

MODEL TEST PAPER 4
FINAL COURSE: GROUP – II
PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION
Division A – Multiple Choice Questions

MCQ No.	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(a)	9.	(b)
2.	(b)	10.	(b)
3.	(a)	11.	(c)
4.	(b)	12.	(c)
5.	(c)	13.	(b)
6.	(c)	14.	(b)
7.	(c)	15.	(c)
8.	(a)		

Division B – Descriptive Questions

1. (a) Computation of Total Income of Paras Ltd. for the A.Y. 2025-26

	Particulars	Amount (₹)	
I	Profits and gains of business and profession		
	Net profit as per the statement of profit and loss		7,50,00,000
	Add: Items debited but to be considered separately or items of expenditure to be disallowed		
	(a) Depreciation as per Companies Act	52,00,000	
	(c) Provision for wages payable to workers	-	
	[Since the provision is based on a fair estimate of wages payable with reasonable certainty, the provision is allowable as deduction. ICDS X requires a reliable estimate of the amount of obligation and 'reasonable certainty' for recognition of a provision, which is present in this case.		

	As the provision of ₹ 18 lakhs has been debited to statement of profit and loss, no adjustment is required while computing business income]		
(e)	Loss due to destruction of machinery by fire [Loss of ₹ 17 lakhs due to destruction of machinery caused by fire is not deductible since it is capital in nature. Since the loss has been debited to statement of profit and loss, the same is required to added back while computing business income]	17,00,000	
(f)	Provision for gratuity [Provision of ₹ 320 lakhs for gratuity based on actuarial valuation is not allowable as deduction. However, actual gratuity of ₹ 160 lakhs paid is allowable as deduction. Hence, the difference has to be added back to income [₹ 320 lakhs (-) ₹ 160 lakhs]	1,60,00,000	
(g)	Advertisement in souvenir of a political party [Advertisement charges paid in respect of souvenir published by a political party is not allowable as deduction from business profits of the company. Since the expenditure has been debited to statement of profit and loss, the same has to be added back while computing business income]	2,30,000	2,31,30,000
	Add: Income taxable but not credited to statement of profit and loss		9,81,30,000
	Al(ii) GST not refunded to customers out of GST refund received from State Govt.		1,00,000

	<p>[The amount of GST refunded to the company by the Government is a revenue receipt chargeable to tax. Out of the refunded amount of ₹ 3 lakhs, the amount of ₹ 2 lakh stands refunded to customers would not be chargeable to tax.¹² The balance amount of ₹ 1,00,000 lying with the company would be chargeable to tax]</p> <p>Less: Items credited to statement of profit and loss, but not includible in business income/ permissible expenditure and allowances</p> <p>(b) Industrial power tariff concession received from State Government [Any assistance in the form of, <i>inter alia</i>, concession received from the Central or State Government would be treated as income. Since the same has been credited to statement of profit and loss, no adjustment is required]</p> <p>(d) Dividend received from US company [Dividend received from foreign company is taxable under "Income from other sources". Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income]</p> <p>(e) Scrap value of machinery [Scrap value of machinery, being capital in nature, has to be reduced from WDV of machinery. Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income]</p> <p>(h) Long term capital gains on sale of equity shares</p>	<p>-</p> <p>12,00,000</p> <p>3,00,000</p> <p>3,00,000</p>	<p>9,82,30,000</p>
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¹²CIT v. Thirumalaiswamy Naidu & Sons (1998) 230 ITR 534 (SC)

	<p>[The taxability or otherwise of long-term capital gain on sale of equity shares has to be considered while computing income under the head "Capital Gains". Since such capital gains has been credited to statement of profit and loss, the same has to be reduced to arrive at the business income.]</p>		
	Al(i) Depreciation as per Income-tax Rules, 1961	71,00,000	89,00,000
	Profits and gains from business and profession		8,93,30,000
II	Capital Gains		
	<p>Long term capital gain on sale of equity shares</p> <p>[Long term capital gains in excess of ₹ 1.25 lakhs (i.e., ₹ 1.75 lakhs, being ₹ 3 lakh – ₹ 1.25 lakhs) on sale of equity shares on which STT is paid at the time of acquisition and sale would be taxable@10% u/s 112A, without indexation benefit.]</p>		3,00,000
III	Income from Other Sources		
	Dividend received from foreign company		12,00,000
	[Dividend received from a foreign company is chargeable to tax under the head "Income from other sources"]		
	Gross Total Income		9,08,30,000
	Less: Deduction under Chapter VI-A		
	Under section 80GGB [Contribution by a company to a registered political party is allowable as deduction, since payment is made otherwise than by cash. Expenditure incurred by an Indian company on advertisement in souvenir published by such political party tantamount to contribution to such political party.]		2,30,000
	Total Income		9,06,00,000

