

Roll No.

Total No. of Questions – 6

Total No. of Printed Pages – 16

Maximum Marks – 70



GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.**
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit the descriptive answer books with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the descriptive answer book.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having / using mobile phone or smart watch or any other electronic gadget will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 Marks

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.
4. All questions relate to Assessment Year 2025-26 unless stated otherwise in the questions. Significant notification and circulars issued upto 30th June, 2025 would be relevant.

(2)

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PART – II

1. M Automobile Ltd. (M Auto) is engaged in the manufacture of automobile spare parts at Lucknow. In June 2024, M Auto established a new unit at Patna for the manufacture of automobile accessories. Separate books of accounts are being maintained for both the businesses.

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Statement of Profit & Loss (of Lucknow unit) for the financial year ended on 31.03.2025 shows a profit (before depreciation) of ₹ 50 lakhs after the debit/credit of following items:

- (a) Commission of ₹ 2,50,000/- was paid to Robert, a non-resident, who does not have any office or permanent establishment in India. The payment was made without deducting tax at source.
- (b) A standard warranty is provided at the time of sale, under which the product would be replaced free of charge, in case of any manufacturing defect detected within the stipulated time. Provision for warranty @ 0.5% of sales, amounting to ₹ 5,00,000 was made during the year.
- (c) The assessee contributed ₹ 6,00,000/- (20% of the basic salary) to the account of employees under National Pension Scheme .
- (d) The company issued 10,000 debentures during the year out of which 2000 were convertible in to shares after a period of 5 years. Expenditure incurred on issue of the said debentures during the financial year was ₹ 3,50,000.
- (e) The company's branch office was located in an old building taken on rent under an agreement with the lessor. During the FY, with the consent of the lessor, the old building was demolished and a new office building was constructed on the same site at a cost of ₹ 20,00,000/-. Under an agreement, the company was permitted to re-occupy the newly constructed office building for a further period of 20 years at the same rent.

FDA2

Additional information :

- (i) During the financial year 2024-25, M Auto entered into an agreement with Garg Auto Ltd. As per the agreement, Garg Auto Ltd. has agreed not to engage in the manufacturing of automobile spare parts at Lucknow. On 1.05.2024, the assessee paid ₹ 12 lakhs without deduction of tax at source as non-compete fee to Garg Auto Ltd.
- (ii) Net profit (before depreciation) from the business of automobile accessories of Patna unit was ₹ 25 lakhs for the financial year.
- (iii) Details of plant and machinery (rate of depreciation 15%) owned by the assessee-

Lucknow unit:

Opening WDV as on 1.04.2024 was ₹ 14,75,000.

All the machines were sold in March 2025 for ₹ 15,00,000.

Patna unit:

Old machinery purchased in June 2024 for ₹ 10,00,000.

New machinery purchased in August 2024 for ₹ 6,00,000.

Assume, the company does not own any other fixed asset.

- (iv) Plot of land purchased by the company in FY 2010-11 was compulsorily acquired by the State Government on 10.12.2022. Original compensation awarded was ₹ 10 lakh, out of which ₹ 8 lakhs were received on 10.04.2023 and the balance ₹ 2 lakhs on 1.10.2023.

On an appeal made by the assessee, the Court awarded an additional compensation of ₹ 7 lakhs. Out of this, ₹ 4 lakhs were received on 14.10.2023 and ₹ 3 lakhs were received on 1.02.2025. The Court further awarded an interest on additional compensation amounting to ₹ 12 lakhs, the same was received on 20.03.2025.

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Compute the total income and tax liability of M Auto for the assessment year 2025-26 under the regular provision of the Income-Tax Act applying and explaining the relevant provisions in brief, assuming that the assessee has not opted for any concessional tax rates under special provisions of the Income-tax Act, 1961.

Total turnover of the company for the financial year 2021-22 and 2022-23 was ₹ 300 crores and ₹ 350 crores respectively. Ignore the provisions of MAT.

