

**INTERMEDIATE EXAMINATION****SET 1****MODEL ANSWERS****TERM – JUNE 2026****PAPER – 7****SYLLABUS 2022****DIRECT AND INDIRECT TAXATION**

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

All workings should form part of the answer.

SECTION – A (Compulsory)**1. Choose the correct option from the four alternatives given.****[15 × 2 = 30]**

- (i) Mr. Suresh is engaged in growing and manufacturing tea in India. His income from this activity is ₹1,40,000. As per the Income-tax Act, 1961, his agriculture income will be: -
- (A) ₹ 1,40,000
(B) ₹ 84,000
(C) ₹ 56,000
(D) ₹ 70,000
- (ii) As per Income tax Act, 1961, total Income of a person is determined on the basis of his/her: -
- (A) Residential Status and Citizenship in India
(B) Only Citizenship in India
(C) Only Residential status in India
(D) None of the Above
- (iii) Out of the below options, what is the maximum amount (monetary limit) of gratuity that will be exempted from tax under section 10(10)(ii) of the Income tax Act, 1961, which is received at the time of termination of service by non-government (including Foreign Government) employees, covered by the Payment of Gratuity Act?
- (A) ₹ 5,00,000
(B) ₹ 10,00,000
(C) ₹ 15,00,000
(D) ₹ 20,00,000
- (iv) Which of the following statements are “CORRECT” as regards to capital gain on transfer of depreciable asset under the Income tax Act, 1961?
- (i) It is always a short-term capital gains/ loss
(ii) The nature of capital gain/ loss (short-term or long-term) will depend on the period of holding
(iii) Indexation benefit can be claimed if the asset is held for more than 36 months
(iv) Indexation benefit can be claimed if the asset is held for more than 24 months
(v) Indexation benefit cannot be claimed

Choose the correct answer

- (A) Point (i) and (v) only
(B) Point (ii) and (iii) only
(C) Point (ii) and (v) only
(D) Point (ii) and (iv) only



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- (v) Sameer, a resident individual, aged 35 years is engaged in the business of trading of readymade garments. He deposited a sum of ₹15 lakhs in a fixed deposit. However, there were no entry of this deposit in his books of accounts. It came to the notice of the assessing officer and when asked, Sameer could not offer any explanation as to the source of such fixed deposit amount. At what rate such amount shall be taxable under the Income tax Act, 1961, in the hands of Sameer?
- (A) As per slab rates
(B) @60% (+ SC @ 25% + cess)
(C) @30% (+ SC @ 25% + cess)
(D) @60% (+ SC @ 37% + cess)
- (vi) If an assessee discovers any omission or wrong statement (bona-fide in nature) in the return filed, he can revise his return..... u/s 139(5) of the Income-tax Act, 1961.
- (A) On or before 30 June of the relevant assessment year or before completion of regular assessment, whichever is earlier.
(B) On or before 30th September of the relevant assessment year or before completion of regular assessment, whichever is earlier.
(C) On or before 31st December of the relevant assessment year or before completion of regular assessment, whichever is earlier.
(D) On or before 31st March of the relevant assessment year or before completion of regular assessment, whichever is earlier.
- (vii) For implementation of GST, Constitution (..... Amendment) Act 2016 was introduced.
- (A) 100th
(B) 101st
(C) 121st
(D) 122nd
- (viii) Under the CGST Act, 2017, Which of the followings is not treated as supply even if made without consideration
- (A) Permanent transfer of business assets on which ITC was taken
(B) Supply between related person not in course or furtherance of business.
(C) Supply between distinct persons in course or furtherance of business
(D) Import of services from related person in course or furtherance of business
- (ix) Surya charged ₹ 60,000 for a supply of Television to Kanak. He has received Subsidy directly linked to price from a charitable Trust engaged in promotion of Television of ₹18,000, the price of ₹60,000 is after deducting this subsidy.
As per the provisions of the GST law, what will be the value of supply?
- (A) ₹ 42,000
(B) ₹ 18,000
(C) ₹ 78,000
(D) ₹ 60,000