2. (a) As per section 80AC, while computing the total income of an assessee of a previous year (**P.Y.2024-25, in this case**) relevant to any assessment year (**A.Y.2025-26, in this case**), any deduction is admissible, *inter alia*, under section 80-IA, such deduction shall not be allowed unless it furnishes a return of income for such assessment year on or before the 'due date' specified in section 139(1).

Since the turnover of the partnership firm has exceeded the prescribed threshold limit in the previous year 2024-25, it would be subject to audit under section 44AB, in which case the 'due date' of filing its return of income for A.Y.2025-26 would be 31st October, 2025 as per section 139(1).

Computation of total income and tax liability of M/s. Parth Curators for A.Y. 2025-26

I. Where the firm files its return of income on 31st October 2025:

Particulars	₹ in lakhs
Gross Total Income	300.00
Less: Deduction under section 80-IA	200.00
Total Income	100.00
Tax liability@ 30%	30.00
Add: Health and Education cess@4%	1.20
Regular income-tax payable	31.20

Computation of Alternate Minimum Tax payable [Section 115JC]

Particulars	₹ in lakhs
Total Income	100.00
Add: Deduction under section 80-IA	200.00
Adjusted Total Income	300.00
Alternate Minimum Tax (AMT) @ 18.5% on ₹ 300 lakhs	55.50
Add: Surcharge@12% (Since adjusted total income > ₹ 1 crore)	6.66
	62.16

Add: Health and Education cess@4%	2.49
Total tax payable (AMT)	64.65

Since the regular income-tax payable by the firm is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income of the firm for P.Y.2024-25 and it shall be liable to pay income-tax on such total income @ 18.5% [Section 115JC(1)]. Therefore, the tax payable for the A.Y. 2025-26 would be ₹ 64.65 lakhs.

Tax credit for Alternate Minimum Tax [Section 115JD]

	₹ in lakhs
Total tax payable for A.Y.2025-26 (Alternate Minimum Tax)	64.65
Less: Regular income-tax payable	31.20
To be carried forward for set-off against regular income-tax payable (upto a maximum of fifteen assessment years).	33.45

II. Where the firm files its return of income on 7th December 2025:

Where the firm files its return on 7-12-2025, it would be a belated return under section 139(4). Consequently, as per section 80AC, deduction under 80-IA would not be available. In such circumstances, the gross total income of ₹ 300 lakhs would be the total income of the firm.

Particulars	₹ in lakhs
Income-tax @ 30% of ₹ 300 lakhs	90.000
Add: Surcharge @12% (since total income exceeds ₹ 1 crore)	10.800
Income-tax (plus surcharge)	100.800
Add: Health and Education cess @ 4%	4.032
Total tax liability	104.832

Practical solution regarding obtaining clarifications:

The practical solution regarding obtaining clarifications would be to file the return of income under section 139(1) on or before the 'due

date', i.e., 31.10.2025, and claim deduction under section 80-IA. In such a case, the firm can claim deduction of ₹ 200 lakhs under section 80-IA. Thereafter, consequent to the clarifications obtained, if any change is required, it can file a revised return under section 139(5) by 31.12.2025 which would replace the original return filed under section 139(1). A revised return filed under section 139(5) would replace the original return filed under section 139(1).

If the firm files the return of income under section 139(1) on or before 31.10.2025, its tax liability would stand reduced to ₹ 64.65 lakhs, as against ₹ 104.832 lakhs to be paid if return is furnished after due date. Further, it would also be eligible for tax credit for alternate minimum tax under section 115JD to the extent of ₹ 33.45 lakhs. Therefore, the firm is advised to file its return of income on or before 31.10.2025.

