 crore by permitting other companies to use its patent. The total expenditure incurred for earning such royalty is ₹ 42,00,000.

From the information given above, choose the most appropriate answer to the following questions:



Resident

115BBF-
10% Tax
without
any dedn.

MULTIPLE CHOICE QUESTIONS

1. What would be the amount of disallowance, if any, of interest paid by X to Y in computation of total income of X for A.Y.2026-27?

(a) No disallowance is attracted since the transaction is at arm's length. *Sec 94B → Disallowance is lower of:*

(b) ₹ 3,00,00,000 *① 30000000 - 30% of 6cr = 1.2cr*

(c) ₹ 1,20,00,000 *② Int paid to A.E = 3cr*

(d) ₹ 1,80,00,000

1.2cr

2. At what rate of tax, will income of X from manufacturing business and dividend be taxed, assuming that X opts for the special provisions of section 115BAA? Ignore surcharge and health and education cess.

(a) 15% and 15%, respectively

(b) 22%, for all income referred to above.

(c) 15% and 22%, respectively

(d) 15% and 30%, respectively

These are general incomes.

3. Which of the statements is correct as regards taxability of royalty in the hands of X?

(a) Royalty of ₹ 5 crore is taxable @ 15% u/s 115BBF

(b) Royalty of ₹ 5 crore is taxable @ 10% u/s 115BBF

(c) Royalty of ₹ 4.58 crore (₹ 5 crore less expenditure of ₹ 42 lakh) is taxable @ 10% u/s 115BBF

(d) Royalty of ₹ 5 crore is not eligible for concessional rate of tax u/s 115BBF, since the entire expenditure for development of patent was not incurred in India

4. If X desires to avail the beneficial rate of taxation provided under section 115BAA, then:

(a) it cannot claim deduction u/s 32(1)(ii) as well as deduction u/s 80JJAA

- (b) it can claim deduction u/s 32(1)(ia) as well as u/s 80JJAA
- (c) it can claim deduction u/s 32(1)(ii) but cannot claim deduction u/s 80JJAA
- (d) it cannot claim deduction u/s 32(1)(ia) but can claim deduction u/s 80JJAA

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 1,20,00,000

Reason

Interest on loan taken from Y, is allowed to the extent of 30% of ₹ 6,00,00,000 (EBITDA) as per section 94B.

2. **Option (b)** 22%, for all income referred to above.

Reason

As per section 115BAA, these incomes are taxable @ 22%.

3. **Option (b)** Royalty of ₹ 5 crore is taxable @10% u/s 115BBF

Reason

No expenditure is allowed while paying tax as per section 115BBF and thus, royalty income from patent developed and registered in India is taxable @10%.

4. **Option (d)** it cannot claim deduction u/s 32(1)(ia) but can claim deduction u/s 80JJAA

Reason

Additional depreciation is not allowed under the concessional tax regime u/s 115BAA. However, deduction u/s 80JJAA is allowed.

CASE SCENARIO 15

DEF Inc., a company incorporated under the laws of Country A, is engaged in management consultancy services. It has set up a branch office in India. India has a DTAA with Country A. \therefore MAT Applicable. \rightarrow Foreign Co

During the F.Y. 2025-26, it earns the following income in India -

- 115A \rightarrow DTAA Rate Applicable*
- (i) Fee for technical services of ₹ 75,00,000 from ABC Ltd., an Indian company, in pursuance of an agreement made with it and approved by the Central Government. The tax rate on such income under India-Country A tax treaty is 20% on gross income. The fee for technical services is not effectively connected with the branch office in India. *20% with out cess. & surcharge*
- (ii) DEF Inc. incurred expenses of ₹ 3,00,000 in earning such income from fee for technical services. *20% @ 20-8% \downarrow Lower.*
- (iii) Sale of shares of Bottle Pvt. Ltd., an Indian company, for ₹ 2,60,00,000 on 15th April 2025. *Sold \therefore LTCG. Unlisted Share.*
- (iv) Other income ₹ 10,00,000

All the above income has been credited to the statement of profit and loss of the company.

DEF Inc. had made an investment in 100% equity share capital of Bottle Pvt. Ltd., purchased for ₹ 1,75,00,000 on 5th November, 2004. *Purchase* The said shares were purchased out of foreign exchange of USD 3,50,000 brought from outside India.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

- In the context of the provisions of section 115JB, state which of the following statements is correct –
 - The provisions of section 115JB do not get attracted in the hands of DEF Inc., since it is a foreign company

- (b) The provisions of section 115JB do not get attracted in the hands of DEF Inc., since its entire income from India is subject to tax at a rate lower than the rate prescribed u/s 115JB
- (c) The provisions of section 115JB are attracted in the hands of DEF Inc. since it is resident of a country with which India has a DTAA and the branch office of DEF Inc. constitutes permanent establishment in terms of such agreement
- (d) The provisions of section 115JB are attracted in the hands of DEF Inc., since the provisions of section 115JB are applicable to every company deriving income from India
2. What is the rate at which fee for technical services received by DEF Inc. is chargeable to tax in India?
- (a) 20.8% on ₹ 75 lakh
- (b) 10.4% on ₹ 72 lakh
- (c) 20% on ₹ 75 lakh
- (d) 41.6% on ₹ 72 lakh
3. In respect of sale of shares in Bottle Pvt. Ltd., state which of the following statements is correct -
- (a) The transaction of sale of shares in Bottle Pvt. Ltd. is subject to transfer pricing since DEF Inc. holds more than 26% shares in Bottle Pvt. Ltd. Hence, sale price of ₹ 2,60,00,000 shall be subject to arm's length computation
- (b) Sale of shares in Bottle Pvt. Ltd. shall not be considered as transfer, since DEF Inc. holds whole of the share capital of Bottle Pvt. Ltd.
- (c) Capital gains arising on sale of shares shall be taxable @20% with indexation or 12.5% without indexation, whichever is beneficial to DEF Inc.
- (d) Capital gains is taxable@12.5% without benefit of indexation and foreign currency conversion

Sec 112 → For NR/Foreign CO if Shares of closely held is Sold then taxed @ 12.5% without indexation & 1st Prov to CG

4. Which of the following statements is correct, assuming that the rates specified in the DTAA are the same as provided under the Act?

- (a) Only capital gains has to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax.
because it is taxed @ less than 15%.
- (b) Only fee for technical services has to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax.
It cannot be reduced as it is taxed at more than 15%.
- (c) Both capital gains and fee for technical services have to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax
- (d) Capital gains, fee for technical services and other income have to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax
40%

*Taxed at
12.5%
20% →*

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** The provisions of section 115JB are attracted in the hands of DEF Inc. since it is resident of a country with which India has a DTAA and the branch office of DEF Inc. constitutes permanent establishment in terms of such agreement

2. **Option (c)** 20% on ₹ 75 lakh

Reason

As the income is not connected to PE, rate as per section 115A or the DTAA, whichever is beneficial, shall apply. Surcharge and health and education cess is not to be added to DTAA rates and hence, in the present case, DTAA rates are more beneficial.

3. **Option (d)** Capital gains is taxable @ 12.5% without benefit of indexation and foreign currency conversion.

Reason

As per section 112(1)(c)(iii), long-term capital gains on transfer of unlisted shares would be taxable @ 12.5% without benefit of indexation and foreign currency conversion.

4. **Option (a)** Only capital gains has to be reduced while computing book profit of DEF Inc. for levy of minimum alternate tax

Reason

Since the rate of tax in respect of capital gains is lower than MAT rate and the capital gain is already credited to statement of profit and loss, the same has to be reduced while computing book profit.

CASE SCENARIO 16

Wellness Pvt Ltd, an Indian company incorporated on 1st April, 2025 offers multi-disciplinary marketing services in print and digital media to Indian businesses. To carry on its business, the company has engaged local advertising specialists in the field of print and digital media. These specialists attend clients of the company by doing required consultancy, execution and also perform analysis of results. Depending upon the service request of the client – whether print or digital mode, specialists perform relevant tasks. The specialists employ their individual skills and exercise discretion, judgement while performing the duties. The policies of the company regarding working hours, annual leave applicable to the staff do not apply to these specialists. The remuneration of specialists varies every month depending upon type of service, seniority of specialist, skills involved etc.

During the year 2025-26, Wellness Pvt Ltd recorded a turnover of ₹ 1.10 crores in its books of accounts. Inspired by the Government's Digital India initiative, the company provided electronic payment facilities to customers. Most of the billed amount was collected through digital means, except from Customer X (Bill no. 15, dated 26th June, 2025 of ₹ 5,50,000 for printing invitation card for a marriage ceremony). Customer X paid the amount in cash to the company in 4 installments on different dates - ₹ 1,50,000, ₹ 75,000, ₹ 1,75,000 and ₹ 1,50,000.

The details of payments made by the company during the year 2025-26 are as under:

Particulars	Mode of payment	Amount (₹)
Professional Fees to 20 specialists	Net-banking	35,00,000
Salary to staff (3 employees) (HR, junior coordinator) (Each person has total income more than ₹ 8 lakh)	Net-banking	25,00,000
Wages to 1 security guard, 2 housekeeping staff (wages of ₹ 15,000 p.m. each)	Cash	5,40,000

CP = $\frac{5.51}{1102} = 5\%$

26957:
271 DA:

TDS ✓ 30%
TDS ✓ 30%
602 x 30% = 180 (+)

X TDS.

Computers purchased on 15th May, 2025 and put to use from 15th October, 2025	A/c payee Cheque	3,50,000	TDS ✓
Interest for P.Y. 2025-26 on loan availed on 15th April, 2025 from SBI for purchase of computers	A/c payee Cheque NO → 194A for BANK.	34,500	TDS X 194A..
Other administration expenses (Each expense is of less than ₹ 8,000)	Cash	✓ 70,000	TDS X
Advance given to suppliers, specialists etc.	Cash	✓ 90,000	TDS X

The company could recruit a qualified finance and accounts professional only on 21st March, 2026. Post his appointment, necessary income tax statutory compliances were undertaken and the default with respect to non-deduction of tax on professional fees and salary to staff given above from April, 2025 to March, 2026 was corrected in the month of April, 2026. The company withheld tax on expenses liable for withholding tax and paid such tax to the credit of Government in the same month.

Being the first year of operation, all transactions of the company are with Indian resident parties. The company has chosen to follow mercantile system of accounting for tax purposes.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

- Is Wellness Pvt. Ltd. required to get its books of account audited under section 44AB for A.Y.2026-27?
 - No, since turnover of company is less than ₹ 10 crore.
 - Yes, since the turnover of the company is more than ₹ 1 crore.
 - No, since the turnover of the company is less than ₹ 2 crore.
 - No, as aggregate cash receipts during the year do not exceed 5% of total amount received.
 - Yes, as cash payments during the year exceed 5% of aggregate payments.

$$\text{Cash payment} \frac{70000}{708450} = 9.89\%$$

(vi) Yes, as the company is not eligible for presumptive taxation.

The correct answer is -

- (a) No, due to reasons stated in (i) and (iv) above
- (b) Yes, due to reasons stated in (ii) and (v) above
- (c) No, due to reason stated in (iii) above
- (d) Yes, due to reasons stated in (ii) and (vi) above
2. What is the amount to be disallowed for non-deduction of tax at source while computing profits and gains of business or profession of the P.Y. 2025-26?
- (a) Nil, since the entire amount of tax has been deducted and remitted on or before the due date of filing of return u/s 139(1)
- (b) ₹ 10,50,000
- (c) ₹ 18,00,000
- (d) ₹ 19,62,000
- Handwritten notes for Q2:
 $60l \times 30\% = 18l \text{ DA}$
 Assume paid to Resident.
3. What is the amount of depreciation allowable u/s 32(1) for the P.Y. 2025-26 on the computers purchased?
- (a) ₹ 73,600
- (b) ₹ 70,000
- (c) ₹ 73,450
- (d) ₹ 76,900
- Handwritten notes for Q3:
 Computer 35000
 (+) Int Capitalise 15/4/25 to 15/10
 $34500 \times \frac{6 \text{ mths}}{11.5 \text{ mths}} = 18000$
 $36000 \times 60\% \times 50\% =$
4. What is the total income of Wellness Pvt Ltd. for the A.Y. 2026-27?
- (a) ₹ 66,39,900
- (b) ₹ 66,25,500
- (c) ₹ 49,89,900
- (d) ₹ 44,49,900
- Handwritten notes for Q4:
 Revenue 1,10,00,000
 (-) Remu & Salary (42,00,000) [60l-18l]
 (-) Depn on Computer (73600)
 (-) Int on loan after (16500) [34500-18000]
 (-) Admin & other exps (70000)
5. Is any penalty imposable on the company for cash receipts from Customer X and if yes, how much?
- (a) No, since each receipt is less than ₹ 2,00,000
- (b) Yes, ₹ 5,50,000

- (c) No, since amount exceeding ₹ 2,00,000 is not received on a single day
- (d) No, since amount received is not in the nature of loan or advance

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Yes, due to reasons stated in (ii) and (v) above.

Reason

As per Section 44AB, a person carrying on business is required to get its books of account audited, if its total sales, turnover or gross receipts in business > ₹ 1 crore in the relevant P.Y. However, threshold limit of ₹ 1 crore is increased to ₹ 10 crores if its aggregate cash receipts in the relevant P.Y. ≤ 5% of total receipts (including receipts for sales, turnover, gross receipts) and aggregate cash payments in the relevant P.Y. ≤ 5% of total payments (including amount incurred for expenditure).

In the above case, since company's aggregate cash payments exceeds 5% of total payments, limit of ₹ 1 crore is applicable and it is required to get its books of account audited.

2. **Option (c)** ₹ 18,00,000

Reason

As per the provisions of section 40(a)(ia), 30% of any amount payable to a resident on which tax is deductible, shall be disallowed if such tax has not been deducted during the relevant P.Y., or after deduction the same has not been paid till the due date of filing return of income u/s 139(1) of the Act.

In the above case, TDS was deductible on ₹ 60,00,000 (₹ 35,00,000 + ₹ 25,00,000) which is not deducted during the P.Y. 2025-26. Hence, 30% of ₹ 60,00,000 shall be disallowed during the P.Y. 2025-26

3. **Option (a)** ₹ 73,600

Reason

As per the provisions of section 36 and 43(1), interest on loan for a capital asset relating to a period prior to the date of put of use, shall be

added to the cost of asset and not allowed as an expense. So, the interest of ₹ 18,000 ($\text{₹ } 34,500 / 11.5 \times 6$) from 15.4.2025 to 15.10.2025 will be added to the cost of the Computer. Also, as the asset is put to use for a period of less than 180 days, the rate of depreciation will be 50% of the normal rate. So, depreciation is ₹ 3,68,000 ($\text{₹ } 3,50,000 + \text{₹ } 18,000$) $\times 40\% \times 50\% = \text{₹ } 73,600$

4. Option (a) ₹ 66,39,900

Reason

The total income will be computed by reducing the allowable expenditures from the turnover of the year.

Turnover = ₹ 1,10,00,000

Less: Expenses allowable

Remuneration = ₹ 35,00,000 $\times 70\% = \text{₹ } 24,50,000$

Salary to staff = ₹ 25,00,000 $\times 70\% = \text{₹ } 17,50,000$

Wages (not allowed as payment exceeding ₹ 10,000 in cash)

Interest on loan for computers (From 15.10.2025 to 31.3.2026) = ₹ 16,500

Depreciation as computed in MCQ 3 = ₹ 73,600

Administration expenses (Amount in cash is less than ₹ 10,000) = ₹ 70,000

Net Profit/ Total Income = ₹ 66,39,900

5. Option (b) Yes, ₹ 5,50,000

Reason

As per section 269ST, no person shall receive an amount of ₹ 2 lakhs or more other than by an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through such other prescribed electronic mode from a person for a single transaction, or a day or for an event. As per section 271DA, in contravention of the provisions of section 269ST, penalty of sum equal to the amount of such receipt is leviable.

