

**MODEL TEST PAPER 4**  
**FINAL COURSE: GROUP - II**

**PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION**

*Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.*

*All questions relate to Assessment Year 2025-26, unless stated otherwise in the question.*

**Time Allowed: 3 Hours**

**Total Marks: 100 Marks**

**Division A – Multiple Choice Questions**

***Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.***

**Case Scenario I**

On 1.4.2024, Focus Ltd., an Indian company, borrowed ₹ 50 crores @ 9.5% p.a. from Max Inc., a US entity, thereby increasing its total borrowings to ₹ 65 crores. The said loan is guaranteed by Hik Inc., another US entity. The place of effective management of both Max Inc. and Hik Inc. is in the USA. The book value of total assets of Focus Ltd. is ₹ 180 crores.

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

Net profit of Focus Ltd. of A.Y. 2025-26 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.

Based on the facts of the above case scenario, choose the most appropriate answer to Q. 1 to 6 below:

1. What is the amount of interest to be allowed in the computation of total income of Focus Ltd. for A.Y. 2025-26, if for A.Y. 2024-25 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
2. The transfer pricing adjustment for the arm's length purchase price to be made in the computation of total income of Focus Ltd. for A.Y. 2025-26 would be-
- (a) ₹ 3,00,00,000
  - (b) ₹ 2,50,00,000
  - (c) ₹ 2,00,00,000
  - (d) No adjustment is required, since transfer pricing adjustment cannot result in reduction of income
3. If Focus Ltd. repatriated the excess money on 31.03.2026, what will be the interest income that would be added to its total income of A.Y.2026-27, if SBI's one-year marginal of lending rate is 11.25% on 1.4.2025 and 10.25% on 1.4.2026? Assume that Focus Ltd. *suo motu* made the primary adjustment in its books of account and filed its return for A.Y.2025-26 on 30.11.2025.
- (a) ₹ 12,01,712
  - (b) ₹ 12,08,333
  - (c) ₹ 9,32,363
  - (d) ₹ 8,49,486
4. If Focus 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

- (c) ₹ 41,93,280
- (d) ₹ 53,87,200
5. If Focus Ltd. decides to pay additional income-tax on the entire excess money on 15.03.2026, should interest be calculated and added to its total income of A.Y.2026-27? If so, what is the amount to be added? Assume that SBI one-year marginal cost of lending rate is 11.25% on 1.4.2025 and 10.25% on 1.4.2026 -
- (a) No, since it has paid additional income-tax on the entire excess money in the P.Y.2025-26
- (b) Yes; ₹ 9,70,890
- (c) Yes; ₹ 10,42,808
- (d) Yes; ₹ 8,09,075
6. In addition to the facts given in the case scenario, assuming that -
- (i) on 23.08.2024, Focus Ltd. has entered into an agreement for sale of turbo equipment with Y Ltd., an Indian company not related to Focus Ltd;
- (ii) Y Ltd. had already entered into an agreement on 21.8.2024 for the sale of the same goods to Kite Inc. (unrelated to Y Ltd.), a UK entity whose place of effective management is also in the UK; and
- (iii) Focus Ltd. holds shares carrying 28% voting power in Kite Inc.
- With which of the following enterprises would a transaction with Focus Ltd. be considered an international transaction or a deemed international transaction?
- (a) Hik Inc. and Kite Inc.
- (b) Max Inc. and Kite Inc.
- (c) Hik Inc., Kite Inc. and Y Ltd.
- (d) Max Inc., Hik Inc. and Kite Inc. **(2 x 6 = 12 Marks)**

### Case Scenario II

The Assessing Officer surveyed Surabhi & Hotels, which was within his jurisdiction, at 11:30 p.m. on 15.8.2024 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 a.m.

On 25.8.2024, the Assessing Officer entered Suraj & 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 13 days (exclusive of 3 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 Chief 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.

Based on the facts of the above case scenario, choose the most appropriate answer to Q. 7 to 11 below:

7. Is the action of the Assessing Officer entering Surabhi & 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 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.

8. Would your answer to Question no. 7 change if the Assessing Officer had surveyed Surabhi & 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.
9. Is the action of the Assessing Officer entering Suraj & 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.
  - (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.
10. Is the action of the Assessing Officer in impounding and retaining in his custody books of account and other documents of Surabhi & Hotels, after recording reasons for doing so, valid if prior permission from income-tax

authority equivalent to Chief Commissioner or above has been taken only for the purpose of survey and not for retaining books of accounts etc.?