- (b) Since Mr. Gaurav is an individual resident in India for the P.Y. 2024-25, his global income would be subject to tax in India. Therefore, income earned by him in Country M and Country N would be taxable in India. He would, however, be entitled to deduction under section 91, since India does not have a DTAA with Country M and Country N, and all conditions under section 91 are satisfied.

Computation of total income of Mr. Gaurav for A.Y. 2025-26

Particulars	₹	₹
Income under the head "Salaries"		
Pension from State Government	3,90,000	
Less: Standard deduction u/s 16(ia)	<u>75,000</u>	
		3,15,000
Income from House Property		
Rental income from property in Country N ¹³	3,00,000	
Less: Municipal taxes	<u>20,000</u>	
	2,80,000	
Less: Deduction u/s 24(a)@30%	<u>84,000</u>	
		1,96,000

¹³ In the absence of any information relating to fair rent, municipal value and standard rent, rental income is assumed to be the gross annual value.

Profits and Gains of Business or Profession		
Speculative income in India	1,16,000	
Less: Set-off of business loss from proprietary business in Country N under section 70	<u>1,06,000</u>	
		10,000
Short-term capital gains on sale of plot in India		2,10,000
Income from Other Sources		
Agricultural income from Country M [not exempt u/s 10(1), since it is earned from land situated outside India]	90,000	
Dividend from a company in Country M	<u>64,000</u>	
		<u>1,54,000</u>
Gross Total Income		8,85,000
Less: Deduction under Chapter VI-A [No deduction allowable as per section 115BAC]	-	<u>-</u>
Total Income		<u>8,85,000</u>

Computation of net tax liability of Mr. Gaurav for A.Y.2025-26

Particulars	₹
Tax payable on ₹ 8,85,000	
Upto ₹ 3,00,000	Nil
₹ 3,00,000 to ₹ 7,00,000 @ 5%	20,000
₹ 7,00,000 to ₹ 8,85,000 @ 10%	18,500
	38,500
Add: Health and education cess@4%	<u>1,540</u>
	40,040
Less: Rebate under section 91 (See Working Note below)	<u>8,142</u>
Tax Payable	31,898
Tax Payable (rounded off)	31,900

Calculation of Rebate under section 91:		
Average rate of tax in India [i.e., ₹ 40,040/₹ 8,85,000 x 100] = 4.524%		
Doubly taxed income pertaining to Country M		
Agricultural income	90,000	
Dividend from a company in Country M [Not includible, since exempt in Country M]	-	
	90,000	
Rebate under section 91 on ₹ 90,000 @4.524% [being the lower of average Indian tax rate (4.524%) and Country M tax rate (10%)]		4,071
Doubly taxed income pertaining to Country N		
Income from house property less business loss set-off against income chargeable to tax in India (₹ 1,96,000 – ₹ 1,06,000)	90,000	
Rebate under section 91 on ₹ 90,000 @4.524% [being the lower of average Indian tax rate (4.524%) and Country N tax rate (5%)]		4,071
Total rebate under section 91 (Country M + Country N)		<u>8,142</u>

3. (a) (i) **Computation of taxable income of public charitable trust**

Particulars		₹
(i)	Income from property held under trust	10,00,000
(ii)	Income from business (incidental to main objects)	4,00,000
(iii)	Voluntary contributions from public	7,00,000
	Voluntary contribution made with a specific direction towards corpus are alone to be excluded under section	

	11(1)(d). In this case, there is no such direction and hence, included.	
		21,00,000
	Less: 15% of the income eligible for retention / accumulation without any conditions	3,15,000
		17,85,000
	Less: Amount applied for the objects of the trust	
	(i) Amount spent for charitable purposes (₹ 11,60,000 - ₹ 3,60,000)	8,00,000
	(ii) Repayment of loan for construction of orphan home (See note below)	-
	Taxable Income	9,85,000

Note - As per *Explanation 4(ii)* to section 11(1), any application for charitable or religious purposes, from any loan or borrowing in the concerned year, shall not be treated as application of income for charitable or religious purposes. However, the amount not so treated as application, shall be treated as application in the year in which the loan is repaid. Therefore, the repayment of loan for construction of orphan home can be treated as application of income only if such expenditure on construction of orphanage was not treated as application in year such expenditure was incurred. However, in this case, the amount spent on construction of orphanage was allowed as deduction in the P.Y. 2020-21. Thus, repayment of loan taken for such purposes will not be allowed as application as it would tantamount to double deduction.