CASE SCENARIO 17

Mallika purchased a land in Pune at a cost of ₹ 50 lakhs in December 2008 and held the same as her capital asset till 30th September, 2022. She started her real estate business on 1st October, 2022 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 300 lakhs.

She constructed 20 apartments of equal size, quality and dimension and the construction was completed in December, 2025. Cost of construction of each apartment is ₹ 15 lakhs. She sold 14 apartments at ₹ 40 lakhs per apartment during the period from January, 2026 - February, 2026. The remaining 6 apartments were held in stock as on 31st March, 2026. All the six apartments were sold in April, 2026 at ₹ 40 lakhs per apartment. She also holds a penthouse in Nagpur, construction of which was completed in March, 2025, as stock-in-trade. She let out the penthouse to Mr. Harish, a salaried individual, for ₹ 60,000 per month from April, 2025 to March, 2026, to whom she has furnished her PAN. He paid municipal taxes of ₹ 7,200 each for the years 2025-26 and 2026-27 in March, 2026 and March, 2027, respectively. The said penthouse was, thereafter, sold in April, 2027 for ₹ 70 lakhs.

She invested ₹ 20 lakhs in bonds issued by National Highway Authority of India on 31st March, 2026; ₹ 20 lakhs in bonds of Rural Electrification Corporation Ltd. on 30th June, 2026, ₹ 10 lakhs in bonds of Rural Electrification Corporation Ltd. on 30th September, 2026 and ₹ 10 lakhs in bonds of National Highway Authority of India on 31st December, 2026. Mallika is subject to tax audit for the P.Y.2025-26.

Cost Inflation Indices:

F.Y.2008-09: 137

F.Y.2022-23: 331

F.Y.2023-24: 348

F.Y.2024-25: 363

F.Y.2025-26: 376

*Not Allowed
as paid →
by tenant*

→ 70-l. sold.

From the information given above, choose the most appropriate answer to the following questions:

FMV on conversion 300,00,000
 (-) COA → 331 (120,80,291)
 SDX 137

MULTIPLE CHOICE QUESTIONS

1. What is the amount of capital gains chargeable to tax in the hands of Mallika for A.Y.2026-27?

LTCG 179,19,708
 Taxable: $179,19,708 \times \frac{14}{20} = 125,43,796$

- (a) ₹ 75,43,796
- (b) ₹ 85,43,796
- (c) ₹ 1,79,19,708
- (d) ₹ 1,25,43,796

(-) Exempt u/s-54EC = (40l)
85,43,796

2. What is the amount of income chargeable to tax in the hands of Mallika for A.Y.2026-27 under the head "Profits and gains of business or profession"?

SP → 14 × 40l → 5,60,00,000/-
 (-) cost of land → (2,10,00,000) → 70%
 (FMV)
 (-) cost cost → (2,10,00,000)
 (15l × 14)
1,40,00,000 ✓

- (a) ₹ 350 lakhs
- (b) ₹ 50 lakhs
- (c) ₹ 100 lakhs
- (d) ₹ 140 lakhs

3. What is the amount of income chargeable to tax under the head "Capital gains" and "Profits and gains of business or profession" in the hands of Mallika for the A.Y.2027-28?

30% CG = 53,75,913 (-) 10l = 43,75,912
 54EC
 PGBP: 240l - 90l - 90l
 (6 × 40)
 = 60l a.s.

- (a) Nil and Nil, respectively
- (b) ₹ 43,75,912 and ₹ 60,00,000, respectively
- (c) ₹ 33,75,912 and ₹ 60,00,000, respectively
- (d) ₹ 55,29,198 and ₹ 60,00,000, respectively

4. Is the annual value of penthouse held as stock-in-trade taxable? If so, under which head and what is the amount taxable for A.Y.2026-27?

(a) No, since annual value of property held as stock-in-trade is exempt for a period of two years from the end of the financial year of completion of construction

Deduction of MT paid not allowed as paid by Tenant.

60000 × 12 = ₹ 20000
 (-) 30%
₹ 13000

- (b) Yes, ₹ 5,04,000 under the head "Income from house property"
- (c) Yes, ₹ 4,98,960 under the head "Income from house property"
- (d) The rental income of ₹ 7,20,000 is chargeable under the head "Profits and gains of business or profession", since property is held as stock in trade
5. Is Mr. Harish liable to deduct tax at source on rent paid to Mallika in the F.Y. 2025-26? If so, what is the amount of tax to be deducted and when?
- (a) No, since Mr. Harish, being a salaried employee, is not subject to tax audit; hence, there is no obligation to deduct tax at source
- (b) Yes, he has to deduct tax at source of ₹ 6,000 from rent payable every month
- (c) Yes, he has to deduct tax of ₹ 14,400 from the rent payable for March, 2026
- (d) Yes, he has to deduct tax of ₹ 36,000 from the rent payable for March, 2026

Salaried Individual
 \therefore 194-IB ✓
 $720000 \times 2\%$
 $= 14400$

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 85,43,796

Reason

As per the provisions of capital gains, in case of conversion of capital asset into stock in trade, the income shall be liable to tax under the head capital gain in the year in which the stock is sold. The FMV of the land as on the date of conversion will be the sale consideration.

Sale consideration = ₹ 3,00,00,000

Less: Indexed Cost of acquisition (₹ 50 lakhs x 331/137) = ₹ 1,20,80,292 lakhs

LTCG = ₹ 1,79,19,708 lakhs

Proportionate LTCG arising during P.Y. 2025-26 = ₹ 1,79,19,708 x 14/20
 = ₹ 1,25,43,796

Less: Deduction u/s 54EC [Invested within 6 months from the date of transfer of stock] = ₹ 40 lakhs

Capital gain chargeable to tax = ₹ 85,43,796

2. Option (d) ₹ 140 lakhs

Reason

In case of conversion of capital asset into stock in trade, the business income will be calculated in the year of actual transfer of such stock.

Sale consideration = ₹ 40 lakhs x 14 = ₹ 560 lakhs

Less: Proportionate FMV of land on date of conversion [₹ 300 x 14/20] = ₹ 210 lakhs

Less: Cost of construction = ₹ 15 lakhs x 14 = ₹ 210 lakhs

Business Income = ₹ 140 lakhs

3. Option (b) ₹ 43,75,912 and ₹ 60,00,000, respectively

Reason

LTCG as computed in MCQ 1 = ₹ 1,79,19,708 lakhs

Proportionate LTCG arising during P.Y. 2026-27 = ₹ 1,79,19,708 x 6/20 = ₹ 53,75,912

Less: Deduction u/s 54EC [Invested within 6 months from the date of transfer of stock] = ₹ 10 lakhs

Capital gain chargeable to tax = ₹ 43,75,912

Sale consideration = ₹ 40 lakhs x 6 = ₹ 240 lakhs

Less: Proportionate FMV of land on date of conversion [₹ 300 x 6/20] = ₹ 90 lakhs

Less: Cost of construction = ₹ 15 lakhs x 6 = ₹ 90 lakhs

Business Income = ₹ 60 lakhs

4. **Option (b)** Yes, ₹ 5,04,000 under the head "Income from house property"

Reason

Since the property is let out, it is taxable under the head house property. The amount shall be taxable net of standard deduction u/s 24(a) of 30%.

5. **Option (c)** Yes, he has to deduct tax of ₹ 14,400 from the rent payable for March, 2026

Reason

Since Mr. Harish pays rent exceeding ₹ 50,000 per month in the F.Y. 2025-26, he is liable to deduct tax at source @2%. The tax is to be deducted in the last month of the P.Y. 2025-26 i.e., March 2026 or in the last month of tenancy, if the property is vacated during the year. Since property is not vacated during the year, ₹ 14,400 [(₹ 60,000 x 12 x 2%)] has to be deducted from rent payable for March, 2026.

CASE SCENARIO 18

PQR LLP commenced operations of the business of a new three-star hotel in Baroda, Gujarat on 1.4.2025. The company incurred capital expenditure of ₹ 75 lakh on land in March, 2025 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2025. Further, during the P.Y. 2025-26, it incurred capital expenditure of ₹ 3 crore (out of which ₹ 1.25 crore was for acquisition of ~~land~~ and ₹ 1.75 crore was for acquisition of building) exclusively for the above business. The payments in respect of the above expenditure were made by account payee cheque. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2026-27 is ₹ 80 lakh.

Mr. P, one of the partners of the LLP, has commenced the business of manufacture of apparel on 1.10.2025. He employed 220 new employees during the P.Y. 2025-26, the details of whom are as follows –

240
150 DAYS

	No. of employees	Date of employment	Regular/Casual	Total monthly emoluments per employee (₹)
(i)	40	1.10.2025 ✓	Regular	24,000 × 6
(ii)	80	1.10.2025 ✓	Regular	24,500 × 6
(iii)	50	1.11.2025 ✗	Casual	25,500 ×
(iv)	30	1.11.2025 ✓	Regular	25,000 × 5
(v)	20	1.12.2025 ✗	Casual	24,000

576000
1176000

3750000

21270000 ×
30%

All regular employees participate in Recognized Provident Fund and their emoluments are paid by account payee cheque. The profits and gains derived from manufacture of apparel that year is ₹ 92 lakhs and his total turnover is ₹ 10.20 crores.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Assuming that PQR LLP has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. – Deductions in respect of certain incomes", what would be the quantum of deduction under section 35AD, which it is eligible to claim as deduction, for A.Y.2026-27?

- (a) ₹ 375 lakh
 (b) ₹ 300 lakh
 (c) ₹ 200 lakh
 (d) ₹ 175 lakh

No dedn of Land/ Goodwill & Fin. Instrument.

2. Assuming that PQR LLP also has another existing business of running a four-star hotel in Ahmedabad, which commenced operations fifteen years back, the profits from which are ₹ 130 lakh for the A.Y.2026-27, what would be its income chargeable/loss under the head "Profits and gains of business or profession" for the A.Y.2026-27?

- (a) ₹ 130 lakh
 (b) ₹ 35 lakh
 (c) ₹ 45 lakh
 (d) ₹ 10 lakh

80l
 (175)
 (95l) ——— setoff against 130l
 Profit → 35l

3. If, out of the amount of ₹ 1.25 crore paid for acquisition of land in the P.Y.2025-26, ₹ 75 lakh was paid by way of cash, what would be the answer to MCQ 1 and MCQ 2 above?

- (a) ₹ 175 lakh; ₹ 35 lakh, respectively
 (b) ₹ 125 lakh; ₹ 85 lakh, respectively
 (c) ₹ 100 lakh; ₹ 110 lakh, respectively
 (d) ₹ 225 lakh; ₹ 15 lakh, respectively

Remain same as Land is not allowed as deduction

4. Considering the assumption given in MCQ 2 above, what would be the tax payable (rounded off) by PQR LLP for A.Y.2025-26?

- (a) ₹ 10,92,000

Regular
 35l x 31.2%

AMT:

$$A-T-I = 35l + 175l - 10\% \times 175l = 192.5l$$

$$Tax = 18.5\% + 12\% + 4\%$$

- (b) ₹ 41,48,140
- (c) Nil
- (d) ₹ 40,40,000
5. Would Mr. P be eligible for deduction under section 80JJAA in the A.Y. 2026-27? If so, what is the quantum of deduction?
- (a) No, he would not be eligible for deduction u/s 80JJAA since the employees have not been employed for 240 days in the P.Y.2025-26. He can, however, claim deduction thereunder in the P.Y. 2026-27.
- (b) Yes; ₹ 63,81,000
- (c) Yes; ₹ 58,68,000
- (d) Yes; ₹ 52,56,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** ₹ 175 lakh

Reason

Section 35AD provides deduction of the capital expenditure incurred by the assessee in respect of specified business. As commencement of operations of the business of a new three-star hotel is a specified business for deduction under 35AD, the capital expenditure excluding the cost of land would be allowed as deduction.

2. **Option (b)** ₹ 35 lakh

Reason

The loss of a specified business can be adjusted against the income from another specified business irrespective of the other business being eligible for deduction u/s 35AD or not. The loss from specified business is ₹ 95 lakhs (Profit before section 35AD deduction = ₹ 80 lakhs – deduction u/s 35AD = ₹ 175 lakhs). Further, the other specified business has profit of ₹ 130 lakhs. So, the income under PGBP after adjustment of loss will be ₹ 35 lakhs (₹ 130 lakhs - ₹ 95 lakhs).

3. **Option (a)** ₹ 175 lakh; ₹ 35 lakh, respectively

Reason

As the amount of land is not allowed as deduction u/s 35AD, irrespective of the mode of payment, there will be no change in the answers.

4. **Option (b)** ₹ 41,48,140

Reason

Tax on ₹ 35 lakhs under normal provisions of the Act

Tax payable (including HEC @4%) = ₹ 10,92,000

AMT liability

Adjusted total income = ₹ 35 lakhs + ₹ 175 lakhs - ₹ 17.5 lakhs = ₹ 192.5 lakhs

AMT payable (including surcharge @12% and HEC @4%) = ₹ 41,48,144

As the AMT is higher than tax payable under normal provisions of the Act, tax payable would be ₹ 41,48,140

5. **Option (b)** Yes; ₹ 63,81,000

Reason

Section 80JJAA provides deduction of the additional employee cost, if the conditions prescribed under the said section are fulfilled. Here, the regular employees in case of apparel business who worked for more than 150 days having salary not more than ₹ 25,000 would be eligible. Thus, the amount of deduction u/s 80JJAA would be = 30% of [(40 x ₹ 24,000 x 6) + (80 x ₹ 24,500 x 6) + (30 x ₹ 25,000 x 5)] = ₹ 63,81,000

CASE SCENARIO 19*Buyer*

Mr. Harshit, a resident Indian, is in retail business in Mumbai and his turnover for F.Y.2024-25 was ₹ 10.90 crores. He regularly purchases goods from another resident, Mr. Pranav, a wholesaler in Mumbai. The aggregate payments made by Mr. Harshit to Mr. Pranav during the F.Y.2025-26 towards consideration for purchase of goods were ₹ 80 lakhs (₹ 20 lakhs on 8.5.2025, ₹ 25 lakhs on 27.8.2025, ₹ 20 lakhs on 18.10.2025 and ₹ 15 lakhs on 11.2.2026). Mr. Pranav's turnover for F.Y.2024-25 was ₹ 10.10 crores.

Mr. Pranav paid ₹ 5 lakhs on 1.9.2025 to M/s. Thomas Cook for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 22 years, in the last week of September. For his daughter's MBA in Iowa State University, USA, he remitted ₹ 12 lakhs on 15.2.2026, out of his personal savings, through Bank of India, Bandra branch, Mumbai which is an authorised dealer, under LRS. He also took an education loan of ₹ 15 lakhs on 28.2.2026 from State Bank of India, Madam Cama Road, Mumbai, for his son's two-year Master of Public Administration program in Columbia University, USA and remitted the said amount through the same bank, which is an authorised dealer, under the Liberalised Remittance Scheme of RBI (LRS). Mr. Pranav also remitted ₹ 6 lakhs on 28.3.2026, out of his personal savings, under LRS through Bank of India, Bandra branch, as gift to his sister residing in London, on the occasion of her 50th birthday. Mr. Pranav has furnished undertakings containing the details of earlier remittance to Bank of India.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Are provisions of TDS/TCS under the Income-tax Act, 1961 attracted in respect of purchase/sale transaction between Mr. Harshit and Mr. Pranav? If so, what is the quantum of tax to be deducted/collected for the P.Y. 2025-26?