Would it be beneficial for M Auto to opt for beneficial tax rates for financial year 2024-25. Support your view with necessary explanations.

2. (a) A Ltd., an Indian company is a wholly owned subsidiary of another Indian company- E Ltd. On 1.10.2020, A Ltd. sold a plot of land to E Ltd. for ₹ 35 lakhs (Plot was purchased in January 2010 for ₹ 15 lakhs). On 1.02.2023, E Ltd. converted the said plot in to stock-in-trade when the fair market value (Stamp Duty Value) of the said plot was ₹ 60 lakhs. The plot is sold by E Ltd. on 30.06.2024 for ₹ 65 lakhs. Discuss the tax implications in the hands of A Ltd. and E Ltd.

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CII: FY 2009-2010 – 148; 2020-21 – 301; 2022-23 – 331; 2024-25 – 363

- (b) S Ltd., a domestic company, purchased its own shares on 10th November, 2024 in accordance with the provision of Section 68 of Companies Act, 2013. The consideration for buyback amounted to ₹ 25 lakhs, which was paid on the same day. The amount received by the company on 1.04.2021 for issue of 10,000 shares having face value of ₹ 100 per share was ₹ 15 lakhs (including premium).

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Rohan, who acquired 100 shares of S Ltd. @ ₹ 150 per share (including the premium of ₹ 50/-) sold these shares to Divyam at ₹ 200 per share on 1.03.2023. Divyam received ₹ 250 per share in the buyback scheme of S Ltd. in respect of all the 100 shares he purchased from Rohan.

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You are required to-

- (i) Compute the additional income-tax payable by S Ltd.
- (ii) Discuss the taxability of amount received on account of such buyback of shares in the hands of Divyam.
- (iii) Will your answer change, if S Ltd. is a foreign company and the date of buyback is 10th September, 2024 ?

- (c) Mr. Manoj, aged 47 years, born in India, left for employment in United States in October, 2010. Since, then he is staying in USA and his wife is residing at Delhi. After FY 2010-11, Mr. Manoj never stayed for more than 30 days in India in any financial year. He remitted \$40,000 in joint bank account (maintained with his wife) at Punjab National Bank, Delhi branch on 10th April, 2011. His wife invested in his (Manoj's) name ₹ 13 lakhs in the listed shares of a domestic company on 20th April, 2012. The consideration for the purchase of shares was paid in USD and the value as translated in INR terms. On 2nd March, 2025, these shares were sold for ₹ 15 lakhs. STT was paid both at the time of purchase and sale.

On 10th March, 2025, Manoj acquired a vacant land from Tulsi Foundations, a welfare trust registered u/s 12AB of the Act, for ₹ 30 lakhs when the Stamp Duty Value (guideline value) of the said land was ₹ 40 lakhs. He has following incomes during the financial year 2024-25 –

- dividend of ₹ 55,000/- from X Ltd., an Indian company.
- interest of ₹ 20,000 credited to his NRE account with State Bank of India, Delhi branch.
- royalty of ₹ 2,00,000 (gross) received for authoring a book on literature, from a publication house at Delhi.

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During the financial year, he paid a premium of ₹ 2,00,000/- on his life insurance policy in India.

Compute the total income and net tax liability of Mr. Manoj for the assessment year 2025-26 assuming that he has opted out from the default tax regime..

(Ignore the provisions of Chapter XII-A).

Average of telegraphic buying and selling rates of 1USD in Indian Rupees:

- 20th April 2012 - ₹ 60; 2nd March 2025 - ₹ 75

Cost inflation indices: F.Y. 2012-13 - ₹ 200; F.Y. 2024-25 - ₹ 363

3. (a) (i) J Education Centre, a Charitable trust registered u/s 12AB of Income Tax Act runs schools for primary and secondary education. The following particulars pertaining to FY 2024-25 are furnished by the institution :