- (ii) As per *Explanation* below to section 10(23C)(iiia), it has been clarified that the limit of annual receipts of ₹ 5 crore is qua 'taxpayer' and not qua 'activity'. Therefore, if the aggregate annual receipts from educational activity and medical activity exceeds ₹ 5 crores, then exemption under sub-clause (iiia) and (iiia) cannot be availed.

Since, in the present case, the aggregate annual receipt of ₹ 7 crores (₹ 3 crores of educational institution and ₹ 4 crores from hospital) exceeds the threshold of ₹ 5 crores, exemption under section 10(23C)(iiia) and (iiia) cannot be availed, even though the individual receipts have not exceeded ₹ 5 crores.

(b) Computation of income to be declared by the branch in its return of income

Computation of Head Office expenses allowable u/s 44C:		
Particulars	₹	₹
Net profit of the branch		28,00,000
Add: Head office expenditure debited to profit and loss	1,20,00,000	
Unabsorbed depreciation	17,00,000	
Capital expenditure for promoting family planning	7,00,000	
Brought forward business loss	25,00,000	
Deductions under Chapter VI-A	<u>20,00,000</u>	
		<u>1,89,00,000</u>
Adjusted total income		<u>2,17,00,000</u>
Note – Depreciation for the current financial year and capital expenditure on scientific research are not required to be added back for computing adjusted total income.		
Head office expenses allowable u/s 44C = ₹ 10,85,000		
Being the lower of -		
(i) 5% of ₹ 2,17,00,000 = ₹ 10,85,000		
(ii) Actual Head Office expenses allocated to the branch = ₹ 1,20,00,000		
Income to be declared by the branch for A.Y.2025-26		
Particulars		₹
Net profit of the branch		28,00,000
Add: Head office expenditure debited to profit and loss		<u>1,20,00,000</u>
		1,48,00,000

Less: Head office expenses allowable u/s 44C	<u>10,85,000</u>
Income to be declared by the branch	<u>1,37,15,000</u>

4. (a) (i) TDS under section 194C is **not** attracted since the payment of ₹ 3 lakhs for repair of residential house is for personal purpose. TDS under section 194M is also not attracted as aggregate of contract payment to the payee in the P.Y.2024-25 does not exceed ₹ 50 lakhs.

However, on payment of ₹ 75,000 towards commission to Mr. Mukesh for business purposes, tax is required to be deducted at source u/s 194H @5%, since the payment exceeds ₹ 15,000, and Mr. Mukesh's turnover from business exceeds ₹ 1 crore in the P.Y.2023-24. Accordingly, amount of ₹ 3,750 (₹ 75,000 x 5%) is required to be deducted at source.

- (ii) Yes, he can do so. If a person has a loss in any previous year and has furnished a return of loss under section 139(3) on or before the due date of filing return of income u/s 139(1), he shall be allowed to furnish an updated return, if such updated return is a return of income. Accordingly, in this case, since the original return of Mr. Rajesh was filed on the due date u/s 139(1) i.e., on 31.10.2023, he can file an updated return within 2 years from the end of A.Y.2023-24, i.e., on or before 31.3.2026.

Accordingly, he can file an updated return of income on 30.11.2024 declaring total income of ₹ 7 lakhs, after paying tax due on such total income along with interest under section 234B and section 234C and additional income-tax at 25% of aggregate of tax and interest payable (since the updated return is filed before 31.3.2025, i.e., before 12 months from the end of A.Y.2023-24).

- (b) As per section 194-I dealing with deduction of tax at source from payment of rent, the rate of TDS applicable is 2% for machinery hire charges and 10% for building lease rent. The scope of the section includes within its ambit, rent for machinery, plant and equipment. Tax is required to be deducted at source from payment of rent, by whatever name called, under any lease, sub-lease, tenancy or any

other agreement or arrangement for the use of building and machinery, irrespective of whether such assets are owned or not by the payee.

The limit of ₹ 2,40,000 for tax deduction at source will apply to the aggregate rent of all the assets. Even if two separate agreements are entered into, one for sub-lease of building and another for hiring of machinery, rent and hire charges under the two agreements have to be aggregated for the purpose of application of the threshold limit of ₹ 2,40,000.