- (a) No; TDS/TCS provisions are not attracted for F.Y.2025-26, since the turnover of Mr. Harshit in the immediately preceding financial year i.e., F.Y. 2024-25 does not exceed ₹ 10 crores.
- (b) Yes, Mr. Harshit has to deduct tax@0.1% of ₹ 30 lakhs (₹ 15 lakhs on 18.10.2025 and ₹ 15 lakhs on 11.2.2026)
- (c) Yes, Mr. Pranav has to collect tax@0.1% of ₹ 30 lakhs (₹ 15 lakhs on 18.10.2025 and ₹ 15 lakhs on 11.2.2026)
- (d) Yes, Mr. Pranav has to collect tax@0.1% of ₹ 80 lakhs
2. In case of failure to furnish PAN by the deductee/collectee as required based on the answer to MCQ 1 above, what would be the applicable rate of TDS/TCS?
- (a) Not applicable, since there is no requirement to deduct or collect tax
- (b) 20%
- (c) 5%
- (d) 1%
3. Is Thomas Cook required to collect tax at source on receipt of ₹ 5 lakh from Mr. Pranav for holiday package to Singapore? If so, what is the amount of tax to be collected?
- (a) Yes; ₹ 25,000
- (b) Yes; ₹ 5,000
- (c) Yes; ₹ 2,500
- (d) No tax is required to be collected at source, since the receipt does not exceed ₹ 7 lakh
4. What is the amount of tax to be collected from Mr. Pranav in respect of the remittance of amounts overseas for his daughter's and son's education?
- (a) TCS @5% of ₹ 2 lakhs is attracted in respect of remittance for his daughter's education. However, no TCS is attracted on remittances out of education loan for his son's education.

For O.T. P-P → 5% upto 10 l.
20% Above 10 l.

- (b) TCS@5% of ₹ 2 lakhs and ₹ 15 lakhs are attracted in respect of remittance for daughter's and son's education, respectively
- (c) TCS@5% of ₹ 2 lakhs and TCS@0.5% of ₹ 5 lakhs are attracted in respect of remittance for daughter's and son's education, respectively.
- (d) No TCS is attracted in respect of remittance for daughter's education. However, TCS@0.5% of ₹ 5 lakhs is attracted in respect of remittance for son's education;
5. Are TCS provisions attracted in respect of remittance of gift to sister? If so, what is the amount of tax to be collected from Mr. Pranav?
- (a) No, since the remittance is out of personal savings for a personal purpose
- (b) No, since the amount remitted to his sister is less than ₹ 10 lakhs
- (c) Yes, ₹ 1,20,000
- (d) Yes, ₹ 30,000.
- 6L x 20% → other than education & medical.*

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Yes, Mr. Harshit has to deduct tax@0.1% of ₹ 30 lakhs (₹ 15 lakhs on 18.10.2025 and ₹ 15 lakhs on 11.2.2026)

Reason

As per section 194Q, the buyer who is responsible for purchase of goods of value exceeding ₹ 50 lakhs, he is required to deduct tax @0.1% of such sum exceeding ₹ 50,00,000 during a previous year. Buyer is a person whose turnover exceeds ₹ 10 crores during the financial year immediately preceding the financial year in which the purchase of goods is carried out. Tax is to be deducted at the time of credit of sum to the account of the seller or at the time of payment, whichever is earlier. W.e.f. 1.4.2025, no TCS is required to be collected at source under section 206C(1H), even in case TDS not attracted under section 194Q.

2. Option (c) 5%**Reason**

As per section 206AA, if the deductee does not submit his PAN, the rate of tax would be higher

- ◆ at the rate specified in the relevant provision of the Act, or
- ◆ 20%, or
- ◆ at the rate in force.

Provided, where the tax is required to be deducted under section 194Q, higher rate will be 5% instead of 20%.

3. Option (a) Yes, ₹ 25,000**Reason**

As per section 206C(1G), TCS is to be collected on remittance on overseas tour package by the seller of an overseas tour programme packages. The rate is 5% till the amount of ₹ 10,00,000 and 20% on an amount exceeding ₹ 10,00,000. In this case, the amount paid for overseas tour package is ₹ 5,00,000, thus TCS @5% will apply on the amount of ₹ 5,00,000.

4. Option (a) TCS @5% of ₹ 2 lakhs is attracted in respect of remittance for his daughter's education. However, no TCS is attracted on remittances out of education loan for his son's education.**Reason**

As per section 206C(1G), tax @5% is to be collected on remittance made under the LRS exceeding an amount of ₹ 10,00,000 for education or medical. However, TCS will not be collected, if the remittance is out of education loan obtained from any financial institution as referred to in section 80E. Accordingly, TCS @5% on ₹ 2 lakhs shall apply on the remittance made in case of daughter's education and no TCS is required on ₹ 15 lakhs remitted out of education loan from SBI.

5. Option (c) Yes, ₹ 1,20,000**Reason**

As per section 206C(1G), tax is to be collected on remittance made under the LRS exceeding an amount of ₹ 10,00,000. The rate is 20% for purposes other than education or medical. Since the threshold is already exhausted against earlier remittances made under LRS, TCS @20% on ₹ 6,00,000 will be applicable.

CASE SCENARIO 20

Ganga LLP is a limited liability partnership set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for manufacture of textiles. The unit fulfills all the conditions under section 10AA of the Income-tax Act, 1961. During the financial year 2024-25, it has also set up a warehousing facility in Pune for storage of sugar, fulfilling the conditions for claim of deduction under section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 97 lakhs (including cost of land ₹ 32 lakhs). The warehouse became operational with effect from 1st April, 2025 and the expenditure of ₹ 97 lakhs was capitalized in the books on that date.

The details for the financial year 2025-26 are given hereunder:

Particulars	₹
Profit of unit located in SEZ	60,00,000
Export sales of above unit received in India in convertible foreign exchange on or before 30.9.2026	1,20,00,000
Domestic sales of above unit	40,00,000
Profit from operation of warehousing facility (before considering deduction under section 35AD)	1,60,00,000

Mr. Ganesh, one of the partners of the LLP, commenced the business of manufacture of leather on 1.4.2024. His turnover in the P.Y.2024-25 is ₹ 180 lakh and in the P.Y.2025-26 is ₹ 200 lakhs. The payments made in the P.Y.2025-26 is ₹ 190 lakhs. The profit for P.Y.2025-26 as per books of account maintained u/s 44AA is ₹ 12.10 lakhs. Out of the turnover of ₹ 200 lakhs, ₹ 190 lakhs is received through RTGS and NEFT and ₹ 10 lakhs is received by way of cash. Out of the payments of ₹ 190 lakhs made (including expenditure incurred), ₹ 180 lakhs is through RTGS/ NEFT and the remaining ₹ 10 lakhs through cash.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

- What is the amount of deduction under section 10AA and 35AD available to Ganga LLP while computing income under the regular provisions of the Income-tax Act, 1961 for A.Y.2026-27?

$$\begin{aligned}
 &\underline{35AD:} \\
 &97 - 32 \\
 &\quad \text{Land} \\
 &= 65 \text{ lacs}
 \end{aligned}$$

$$\begin{aligned}
 &\underline{10AA:} \\
 &60 \times \frac{120}{160} \times 50\% \\
 &= 22.5 \text{ lacs}
 \end{aligned}$$

- (a) ₹ 45 lakhs and ₹ 65 lakhs, respectively
 - (b) ₹ 22.50 lakhs and ₹ 65 lakhs, respectively
 - (c) ₹ 45 lakhs and ₹ 97 lakhs, respectively
 - (d) ₹ 22.50 lakhs and ₹ 97 lakhs, respectively
2. What is the tax liability of Ganga LLP computed under the regular provisions of the Income-tax Act, 1961 for A.Y.2026-27?

(a) ₹ 38,43,840

(b) ₹ 31,70,000

(c) ₹ 46,30,080

(d) ₹ 19,65,600

SEZ Profit: 60l
 35AD 160l
 220l
 (-) 35AD 65l
 (-) 10AA 21.5l
 T.I 132.5l 432.5

Tax = 30% + 12% + 4%

3. What is the alternate minimum tax (rounded off) payable by Ganga LLP as per section 115JC for A.Y.2026-27?

(a) ₹ 39,49,750

(b) ₹ 41,07,740

(c) ₹ 43,95,280

(d) ₹ 46,00,670

Adjusted Total Income → 132.5l
 (+) 22.5l
 (+) 65l
 (-) (6.5l) Dep on 35AD Asset
 213.5l

4. Is there any AMT credit to be carried forward under section 115JEE? If so, what is the amount of such credit?

(a) Yes; ₹ 5,22,340

(b) Yes; ₹ 7,56,830

(c) Yes; ₹ 2,63,900

(d) No

Since Regular Tax > AMT
 ∴ No AMT Credit.

5. What is the income to be declared by Mr. Ganesh for A.Y.2026-27 under the head "Profits and gains of business or profession", so that he makes maximum tax savings without getting his books of account audited?

(a) ₹ 12 lakhs

(b) ₹ 12.10 lakhs

(c) ₹ 12.20 lakhs

(d) ₹ 16 lakhs

Follow 44AD:
 190l x 6% (f)
 10l x 8%

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 22.50 lakhs and ₹ 65 lakhs, respectively

Reason

Deduction u/s 35AD = ₹ 60 lakhs x ₹ 120lakhs/₹ 160lakhs x 50% = ₹ 22,50,000

Section 35AD provides deduction of the capital expenditure incurred by the assessee in respect of specified business. As warehousing facility for storage of sugar is a specified business for deduction under 35AD, the capital expenditure excluding the cost of land would be allowed as deduction.

2. **Option (c)** ₹ 46,30,080

Reason

Profits of unit located in SEZ = ₹ 60 lakhs

Profit from operation of warehousing facility (before considering deduction under section 35AD) = ₹ 1,60,00,000

Less: Deduction u/s 35AD = ₹ 65,00,000

Gross Total Income = ₹ 1,55,00,000

Less: Deduction u/s 10AA = ₹ 22,50,000

Total Income = ₹ 1,32,50,000

Tax on ₹ 1,32,50,000 under normal provisions of the Act

Tax liability (including Surcharge @12% plus HEC @4%) = ₹ 46,30,080

3. **Option (d)** ₹ 46,00,670

Reason

AMT liability

Adjusted total income = ₹ 1,32,50,000 + ₹ 22,50,000 + ₹ 65,00,000 - ₹ 6,50,000 = ₹ 2,13,50,000

AMT liability (including surcharge @12% and HEC @4%) = ₹ 46,00,669

4. Option (d) No**Reason**

Since tax payable as per the regular provisions of the Act is higher, there will be no AMT credit.

5. Option (c) ₹ 12.20 lakhs**Reason**

Mr. Ganesh shall be eligible to claim the benefits of presumptive taxation under section 44AD. As per the same, profit is computed @6% on the turnover received through RTGS and NEFT till the due date of filing return of income u/s 139(1) and 8% on the balance amount.

Presumptive profits = 6% x 190 lakhs + 8% x 10 lakhs = ₹ 12.20 lakhs

Profit as per books of account = ₹ 12.10 lakhs

Profit to be declared without getting his books of account audited = ₹ 12.20 lakhs

CASE SCENARIO 21

BMT Shipping Co. is an Indian company having its place of effective management in India. It owns three vessels out of which two are "Qualifying Ships". The registered tonnage of the two qualifying vessels is 33,840 tons and 230 kgs and 24,952 tons and 370 kgs respectively. In the F.Y. 2025-26, the first vessel was operated for 212 days and the second for 347 days.

The WDV of the block of assets for tax purposes, being ships, as on 01.04.2025 was ₹ 1200 lakhs.

Ships forming part of Block of Assets	WDV as per books as on 01-04-2025 (₹ in lakhs)
Qualifying Ship 1	580
Qualifying Ship 2	270
Non-qualifying Ship 3	230

1080 { 580 } 850

Other Information:

- (i) Profit from core activity referred to in section 115-VI(1) read with 115-VI(2) is ₹ 70 lakhs.
- (ii) Profit from incidental activity (ii) computed as per section 115-VI(1) read with 115-VI(5) is ₹ 14 lakhs.
- (iii) Book profits calculated as per the *Explanation* to section 115JB(2) [in so far as it relates to income derived from core and incidental activity] are ₹ 100 lakhs.

LMN Shipping Co. is a foreign company whose place of effective management is outside India in the P.Y.2025-26. Its gross receipts for P.Y.2025-26 is ₹ 630 lakhs, the break up of which is given hereunder –

	Place where goods are shipped	Place where amount is paid to/received by BMI Shipping Co.	Amount paid (₹ in lakhs)
(i)	Goods shipped at ports in India	In India	200
		Outside India	150

(ii)	Goods shipped at ports outside India	In India	180
		Outside India	100
			630

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

- What would be the tonnage income of BMT Shipping Co. computed under section 115VG for A.Y. 2026-27?

(a) ₹ 71,05,880
 (b) ₹ 71,12,028
 (c) ₹ 71,20,454
 (d) ₹ 71,26,602

Handwritten notes:
 Round off 8840 to $\frac{8800}{100} = 88$ ton
 → First 2500 kg = 11770 (+) ₹ 29 for every 100 Ton
 → First 10000 kg = 5470 (+) ₹ 42 for every 100 Ton
 14952 = 15000 ←
- What would be the **written down** value as on 01.04.2025 of "Qualifying Ships" of BMT Shipping Co. for tax purpose as per section 115VK?

(a) ₹ 850 lakhs
 (b) ₹ 944.44 lakhs
 (c) ₹ 1200 lakhs
 (d) ₹ 970 lakhs

Handwritten note:
 $1200 \times \frac{850}{1080} = 944.44/-$
- The minimum reserve requirement as per section 115VT in case of BMT Shipping Co. for P.Y.2025-26 is -

(a) ₹ 16.8 lakhs
 (b) ₹ 20 lakhs
 (c) ₹ 14 lakhs
 (d) ₹ 15 lakhs

Handwritten note:
 20% of Book Profit
 = 20% × 100
 = 20 lakhs.
- Would any amount be taxable under the other provisions of the Income-tax Act, 1961 as per section 115VT(5), if BMT Shipping Co. had transferred ₹ 15 lakhs to Tonnage Tax Reserve Account during P.Y. 2025-26? If yes, what is the amount so taxable?

→ Proportionate Income will be Taxable.
 → ∴ Total Profit × $\frac{\text{Amt Not Transferred}}{\text{Amt should be Transferred}}$
 → $84 \times \frac{5}{20} = 21$

- (a) Yes; ₹ 1.80 lakhs
- (b) No amount is taxable as per section 115VT(5), since the amount transferred is more than the minimum reserve requirement
- (c) Yes; ₹ 5 lakhs
- (d) Yes; ₹ 21 lakhs
5. What shall be the income computed under section 44B of LMN Shipping Co. for A.Y.2026-27?
- (a) ₹ 39.75 lakhs
- (b) ₹ 53 lakhs
- (c) ₹ 26.50 lakhs
- (d) ₹ 47.25 lakhs

$$530 \text{ Lx } 7.5\% = 39.75 \text{ Lacs.}$$

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 71,20,454

Reason

The tonnage income of a qualifying ship is to be calculated on the basis of the daily tonnage income of such ship multiplied by the number of days in the previous year.

Ship 1 (33,800 tons) (Rounded off)

As the tons are exceeding 25,000, the income will be ₹ 11,770 plus ₹ 29 for each 100 tons exceeding 25,000 tons. This ship was in operation for 212 days. So, amount will be $212 \times [\text{₹ } 11,770 + (29 \times 88)] = \text{₹ } 30,36,264$.

Ship 2 (25,000 tons) (Rounded off)

As the tons are exceeding 10,000 but not more than 25,000, the income will be ₹ 5,470 plus ₹ 42 for 100 tons exceeding 10,000 tons. The ship was in operation for 347 days. So, amount will be $347 \times [5,470 + (42 \times 150)] = \text{₹ } 40,84,190$.

Thus, total amount will be ₹ 71,20,454.

2. Option (b) ₹ 944.44 lakhs**Reason**

The WDV of qualifying ships will be divided in the ratio of book WDV of the qualifying ships and book WDV of the non-qualifying ships.

Accordingly, the WDV of qualifying ships = ₹ 1,200 lakhs x ₹ 850 lakhs / ₹ 1,080 lakhs = ₹ 944.44 lakhs

3. Option (b) ₹ 20 lakhs**Reason**

As per section 115VT, the minimum reserve requirements is 20% of the book profit from the core and incidental activities. As the amount of book profit from core and incidental activities is ₹ 100 lakhs, the minimum reserve requirements is (20% x ₹ 100 lakhs = ₹ 20 lakhs)

4. Option (d) Yes; ₹ 21 lakhs**Reason**

In such case, the taxable amount under the provisions of Income tax Act = Relevant shipping income x shortfall in reserve/ minimum reserve to be created.