- (a) The action of Assessing Officer is not valid, since prior approval of Chief Commissioner or above authority is not obtained for retaining the impounded books of account etc.
  - (b) The action of Assessing Officer is valid.
  - (c) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts for period exceeding 15 days (inclusive of holidays) without prior approval of Chief Commissioner or above authority.
  - (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 (exclusive of holidays).
11. Would your answer to Question no. 10 change if the Assessing Officer had surveyed Surabhi & 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 for retaining impounded books of Accounts.
  - (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. **(2 x 5 = 10 Marks)**
12. RM Ltd., Pathankot, is a Maruti Cars dealer and also runs a service station. The sale of cars of RM Ltd. for F.Y.2023-24 is ₹ 8.40 crores. The sale of spare parts and service station is ₹ 80 lakhs for F.Y.2023-24. M/s. ABC Ltd., dealing in textile manufacturing, bought three Maruti cars on 18.7.2024, 18.8.2024 and 15.12.2024 for ₹ 18 lakhs, 22 lakhs and ₹ 9.5 lakhs for business purposes. On 16.1.2025, M/s ABC Ltd. purchased five

more cars valuing ₹ 8.9 lakhs each. The payment against each purchase made on the same date of invoice itself. The turnover of ABC Ltd. for the F.Y. 2023-24 is ₹ 15.5 crores.

What is the amount of tax required to be collected or deducted at source on sale transaction entered between RM Ltd. and ABC Ltd.?

- (a) RM Ltd. is required to collect tax at source of ₹ 40,000 under section 206C(1F).
- (b) RM Ltd. is required to collect tax at source of ₹ 40,000 under section 206C(1F) and ₹ 400 under section 206C(1H).
- (c) RM Ltd. is required to collect tax at source of ₹ 40,000 under section 206C(1F) and ABC Ltd. is required to deduct tax at source of ₹ 400.
- (d) RM Ltd. is required to collect tax at source of ₹ 94,000 under section 206C(1F). **(2 Marks)**

13. Mr. Mohit, a resident individual, starts a new business on 01-11-2024 for sale of designer suits. He obtained a valid PAN in his name and registers himself on Fine.com (a Country M based website), an e-commerce operator, for sale of his products in India. Mr. Mohit sold goods worth ₹ 80 lakhs through Fine.com upto 31-03-2025. E-commerce operator credited ₹ 35 lakhs on 31.12.2024, ₹ 12 lakhs on 1.1.2025 and ₹ 18 lakhs on 28.2.2025 payable to Mr. Mohit in its books of accounts. These amounts were paid to Mr. Mohit on 15.3.2025 after deducting a commission of 10% on gross sale proceeds.

On 31.3.2025, remaining amount of ₹ 15,00,000 were directly credited in Mr. Mohit bank account by the buyers. Who is liable to deduct tax at source on the above transactions? When and what amount of tax is deductible?

- (a) Fine.com is required to deduct tax at source of ₹ 35,000, ₹ 12,000, ₹ 18,000 and ₹ 15,000 on 31.12.2024, 1.1.2025, 28.2.2025 and on 31.3.2025, respectively.
- (b) Fine.com is required to deduct tax at source of ₹ 3,500, ₹ 1,200, ₹ 1,800 and ₹ 1,500 on 31.12.2024, 1.1.2025, 28.2.2025 and on 31.3.2025, respectively.

- (c) Fine.com is required to deduct tax at source of ₹ 80,000 on 15.3.2025.
- (d) Fine.com is required to deduct tax at source of ₹ 65,000 on 15.3.2025. **(2 Marks)**
14. Mr. Aryan, a non-resident, received foreign currency equivalent to ₹ 85,000 from his friend, a resident Indian in January 2025. The same was paid by such resident from his bank account in Country X and was received by Mr. Aryan in his bank account in Country X. The friend also gifted a Gold Chain to Mr. Aryan in Country X. Fair Market Value of Gold Chain on the date of gift was ₹ 95,000. Are the gifts received by Mr. Aryan taxable in his hands under the Income-tax Act, 1961? Assume no DTAA exist between India and Country X.
- (a) Yes; ₹ 1,80,000 would be taxable as Income from other sources.
- (b) Partially; ₹ 85,000 received from resident friend would be taxable as Income from other sources.
- (c) Partially; only ₹ 35,000, being cash gift in excess of ₹ 50,000, received from resident friend would be taxable as Income from other sources.
- (d) No; such gifts are not taxable in the hands of Mr. Arianth under the Income-tax Act, 1961, since they are received outside India. **(2 Marks)**
15. A Co Inc., a foreign company has a branch office in India. The branch has developed an online platform which facilitates online sale of various materials and products related to ink, colour pigments and printer accessories. During the F.Y. 2024-25, on 01.10.2024, Indian branch made payment of ₹ 2,65,00,000 to SI Ltd., an Indian company for sales undertaken on this online platform. Whether the Indian branch of A Co. is liable to deduct tax source? If yes, under which section it is required to deduct such tax at source?
- (a) No, it is not required to deduct tax source, since A Co. Inc. is a non-resident.
- (b) Yes, it is required to deduct tax at source u/s 195.