S. No.	Particulars	₹ (In Lakhs)
(i)	Gross receipts from students towards admission fees, tuition fees, development fees etc.	175.00
(ii)	Interest from tax free bonds specified in Sec 10(15)	20.00
(iii)	Voluntary Contribution received (including anonymous donation ₹ 1.50 lakh)	10.50
(iv)	Grant from State Government (corpus fund)	8.50
(v)	Salary to teachers and administrative staff (This includes salary expenses of ₹ 5 lakhs which were not paid till 31.03.2025)	40.00
(vi)	Other General Expenses (This includes payment to a grocery store of ₹ 60,000 by un-crossed cheque)	20.00
(vii)	A land belonging to trust in a nearby village was sold (Purchased in 2007-08 for ₹ 5 Lakhs) and another land adjacent to the trust premises was purchased for ₹ 12 Lakhs to be used as playground of the children (ignore indexation)	10.50

Compute the total income of the trust for the AY 2025-26.

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- (ii) An educational institution having annual receipts of ₹ 4.95 crore during the financial year 2023-24. The institution has claimed exemption under section 10(23C) (iiiad). The assessing office has denied the exemption on the grounds that the educational institution has not made any application to the prescribed authority for approval under the said section 10(23C) (iiiad). Examine the action of the assessing officer in denying the exemption.

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- (b) Mr. Dhruv, an individual resident in India aged 62 years, furnished you the following particulars of income earned in India, Country "A" and Country "B" for the financial year 2024-25-

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Particulars	₹
Income from profession carried on in India	8,50,000
Agriculture Income in Country "A" (gross)	60,000
Dividend from a company incorporated in Country "B"	1,60,000
Royalty Income from a literary book from Country "A"	5,00,000
Expenses incurred for earning royalty	55,000
Business Loss in Country "B" (Proprietary business)	75,000
Rent from a house situated in Country "B" (gross)	2,10,000
Municipal tax paid in respect of the above house in Country "B" (not allowed as deduction in country "B")	10,000
Interest on Fixed Deposits and savings accounts with banks in India	55,000

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India has not entered into double taxation avoidance agreement (DTAA) with Country "A" and Country "B".

Business loss in Country "B" not eligible for set off against other incomes as per law of that country. The rates of tax in Country "A" and Country "B" are 10% and 20% respectively.

Compute total income and net tax liability of Mr. Dhruv in India for the Assessment Year 2025-26, assuming that he has opted out from taxation under the tax regime under section 115BAC.

4. (a) Examine the applicability of provisions of tax deducted at source/ tax collected at source and calculate the amount of TDS/TCS in the following independent cases applicable for the relevant period of financial year 2024-25 (A.Y. 2025-26):-

- (i) Mr. Rohan sold his Urban Agriculture Land to Mr. Sohan for a consideration of ₹ 49 Lakh. The Stamp Duty Value on the date of sale (transfer) i.e. 01.08.2024 is ₹ 51 Lakh. Both Mr. Rohan and Mr. Sohan are Resident Indians. The land sold by Mr. Rohan is a Capital Asset in term of Section 2(14) of Income Tax Act. 2
- (ii) A co-operative bank has provided, the followings information relating to cash withdrawals by its two customers during the F.Y. 2024-25 : 4

Date of Cash Withdrawal	Mr. A (Savings Account) (₹)	Mr. B (Current Account) (₹)
05.04.2024	45,00,000	23,00,000
10.11.2024	60,00,000	75,00,000

Mr. B has not filed his return of income for the last three assessment years (the date of filing return u/s 139(1) has expired) whereas Mr. A has been regularly filing his return of income.

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(iii) Mr. Rohit, a resident, has received ₹ 9 lakhs on 30.6.2024, towards maturity proceeds of LIC policy taken on 1.7.2021, for which the sum assured is ₹ 8 lakhs and the annual premium was ₹ 2,50,000.