Thus, the taxable income = ₹ 84 lakhs x ₹ 5 lakhs/₹ 20 lakhs = ₹ 21 lakhs

5. Option (a) ₹ 39.75 lakhs**Reason**

7.5% of the following amounts will be taxable in India in the hands of LMN Shipping Co. –

1. amount paid or payable, whether within India or outside India, on account of carriage of goods shipped at any port in India
2. amount received or deemed to be received in India on account of carriage of goods shipped at any port outside India.

Thus, taxable amount will be = 7.5% x ₹ 530 lakhs (₹ 200 lakhs + ₹ 150 lakhs + ₹ 180 lakhs) = ₹ 39.75 lakhs

CASE SCENARIO 22

Mr. Sachdeva had bought a residential house worth ₹ 4 crores at Worli, Mumbai in 2000 and let out the house on rent to Mr. Akhil. The property was funded through loan from SBI. The interest due for F.Y.2025-26 to SBI is ₹ 40 lakhs, out of which he paid only ₹ 37 lakhs during the year. Mr. Sachdeva then took a loan of ₹ 2 crores from another bank, namely, MPC Bank on 1.10.2025 for construction of first floor in that house for self-occupation. The construction is in progress as on 31.3.2026. Mr. Sachdeva started repaying EMIs due to MPC Bank. During the P.Y. 2025-26, he repaid principal amount of ₹ 30 lakhs and ₹ 5 lakhs to SBI and MPC Bank, respectively. He also paid interest of ₹ 5 lakhs to MPC Bank out of ₹ 6 lakhs, being interest due for the period from 1.10.2025 to 31.3.2026.

Allowed on Annual Basis.
Fully Allowed for Interest

1.5-l
80C

Mr. Sachdeva transfers a house property in a village at Wada in his minor daughter's name i.e., Miss Rysha's as her birthday gift. Miss Rysha gave the said house to the Panchayat head from April, 2025 at a rent of ₹ 5,000 per month. Mrs. Sachdeva's total income for A.Y.2026-27 is higher than that of Mr. Sachdeva, since she won ₹ 20 lakhs from lottery this year. In other years, Mr. Sachdeva's total income is higher than that of Mrs. Sachdeva. Miss Rysha has not had any other source of income in any earlier year. Also, she does not have any other source of income this year.

Clubbing Not Applicable here.

Mr. Sachdeva bought petrol driven car worth ₹ 50 lakhs and an electric vehicle worth ₹ 70 lakhs on loan from BSM Bank which it sanctioned on 1.4.2022. BSM Bank charged interest of ₹ 5 lakhs on petrol driven car and ₹ 7 lakhs on electric vehicle for the P.Y.2025-26. Mr. Sachdeva has also taken loan from FRM Bank for his daughter's higher education. He paid ₹ 50,000 as interest to FRM Bank. He also paid medi-claim of ₹ 20,000 to New India Assurance Scheme for insuring his health.

1.5-larg.

Mrs. Sachdeva owns a shop of 100 square feet area in Mumbai. She rented it to an architect who gave her an interest-free deposit of ₹ 1,00,000. The rent paid by the architect from 1st April, 2025 is ₹ 60,000 per month. Mr. Sachdeva's brother, Mr. Ajay who is a non-resident sold his house at Bandra Kurla Complex, Mumbai to another non-resident, Mr. David, who is

NR → NR } then Buyer
NR → Resident } will be Agent
Transfer Property in INDIA - David is Agent.

based at Germany for a consideration of ₹ 20 crores on 01.09.2025. Mr. Ajay died on 01.11.2025 on account of a car accident.

Assume Mr. Sachdeva has shifted out of the default tax regime u/s 115BAC.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. What is the amount of interest allowable as deduction u/s 24 to Mr. Sachdeva for A.Y.2026-27?

- (a) ₹ 46 lakhs
- (b) ₹ 42 lakhs
- (c) ₹ 40 lakhs
- (d) ₹ 37 lakhs

2. What is the amount of deduction permissible to Mr. Sachdeva under Chapter VI-A of Income-tax Act, 1961 for A.Y. 2026-27?

- (a) ₹ 1,70,000
- (b) ₹ 2,20,000
- (c) ₹ 3,70,000
- (d) ₹ 14,20,000

① Principal Repayment → 80C → 1,50,000/-
 ② BOP → 20000
 ③ HDE → 50000
 ④ 80EEB → $\frac{150000}{370000}$

3. Is notional interest on interest free deposit received in respect of shop let out on rent chargeable to income-tax? If so, under which head of income would the same be taxable?

- (a) No, it is not chargeable to tax
- (b) Yes, it is chargeable to tax as profits and gains from business, since a commercial property has been let out
- (c) Yes, it is chargeable to tax as "Income from Other Sources", being the residuary head of income
- (d) Yes, it is chargeable to tax as "Income from house property", since section 22 does not distinguish between a residential house property and commercial house property

There is case law which is removed by ICAI from study material.

4. The Assessing Officer came to know about the transaction of sale of property at BKC, Mumbai on 15th December, 2025 and wants to hold Mr. David as an agent of Mr. Ajay u/s 163(1). Can he do so? If not, why?
- (a) No, he cannot hold Mr. David as an agent since Mr. David is non-resident
- (b) No, he cannot hold Mr. David as an agent since Mr. Ajay's brother stays in India and he has to be treated as an agent
- (c) No, he cannot hold Mr. David as an agent due to reasons stated in (a) and (b) above
- (d) Yes, he can hold Mr. David as an agent as per the provisions of the Income-tax Act, 1961
5. In whose hands would Rysha's rental income from house property at Wada be taxable?
- (a) In Rysha's hands
- (b) In Mr. Sachdeva's hands
- (c) In Mrs. Sachdeva's hands
- (d) It would change every year depending on the parent whose income is higher in that year

Deemed owner u/s-27.
Clubbing N.A.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 40 lakhs

Reason

Interest on borrowings from SBI on accrual basis = ₹ 40 lakhs. Interest on borrowings from MPC Bank is not allowed during P.Y. 2025-26 since the construction is in progress.

2. **Option (c)** ₹ 3,70,000

Reason

Deduction under section 80C = Repayment of loan to SBI of ₹ 30,00,000, subject to maximum of ₹ 1,50,000

Deduction under section 80D (Mediclaime) = ₹ 20,000

Deduction under section 80E (Interest on daughter's education loan) = ₹ 50,000

Deduction under section 80EEB (Interest on electric vehicle) = ₹ 1,50,000

Total deduction under Chapter VI-A = ₹ 3,70,000

3. **Option (a)** No, it is not chargeable to tax

Notional interest on interest free deposit is not taxable

4. **Option (d)** Yes, he can hold Mr. David as an agent as per the provisions of the Income-tax Act, 1961

Reason

As per section 163 of the Act, an "agent", in relation to a non-resident, includes any other person who, whether a resident or non-resident, has acquired by means of a transfer, a capital asset in India.

5. **Option (b)** In Mr. Sachdeva's hands

Reason

Mr. Sachdeva is a deemed owner u/s 27 of the property transferred to Miss Rysha. Accordingly, rental income would be chargeable to tax in his hands.

CASE SCENARIO 23

Mr. Rajat is a diamond merchant. During the P.Y. 2025-26, he has turnover of ₹ 20 crores and net profit of ₹ 60 lakhs after taking into account all the permissible deductions. He has invested in shares of various private limited companies, from which dividend of ₹ 12 lakhs is receivable by him. He has two house properties in India, both of which were self-occupied. On one of the properties, he had taken loan of ₹ 50 lakh on which interest payable was ₹ 2,50,000, out of which he paid ₹ 1,80,000 during the year. On his birthday, he received jewellery from his friend (fair market value of which was ₹ 5 lakhs). He had also withdrawn cash of ₹ 1.2 crores during the P.Y. 2025-26 in aggregate from his current account maintained with ABC Bank. Further, he also withdrew ₹ 50 lakhs from a co-operative bank account in October, 2025. He is regularly filing his return of income.

Full 2-lacs Allowed.

His brother, Mr. Rahul has not filed his return of income for the last five years, even though his total income exceeded the basic exemption limit. He withdrew ₹ 50 lakhs from a co-operative bank account in March, 2026.

Also, Mr. Rajat holds 20% voting power in XYZ Pvt. Ltd. (closely held company and engaged in diamond manufacturing) from which he has obtained loan of ₹ 10 lakhs on 1.4.2025. The company had free reserves of ₹ 8 lakh as on 31.3.2025.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements is correct in respect of loan of ₹ 10 lakhs obtained by Mr. Rajat from XYZ Pvt. Ltd?
 - (a) ₹ 10 lakhs would be taxable as deemed dividend in the hands of Mr. Rajat
 - (b) ₹ 8 lakhs would be taxable as deemed dividend in the hands of Mr. Rajat

Deemed Div is taxable to the extent of Accumulated Reserves.

- (c) The entire amount is received in the ordinary course of the business and therefore, the loan obtained would not be treated as deemed dividend
- (d) The company will pay distribution tax@ 34.944% on ₹ 8 lakhs
2. Would cash withdrawals by Mr. Rajat during the P.Y. 2025-26 attract deduction of tax at source?
- (a) Yes, tax is required to be deducted u/s 194N @5% on ₹ 1.2 crores by ABC Bank and 2% on ₹ 50 lakhs by the co-operative bank
- (b) Yes, tax is required to be deducted@2% on ₹ 20 lakhs u/s 194N by ABC Bank
*→ ABC Bank will deduct as withdrawal > 1cr
 → coop bank will not deduct as withdrawal ≤ 1cr.*
- (c) Yes, tax is required to be deducted@5% on ₹ 20 lakhs u/s 194N by ABC Bank
- (d) Yes, tax is required to be deducted u/s 194N @5% on ₹ 20 lakhs by ABC Bank and 2% on ₹ 50 lakhs by the co-operative bank
3. Would cash withdrawals by Mr. Rahul during the P.Y. 2025-26 attract deduction of tax at source?
- (a) No, TDS provisions are not attracted since cash withdrawals is less than ₹ 1 crore
- (b) No, TDS provisions are not attracted in respect of cash withdrawals from co-operative bank
- (c) No, TDS provisions are not attracted due to reasons stated in both (a) and (b)
Since Rahul has not filed the return for last 5 years ∴ lower threshold is applicable of Rs. 20 lacs.
- (d) Yes, tax is required to be deducted@2% on ₹ 30 lakhs u/s 194N by co-operative bank
4. What is the total income of Mr. Rajat for P.Y.2025-26, assuming that he has shifted out of the default tax regime under section 115BAC? *OLD Regime.*
- (a) ₹ 72 lakhs
- (b) ₹ 75 lakhs
- (c) ₹ 83 lakhs
- (d) ₹ 83.20 lakhs

5. What is the amount of gross tax liability of Mr. Rajat for the A.Y. 2026-27, assuming that he has shifted out of the default tax regime under section 115BAC?

- (a) ₹ 23,59,500
 (b) ₹ 26,34,060
 (c) ₹ 25,94,060
 (d) ₹ 26,40,924

$$\text{Tax} + 10\% \text{ Sur} + 4\% \text{ leis}$$

$$112000 + 30\% \text{ on } \underline{732000}$$

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 8 lakhs would be taxable as deemed dividend in the hands of Mr. Rajat

Reason

As per the provisions of section 2(22)(e), any payment by a closely held company to a shareholder having the beneficial ownership of at least 10% of the equity shares will be deemed to be dividend. Further, such dividend shall be limited to the extent of accumulated profits.

2. **Option (b)** Yes, tax is required to be deducted @2% on ₹ 20 lakhs u/s 194N by ABC Bank

Reason

As per section 194N, ABC Bank is required to deduct tax at source @2% on cash withdrawal by Mr. Rajat exceeding ₹ 1 crore.

3. **Option (d)** Yes, tax is required to be deducted @2% on ₹ 30 lakhs u/s 194N by the co-operative bank

Reason

As per section 194N, ABC Bank is required to deduct tax at source @2% on cash withdrawal by Mr. Rahul exceeding ₹ 20 lakhs since Mr. Rahul has not filed his return of income for the last three years.

4. Option (c) ₹ 83 lakhs**Reason**

Income from house property = (₹ 2,00,000) ✓

Net profit = ₹ 60,00,000 ✓

Dividend on shares = ₹ 12,00,000 ✓

Gift exceeding ₹ 50,000 from friend = ₹ 5,00,000 ✓

Deemed dividend u/s 2(22)(e) = ₹ 8,00,000 ✓

Gross Total Income/ Total Income = ₹ 83,00,000

5. Option (b) ₹ 26,34,060**Reason**

Tax on ₹ 83,00,000 as per slab rate = ₹ 23,02,500

Add: Surcharge @10% = ₹ 2,30,250

= ₹ 25,32,750

Add: HEC @4% = ₹ 1,01,310

Tax liability = ₹ 26,34,060

CASE SCENARIO 24

The Assessing Officer surveyed TR & Hotels, which was within his jurisdiction, at 11:30 p.m. on 15.8.2025 for the purpose of obtaining information which may be relevant to the proceedings under the Income-tax Act, 1961. The restaurant is kept open for business every day between 11 a.m. and 12 midnight.

On 25.8.2025, the Assessing Officer entered RR & Hotels which was also within his jurisdiction at 9:15 p.m. for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. This Restaurant is kept open for business every day between 7 am to 10:30 pm.

In both the above cases, the Assessing Officer impounded and retained in his custody for a period of 18 days (exclusive of holidays), books of account and other documents inspected by him, after recording reasons for doing so. The Assessing Officer, however, did not take prior permission from income-tax authority equivalent to Commissioner or above for doing so.

The owners of these restaurants claim that the Assessing Officer could not enter the restaurants after sunset and take away with him the books of account kept at the restaurants. The owners also claimed that the Assessing Officer ought to have obtained the prior approval of income-tax authority equivalent to Chief Commissioner or above before entering the restaurants.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Is the action of the Assessing Officer entering TR & Hotels at 11:30 pm valid?
 - (a) Not valid, since Assessing Officer entered the restaurant after the sunset.
 - (b) Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior

for more than 15 DAYS
Record Reason → *Approval*

No issue with time of entering but with Approval

permission of higher authorities is not required to be obtained for survey.

- (c) Not valid, since prior permission of income-tax authority equivalent to Chief Commissioner or above is not obtained by the Assessing Officer though he entered during the hours at which such place is open for the conduct of business.
- (d) Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above was not obtained.
2. Would your answer to MCQ 1 change if the Assessing Officer had surveyed TR & Hotels only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?
- (a) The action of Assessing Officer is not valid, since he entered the place after sunset and permission of income-tax authority equivalent to Chief Commissioner or above is not obtained.
- (b) The action of Assessing Officer is valid, since he entered the place during the hours at which such place is open for conduct of business and permission of Chief Commissioner or above authorities not required to be obtained.
- (c) The action of Assessing Officer is not valid, since he has not obtained the permission of Chief Commissioner.
- (d) The action of Assessing Officer is not valid, since he entered the place after 10 pm.
3. Is the action of the Assessing Officer entering RR & Hotels at 9:15 pm valid?
- (a) Not valid, since Assessing Officer entered the restaurant after the sunset.
- (b) Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained.

See 133B
No
condition
of
Approval.