- (c) Yes, it is required to deduct tax at source u/s 194-O.
- (d) No, it is not required to deduct tax at source since such income is not taxable in the hands of A Co. Inc. in India. **(2 Marks)**

### **Division B – Descriptive Questions**

*Question No. 1 is compulsory*

*Attempt any **four** questions from the remaining **five** questions*

1. Paras Ltd. is engaged in the manufacture of fabrics since 01-04-2012. Its Statement of Profit and Loss for the previous year ended 31st March, 2025 shows a profit of ₹ 750 lakhs after debiting or crediting the following items:
  - (a) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 52 lakhs.
  - (b) Industrial power tariff concession of ₹ 4.80 lakhs, received from Maharashtra State Government was credited to Statement of profit and loss.
  - (c) The company had provided ₹ 18 lakhs, being sum fairly estimated as payable with reasonable certainty, to workers on agreement to be entered with the workers union towards periodical wage revision once in every three years.
  - (d) Dividend received from a US company ₹ 12 lakhs.
  - (e) Loss ₹ 17 lakhs, due to destruction of a machine worth ₹ 24 lakhs by fire due to short circuit and ₹ 3 lakh received as scrap value. The insurance company did not admit the claim of the company on charge of gross negligence.
  - (f) Provision for gratuity based on actuarial valuation was ₹ 320 lakhs. Actual gratuity paid debited to gratuity provision account was ₹ 160 lakhs.
  - (g) Advertisement charges ₹ 2.30 lakhs, paid by cheque for advertisement published in the souvenir of a political party registered with the Election Commission of India.
  - (h) Long term capital gain ₹ 3 lakhs on sale of equity shares on 12.4.2024 on which Securities Transaction Tax (STT) was paid at the time of acquisition and sale.

Additional Information:

- (i) Normal depreciation computed as per Income-tax Rules is ₹ 71 lakhs (after giving effect to the scrap value).
- (ii) GST ₹ 8 lakhs collected from its customers was paid by the company on the due dates. On an appeal, the High Court directed the GST department to refund ₹ 3 lakhs to the company. The company in turn refunded ₹ 2 lakhs to the customers from whom it was collected and the balance ₹ 1 lakh is still lying under the head "Current Liabilities".

Compute the total income of Paras Ltd. for the A.Y. 2025-26 by analyzing and applying the relevant provisions of income-tax law. Briefly explain the reasons for treatment of each item. Ignore the provisions relating to Minimum Alternate Tax. Assume that the company has not opted for section 115BAA. **(14 Marks)**

2. (a) Parth Curators, a partnership firm, has earned a gross total income of ₹ 300 lakhs for the year ended 31-3-2025. The firm has not undertaken any international transaction or specified domestic transaction during the said year.

The above income includes a profit of ₹ 220 lakhs from an undertaking having a turnover of ₹ 80 crores. This is the fifth year and deduction under section 80-IA is available to the extent of ₹ 200 lakhs.

There are some grey areas in the taxation workings and hence, the assessee is contemplating to file the return of income on 7-12-2025, after seeking clarifications from tax experts.

Advise the assessee-firm by working out the total income and tax payable, where the return is filed on 31-10-2025 or when the same is filed on 7-12-2025.

What is the practical solution as regards obtaining clarifications, which might or might not have an impact on the total income? You may ignore interest under section 234A, 234B, 234C and 234F while making the computation in support of your advice. **(8 Marks)**

- (b) Compute the total income and net tax liability after providing relief under section 91 by Mr. Gaurav aged 73 years for A.Y. 2025-26

from the following information in respect of income earned by him in various places for the previous year ended 31-03-2025:

**India**

Pension from State Government ₹ 3,90,000

Short term capital gains on sale of plot ₹ 2,10,000

Deposit in PPF Account ₹ 1,50,000

Speculative Income ₹ 1,16,000

**Country M**

Agricultural Income (gross) ₹ 90,000

Dividends from a company incorporated in Country M (gross) ₹ 64,000 [Exempt in Country M]

**Country N**

Business loss (proprietary business) ₹ 1,06,000 [Not eligible for set off against other incomes in Country N].