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- (x) As per the provisions of the GST law, in case of mobile connection for telecommunication and internet services provided on post-paid basis, the place of supply is: -
- (A) Registered Place of office of the service provider
 - (B) Billing address of the recipient of services in the record of the supplier
 - (C) Actual Place of payment
 - (D) Address of the distributor in the record of the supplier
- (xi) As per the provisions of the GST law Input Tax Credit (ITC) for which of the followings is blocked
- (A) Works contract for building of plant and machinery
 - (B) Works contract for construction of office building
 - (C) Works contract for installation of telecommunication lines
 - (D) Works contract for installation of pipelines
- (xii) Validity of an E-Way Bill for transport of goods by three- wheeler for distance up to 250 kms is.....
- (A) 1 day
 - (B) 2 days
 - (C) 3 days
 - (D) 4 days
- (xiii) If no TDS made during the month, Person required to deduct tax (TDS) under GST law file monthly return in which form?
- (A) GSTR-6
 - (B) GSTR-7
 - (C) GSTR-8
 - (D) Not required to file.
- (xiv) As per Customs law, customs Duty is not leviable in certain cases except: -
- (A) Remission of duty on destroyed goods
 - (B) Pilfered Goods
 - (C) Export of goods
 - (D) Relinquishment of title on the goods
- (xv) Under the section 9 of the Customs Tariff Act, 1975 duty imposed to neutralize subsidy given by exporting country is called
- (A) Anti-dumping Duty
 - (B) Safeguard Duty
 - (C) Countervailing Duty
 - (D) Protective Duty



Answer:

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)
B	C	D	A	B	C	B	B	C	B	B	B	B	C	C

Section – B

(Answer any 5 questions out of 7 questions given. Each question carries 14 Marks)

[5 × 14 = 70]

2. (a) Mr. Sam aged 45 years, a foreign citizen came to India on 1st January 2019 for first time for employment in Delhi. He left India for a visit to Nepal on 2nd June 2024 and returned back to India on 5th September 2025.

His income in the financial year 2025-26 is detailed as below:

Sl. No.	Particulars	Amount (₹)
(i)	Salary received for services rendered in Delhi	7,00,000
(ii)	Profit from the business of wholesale trading of coffee in India received in India	9,00,000
(iii)	Interest from loan given to a resident for his business or profession received in India	1,20,000
(iv)	Dividend from foreign company received outside India	1,50,000
(v)	Rent from a house property in India received in India	5,00,000

Incomes given above are computed after considering eligible deductions. Ignore section 115BAC of the Income Tax Act 1961.

Required:

- (i) Examine the residential status of Mr. Sam for the Assessment Year 2026-27
(ii) Calculate his total income taxable in India.

Note: Reason for the treatment should form part of your answer.

[7]

- (b) Mrs Meenakshi, an Indian resident, aged 58 years, is working as Legal Head in Plant Ltd., an Indian Company. She is also serving as a non-executive Director in the Board of Sea Ltd., another Indian company. She provides the following information to you in respect of her income for the financial year 2025-26:

Salary income from Plant Ltd.

- (i) Basic Salary - ₹1,10,000 p.m.
(ii) Dearness allowance - ₹25,000 p.m. (100% forms part of salary for retirement benefits)
(iii) Leave salary received - ₹54,000
(iv) Loan received from the company at an interest rate of 2% p.a. (date of loan 01/08/2025) - ₹80,000 (SBI rate of similar loan – 12% p.a.)
(v) During the financial year, she was transferred to a nearby branch office of the company.
(vi) The company paid ₹10,000 as professional tax on behalf of Meenakshi during the FY 2025-26
(vii) On 15/12/2025, the company gifted 5 air conditioners to her as she was transferred to a branch office of the company. The air conditioners were in very good condition and were being used by



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the company since last 12 years. The total WDV of these air conditioners was ₹50,000 on the date of gift.

(viii) She got free treatment for an ailment in a hospital owned and maintained by her employer. The normal cost of such treatment was ₹55,000.

She also received ₹4,50,000 as Director's sitting fee from Sea Ltd.

Required:

Calculate Mrs. Meenakshi's income chargeable under the head "Salary" for the Assessment Year 2026-27 assuming that she did not opt out of default tax regime under section 115BAC of the Income Tax Act, 1961

Correct reason for each item should form part of your answer.