In this case, since the payment for rent and hire charges credited to the account of Jim, the payee, aggregates to ₹ 2,48,000 (₹ 1,40,000 + ₹ 1,08,000), tax is deductible at source under section 194-I. Tax is deductible @10% on ₹ 1,40,000 (rent of building) and @2% on ₹ 1,08,000 (hire charges of machinery).

(c) **Computation of capital gains of Mr. Sarthak for A.Y. 2025-26**

Particulars	₹	₹
Redemption of SLR growth fund		
Full value of consideration [Redemption value]	1,45,98,000	
Less: Indexed cost of acquisition [₹ 1,20,00,000 × 363/301]	<u>1,44,71,761</u>	
Long term capital gains [Since it is debt fund (as not more than 65% of the proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sarthak for more than 36 months immediately preceding the date of its transfer]		1,26,239
Redemption of XYZ Strategic fund		
Full value of consideration [Redemption value]	50,00,000	
Less: Cost of acquisition	<u>46,00,000</u>	
Short term capital gains [Since it is a specified mutual fund (as not more than 35% of its proceeds are invested in equity shares of domestic companies) which is acquired on or		4,00,000

after 1.4.2023, this fund would be considered as short-term capital asset as per section 50AA irrespective of the period of holding]		
Redemption of MNO Midcap fund		
Full value of consideration [Redemption value]	1,18,00,000	
Less: Cost of acquisition	<u>1,15,00,000</u>	
Short term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sarthak for not more than 12 months immediately preceding the date of its transfer]		3,00,000
Redemption of TBA Growth fund		
Full value of consideration [Redemption value]	1,20,00,000	
Less: Cost of acquisition [Indexation benefit would not be available]	<u>1,10,00,000</u>	
Long term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sarthak for more than 12 months immediately preceding the date of its transfer]		10,00,000
		18,26,239
Less: Exemption under section 54F		
Capital gain arising on transfer of a long-term capital asset other than a residential house shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.		
Therefore, in the present case, the exemption would be available only in		

respect of long-term capital gains from redemption of SLR growth fund and TBA Growth fund.		
Exemption from long term capital gains from redemption of TBA Growth fund [10,00,000x1,20,00,000/1,20,00,000]		10,00,000
Exemption from long term capital gains from redemption of SLR short term fund [1,26,239 x 80,00,000 (2 crores – 1.20 crores)/1,45,98,000]		69,181
Capital gains chargeable to tax for A.Y.2025-26		7,57,058

5. (a) (i) Section 144C requires the eligible assessee, XYZ Ltd., to file his objections within 30 days of the receipt of draft assessment order from the Assessing Officer with the DRP and the Assessing Officer.

If he fails to do so, the Assessing Officer will proceed to complete the assessment on the basis of the draft order.

The CBDT has clarified that the assessee has a choice whether to file an objection before the DRP against the draft assessment order or not to exercise this option and file an appeal later before CIT (Appeals) against the final assessment order passed by the Assessing Officer.

Therefore, XYZ Ltd. can choose to file an appeal before Commissioner (Appeals) against the final assessment order instead of filing objection before the DRP against the draft assessment order passed by the Assessing Officer.

In case XYZ Ltd. files objection before the DRP, then, he has the right to appeal to Appellate Tribunal, if he is aggrieved by the final order passed by the Assessing Officer in pursuance of the directions of the DRP.

- (ii) As per section 132B, the amount of existing liability under the Income-tax Act and the amount of liability determined on completion of assessment under section 148 may be recovered out of assets seized under section 132. The words “existing liability” postulates a liability that is crystallized by adjudication.

Likewise, “a liability is determined” only on completion of the assessment. Until the assessment is complete, it cannot be postulated that a liability has been crystallized.

It is only when the liability is determined on the completion of assessment that it would stand crystallized and in pursuance of which a demand can be raised and recovery can be initiated. Accordingly, the assessee may make an application to the Assessing Officer within 30 days from the end of the month in which the asset was seized, for release of the assets seized.

However, in the present case, the assessee moved an application before the Assessing Officer for adjustment of tax liability on income surrendered during search by sale of seized gold bars.

In this case, assessment is not complete and the liability has not been crystallised.