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(b) Canada Ltd., (a company incorporated in Canada) holds 35% voting powers in LMN Ltd. (a company registered in Indian Companies Act-1956) through holding 35% shares of LMN Ltd. LMN Ltd. is engaged in providing software development and consultancy services (both onsite and offsite). LMN Ltd. during the financial year 2024-25, billed Canada Ltd. for 120 man-hours at the rate of ₹ 3,600 per man hour. The total cost (direct and indirect) for executing this work amounted to ₹ 4,50,000/-.

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LMN Ltd. during the same financial year, for the similar services rendered billed XYZ Ltd., India at the rate of ₹ 5,400 per man hour (for similar level of manpower and resources) and earned a Gross Profit of 50% on its cost.

The transactions of LMN Ltd. with Canada Ltd. and XYZ Ltd. are comparable, subject to the following differences :

- While LMN Ltd. derives technology support from XYZ Ltd., there is no such support received from Canada Ltd. The value of technology support received from XYZ Ltd. may be assumed at 4% of normal gross profits.
- Assuming that Canada Ltd. gives business in large volumes, LMN Ltd. offered to Canada Ltd. a quantity discount which may be valued at 20 % normal gross profits.

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In the case of rendering services to Canada Ltd, LMN Ltd. neither runs any risk nor incurs any marketing costs. On the other hand, in case of services to XYZ Ltd. LMN Ltd. has to assume all the risk and costs associated with the marketing function which may be estimated at 10% of normal gross profits.

LMN Ltd. offered one month's credit to XYZ Ltd. The cost of providing such credit may be valued at 2 % of the gross profits. No such credit was given to Canada Ltd.

Compute the Arm's length Price along with income to be increased under the Cost-Plus Method.

5. (a) Answer any **two** out of the following 3 sub-parts, viz. (i), (ii) & (iii)

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Your answer should cover :

- Issue involved
- Provisions applicable
- Analysis and application
- Conclusion

- (i) On 15th October, 2024, M/s D Pvt. Ltd. filed its return of income for the AY 2024-25. The return was found to be defective and on 02/04/2025, the Assessing Officer issued an intimation to correct the defect within a period of 15 days from the date of the notice. The company rectified the defects on 10/04/2025.

Whether, the Assessing Officer is empowered to issue a notice under Section 143(2) upto 30/06/2026 in such situation.

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D Pvt. Ltd. contended that the notice u/s 143(2) can only be issued within 3 months from the end of the financial year in which the return was furnished.

Discuss whether the contention of the D Pvt. Ltd. is correct ?

- (ii) Mr. Chauhan furnished his return of income for the FY 2023-24, on 23/07/2024 declaring a total income of ₹ 16 lakhs. The Assessing Officer passed an order under section 154 and determined total income at ₹ 19 lakhs.

Mr. Chauhan claimed that the action of the Assessing Officer of enhancement in the total income is not in accordance with the provisions of the Income-Tax Act. He wishes to file an application before the Dispute Resolution Committee to get the issue resolved.

Discuss-

- Whether order under section 154 is a "specified order" in terms of section 245MA ?
- If yes, are there any monetary limits prescribed ? Does Mr. Chauhan's case fall within the monetary limit criteria ?

- (iii) Mr. Roy, an Indian resident liable to collect tax under section 206C, failed to pay to the Central Government the tax collected by him from customers during the FY 2023-24. The Assessing Officer, initiated prosecution proceedings against Mr. Roy on 24/07/2024 under section 276BB. Mr. Roy applied for Compounding of Offences on 17/08/2024 which was rejected due to non-payment of outstanding tax. Mr. Roy also filed an appeal with CIT(A) against the penalty imposed by the Assessing Officer. On 08/10/2024, Mr. Roy paid all outstanding tax demand including interest and penalty thereon.

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He again wishes to apply for Compounding of Offences under the new guidelines issued on 17/10/2024. You are required to answer the following questions in this regard :

(A) Can Mr. Roy apply for Compounding of Offences under the new guidelines, when the compounding application was already rejected under the old guidelines ? Also, is he eligible to apply for compounding of offences when the appeal against the penalty is pending before the CIT(A) ?