[7]

Answer:

(a)

- (i) During the previous year 2025-26, Mr. Sam was in India for 208 days from 5th September 2025 to 31st March 26.
An Individual is said to be resident in India, if he satisfies any one of conditions
Stay in India in the previous year for a period of 182 days or more [sec 6(1)(a)] or
Stay in India for a period of 60 days or more during the previous year and for 365 or more days during 4 previous years immediately preceding the relevant previous year [sec 6(1)(c)]

Mr. Sam satisfies condition i) of the conditions specified in sec 6(1). Hence, he is Resident in PY 2025-26.

Also, he stayed in India from 1st January 2019 to 2nd June 2024, therefore he was resident 2 out of 10 preceding previous years and his stay in 7 preceding previous years is more than 730 days, satisfying both conditions

Hence, he was Ordinarily Resident

- (ii) Calculation of Income liable to be taxed in India of Mr. Sam for the AY 2026-27

Particulars	Amount in ₹
Salary received for services rendered in Delhi	7,00,000
Income from the business of wholesale trading of coffee in India received in India	9,00,000
Interest from loan given to a resident for his business or profession received in India.	1,20,000
Dividend from foreign company received outside India	1,50,000
Rent from a house property in India received in India.	5,00,000
Income liable to tax in India	23,70,000

Working Notes:

For Resident and Ordinary resident all incomes, whether earned in India or outside India are taxable

Profit from business of wholesale trading of coffee is pure business income. Composite agricultural income arises only when coffee is grown and processes like curing, roasting and grounding of coffee are done. Hence not partly agricultural income.



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(b)

Computation of income from salary in the hands of Mrs. Meenakshi	
<u>Particulars</u>	<u>Amount</u> (₹)
Basic salary ₹1,10,000 x 12	13,20,000
Dearness allowance - ₹25,000 p.m. x 12	3,00,000
Leave Salary – fully taxable since received during the continuation of employment	54,000
Facility of concessional loan ₹80,000 x (12% -2%) x 8/12	5,333
Gift of air conditioner Since they were being used for more than 10 years – it will be an exempt perquisite	Nil
Professional tax – Paid by employer – Professional tax paid on behalf of employee is a perquisite; hence the same shall be included in salary for the aforesaid purpose.	10,000
Free treatment for an ailment – exempt perquisite –	Nil
	16,89,333
Less: Standard Deduction	75,000
Professional tax – not available	Nil
Income from salary	16,14,333
Director’s sitting fee from Sea Ltd. is taxable under the head “income from other sources” and not under salary head	

3 (a) Mr Prakash, a resident individual, aged 55 years owns one residential house in Bengaluru. The particulars of the house for the previous year 2025-2026 are as under:

Particulars	Amount (₹)
Standard rent under the Rent Control Act	3,00,000
Municipal valuation	3,60,000
Fair rent	3,50,000
Annual rent	6,00,000
Municipal taxes paid	40,000
Unrealised rent of the previous year 2024-2025	20,000
Unrealised rent of the previous year 2025-2026	10,000
Loss on account of vacancy (Vacant period is 2 months)	1,00,000
Interest paid on capital borrowed	1,10,000



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Repairs	8,000
Insurance	5,000
Ground rent	7,500

Mr Prakash has fulfilled all conditions laid out in rule 4 of the Income-tax Rules, 1962 and has taken all reasonable steps to instituted legal proceedings for recovery of the Unrealised rent.

Required:

Calculate the Income taxable in the hands of Mr Prakash under the head "Income from House Property" for the assessment year 2026-27.

Assuming Mr Prakash exercise the option of shifting out of the default tax regime provided under section 115BAC of the Income-tax Act, 1961.

Correct reason for each item should form part of your answer. [7]

(b) Sanatan, a resident individual is engaged in the business of retail trade. His profit and loss account for the financial year 2025-26 showed a net profit (before depreciation and interest) of ₹65,00,000. He provides the following information regarding his block of asset containing godowns (buildings) (rate of depreciation @10% under The Income Tax Act, 1961)

(i) Opening WDV - ₹15,00,000

(ii) On 01/05/2025, he bought one godown for keeping his stock-in-trade for ₹10,00,000. He paid ₹9,50,000 through UPI payment system and ₹50,000 in cash. The entire payment was made on 01/05/2025.

(iii) After buying the godown, he spent ₹4,00,000 towards repair of the godown to make it appropriate to store his stock.

(iv) He took a loan amounting to ₹8,00,000 to cover for the purchase and repair cost of the godown. The loan was taken on 01/05/2025 and the rate of interest was 12%. The entire loan is outstanding as on 31/03/2026.