Therefore, the action of the Assessing Officer in turning down the application of the assessee is in order, since the assets seized cannot be adjusted against tax liability on income surrendered during search¹⁴.

- (iii) The time limit for service of notice under section 143(2) is three months from the end of the financial year in which the return of income was furnished by the assessee. The return of income for assessment year 2024-25 was filed by the assessee on 25th October, 2024. Therefore, the notice under section 143(2) has to be served by 30th June, 2025. However, the notice was served on the assessee only on 9th July, 2025. Hence, the notice issued under section 143(2) is time-barred.

However, as per section 292BB, where an assessee had appeared in any proceedings or co-operated in any enquiry relating to an assessment or reassessment, it shall be deemed that any notice required to be served upon him, has been duly served upon him in time in accordance with the provisions of the Act and such assessee shall be precluded from raising any objection in any proceeding or enquiry that

¹⁴ It was so held in *Hemant Kumar Sindhi & Another v. CIT* (2014) 364 ITR 555 (All)

the notice was (a) not served upon him or (b) not served upon him in time or (c) served upon him in an improper manner.

The above provision shall not be applicable where the assessee has raised such objection before the completion of such assessment or reassessment. Therefore, in the instant case, if the assessee, T Ltd., had raised an objection to the proceeding, on the ground of non-service of the notice under section 143(2) on time, then, the validity of the assessment order can be challenged. In absence of such objection, the assessment order cannot be challenged.

- (b) In India, the Finance Act, 2016 has introduced a concessional taxation regime for royalty income from patents for the purpose of promoting indigenous research and development and making India a global hub for research and development. The purpose of the concessional taxation regime is to encourage entities to retain and commercialise existing patents and for developing new innovative patented products. Further, this beneficial taxation regime will incentivise entities to locate the high-value jobs associated with the development, manufacture and exploitation of patents in India.

The nexus approach has been recommended by the OECD under BEPS Action Plan 5. This approach requires attribution and taxation of income arising from exploitation of Intellectual property (IP) in the jurisdiction where substantial research and development (R & D) activities are undertaken instead of the jurisdiction of legal ownership. Accordingly, section 115BBF has been inserted in the Income-tax Act, 1961 to provide that where the total income of the eligible assessee (being a person resident in India who is the true and first inventor of the invention and whose name is entered in the patent register as the patentee in accordance with the Patents Act, 1970 and includes every such person, being the true and the first inventor of the invention, where more than one person is registered as patentee under Patents Act, 1970 in respect of that patent) includes any income by way of royalty in respect of a patent developed and registered in India, then such royalty shall be taxable at the rate of 10% (plus applicable surcharge and cess). For this purpose, developed means atleast 75% of the expenditure should be incurred in India by the eligible assessee for any invention in respect of which patent is granted under the Patents Act, 1970.

6. (a) Equalisation levy of 6% is attracted in respect of the amount of consideration exceeding ₹ 1 lakh for, *inter alia*, online advertisement, received or receivable by a non-resident not having permanent establishment in India, from, *inter alia*, a resident in India who carries on business or profession.

In this case, the payment of ₹ 10 lakhs by NI Ltd., a resident in India (since it is an Indian company) to SK Inc., New York, a non-resident not having PE in India, for online advertisement services would be subject to Equalisation Levy@6%. Such income is, however, exempt under the Income-tax Act, 1961 by virtue of section 10(50) thereof.

NI Ltd. is required to deduct equalisation levy of ₹ 60,000 i.e., @6% of ₹ 10 lakhs from such payment.

- (b) **Computation of Tax Liability of Mr. Aryan & Mr. Aditya for the A.Y. 2025-26 as per section 115BAC**

Particulars	Mr. Aryan	Mr. Aditya
Income under the head “Salaries”		
Salary	13,00,000	13,00,000
Less: Standard deduction u/s 16(ia)	<u>75,000</u>	<u>75,000</u>
	12,25,000	12,25,000
Less: Set-off loss from house property in respect interest on loan for self-occupied property [not allowable as deduction u/s 115BAC]	<u>-</u>	<u>-</u>
Gross Total Income	12,25,000	12,25,000
Less: Deduction under section 80D & 80GGC [Not allowable as deduction u/s 115BAC]	<u>-</u>	<u>-</u>
Total income as per section 115BAC	12,25,000	12,25,000
Tax Liability		
Upto ₹ 3,00,000	Nil	Nil
₹ 3,00,001 to ₹ 7,00,000 @ 5%	20,000	20,000
₹ 7,00,001 to ₹ 10,00,000 @ 10%	30,000	30,000