(B) By which date Mr. Roy needs to file the application for compounding under the revised (New) guidelines ?

(b) Answer following questions-

(A) Explain the terms "Most Favored Nation" and "Base Erosion and Profit Shifting (BEPS)" with reference to the international tax treaties.

(B) "Article 14 of the UN Model Convention gives exclusive rights to the source country to tax Independent Services." Examine the correctness of the above statement.

6. (a) M/s P Associates, a partnership firm (liable for tax audit under section 44AB) engaged in the business of food processing, provided following relevant information to you during your tax audit examination in respect of purchases made from various entities :-

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Name of the entity	Turnover	Investment in plant and machinery	Date of purchase	Date of payment as per the agreement	Date of actual payment
Teal Pvt. Ltd.	₹ 34 crores	₹ 15 crores	11/01/2025	01/03/2025	28/02/2025
Cyan Pvt. Ltd.	₹ 3 crores	₹ 45 lakhs	21/11/2024	01/12/2024	28/02/2025
Rust Pvt. Ltd.	₹ 25 crores	₹ 5 crores	01/03/2025	20/04/2025	18/04/2025

Discuss whether P Associates is in compliance with the relevant provisions of Income-tax Act, 1961 and other related Act relevant to your tax audit ?

List out, the points to be kept in mind while conducting the audit of P Associates for the purpose of clause 22 of Form 3CD.

- (b) Discuss whether the provisions of General Anti-Avoidance Rules can be invoked in the following scenarios :

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=4

- (i) Red Ltd., an Indian company, incorporates Brown Ltd., as a wholly-owned subsidiary in country Y, a no-tax jurisdiction. Brown Ltd. is engaged in manufacturing of cement, raw material for which is available at a lower price in Country Y. Brown Ltd. has not paid any dividend to Red Ltd.

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- (ii) Yellow Ltd. (an Indian company) is a wholly owned subsidiary of Pink Ltd., a company incorporated in Country H. Pink Ltd. gave a loan to Yellow Ltd. during the FY 2024-25. The DTAA between India and Country H gives the exclusive right to tax interest to the resident state. Country H provides tax exemption of interest receivable by a resident company from any entity in which the resident company holds not less than 10% of equity shares. Pink Ltd. does not have a PE in India. Yellow Ltd. is able to claim interest deduction from its total income and thus, enjoyed a tax benefit of ₹ 1.50 crores in India. Pink Ltd. also earned a tax benefit equivalent of ₹ 2 crores in Country H.
- (c) Analyse whether the following persons fall under the definition of “applicant” under section 245(b)(A) to apply for advance ruling with the Board for Advance Ruling under the Income-tax Act 1961.
- (i) TBF India Pvt. Ltd. a closely held Indian company needs to pay ₹ 75 crores to BIK Inc. of USA for some services provided by BIK Inc. on 12.04.2024. TBF India wants to know whether such services fall under the definition of technical service and thus determine the amount of tax to be deducted on the payment to be made to BIK Inc. The estimated tax liability arising out of this transaction is ₹ 15 crores in the hands of BIK Inc.
- (ii) Figtree Ltd., an Indian private sector company is considering entering into an export contract with Lamou Inc. of China. Figtree Ltd. is expected to earn an income of ₹ 500 crores and expected tax liability would be ₹ 150 crores. However, Figtree Ltd. wants to know if it is eligible for section 10AA deduction on such export ?

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- (iii) Universe India Ltd., an Indian public-sector undertaking, undertook a transaction with Moon Pte. of Singapore. The expected tax liability in the hands of Universe India Ltd. involved in this transaction is expected to be ₹ 56 crores.
- (iv) BNHJ Ltd. is an Indian public-sector undertaking. For the AY 2023-24, it has a matter pending with the Income Tax Appellate Tribunal which involves a question of fact in respect of a transaction it entered into with a non-resident company. The tax liability involved in this transaction is expected to be ₹ 105 crores.
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