(v) He started using the godown for his business from 01/11/2025.

(vi) On 14/05/2025, he sold one of the godowns. The relevant details of the godown are as follows:

(a) Original cost of the Godown (bought on 01/04/2020): ₹8,00,000

(b) WDV as on 01/04/2025 (included in ₹15,00,000): ₹4,70,000

(c) Sales consideration: ₹7,00,000

Required:

(i) Calculate the income chargeable under the head "Profits and Gains from Business or Profession" in the hands of Sanatan for the AY 2026-27, assuming he did not opt out of default tax regime under section 115BAC of the Income Tax Act, 1961

(ii) Also show separately the WDV of the godowns as on 31st March 2026 which to be carried forward next year. [7]

Answer:

(a) Computation of Income from House Property chargeable in the hands of Mr Prakash for the assessment year 2026-27.



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Particulars	Amount (₹)	Amount (₹)
Expected rent for the whole year (Municipal value or fair rent, whichever is higher (₹ 3,60,000 or ₹ 3,50,000 i.e., ₹ 3,60,000) But restricted to standard rent i.e., ₹ 3,00,000	3,00,000	
Actual rent received / receivable for the let-out period after deducting unrealized rent but before adjusting loss due to vacancy [₹ 6,00,000 - ₹ 10,000 (Unrealised rent of the previous year 2025-2026)] (Unrealised rent of current year shall be deducted from actual rent since in this case Mr Prakash has fulfilled all conditions laid out in rule 4 of the Income-tax rules, 1962 and has taken all reasonable steps to instituted legal proceedings for recovery of the Unrealised rent)	5,90,000	
Deductions of Unrealised rent of earlier years is not available		
(Expected rent or Rent received, whichever is higher (₹ 3,00,000 or ₹ 5,90,000 i.e., ₹ 5,90,000)		5,90,000
Less: - Loss on account of vacancy		1,00,000
Gross Annual Value (GAV)		4,90,000
Less: - Municipal taxes		40,000
Net Annual Value (NAV)		4,50,000
Less: - Deduction under section 24 of the Income-tax Act, 1961: - Standard deduction @ 30% of NAV (No deduction will be allowed separately for expenditure paid for repairs, insurance and ground rent)		1,35,000
Less: - Interest paid on capital borrowed		1,10,000
Income under the head Income from house property		2,05,000

(b)

Computation of Profits and gains from business or profession in the hands of Sanatan for the AY 2026-27	
Particulars	Amount (₹)
Net profit as per Profit and loss account	65,00,000
Less: Depreciation for the year (₹69,900+₹80,000)	1,49,900
Less: Interest for post use period of godown $₹8,00,000 \times 12\% \times 5/12$	40,000
Profits and gains from business or profession	63,10,100
Working Note: 1	
Computation of depreciation	
Opening WDV 01/04/2025	15,00,000

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Add: Purchase during the year (Working Note 2)	13,98,000
Less: Sales consideration for godown sold	7,00,000
	21,98,000
Less: Depreciation on new godown @5% since used for less than 180 days (13,98,000 x 5%)	69,900
Less: Depreciation on remaining block (₹8,00,000 × 10%)	80,000
WDV as on 31/03/2026	20,48,100
Working Note 2 – Calculation of the cost of the godown acquired during the year for the purpose of computing depreciation	
Cost of purchase	10,00,000
Less: Amount paid in cash	50,000
	9,50,000
Add: Interest for the period before the asset was put to use – to be capitalised ₹8,00,000 × 12% × 6/12	48,000
Add: Repair cost	4,00,000
Actual cost of the godown for the purpose of depreciation	13,98,000

- 4 (a) Ms. Anjali, an Indian resident aged 34 years, is an employee of M/s Dime Ltd., an Indian listed company. On 10/09/2024, her company granted her an option to buy 2,500 equity shares under an Employee Stock Option (ESOP) Scheme for ₹200 per share. The vesting period was from 01/10/2024 to 30/11/2024. Anjali applied for 2,000 equity shares on 31/10/2024. The fair market value of these shares on various dates are as follows:

10/09/2024 - ₹500

01/10/2024 - ₹450

30/11/2024 - ₹470

31/10/2024 - ₹550

She sold all these shares on 15/03/2026 for a price of ₹820 per share. Brokerage paid on sale @ 0.5% of sales value. As the shares were listed, STT was paid both at the time of purchase and sale of the shares.