- (c) Not valid, since prior permission of Chief Commissioner or above is not obtained by the Assessing Officer though he entered the place during the hours at which such place is open for the conduct of business.
 - (d) Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above is not obtained.
4. Is the action of the Assessing Officer in impounding and retaining in his custody books of account and other documents of TR & Hotels, after recording reasons for doing so, without taking prior permission from income-tax authority equivalent to Commissioner or above, valid?
- (a) The action of Assessing Officer is not valid, since prior approval of Commissioner or above authority is not obtained.
 - (b) The action of Assessing Officer is valid.
 - (c) The action of Assessing Officer is not valid, since prior approval of Joint Commissioner is not obtained.
 - (d) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents .
5. Would your answer to MCQ 4 change if the Assessing Officer had surveyed TR & Hotels only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?
- (a) The action of Assessing Officer is not valid, since prior approval of Commissioner or above is not obtained.
 - (b) The action of Assessing Officer is valid.
 - (c) The action of Assessing Officer is not valid, since he cannot impound or retain books of accounts or other documents.
 - (d) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents for a period exceeding 10 days.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Not valid, since prior permission of income-tax authority equivalent to Chief Commissioner or above is not obtained by the Assessing Officer though he entered during the hours at which such place is open for the conduct of business.

Reason

Section 133A(2) provides that the income-tax authority may enter any place of business or profession, for the purpose of obtaining information which may be relevant to the proceedings under the Income-tax Act, 1961, only during the hours at which such place is open for the conduct of business or profession and in the case of any other place, only after sunrise and before sunset.

Further, all income-tax authorities has to take approval from Principal Director General or the Director General or Principal Chief Commissioner or the Chief Commissioner in all cases of survey.

In the present case, though he entered during the hours at which such place is open for the conduct of business but prior permission of income-tax authority equivalent to Chief Commissioner or above is not obtained by the Assessing Officer to conduct survey. Thus, action of the Assessing Officer is not valid.

2. **Option (a)** The action of Assessing Officer is not valid, since he entered the place after sunset and permission of income-tax authority equivalent to Chief Commissioner or above is not obtained.

Reason

Section 133A(2A) provides that the income-tax authority for the purpose of verifying that tax has been deducted or collected at source may enter an office, or a place where business or profession is carried on after sunrise and before sunset.

In this case also, all income-tax authorities has to take approval from Principal Director General or the Director General or Principal Chief Commissioner or the Chief Commissioner.

3. **Option (b)** Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained.

Reason

Section 133B(2) provides that the income-tax authority may enter any place of business or profession, for the purpose of collecting any information which may be useful for, or relevant to, the purposes of this Act, 1961, only during the hours at which such place is open for the conduct of business or profession.

4. **Option (a)** The action of Assessing Officer is not valid, since prior approval of Commissioner or above authority is not obtained.

Reason

As per section 133A(3), an income-tax authority cannot impound any books of account or other documents except after recording his reasons for so doing or retain in his custody any such books of account or other documents for a period exceeding fifteen days (exclusive of holidays) without obtaining the approval of the Principal Chief Commissioner or the Chief Commissioner or the Principal Director General or the Director General or the Principal Commissioner or the Commissioner or the Principal Director or the Director.

5. **Option (c)** The action of Assessing Officer is not valid, since he cannot impound or retain books of accounts or other documents.

Reason

As per section 133A, if Assessing Officer had surveyed for the purpose of verifying that tax has been deducted or collected at source, he cannot impound and retain in his custody, any books of account or documents inspected by him or make an inventory of any cash, stock or other valuable articles or thing checked or verified by him.

CASE SCENARIO 25

M/s. LMN LLP filed its return of income for A.Y.2025-26, declaring total income of ₹ 18 lakhs, on 2nd December 2025. On processing of return, the total income determined under section 143(1)(a) was ₹ 22 lakhs, after disallowing claim for deduction under section 10AA on account of late furnishing of return of income. Thereafter, on scrutiny, the Assessing Officer made some additions under section 40(a)(ia) and section 43B and passed an assessment order under section 143(3) assessing total income of ₹ 35 lakhs. Later on, the Assessing Officer noticed that some information is flagged for A.Y. 2025-26 suggesting that certain income chargeable to tax had escaped assessment. Based on the said information, notice under section 148 was issued for making reassessment under section 147 after compliance with the requirements stipulated under section 148A. The total income reassessed under section 147 was ₹ 42 lakhs.

Consider that none of the additions or disallowances made in the assessment or re-assessment as above qualifies under section 270A(6).

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. For the purpose of answering this question alone, assume that intimation under section 143(1)(a) was sent to M/s LMN LLP on 1.2.2027, would such intimation be valid?

- Return filed on 2/12/25 > 9 months → 31/12/26
- (a) Yes, since it was sent within one year from the end of the financial year in which return was made
- (b) No, since it was sent after the expiry of nine months from the end of the financial year in which return was made
- (c) No, since it was sent after the expiry of one year from the end of the month in which return was made
- (d) No, since it was sent after the expiry of nine months from the end of the month in which return was made

2. For the purpose of answering this question alone, assume that in case of M/s LMN LLP, certain other incomes (which had escaped assessment and came to Assessing Officer's notice subsequently in the course of reassessment proceedings) were also assessed or reassessed in the reassessment order made under section 147, in respect of which provisions of section 148A were not complied with. Examine whether the action of the Assessing Officer is valid while making reassessment order in respect of such incomes?

- (a) The action of the Assessing Officer is not valid, since reassessment cannot be made in respect of other incomes which comes to his notice subsequently
- (b) The action of the Assessing Officer is not valid, since provisions of section 148A are not complied with
- (c) The action of the Assessing Officer is not valid, due to the reasons mentioned in (a) and (b) above
- (d) The action of the Assessing Officer is valid

3. Compute the amount of penalty to be levied under section 270A of the Income-tax Act, 1961 at the time of assessment made under section 143(3)? Assume under-reporting of income is not on account of misreporting.

- (a) ₹ 2,02,800
- (b) ₹ 2,65,200
- (c) ₹ 5,30,400
- (d) ₹ 4,05,600

$$\begin{aligned} \text{URI} &= 35\text{l} - 22\text{l} \\ &= 13\text{l} \end{aligned}$$

$$\therefore \text{Tax} = 4,05,600$$

$$\text{Penalty} = 50\% = 2,02,800/-$$

4. Compute the amount of penalty to be levied under section 270A of the Income tax Act, 1961 at the time of reassessment under section 147. Assume under-reporting of income is on account of misreporting.

- (a) ₹ 1,09,200
- (b) ₹ 4,36,800

$$\begin{aligned} \text{URI} &= 42\text{l} - 35\text{l} \\ &= 7\text{l} \end{aligned}$$

$$\text{Tax} = 2,18,400$$

$$\therefore \text{Penalty} = 4,36,800/-$$

- (c) ₹ 2,18,400
- (d) ₹ 3,12,000
5. In continuation to MCQ 4, assume reassessment order made under section 147 was received on 12.12.2026 and M/s LMN LLP does not prefer appeal against such order, can M/s LMN LLP make application for grant of immunity from penalty? If yes, what is the time limit for making the said application?
- (a) No, M/s LMN LLP cannot make application for grant of immunity
- (b) Yes, M/s LMN LLP can make application for grant of immunity on or before 11.01.2027
- (c) Yes, M/s LMN LLP can make application for grant of immunity on or before 31.01.2027
- (d) Yes, M/s LMN LLP can make application for grant of immunity on or before 31.03.2027

Beoz Sec 270AA does not cover 200% penalty cases. It only covers 50% cases

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** No, since it was sent after the expiry of nine months from the end of the financial year in which return was made.

Reason

As per section 143(1), an intimation has to be sent within nine months from the end of the financial year in which the return was made.

2. **Option (d)** The action of the Assessing Officer is valid.

Reason

As per *Explanation* to section 147, the Assessing Officer may assess or reassess the income in respect of any issue, which has escaped assessment, and such issue comes to his notice subsequently in the course of the proceedings under this section, irrespective of the fact that the provisions of section 148A have not been complied with.

Therefore, the action of the Assessing Officer is valid.

3. Option (a) ₹ 2,02,800.**Reason**

As this is the case of under-reporting, the amount of penalty under section 270A will be 50% of the tax payable on the under-reported income.

Under-reported income = ₹ 13 lakhs

Tax on under-reported income = ₹ 10,92,000 i.e., tax on ₹ 35 lakhs [₹ 22 lakhs computed as per the intimation under section 143(1)(a) + ₹ 13 lakhs of under-reported income] – ₹ 6,86,400 i.e., tax on ₹ 22 lakhs [income computed as per the intimation under section 143(1)(a)] = ₹ 4,05,600

4. Option (b) ₹ 4,36,800.**Reason**

As this is the case of misreporting, the amount of penalty under section 270A will be 200% of the tax payable on the under-reported income.

Under-reported income = ₹ 7 lakhs

Tax on under-reported income = ₹ 13,10,400 i.e., tax on ₹ 42 lakhs [₹ 35 lakhs computed as per the order under section 143(3) + ₹ 7 lakhs of under-reported income] – ₹ 10,92,000 i.e., tax on ₹ 35 lakhs [income computed as per the order under section 143(3)] = ₹ 2,18,400.

5. Option (a) No, M/s LMN LLP cannot make application for grant of immunity**Reason**

As per section 270AA(3), no immunity shall be granted by the Assessing Officer if the penalty proceedings u/s 270A have been initiated on account of misreporting of income.

CASE SCENARIO 26

Seva Niketan, a charitable trust registered under section 12AB runs an educational institution, which is engaged solely in education and a hospital for treatment of persons suffering from mental disorder solely for philanthropic purposes. The trust furnished the following information:

- (i) The total receipts of the trust for the P.Y. 2025-26 for educational institution is ₹ 3.10 crores and for the hospital it is ₹ 3.40 crores.
- (ii) Voluntary contributions [included in (i) above] received for the P.Y. 2025-26 from the public amounted to ₹ 105 lakhs. It includes corpus donations of ₹ 55 lakhs (for purchase of building for the trust) and anonymous donations of ₹ 20 lakhs.
- (iii) During the P.Y. 2025-26, computers purchased for ₹ 50 lakhs out of
- Loan – ₹ 25 lakhs ~~x~~
 - Voluntary contributions - ₹ 25 lakhs ✓ Appln
- (iv) Corpus donations received during the current year are invested in -
- Post Office Savings Accounts ₹ 10 lakhs ✓ (E)
 - Canara Bank as Fixed deposits ₹ 5 lakhs ✓ (E)
 - Non-banking Financial Corporation (NBFC) ₹ 10 lakhs ~~x~~ → ISSBBI.
- (v) Deposited ₹ 15 lakhs towards post office savings account which were utilised for purchase of building during the P.Y. 2020-21 and P.Y. 2021-22 out of corpus fund ₹ 10 lakhs and ₹ 5 lakhs, respectively.
- (vi) Amount paid to another trust registered u/s 12AB by way of donation of ₹ 10 lakhs. Out of the said amount of ₹ 2 lakhs are given as corpus donations. 8l x 85%.
- (vii) ₹ 6 lakhs, being the amount set apart in the P.Y. 2024-25 by the trust for charitable purposes u/s 11(2) utilized in the P.Y. 2025-26 for making donation to another charitable trust, whose object is also education.

From the information given above, choose the most appropriate answer to the following questions:

Not App x
Not App x
Yes App ✓

ISSBBI - It was given for BLDG.

Appln ✓

(E)

(E)

x → ISSBBI.

MULTIPLE CHOICE QUESTIONS

1. Seva Niketan wants to avail exemption under section 10(23C)(iiad) and 10(23C)(iiiae) in respect of educational institution and hospital for the P.Y. 2025-26. Can it do so?

- (a) Yes, it can do so since annual receipts for each activity do not exceed ₹ 5 crores.
- (b) No, it cannot do so since the trust is registered under section 12AB.
- (c) No, it cannot do so since aggregate receipts from education and hospital exceed ₹ 5 crores.
- (d) No, it cannot do so due to the reasons mentioned in (b) and (c) above.

2. What amount of corpus donations received by the trust would not form part of the total income of the P.Y. 2025-26?

- (a) ₹ 25 lakhs
- (b) ₹ 40 lakhs
- (c) ₹ 15 lakhs
- (d) ₹ 55 lakhs

→ corpus donation invested in post office & canara Bank FD shall be exempt.

3. What amount would be considered as application of the trust for the P.Y.2025-26 (excluding unconditional accumulation of 15%), assuming that it has fulfilled the relevant conditions stipulated under section 12A?

- (a) ₹ 36.8 lakhs
- (b) ₹ 25 lakhs
- (c) ₹ 38 lakhs
- (d) ₹ 30 lakhs

$$\begin{array}{r} 25\text{l} \\ 5\text{l} \\ 8\text{l} \times 85\% \\ \hline 36.8\text{lacs.} \end{array}$$

4. Seva Niketan claims that anonymous donations received during F.Y. 2025-26 are not liable to be taxed under section 115BBC(1)(i). Is the claim of trust valid? If not, determine the tax leviable under section 115BBC.

$$\begin{array}{r} AD = 20\text{l} \\ (-) 1\text{lac} \text{ (or)} \\ 5\% \text{ of } 105\text{l} \\ \hline 57000 \\ 142000 \times 30\% \end{array}$$

ICAI is wrong

- (a) No; ₹ 6,00,000
- (b) No; ₹ 5,70,000
- (c) Yes; the trust is not liable to pay tax under section 115BBC(1)(i)
- (d) No; ₹ 4,42,500

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** No, it cannot do so since aggregate receipts from education and hospital exceed ₹ 5 crores.

Reason

As per *Explanation* to section 10(23C)(iii), if a person has receipts from an institution specified in sub-clause (iiiad) as well as from an institution specified in sub-clause (iii), whose combined receipts exceeds ₹ 5 crores, then, the person is not eligible for exemption under the respective sub-clauses (iiiad) & (iii).

In this case, since aggregate receipts from education and hospital exceed ₹ 5 crores, Seva Niketan is not eligible for exemption.

2. **Option (c)** ₹ 15 lakhs

Reason

Amount of corpus invested in specified modes is not considered as a part of the total income of the trust. Thus, amount of ₹ 15 lakhs invested in post office deposit and Canara bank deposit will not form part of the total income.

3. **Option (a)** ₹ 36.8 lakhs

Reason

The amount of application will be - voluntary contribution used for computer purchase (₹ 25 lakhs) + amount deposited back in corpus utilized in P.Y. 21-22 (₹ 5 lakhs) + 85% of the amount donated to other trust for its purpose other than corpus (₹ 8 lakhs x 85%)

4. Option (d) No; ₹ 4,42,500**Reason**

Amount received as anonymous donations are taxable @30% under section 115BBC. However, exemption is allowed amounting to ₹ 1,00,000 or 5% of total donations, whichever is higher. Exemption would be ₹ 5,75,000 i.e., 5% of ₹ 105 lakhs. Thus, donations amounting to ₹ 14,75,000 (₹ 20,00,000 - ₹ 5,75,000) shall be taxed at 30%.

CASE SCENARIO 27

The following details pertain to Mr. Sahil and his best friend Mr. Akhil:

Mr. Sahil

Particulars	Amount (₹)
Amount remitted to his elder son Aarav, who is pursuing two-year MBA Program from Columbia University, USA	
- Out of own savings through HDFC Bank, an authorized dealer under Liberalized Remittance Scheme (LRS) of the RBI	
• towards tuition fees on 5.7.2025 ^{3rd}	3,50,000
• to meet day to day expenses for study purposes	
- 10.5.2025 ^{1st x}	1,20,000
- 29.9.2025 ^{4th} → $10000 \times 5\% = 500$ { ^{10.10f} - 10f }	90,000
- 01.1.2026 ^{6th} → $135000 \times 5\% = 6750$	1,35,000
- Through Axis Bank, an authorized dealer under Liberalized Remittance Scheme (LRS) out of	
• loan (towards tuition fees) on	
- 11.10.2025 ^{5th}	3,50,000
- 10.01.2026 ^{7th}	3,50,000
• Own savings (to meet day to day expenses) on 1.7.2025 ^{2nd x}	4,50,000
To complete the formalities of admission, Mr. Sahil visited the USA from 10.4.2025 to 13.4.2025 for which he purchased a tour package from M/s Gate 2 Travel, a foreign tour operator and remits money under LRS on 5.4.2025. International travel tickets and hotel accommodation are included in the said package.	5,20,000

Mr. Sahil has furnished undertakings containing the details of earlier remittances to HDFC bank and Axis bank. He has also furnished his PAN to the authorized dealers and to the seller of overseas tour program package.