₹ 10,00,001 to ₹ 12,00,000 @ 15%	30,000	30,000
₹ 12,00,001 to ₹ 12,25,000 @ 20%	<u>5,000</u>	<u>5,000</u>
	85,000	85,000
Add: Health and education cess @4%	<u>3,400</u>	<u>3,400</u>
Tax Liability	88,400	88,400

Computation of Tax Liability of Mr. Aryan & Mr. Aditya for the A.Y. 2025-26 as per regular provisions of Income-tax Act

Particulars	Mr. Aryan	Mr. Aditya
Income under the head "Salaries"		
Salary	13,00,000	13,00,000
Less: Standard deduction u/s 16(ia)	<u>50,000</u>	<u>50,000</u>
	12,50,000	12,50,000
Less: Set-off of loss from house property in respect of interest on loan borrowed for self-occupied property, restricted to ₹ 2,00,000, as per section 71(3A)	<u>-</u>	<u>2,00,000</u>
Gross Total Income	12,50,000	10,50,000
Less: Deduction u/s VI-A		
Section 80D – Medical insurance premium	24,000	-
Section 80GGC – Contribution to political party by cheque	<u>-</u>	<u>1,50,000</u>
Tax Liability	12,26,000	9,00,000
Upto ₹ 2,50,000	Nil	Nil
₹ 2,50,001 to ₹ 5,00,000 @ 5%	12,500	12,500
₹ 5,00,001 to ₹ 10,00,000 @ 20%	1,00,000	80,000
Above ₹ 10,00,000 @30%	<u>67,800</u>	<u>-</u>
	1,80,300	92,500
Add: Health and Education cess @4%	<u>7,212</u>	<u>3,700</u>
Tax liability	<u>1,87,512</u>	<u>96,200</u>
Tax liability (rounded off)	1,87,510	96,200

Since tax liability of Mr. Aryan and Mr. Aditya as per section 115BAC is lower than the tax liability computed as per the regular provisions of the Act, it is advisable to them not to opt out of section 115BAC.

- (c) A transaction where one of the parties thereto is a person located in a NJA would be deemed to be an international transaction and all parties to the transaction would be deemed as associated enterprises. Accordingly, all the provisions of transfer pricing would be attracted in case of such a transaction.

Hence, the transactions between TI Ltd, an Indian company and LMP Ltd., located in NJA, would be deemed to be international transactions between associated enterprises.

The transactions of TI Ltd. with TOP Inc. of Country X and MON Inc. of Country Y for sale of identical goods are comparable uncontrolled international transactions, since they are neither associated enterprises of TI Ltd. nor are they situated in NJA. Hence, Comparable Uncontrolled Price (CUP) method can be used to determine ALP.

Where more than one price is determined by the most appropriate method, CUP method in this case, then, the arithmetic mean has to be taken in cases where the number of entries in the dataset is less than 6 (in this case it is only 2). Moreover, the benefit of permissible variation between the ALP and the transfer price based on the rate notified by the Central Government (i.e., maximum of 3% of transaction price) would **not** be available in respect of such transaction.

Computation of ALP using CUP method

Particulars	TOP Inc.	MON Inc.
	₹ in crores	₹ in crores
Price charged by TI Ltd. (on CIF basis)	10.50	11.00
Less: Ocean freight and insurance, has to be reduced since the price charged to LMP Ltd. is on FOB basis	<u>0.18</u>	<u>0.18</u>
	10.32	10.82

Less: Cost of after-sales support service (has to be reduced, since such services are being provided to TOP Inc. and MON Inc. but not to LMP Ltd.)	<u>0.13</u>	<u>0.13</u>
Arm's Length Price	<u>10.19</u>	<u>10.69</u>
Arithmetic mean of the above prices [(₹ 10.19 crores + ₹ 10.69 crores)/2]		10.44
Less: Price at which goods were sold to LMP Ltd.		<u>9.50</u>
Arm's length adjustment [increase in profit of TI Ltd.]		<u>0.94</u>