Gross rental income from a property ₹ 3,00,000 (No statutory deduction was available in Country N)

Municipal taxes paid in respect of the above property (not allowed as deduction in Country N) ₹ 20,000

**Additional Information:**

- (1) There is no agreement under section 90 for relief for avoidance of double taxation between India and Country M and Country N where the incomes have accrued or arisen.
- (2) Mr. Gaurav is an individual resident in India, and he has paid applicable taxes on incomes earned in Country M and Country N, where the applicable tax rates are 10% and 5%, respectively.

Assume Mr. Gaurav paying tax under default tax regime under section 115BAC. **(6 Marks)**

3. (a) (i) A public charitable trust registered under section 12AB, for the previous year ending 31.3.2025, derived gross income of ₹ 21 lakhs, which consists of the following:

	(₹ in Lacs)
(a) Income from properties held by trust	10
(b) Income from business (incidental to main objects)	4
(c) Voluntary contributions from public	7

The trust applied a sum of ₹ 11.60 lacs towards charitable purposes during the year which includes repayment of the loan borrowed in the P.Y. 2020-21 taken for construction of orphanage ₹ 3.60 lacs. The entire expenditure incurred on construction of orphanage was allowed as application of income in the P.Y. 2020-21.

Determine the taxable income of the trust for the assessment year 2025-26. **(4 Marks)**

- (ii) A not-for-profit trust undertakes philanthropic activities through an educational institution and a hospital. During the P.Y. 2024-25 the trust had annual receipts of ₹ 3 crores from its educational institution and ₹ 4 crore from the hospital. During the P.Y. 2024-25, it desires to avail exemption under section 10(23C)(iiia) and 10(23C)(iiib), as the individual threshold under each of the sub-clauses, is less than ₹ 5 crore. Can it do so? Examine. **(4 Marks)**
- (b) Tip Inc., a foreign company, headquartered at Malaysia, has a branch in India. For the financial year ended 31.03.2025, the branch has shown net profit of ₹ 28 lakhs after charge of the following expenses:
- Depreciation for the current financial year of ₹ 15 lakhs.
  - Unabsorbed depreciation for the previous financial year of ₹ 17 lakhs.
  - Capital Expenditure incurred for promoting family planning amongst its employees of ₹ 7 lakhs. ₹ 7 Lakhs is one fifth of the total expenditure incurred on promoting family planning.
  - Expenditure incurred for Scientific research ₹ 11 lakhs.
  - Business loss brought forward for A.Y. 2024-25 of ₹ 25 lakhs.

(vi) Deductions under Chapter VI-A of ₹ 20 lakhs.

(vii) Head Office expenses of ₹ 120 lakhs allocated to the branch.

Compute income to be declared by the branch in its return for the Assessment Year 2025-26. **(6 Marks)**

4. (a) (i) Mr. Mukesh, an individual carrying on retail business with turnover of ₹ 3.2 crores in the P.Y.2023-24. He made contract payment for repair of residential house of ₹ 3 lakhs and ₹ 75,000 towards commission on 01.08.2024 to Mr. Varun for business purposes. Examine whether TDS provisions would be attracted, if yes, specify the rate and amount of TDS applicable. **(2 Marks)**
- (ii) Mr. Rajesh, who gets his accounts audited under section 44AB filed his original return of income under section 139 for A.Y.2022-23 on 28.12.2022 declaring income of ₹ 12 lakhs and for A.Y.2023-24 on 31.10.2023 declaring loss of ₹ 5 lakhs.
- He wants to file an updated return of income under section 139(8A) for A.Y.2023-24 on 30.11.2024 declaring total income of ₹ 7 lakhs. Can he do so? Examine. **(2 Marks)**
- (b) S Ltd. took on sub-lease a building from Jim, an individual, with effect from 1.9.2024 on a rent of ₹ 20,000 per month. It also took on hire machinery from Jim with effect from 1.10.2024 on hire charges of ₹ 18,000 per month. S Ltd. entered into two separate agreements with Jim for sub-lease of building and hiring of machinery. The rent of building and hire charges of machinery for the financial year 2024-25 were ₹ 1,40,000 and ₹ 1,08,000, respectively, which were credited by S Ltd. to the account of Jim in its books of account on 31.3.2025. Examine the obligation of S Ltd. with regard to deduction of tax at source in respect of the rent and hire charges. **(4 Marks)**
- (c) Mr. Sarthak is a resident in India aged 58 years. He had an impressive investment portfolio in various mutual funds. He redeemed his entire mutual fund investment portfolio and bought a villa in Gurugram for ₹ 2.00 crores to spend rest of his life there. The details of mutual funds are as under –