Mr. Akhil

NR

Mr. Akhil, an Indian citizen got a job offer from M/s Wellbeing Inc., a Dubai-based company of AED 10,500 per month. He left for Dubai on 29.3.2025 and joined M/s Wellbeing Inc. on 1st April 2025. He returned to India on 15.12.2025 on leaves for 15 days. On 23.12.2025, he went on 7 days tour to Bali with his wife and son. Thereafter, he directly went to Dubai with his wife and son. On 16.12.2025, he purchased a tour package for Bali from Make Your Trip, an Indian tour operator for which he paid ₹ 7,50,000 towards flight tickets and hotel accommodation. During F.Y. 2025-26, he has business income of ₹ 4,20,000 from a retail shop in India and interest on fixed deposit and savings account with Canara Bank of ₹ 1,20,000 and ₹ 8,000, respectively.

He is not liable to pay any tax in Dubai. Assume 1 AED = ₹ 23.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Is HDFC Bank required to collect tax at source on the amount remitted by Mr. Sahil? If so, what is the amount of tax to be collected?
 - (a) Yes; TCS of ₹ 2,000 on 29.9.2025 and TCS of ₹ 27,000 on 1.1.2026
 - (b) Yes; TCS of ₹ 500 on 29.9.2025 and TCS of ₹ 27,000 on 1.1.2026
 - (c) Yes; TCS of ₹ 500 on 29.9.2025 and TCS of ₹ 6,750 on 1.1.2026
 - (d) No tax is required to be collected at source since receipts do not exceed ₹ 10 lakh
2. Is Axis Bank required to collect tax at source on the amount remitted by Mr. Sahil? If so, what is the amount of tax to be collected?
 - (a) Yes; TCS of ₹ 7,500 on 1.7.2025; TCS of ₹ 1,750 on 11.10.2025 and TCS of ₹ 1,750 on 10.1.2026
 - (b) Yes; TCS of ₹ 17,500 on 11.10.2025 and TCS of ₹ 17,500 on 10.1.2026
 - (c) Yes; TCS of ₹ 1,750 on 11.10.2025 and TCS of ₹ 1,750 on 10.1.2026

- (d) No tax is required to be collected at source, on the remittances amount is a loan for education purpose.
3. Is tax required to be collected at source on the amount remitted for tour package to USA by Mr. Sahil? If so, what is the amount of tax to be collected?
- (a) Yes; TCS of ₹ 26,000
 - (b) Yes; TCS of ₹ 1,04,000
 - (c) No tax is required to be collected at source, since tour package is purchased from a foreign tour operator
 - (d) No tax is required to be collected at source, since receipt does not exceed ₹ 10 lakh

→ ₹ 20000 x 5% (No exemption of 10 lacs)

4. Does Make Your Trip require to collect tax at source on the amount received for tour package to Bali from Mr. Akhil? If so, what is the amount of tax to be collected?
- (a) Yes; ₹ 2,500 is required to be collected at source
 - (b) Yes; ₹ 37,500 is required to be collected at source
 - (c) Yes; ₹ 45,000 is required to be collected at source
 - (d) No tax is required to be collected at source

206C(1G) not applicable to a NR.

5. What is the total income of Mr. Akhil for the A.Y. 2026-27? Assume he has shifted out of the default tax regime u/s 115BAC.

- (a) ₹ 33,88,000
- (b) ₹ 5,48,000
- (c) ₹ 33,96,000
- (d) ₹ 5,40,000

OLD Regime :-
 420000 (-) 80TTA (8000)
 (+) 120000
 (+) 8000
 GTI 548000

only income which is earned or received in India.

6. What would be the amount of the tax liability (computed in the most beneficial manner) of Mr. Akhil for the A.Y. 2026-27?
- (a) ₹ 7,47,550
 - (b) ₹ 12,900

New vs OLD:-
 T.I → change 548000
 ↓
 Tax 7,700

(c) Nil

(d) ₹ 12,480

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Yes; TCS of ₹ 500 on 29.9.2025 and TCS of ₹ 6,750 on 1.1.2026

Reason

As per section 206C(1G), TCS is to be collected on the remittance under the scheme of LRS, if the remittance exceeds an amount of ₹ 10,00,000 during the F.Y. The rate of TCS depends on the nature of remittance. If the remittances during the F.Y. are of different nature, they are to be arranged chronologically and as soon as the amount exceeds ₹ 10,00,000, rate of TCS shall be applied as per the nature of the payment. Further, education includes day to day expenses required for undertaking study.

In the given case, remittance on 29.09.2025 and 01.01.2026 would attract TCS as these are in excess of ₹ 10,00,000. TCS on ₹ 10,000 (out of ₹ 90,000) remitted on 29.09.2025 and TCS on ₹ 1,35,000 on 01.01.2026 at rate of 5% shall apply it is for educational purpose.

2. **Option (d)** No tax is required to be collected at source, on the remittances amount is a loan for education purpose.

Reason

As per section 206C(1G), TCS shall not be collected by the authorized dealer if the remittances is for the purpose of pursuing any education and the amount remitted is out of a loan obtained from any financial institution as defined in section 80E.

3. **Option (a)** Yes; TCS of ₹ 26,000

Reason

As per section 206C(1G), TCS is to be collected on remittance on overseas tour package. The rate is 5% till the amount of ₹ 10,00,000 and 20% on an amount exceeding ₹ 10,00,000. In this case, the amount paid

for overseas tour package is ₹ 5,20,000, thus TCS @5% will apply on ₹ 5,20,000.

4. Option (d) No tax is required to be collected at source

Reason

As per Notification No. 99/2022, dated 17.08.2022, provisions of section 206C(1G) would not be applicable to a person (being a buyer) who is a non-resident in terms of section 6.

Since Mr. Akhil is a non-resident as per section 6, provisions of section 206C(1G) pertaining to TCS on overseas tour programme package shall not be applicable to him.

5. Option (d) ₹ 5,40,000

Reason

Business Income = ₹ 4,20,000

Income under other sources = ₹ 1,20,000 (Interest on FD) + ₹ 8,000 (Saving Bank Interest)

Gross total Income = ₹ 5,48,000

Deduction u/s 80TTA = ₹ 8,000

Total income = ₹ 5,40,000

6. Option (c) NIL

Reason

Tax on ₹ 5,40,000 under normal provisions = ₹ 21,320.

Tax on ₹ 5,48,000 under default tax regime = NIL

CASE SCENARIO 28

Sharma Pvt. Ltd. ("S") files its return of income for the P.Y. 2025-26 on 30th September 2026 declaring loss of ₹ 18,00,000. The rate of income-tax applicable to the company is 25%.

The tax auditor of S, in his audit report submitted under section 44AB, has reported a disallowance of ₹ 2,80,000 towards personal expenditure of directors as no evidence was produced by S in support of this expenditure. However, S did not disallow the same in its computation and return of income.

The return of income was processed by the Centralised Processing Centre making an addition of ₹ 2,80,000 towards personal expenditure and the loss u/s 143(1) was computed at ₹ 15,20,000.

The return of income was selected for scrutiny assessment and by order passed u/s 143(3), the loss as per normal provisions was reduced to ₹ 11,60,000 by making an addition of ₹ 3,60,000.

The assessment was reopened u/s 147 and by order passed u/s 147, the loss as per preceding order u/s 143(3) was converted into income of ₹ 3,20,000.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements regarding penalty on addition of ₹ 2,80,000 towards personal expenditure is correct?
 - (i) Since S has claimed deduction of amount incurred towards personal expenditure of directors, S shall be considered to have under-reported its income.
 - (ii) The under-reporting on account of claiming personal expenditure of directors as deduction can be construed as misreporting of income as it is a claim of expenditure not substantiated by any evidence.

No penalty
u/s- 143(1)

- (iii) Since addition of ₹ 2,80,000 is an adjustment referred to in section 143(1)(a), no penalty is leviable in respect of this addition.
- (iv) No penalty is leviable if S offers an explanation and the Assessing Officer is satisfied that the explanation is *bona fide* and S has disclosed all the material facts to substantiate the explanation offered.
- (a) (i) and (iv)
- (b) (ii) and (iv)
- (c) (iv) only
- (d) (iii) only
2. What is the amount of penalty leviable u/s 270A as a consequence of assessment u/s 147, if the addition was not on account of misreporting?
- (a) ₹ 1,09,200
- (b) ₹ 1,92,400
- (c) ₹ 41,600
- (d) ₹ 1,85,000
- $$\text{UPI} = 320000 - (-116000)$$

$$= 148000$$

$$\text{Tax} = 38480$$

$$\text{Penalty} = 50\% = 192400 -$$
3. Assuming that the additions made in the order u/s 147 are not on account of misreporting of income but only on account of under-reporting, S seeks to claim immunity from imposition of penalty u/s 270A and initiation of proceedings u/s 276C of the Act by filing an application in this regard before the Assessing Officer. What are the other conditions that need to be satisfied by S in this regard?
- (i) Pay the tax and interest payable as per the order u/s section 147 within the period specified in the notice of demand.
- (ii) Pay the tax as per the order u/s section 147 within the period specified in the notice of demand.
- (iii) Contest the additions made in the order, after payment of tax and interest, within the period specified in the notice of demand.
- (iv) No appeal should be or should have been filed against the order.

The correct answer is-

- (a) (ii) and (iv)
- (b) (i) and (iv)**
- (c) (i) and (iii)
- (d) (ii) and (iii)

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** (iii) only
2. **Option (b)** ₹ 1,92,400

Reason

As this is the case of under-reporting, the amount of penalty under section 270A will be 50% of the tax payable on the under-reported income.

The amount of penalty will be = ₹ 14,80,000 (₹ 3,20,000 – (-₹ 11,60,000) x 25% x 104% x 50% = ₹ 1,92,400

3. **Option (b)** (i) and (iv)

Reason

As per section 270AA, an assessee may make an application to the Assessing Officer for grant of immunity from imposition of penalty under section 270A and initiation of proceedings under section 276C or section 276CC, if he pays the tax and interest payable as per the order of assessment under section 143(3) or reassessment under section 147, within the period specified in such notice of demand; and does not prefer an appeal against such assessment/reassessment order.

CASE SCENARIO 29

Omega Inc., a Country F company, maintains an online web-platform through which it provides end user computer software through an End-user Licence Agreement (EULA). Traylor Ltd., an Indian company, has entered into a contract for ₹ 6.7 crores with Omega Inc., for the Financial Year 2025-26, which is approved by the Central Government.

The broad terms of the EULA between the two companies are as follows-

Grant of licence. Omega Inc. grants Traylor Ltd. a limited non-exclusive licence to install, use, access, display and run the click wrap web-based Computer Software (CWCS) on a single local hard disk(s) or other permanent storage media of one computer. Traylor Ltd. should not make CWCS available over a network where it could be used by multiple computers at the same time.

Reservation of rights and ownership. Omega Inc. reserves all rights not expressly granted to Traylor Ltd. in this EULA. The CWCS is protected by copyright and other intellectual property laws and treaties. Omega Inc. owns the title, copyright and other intellectual property rights in the CWCS. The CWCS is licenced (only for use and not any other purpose), not sold.

Omega Inc. does not have any offices outside Country F.

Extract of Article 12 of India-Country F DTAA**Royalties and Fees for Technical Services****INDIA.**

1. Royalties and fees for technical services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State. **Foreign Country.**
2. However, such royalties and fees for technical services may also be taxed in the Contracting State in which they arise and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the royalties or fees for technical services, the tax so charged shall not exceed 10 per cent.

3. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use :
- (a) any copyright of a literary, artistic or scientific work, including cinematograph film or films or tapes used for radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience, including gains derived from the alienation of any such right, property or information

From the information given above, choose the most appropriate answer to the following questions -

MULTIPLE CHOICE QUESTIONS

1. Is Trailor Ltd., India required to deduct tax at source on the payment made to Omega Inc.? If yes, what amount of tax is required to be deducted at source on the said payment?
- (a) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 1,42,14,720.
- (b) No, Trailor Ltd. is not required to deduct tax at source.
- (c) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 2,84,29,440.
- (d) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 67,00,000
2. Would Trailor Ltd., India be required to deduct tax at source on the payment made to Omega Inc, if there was no DTAA between India and Country F? If so, what amount of tax is required to be deducted at source on the said payment? *6-7cr x 20% = 27cr*
- (a) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 1,42,14,720. *4%*
- (b) No, Trailor Ltd. is not required to deduct tax at source, since such sum is not taxable in the hands of Omega Inc.
- (c) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 2,84,29,440.
- (d) Yes, Trailor Ltd. is required to deduct tax at source of ₹ 71,07,360

3. What would be the tax liability of Omega Inc. if there is no DTAA between India and Country F, and it incurred ₹ 20,00,000 for providing end-user software to Traylor Ltd.?
- X Not Allowed.*
- (a) ₹ 1,42,14,720. *Same = 14214720/-*
- (b) Nil
- (c) ₹ 2,84,29,440.
- (d) ₹ 1,37,90,400
4. Would Omega Inc. required to file return of Income for the A.Y. 2026-27, if there is no DTAA between India and Country F?
- (a) Yes, required to file return of income, since the said income is chargeable to tax in India.
- (b) No, not required to file return of income, since the said income is not chargeable to tax in India.
- (c) Yes, required to file return of income, even if the said income is not chargeable to tax in India as information of income arising from India is to be disclosed in return.
- (d) No, not required to file return of income, if Traylor Ltd. deducted tax at source on such income.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** No, Traylor Ltd. is not required to deduct tax at source.

Reason

As per the landmark judgement given in the Engineering Analysis case by the Supreme Court, such income will not be considered as Royalty as per the provisions of DTAA. Thus, as the income is not chargeable to tax, TDS shall not be applicable.

2. **Option (a)** Yes, Traylor Ltd. is required to deduct tax at source of ₹ 1,42,14,720

Reason

As there is no DTAA, the benefit of non-taxability of royalty cannot be claimed by the non-resident and the provisions of Income tax Act will apply. As per the Act, it is taxable as Royalty. Thus, tax is to be withheld as per the rates in force i.e. 20% plus surcharge@ 2% and HEC @4%.

3. **Option (a)** ₹ 1,42,14,720.

Reason

As per section 115A, royalty income of a non-resident received from the Indian concern in pursuance of an agreement made by the non-resident with the Indian concern and the agreement is approved by the Central Government will be taxable @20% plus surcharge@ 2% and HEC @4%.

4. **Option (d)** No, not required to file return of income, if Traylor Ltd. deducted tax at source on such income.

Reason

As per section 115A, it shall not be necessary for the assessee to furnish a return of income if the following conditions are satisfied:

- (a) The total income consists of only royalty; and
- (b) Tax deductible at source has been deducted from such income and the rate of such deduction is not less than the rate of 20%.

CASE SCENARIO 30

The following information pertains to Mr. Apoorv, an Indian citizen and non-resident in India, for the previous year 2025-26:

- (i) Dividend from TPO Ltd., an Indian Company (gross) of ₹ 1,30,000.
- (ii) Interest on debentures of SLP Pvt. Ltd. (subscribed in convertible foreign exchange) of ₹ 1,35,000 (gross). 115A ✓ CITA X MCQ 3
- (iii) He incurred interest on loan taken for purchase of shares of TPO Ltd. and for purchase of debentures of SLP Pvt. Ltd. of ₹ 30,000 and ₹ 20,000, respectively.
- (iv) On 15th March 2026, he sold debentures of Fix Ltd. for ₹ 18,25,000 which were subscribed in convertible foreign exchange on 10th June 2004 in dollars equivalent to ₹ 4,65,000. He paid commission to broker of ₹ 7,000 at the time of sale. CITA → Applicable.
- (v) On 30th April, 2026, he reinvested the sale proceeds of debentures of ₹ 4,80,000 for purchase of listed shares of an Indian company, Fly High Ltd.

Cost Inflation Index: F.Y. 2004-05 - 113; F.Y.2025-26 – 376.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. What is the amount of dividend taxable in the hands of Mr. Apoorv and at what rate TPO Ltd. is required to deduct tax at source on dividend income distributed to Mr. Apoorv?
 - (a) ₹ 1,30,000 and 10%
 - (b) ₹ 1,04,000 and 10%
 - (c) ₹ 1,00,000 and 20.8%
 - (d) ₹ 1,30,000 and 20.8%

Sec 115A ⇒ 20 + 4% = 20.8%
 No dedn of Int expn against Dividend for N.R. ⇒ TDS = Sec 195.
2. Assuming for the purpose of this MCQ that Mr. Apoorv is a resident in India for the P.Y. 2025-26, determine the amount of dividend taxable in

his hands and at what rate TPO Ltd. is required to deduct tax at source on dividend income distributed to him?

- (a) ₹ 1,30,000 and 10%
- (b) ₹ 1,04,000 and 10%
- (c) ₹ 1,00,000 and 20%
- (d) ₹ 1,30,000 and 20%

Div → 130000
 (-) Int exp (26000) @ (30000) lower
 up to 20% - 104000 × 10% TDS u/s-194.
 CHXIIA → N.A.

3. What is the amount of interest on debentures of SLP Pvt. Ltd. taxable in the hands of Mr. Apoorv and at what rate? Ignore surcharge and cess.

- (a) ₹ 1,35,000 taxable @20%
- (b) ₹ 1,05,000 taxable @20%
- (c) ₹ 1,08,000 taxable at slab rates
- (d) ₹ 1,05,000 taxable at slab rates

115A → 135000 × 20%
 CHXIIA → N.A.

4. What would be the amount of long-term capital gains taxable in the hands of Mr. Apoorv on sale of debentures of Fix Ltd, as per the provisions of Chapter XII-A of the Income-tax Act, 1961? Ignore the effect of first proviso to section 48 (benefit of foreign currency conversion).

- (a) ₹ 13,53,000
- (b) ₹ 9,95,772
- (c) ₹ 9,97,142
- (d) ₹ 13,60,000

FVC 1825000
 (-) Exp (7000)
 NVL 1818000
 (-) LCA (460000)
1358000
 (-) Exemption:
 1353000 × 4.8% (357228)
18.18%
995772

Public Co

5. Assuming for the purpose of this MCQ that Mr. Apoorv is a resident in India for the previous year 2025-26, what would be the amount of taxable capital gains on sale of debentures of Fix Ltd. in the hands of Mr. Apoorv?

- (a) ₹ 13,53,000
- (b) ₹ 3,85,965
- (c) ₹ 9,95,772
- (d) ₹ 13,60,000

No Exemption:

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** ₹ 1,30,000 and 20.8%

Reason

Section 195 requires deduction on any other sum chargeable under the provisions of this Act at the rates in force. Further, section 115A provides that the income in the nature of dividend in the hands of non-residents to be taxed at the rate of 20%, plus surcharge (if applicable) and HEC. Moreover, no deduction under section 57 shall be allowed from the dividend income.

2. **Option (b)** ₹ 1,04,000 and 10%

Reason

If Mr. Apoorv is resident, the TDS shall be deducted as per section 194 i.e. @ 10%. Further, as per section 56 and 57, the income shall be taxed under the head other sources and the assessee can claim deduction of the interest expense out of such dividend income. However, maximum amount allowed as deduction shall be 20% of such dividend income. Thus, the taxable dividend income will be ₹ 1,04,000

3. **Option (a)** ₹ 1,35,000 taxable @20%

Reason

Section 115A provides that the income in the nature of interest received from the Government or an Indian concern on monies borrowed or debt incurred by the Government /Indian concern in foreign currency in the hands of non-residents to be taxed at the rate of 20%. Further, no deduction under section 57 shall be allowed from the interest income.

In this case, Mr. Apoorv is a non-resident earning income of ₹ 1,35,000 on account of interest on debenture from SLP Pvt. Ltd. Accordingly, such income is taxed at the rate of 20%.

4. **Option (b)** ₹ 9,95,772

Reason

Sale consideration = ₹ 18,25,000

Less: Transfer Exp = ₹ 7,000

Net sale consideration = ₹ 18,18,000

Less: Cost of acquisition = ₹ 4,65,000

Long term capital gain = ₹ 13,53,000

Exemption u/s 115F = ₹ 13,53,000 x ₹ 4,80,000/₹ 18,18,000 = ₹ 3,57,228

LTCG chargeable to tax = ₹ 9,95,772

5. Option (a) ₹ 13,53,000

Reason

Sale consideration = ₹ 18,25,000

Less: Transfer Exp = ₹ 7,000

Net sale consideration = ₹ 18,18,000

Less: Cost of acquisition = ₹ 4,65,000

Long term capital gain = ₹ 13,53,000

CASE SCENARIO 31

Falcon Ltd of Country X is an associated enterprise of Max Inc. of USA. Falcon Ltd. has a branch in India since 2010. It was selling goods to Indian customers by importing from various countries besides sale in India of goods manufactured by it in Country X.

mca-3

The adjusted total income of the Indian branch of Falcon Ltd for the year ended 31st March, 2026 is ₹ 80 lakhs. The branch incurred ₹ 12 lakhs by way of executive and general administrative expenditure during the financial year 2025-26. The head office has allocated ₹ 18 lakhs as the branch's share of head office expenditure including the expenditure of ₹ 12 lakhs incurred by the branch.

A survey under section 133A of the Act was conducted in its branch premises in January, 2026 and undisclosed assets of ₹ 90 lakhs were found. Assessment for the assessment year 2025-26 was completed by making addition of the entire undisclosed asset of ₹ 90 lakhs. The assessee preferred appeal before CIT (Appeals) who gave complete relief to the assessee. The Income-tax Department wants to file an appeal before ITAT.

mca 4:
115BBE=
787-

mca 1:
66DA ✓

T (P) Ltd. an Indian company, a wholly owned subsidiary of Falcon Ltd., paid ₹ 50 lakhs to XYZ Inc. of Country M as fee for technical services. Services were rendered by the employees of the branch of XYZ Inc. in India. There is no DTAA between India and Country M. T(P) Ltd. has entered into certain international transactions during the P.Y. 2024-25 and P.Y. 2025-26.

T (P) Ltd. invested in SS (P) Ltd of Country Y and received dividend of ₹ 550 lakhs during the financial year 2025-26. It declared and distributed an interim dividend of ₹ 250 lakhs on 10.11.2025 and a final dividend of ₹ 230 lakhs on 12.11.2026. T (P) Ltd. has filed its return of income on 15.11.2025 for A.Y. 2025-26 and on 30.11.2026 for A.Y. 2026-27.

mca 2
X Not Allowed.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. How much tax to be deductible at source by T (P) Ltd on the fee for technical services paid to XYZ Inc.?

- (a) ₹ 20,80,000
 (b) ₹ 20,00,000
 (c) ₹ 18,20,000
 (d) ₹ 10,40,000

Sec 115A is not applicable as there is agreement which is approved

$\therefore 50\text{l} \times 35\% + 4\%$

2. How much of the dividend received by T (P) Ltd would be liable to tax for the assessment year 2026-27?

- (a) ₹ 70 lakhs
 (b) ₹ 320 lakhs
 (c) ₹ 300 lakhs
 (d) ₹ 550 lakhs

(-) $\frac{550\text{l}}{(250\text{l})}$
 300l

3. How much of head office expenditure can be claimed by the Indian branch of Falcon Ltd for the assessment year 2026-27?

- (a) ₹ 4,00,000
 (b) ₹ 6,00,000
 (c) ₹ 12,00,000
 (d) ₹ 18,00,000

Sec 44C: Lower of:

① 5% of ATI ② $80\text{l} \times 5\% = 4\text{l}$
 ② Actual HO expn $\rightarrow 18\text{l}$

4. Can the Income-tax Department prefer appeal before ITAT in respect of the complete relief obtained by Falcon Ltd from CIT (Appeals)?

- (a) No, as the tax liability is less than ₹ 60 lakhs
 (b) Yes, as the tax liability is more than ₹ 25 lakhs
 (c) Yes, as the tax liability is more than ₹ 60 lakhs
 (d) No, as the undisclosed asset is less than ₹ 100 lakhs

$90\text{l} \times 78\%$

$= 70.2\text{l} >$

60 lakhs.

ANSWERS TO MULTIPLE CHOICE QUESTIONS**1. Option (c) ₹ 18,20,000****Reason**

If income by way of FTS arising from the agreement made by the non-resident with the Indian company after 31.03.2003 & such non-resident carries business in India through PE and the right, property, or contract in respect of which FTS are paid is effectively connected with such permanent establishment, then section 44DA shall be applicable.

In the present case, XYZ Inc fulfills the above condition. Accordingly, T (P) Ltd will deduct tax @36.4% (35% + 4% cess) on income of ₹ 50 lakhs

2. Option (c) ₹ 300 lakhs**Reason**

Deduction under 80M would be lower of an amount of dividend distributed till due date [i.e., one month prior to date of furnishing return u/s section 139(1)] or the dividend received. In this case, dividend income received is ₹ 550 lakhs and dividend distributed is ₹ 250 lakhs. Thus, deduction will be ₹ 250 lakhs. Therefore, the dividend liable to tax is ₹ 300 lakhs.

3. Option (a) ₹ 4,00,000**Reason**

As per section 44C, lower of (5% of adjusted total income or the amount of Head Office expenditure incurred by the non-resident attributable to the business or profession in India).

In this case, ₹ 4 lakhs being lower of [₹ 4 lakhs (5% of ₹ 80 lakhs) or ₹ 18 lakhs] will be allowed as deduction under section 44C.

4. Option (c) Yes, as the tax liability is more than ₹ 60 lakhs**Reason**

As per Circular No. 09/2024 dated 17.9.2024, Appeals to ITAT shall be filed where the tax effect exceeds the monetary limit of ₹ 60 lakhs.

CASE SCENARIO 32

A Ltd. is an **Indian company** which has invested in shares of other Indian and foreign companies. During the P.Y.2025-26, A Ltd. received dividend from these companies as follows:

	% of holding of A Ltd.	Date of declaration of dividend by the company	Date of distribution of dividend by the company	Amount of dividend [Gross] (₹)	Interest expenditure on loan borrowed for investment in shares (₹)
B Ltd., an Indian company	10%	20.6.2025	3.7.2025	2,00,000	45,000 40,000 = 16,000
C Inc., a foreign company	22%	17.9.2025	12.10.2025	4,00,000	90,000 90,000 = 32,000
D Inc., a foreign company	30%	13.11.2025	28.11.2025	6,00,000	1,30,000 1,30,000 = 48,000
E Ltd., an Indian company	15%	14.1.2026	2.2.2026	3,20,000	70,000 70,000 = 25,000

A Ltd. declared and distributed dividend of ₹ 6 lakhs for the F.Y.2024-25 in June, 2025 and dividend of ₹ 7 lakhs for the F.Y.2025-26 in July, 2026 = 13 lakhs

P01 P202 → Mr. Aakash and Mr. Aarav are two brothers who have invested in shares of A Ltd. Both of them were born in India; their parents and grand parents were also born in India. Mr. Aakash is an **Indian citizen** who lives in **Hyderabad**. He is employed with a leading textile manufacturing unit at a **salary of ₹ 1 lakh** per month. His brother, Mr. Aarav is settled in Country Y since the year 2010. He is a citizen of Country Y and is a partner with a software development firm in Country Y. His share of profit in the Country Y firm for the F.Y. 2025-26 is CYD 1,20,000, which was credited to his bank account in Country Y. The value

Aarav = NP

of one CYD may be taken as ₹ 25. He is not subject to income-tax in Country Y, since the share of profits of a firm is exempt in the hands of partners in Country Y. Mr. Aarav visits India for four months (in continuation) every year. He earns interest of ₹ 14 lakhs from fixed deposits with Bank of India.

The details of investment in shares of A Ltd. by Mr. Aakash and Mr. Aarav are given below –

Name of the shareholder	% of holding	Month of declaration & distribution of dividend	Amt of dividend [Gross] (₹)	Interest expenditure on loan borrowed for investment in shares (₹)
Aakash	10%	June, 2025 ✓	60,000	15,000
	10%	July, 2026 ✗	70,000	15,000
Aarav	15%	June, 2025 ✓	90,000	20,000
	15%	July, 2026 ✗	1,05,000	20,000

= 48000 Resident.
= 90000 NP

On the basis of the facts given above, choose the most appropriate answer of the below MCQs, on the basis of the provisions of the Income-tax Act, 1961 [Ignore the provisions of DTAA, if any, with Country Y for the purpose of answering these questions] –

MULTIPLE CHOICE QUESTIONS

- What is the amount of dividend income includible in the gross total income of A Ltd. for A.Y.2026-27 under the provisions of the Income-tax Act, 1961?
 - (a) ₹ 11,85,000
 - (b) ₹ 12,16,000
 - (c) ₹ 13,15,000
 - (d) ₹ 13,36,000
- What is the deduction allowable under section 80M to A Ltd. for A.Y. 2026-27?

1216000
1300000
1216000

Earlier ICAI kept Rs 13-lacs. which I said in LY video. Now they have corrected.

- (a) ₹ 6,00,000
 (b) ₹ 7,00,000
 (c) ₹ 9,20,000
 (d) ₹ 12,16,000
3. What is the tax liability (rounded off) of Mr. Aakash for A.Y.2026-27 under the provisions of the Income-tax Act, 1961 if he wishes to make maximum tax savings (ignore TDS)?

- (a) ₹ 1,04,830
 (b) ₹ 1,03,580
 (c) ₹ 1,78,780
 (d) ₹ NIL

New is Better.

4. What is the residential status of Mr. Aarav for A.Y.2026-27?

- (a) Resident and Ordinarily resident
 (b) Resident but not ordinarily resident
 (c) Non-resident
 (d) Deemed resident

Mr. Aarav is a person of Indian origin. \oplus
 Indian Income \leq 15 lacs. \therefore N.R.

5. What is the tax liability (rounded off) of Mr. Aarav under the provisions of the Income-tax Act, 1961 for A.Y. 2026-27, if he wishes to make maximum tax savings (ignore TDS)?

- (a) ₹ 2,69,880
 (b) ₹ 2,60,520
 (c) ₹ 1,12,320
 (d) ₹ 1,07,640

14,90,000 = Total Income:

←	→
OLD	<u>New:</u>
9,00,000 × 20%	9,00,000 × 20%
14,00,000 → OLD Regime	14,00,000 → New Regime.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 12,16,000

Reason

The dividend income is taxed under the head "income from other sources". The interest expense is allowed as deduction from dividend income to the extent of 20% of such income. Accordingly, deduction would be allowed for ₹ 3,04,000 from ₹ 15,20,000.

2. **Option (d)** ₹ 12,16,000

Reason

Deduction under 80M would be lower of an amount of dividend distributed till due date [i.e., one month prior to date of furnishing return u/s section 139(1)] or the dividend received. In this case, dividend income received included in the gross total income is ₹ 12,16,000 and dividend distributed is ₹ 13,00,000. Thus, deduction u/s 80M would be ₹ 12,16,000.

3. **Option (d)** Nil

Reason

The total income will be –

Salary (Net of standard deduction of ₹ 75,000)	₹ 11,25,000
Other sources (₹ 60,000 – 20% of ₹ 60,000)	₹ 48,000
Total Income	11,73,000

Tax on total income of ₹ 11,73,000 as per section 115BAC is NIL due to rebate under section 87A

Total income and tax liability under normal provisions of the Act is ₹ 11,98,000 and ₹ 1,78,780, respectively.

4. **Option (c)** Non-resident

Reason

Since Mr. Arav does not satisfy any of the basic conditions of being a resident, he is a non-resident as per section 6(1). He is also not a deemed resident u/s 6(1A).

5. **Option (c)** ₹ 1,12,320.

Reason

Total income = ₹ 90,000, dividend Income + ₹ 14,00,000, FD interest = ₹ 14,90,000

As he is a non-resident, the dividend will be taxed at 20%.