S. No.	Type of mutual fund	Date of investment	Date of redemption	Amount invested (in ₹ lakhs)	Amount redeemed (in ₹ lakhs)
1.	SLR growth fund	03.04.2020	05.06.2024	120	145.98
2.	XYZ Strategic fund	04.05.2023	02.02.2025	46	50
3.	MNO Midcap fund	02.12.2023	05.07.2024	115	118
4.	TBA Growth fund	08.11.2021	12.12.2024	110	120

The funds stated at 1 and 2 have invested 30% of their proceeds in equity shares of domestic companies and balance in debt funds. The funds stated at 3 and 4 have invested 70% of their proceeds in equity shares of domestic companies. The investment pattern of funds remained unchanged over all the years. STT is paid at the time of acquisition and redemption of mutual fund, wherever applicable.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Sarthak for A.Y. 2025-26. CII: 2020-21: 301; 2021-22: 317; 2022-23: 331; 2024-25: 363. **(6 Marks)**

5. (a) Attempt any two out sub-part (i), (ii) or (iii) of the following:

- (i) XYZ 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. But XYZ Ltd. did not prefer to file the objection against the draft order before the Dispute Resolution Panel, instead, he prefer to do appeal before the CIT appeals under section 246A against the final order received from the Assessing Officer.

You are required to advise XYZ Ltd., whether his contentions are tenable? Discuss the issue with reference to provisions of section 144C of the Income-tax Act, 1961. **(4 Marks)**

- (ii) During search conducted on premises of an assessee, some gold bars were seized by the department from lockers of assessee. Assessee voluntarily disclosed some income during course of search. Assessee moved an application

before Assessing Officer, for adjustment of tax liability on income surrendered during search by sale of seized gold bars. However, said application was turned down by the Assessing Officer. Explain whether action of the AO is justified, in light of relevant case laws? **(4 Marks)**

- (iii) T Ltd. filed its return of income for assessment year 2023-24 on 25<sup>th</sup> October 2024. The return is selected for regular assessment under section 143(3) for which notice under section 143(2) is served on the company on 9<sup>th</sup> July 2025. The company responded to the notice under section 143(2). Examine whether the service of the notice is within time and if not, whether the assessment order can be challenged by the assessee. **(4 Marks)**

- (b) Explain the nexus approach recommended by OECD in BEPS Action Plan 5 which has been adopted in the Income-tax Act, 1961.

**(6 Marks)**

6. (a) NI Ltd. is an Indian Company involved in manufacturing and trading in cotton garments under the brand name "COTT". In order to expand its exports sale, it launched a massive publicity campaign in overseas market. For the purpose of online advertising, it hired SK Inc., a New York based company which has no permanent establishment in India and paid ₹ 10 lakhs for its services in the previous year 2024-25.

Discuss the tax and TDS implications of such transaction both in the hands of NI Ltd. and SK Inc. **(3 Marks)**

- (b) Aryan (25 years) and Aditya (32 years) are two individuals, resident in India, and they earned salary of ₹ 13 lakhs each during the previous year 2024-25. Aditya had paid interest of ₹ 2,20,000 on loan taken in respect of a self-occupied house property. Aryan had paid ₹ 24,000 towards medical insurance of himself and his spouse. Payment was made through net banking. Aditya contributed ₹ 1,50,000 to a political party by cheque.

You, as a consultant, are required to advise them whether they should opt out of default tax regime under section 115BAC or otherwise, showing the tax liability of both individuals. **(5 Marks)**

- (c) TI Ltd., the assessee, has sold goods on 12.01.2025 to LMP Ltd., located in notified jurisdictional area (NJA), for ₹ 9.50 crores. During the current financial year, TI Ltd. charged ₹ 10.50 crores from TOP Inc. of Country X and ₹ 11 crores from MON Inc. of Country Y for sale of identical goods and both of which are neither associated enterprise of TI Ltd. nor they are situated in any NJA. While sales to TOP Inc. and MON Inc. were on CIF basis, the sale to LMP Ltd., was on FOB basis, which paid ocean freight and insurance amounting to ₹ 20 lakhs on purchases from TI Ltd. If sales to TOP Inc. and MON Inc. are made on FOB basis, the cost of freight, insurance would amount to ₹ 18 lakhs.

The assessee has a policy of providing after-sales support service to the tune of ₹ 13 lakhs to all customers except LMP Ltd. which procured the same locally at a cost of ₹ 17 lakhs.

Compute the ALP for the sales made to LMP Ltd., and the amount of consequent increase, if any, in the profit of the assessee-company. **(6 Marks)**