Tax on total income of ₹ 14,90,000 as per section 115BAC is ₹ 1,12,320.

Tax liability under normal provisions of the Act is ₹ 2,60,520.

CASE SCENARIO 33

Mr. Subhash is a retailer of car spare parts. He started his business in May, 2022. His turnover for the P.Y. 2024-25 was ₹ 10.50 crores. He generally purchases goods from Car accessories & Co. only. Car accessories & Co. manufacturers and sells spare parts directly to the customers as well as through an e-commerce platform – CarParts.com. Car accessories & Co.'s turnover from the business for the P.Y. 2024-25 was ₹ 15 crores.

The relevant information of purchases made by Mr. Subhash in P.Y. 2025-26 is given hereunder:

Date of credit to account of Car accessories & Co.	Date of Payment to Car accessories & Co.	Value of spare parts without GST (₹)	GST @18%	Total value of spare parts/ payment
15.05.2025 ✓	02.06.2025	✓ 45,00,000	✗ 8,10,000	53,10,000
18.06.2025 ✓	30.06.2025	15,00,000	2,70,000	17,70,000
28.08.2025	✓ 17.08.2025	21,50,000	3,87,000	25,37,000
✓ 14.02.2026	28.02.2026	10,50,000	1,89,000	12,39,000

10% x 0.1%
x 0.1%
x

In addition to the above, Mr. Subhash also purchased spare parts of Car accessories & Co. for ₹ 12,00,000 inclusive of GST@18% through CarParts.com on 31.12.2025. The payment was made directly to Car accessories & Co. on 15.1.2026. PAN is duly furnished by Mr. Subhash, Car accessories & Co. and CarParts.com. The GST portion is indicated separately in the invoice of Car accessories & Co. but it is not shown separately when the goods are purchased through CarParts.com.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Is Mr. Subhash required to deduct tax at source in respect of the purchase transactions made directly with Car accessories & Co. If yes, when and what is the amount of tax to be deducted at source?

- (a) Yes; ₹ 1,000 on 18.06.2025, ₹ 2,537 on 17.08.2025 and ₹ 1,050 on 14.02.2026
- (b) Yes; ₹ 2,537 on 17.08.2025 and ₹ 1,050 on 14.02.2026
- (c) Yes; ₹ 1,000 on 18.06.2025, ₹ 2,150 on 17.08.2025 and ₹ 1,050 on 14.02.2026
- (d) No, Mr. Subhash is not liable to deduct tax at source.
2. Assume that Mr. Subhash has started the retail business of car spare parts in May, 2025. In such case, would the answer of MCQ 1 be different? If yes, what would be the answer of MCQ 1?
- (a) No, the answer of MCQ 1 would be the same
- (b) Yes, the answer of MCQ 1 would change to (b).
- (c) Yes, the answer of MCQ 1 would change to (d).
- (d) Yes, the answer of MCQ 1 would change to (a).
3. Are the provisions of tax deduction/ collection at source attracted in respect of the transactions with CarParts.com? If yes, who has to deduct/ collect tax at source and at what rate?
- (a) Mr. Subhash is required to deduct tax at source on ₹ 12 lakhs @0.1%.
- (b) Car accessories & Co. is required to collect tax at source on ₹ 12 lakhs @0.1%.
- (c) CarParts.com is required to deduct tax at source on ₹ 12 lakhs @0.1%.
- (d) CarParts.com is required to deduct tax at source on ₹ 12 lakhs @1%.
4. If Car accessories & Co. has not furnished his PAN to Mr. Subhash, what would be the rate of TDS for the purpose of MCQ 1.
- (a) 5%
- (b) 1%
- (c) 0.1%
- (d) 20%

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Yes; ₹ 1,000 on 18.06.2025, ₹ 2,537 on 17.08.2025 and ₹ 1,050 on 14.02.2026

Reason

As per section 194Q, the buyer who is responsible for purchase of goods of value exceeding ₹ 50 lakhs, he is required to deduct tax @0.1% of such sum exceeding ₹ 50,00,000 during a previous year. Buyer is a person whose turnover exceeds ₹ 10 crores during the financial year immediately preceding the financial year in which the purchase of goods is carried out. Tax is to be deducted at the time of credit of sum to the account of the seller or at the time of payment, whichever is earlier.

In the present case, since Mr. Subhash is covered within the provisions of section 194Q, he will deduct tax @.1% on the purchase exceeding ₹ 50,00,000 from Car accessories & Co. Where tax is deducted at the time of credit of amount, it will be deducted on the amount credited (excluding GST) and where tax is deducted on payment, it will be deducted on the whole amount.

2. **Option (c)** Yes, the answer of MCQ 1 would change to (d).

Reason

As per the clarification and guidelines issued on applicability of section 194Q since it is the first year of operation for Mr. Subash, section 194Q shall not apply on him.

3. **(c)** CarParts.com is required to deduct tax at source on ₹ 12 lakhs @0.1%

Reason

As per section 194-O, e-commerce operator is required to deduct tax at source on sale facilitated through its platform. Thus, in this case, TDS will apply on ₹ 12 lakhs as it is facilitated by e-commerce operator.

4. **Option (a)** 5%

Reason

As per section 206AA, higher rate of TDS of 5% will apply for non-furnishing of PAN by Car accessories & Co.

CASE SCENARIO 34

Trio Inc., a company incorporated in Country T, is engaged in manufacturing of computer hardware parts. Nice Ltd., an Indian Company, imports computer hardware parts from Trio Inc. During the previous year 2025-26, Nice Ltd. did not import any computer hardware parts from Trio Inc. mca

On 1-4-2025, Nice Ltd. advanced a loan of ₹ 2.5 crores to Xylo Inc., an Australian company. As on the date of loan, the book value of total assets in the books of Xylo Inc. was ₹ 4.52 crores. Out of the ten directors of Xylo Inc., five are appointed by Nice Ltd. Xylo Inc. repaid the entire loan along with interest thereon on 31st March, 2026. mca (1)

On 9.11.2025, Trio Inc. sold 3,500 equity shares held by it in an Indian Company, XYZ Ltd. for ₹ 102 per share. These shares were bought by Trio Inc. on 15th April 2011 for ₹ 36.40 per share. Both the purchase and sale of shares were effected through a recognized stock exchange in India and STT is paid on purchase and sale. Fair Market Value of these shares on 31-01-2018 was ₹ 90 per share. mca

CII for F.Y. 2011-12 – 182; F.Y. 2025-26 – 376.

Nice Ltd. received the draft order from the Assessing Officer as per section 144C of the Income-tax Act, 1961 due to variations determined by the Transfer Pricing Officer in the arm's length price for the A.Y. 2025-26. However, Nice Ltd. does not prefer to file the objection against the draft order before the Dispute Resolution Panel; Instead, it wants to file an appeal before the CIT (Appeals) under section 246A against the final order received from the Assessing Officer.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Are Nice Ltd. and Xylo Inc. associated enterprises? If so, why?
 - (a) Yes, since loan advanced by Nice Ltd. to Xylo Inc. is not less than 51% of the book value of total assets of Xylo Inc. 55-31 :-

- (b) Yes, since not less than 50% of the directors of Xylo Inc. are appointed by Nice Ltd.
- (c) Yes, due to either (a) or (b) above.
- (d) No, Nice Ltd. and Xylo Inc. are not associated enterprises, since the loan has been repaid before the end of the previous year i.e., before 31.3.2025.

2. Compute the amount of long-term capital gains arising to Trio Inc. on transfer of listed shares of XYZ Ltd. What would be the tax treatment of such capital gains under the Income-tax Act, 1961?

- (a) ₹ 42,000. The same would be taxable @ 12.5% u/s 112A
- (b) ₹ 42,000. However, the said amount would not be subject to any tax.
- (c) No capital gain would arise, since cost of acquisition would be ₹ 102.
- (d) ₹ 1,13,400; However, the said amount would not be subject to any tax.

3. Which of the following statements are correct, in relation to the remedies available to Nice Ltd. under the Income-tax Act, 1961, if it is not satisfied with the draft order passed by the Assessing Officer?

- (a) It can file an objection before the Dispute Resolution Panel against the draft assessment order
- (b) It can file an appeal before CIT (Appeals) after getting the final assessment order
- (c) Either (a) or (b)
- (d) Both (a) and (b)

FVc 102
 (-) WPA:- (90)
 ① 36.4
 ② 102
 90 ↓
 3,500 X 12

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Yes, since loan advanced by Nice Ltd. to Xylo Inc. is not less than 51% of the book value of total assets of Xylo Inc

Reason

In the present case, Nice Ltd. and Xylo Inc are deemed associated enterprises as Nice Ltd advances loan of ₹ 2.5 crores to Xylo Inc. having book value of total assets of ₹ 4.52 crores which is not less than 51% of the book value of total assets of Xylo Inc.

2. **Option (b)** ₹ 42,000. However, the said amount would not be subject to any tax.

Reason

In the given case, the capital gain will be ₹ 42,000 [(₹ 102 - ₹ 90) x 3,500 shares). This is within the threshold of ₹ 1,25,000 u/s section 112A, therefore no tax is leviable.

3. **Option (c)** Either (a) or (b)

Reason

Both options are available. Nice Ltd. is an eligible assessee and will be eligible to file objections to the DRP against the draft order of the Assessing Officer. Further, the assessee may also accept the variation at this stage and then file an appeal to the CIT(A) against the assessment order issued by the Assessing Officer.

CASE SCENARIO 35

On 01.05.2025, ABC Ltd. (a listed co.) offered right shares in the ratio of 1:10 at a value of ₹ 50 per share. One of the shareholders, Mr. Sahil had 50,000 shares of ABC Ltd. on the date of offer of rights issue. He retains 30% of the rights and renounced balance right shares in favour of his friend, Mr. Jay for ₹ 15 per share on 28.05.2025.

→ 5000
Right
Shares
offered

Mr. Sahil transferred 10,000 shares out of his original shares on 15.07.2025 for ₹ 65 per share. He had acquired these 10,000 shares at a cost of ₹ 2,38,000 on 21.6.2022. Further, Mr. Jay transferred the shares acquired from Mr. Sahil for ₹ 80 per share on 26.02.2026.

XYZ Pvt. Ltd. bought back 80,000 shares on 14.12.2025 at a value of ₹ 200 per share. Such shares were issued for ₹ 20 per share (₹ 10, being the face value and ₹ 10, being premium) during the F.Y. 2012-13. Such bought back include 6,250 shares of Mr. Sahil (which he acquired on 28.5.2022 for ₹ 36.80 per share) and 250 shares of Mr. Rahul (which was inherited from his father). Rahul's father acquired these shares on 24.5.2020 for ₹ 10 per share. Apart from this transaction, Mr. Rahul has income under head "Salaries" of ₹ 12,42,000 (computed), on which no tax is withheld by the employer. Assume Mr. Sahil does not have any other income for the P.Y. 2025-26.

STT has been paid pertaining to the shares of ABC Ltd.

From the information given above, choose the most appropriate answer to the following questions:

MULTIPLE CHOICE QUESTIONS

1. Compute the amount of capital gains arising in the hands of Mr. Sahil during the P.Y. 2025-26?

- (a) Long-term capital gains of ₹ 1,82,000 and Short-term capital gains of ₹ 52,500
- (b) Long-term capital gains of ₹ 4,12,000 and Short-term capital gains of ₹ 52,500

① LTCG :-
6.5l - 2.38l
= 4.12l

BIB → 6250 × 36.8
(2.3l)
1.82l

② STCG → 3500 × 15
= 52500

- (c) Long-term capital gains of ₹ 2,87,000 and Short-term capital gains of ₹ 75,000
- (d) Long-term capital gains of ₹ 57,000 and Short-term capital gains of ₹ 52,500

2. Compute the amount of tax liability in the hands of Mr. Sahil for the A.Y. 2026-27. Assume Mr. Sahil is paying tax under section 115BAC.

- (a) Nil
- (b) ₹ 68,720
- (c) ₹ 14,120
- (d) ₹ 85,800

$$\text{LTCG } 182000 \times 12.5\%$$

$$\text{BITB} \rightarrow 6250 \times 200 = 1250000 \text{ } \left. \begin{array}{l} \text{Slab rate} \\ \text{(+)} \text{ STCG } 52500 \end{array} \right\}$$

3. Compute tax liability of Mr. Jay for the A.Y. 2026-27. Assume he has salary income of ₹ 4,25,000 (computed) and he has opted out of the default tax regime.

- (a) Nil
- (b) ₹ 7,020
- (c) ₹ 4,290
- (d) ₹ 6,750

$$\text{SP} \rightarrow 80$$

$$\text{(-) Cost} \rightarrow \frac{(50+15)}{15 \times 3500} = 3200 \times 20\% = \underline{\underline{11A}}$$

4. Whether the income arising on buy back of shares taxable in the hands of Mr. Rahul? If yes, what amount, and under which head it would be taxable?

- (a) Income from buy back of shares would be exempt in the hands of Mr. Rahul by virtue of section 10(34A).
- (b) ₹ 50,000 as deemed dividend under the head "Income from other sources" and long-term capital loss of ₹ 2,500 would arise.
- (c) ₹ 47,500 as long-term capital gains under the head "Capital Gains".
- (d) ₹ 47,500 as deemed dividend under the head "Income from other sources".

$$250 \times 50 = 125000$$

$$= \underline{\underline{7 \text{ Feb}}}$$

$$\text{CG} \dots$$

$$\text{(-) LCA (250)}$$

$$\text{(10x25)}$$

$$\text{LTCG}$$

5. Compute total income and tax payable (after tax deducted at source on any other income other than salaries) by Mr. Rahul for the A.Y. 2026-27. Assume he is paying tax as per section 115BAC.

- (a) Total Income – ₹ 12,92,000; Tax Payable – ₹ 71,750
- (b) Taxable Income – ₹ 12,89,500; Tax Payable – ₹ 76,360
- (c) Taxable Income – ₹ 12,92,000; Tax Payable – ₹ 76,750
- (d) Taxable Income – ₹ 12,89,500; Tax Payable – ₹ 71,360

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Long-term capital gains of ₹ 1,82,000 and Short-term capital gains of ₹ 52,500

Reason

Long-term capital gain on 10,000 shares = ₹ 4,12,000 (₹ 6,50,000 – ₹ 2,38,000)

Long-term capital loss of ₹ 2,30,000 (6,250 x 36.8) on buy back of shares can be set-off against LTCG of ₹ 4,12,000.

Short-term capital gain on renouncement of right shares = ₹ 52,500 (3500 x ₹ 15)

2. **Option (d)** ₹ 85,800

Reason

Tax on LTCG of ₹ 1,82,000 @ 12.5% exceeding ₹ 1,25,000 = ₹ 7,125

Tax on Deemed Income on buy back of 6,250 shares of ₹ 12,50,000 plus STCG of ₹ 52,500 at the slab rate u/s 115BAC = ₹ 75,375. Total tax liability (including HEC) would be ₹ 85,800.

3. **Option (b)** ₹ 7,020

Reason

Tax on STCG arising from transfer of 3,500 shares of ₹ 52,500 taxable @20% = ₹ 10,500

Tax on other income = ₹ 8,750

Total tax = ₹ 6,750 (₹ 19,250 less rebate u/s 87A of ₹ 12,500)

Tax liability = ₹ 7,020 (₹ 6,750 plus HEC @4%)

4. **Option (b)** ₹ 50,000 as deemed dividend under the head "Income from other sources" and long-term capital loss of ₹ 2,500 would arise.

Reason

On Buy-back of shares, the full value of consideration is deemed as dividend and taxable under the head "Income from other source". Cost of acquisition is considered as capital loss.

5. **Option (a)** Total Income – ₹ 12,92,000; Tax Payable – ₹ 71,752

Reason

Total Income = ₹ 12,42,000 + ₹ 50,000 (deemed dividend)

Tax = ₹ 71,752 (₹ 76,752 – ₹ 5,000 TDS on deemed dividend @10%)