Assume she did not opt out of the default tax regime under section 115BAC of the Income Tax Act, 1961 Cost Inflation Index (CII) for F.Y. 2024-25 – 363; 2025-26 - 376

Required:

- (i) Calculate the amount taxable under the head 'Capital Gains' for Assessment Year 2026-27 in the hands of Ms. Anjali. Also, compute tax payable on such capital gains by ignoring other incomes and assuming her other income exceeds the basic exemption limit.
- (ii) Will your answer change with regards to nature of the capital gain if the shares received as ESOP are unlisted shares? no need to calculate the tax payable, if any under this situation. [7]

- (b) Mrs Suman aged 52 years, a resident individual, submits the information of following transaction/income during the previous year 2025-26:

Sr. No.	Particulars	Amount (₹)
(i)	On the occasion of her daughter's marriage her friend assigned in Mrs Suman's favour a fixed deposit held by the said friend in a Nationalized Bank	25,000

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(ii)	Interest on delayed compensation	75,000
(iii)	Interest from bank on fixed deposit	49,500
(iv)	Winning from lottery	9,500
(v)	Dividend from Indian companies	56,500
(vi)	Interest on money borrowed for purchase of Indian companies' s shares from which dividend income was earned in Sr. No (v)	15,500
(vii)	Pension received from employer of deceased husband @ ₹ 7,000 per month	84,000

Except Sr. No. (iii), All the amount given above are before TDS (if applicable)

Mrs Suman did not opt out of the default tax regime under section 115BAC of the Income Tax Act, 1961.

Required:

Calculate the income chargeable to tax under the head “Income from other sources” in the hands of Mrs Suman for the Assessment Year 2026-27 by Indicating clearly the reasons for treatment of each item. [7]

Answer:

(a)

Computation of Capital Gains in the hands of Ms. Anjali for the A.Y. 2026-27:		
Particulars	Amount (₹)	
Full Value of Consideration (₹2,000 x 820)	16,40,000	
Less: Transfer Expenses (0.5% of 16,40,000)	8,200	
	16,31,800	
Less: CoA [₹2,000 x ₹550 (FMV on exercise)] No indexation allowed	11,00,000	
Long-Term Capital Gain (LTCG) – Since held for more than 12 months	5,31,800	
Tax on above (5,31,800 – 1,25,000) x 12.5%	50,850	
Under Section 112A, the tax rate for LTCG on listed shares (after 23rd July 2024) is 12.5% on gains exceeding ₹1,25,000.		
In case the shares are unlisted – the shares will be treated as short-term asset since the period of holding was less than 24 months (from 31/10/2024 to 15/03/2026 – 18 months)		
There will be no change in the amount of capital gains even if they are unlisted shares. However, the gain should be short-term capital gain and will be taxed at normal slab rate applicable to the assessee.		

(b)

Computation of income chargeable to tax under the head Income from other sources in the hands of Mrs Suman for the assessment year 2026-27

SN	Particulars	Amount (₹)	Amount (₹)
(i)	On the occasion of her daughter's marriage her friend assigned in Mrs Suman's favour a fixed deposit held by the said friend in a Nationalized Bank (Gift received on the occasion of the marriage of the recipient of gift, is not taxable. In the given case, the gift has been received on the occasion of the marriage of daughter, hence the same is taxable. Section 56(2)(x) refers to any money, which includes fixed deposits)		25,000

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(ii)	Interest received on delayed compensation Less: -It is taxable under section 56(2)(viii) after allowing standard deduction of 50% of such income	75,000 37,500	37,500
(iii)	Interest from bank on fixed deposit (Tax is required to be deducted @ 10% i.e., gross interest on fixed deposit is ₹ 49,500 x 100 ÷ 90 = ₹ 55,000)		55,000
(iv)	Winning from lottery (Tax is not deducted if the winning from lottery is not more than ₹ 10,000, hence, there is no need of grossing up)		9,500
(v)	Dividend from Indian companies Less: - Interest on money borrowed for purchase of Indian companies' s shares from which dividend income was earned. Limited to 20% of the dividend income as per proviso to section 57 of the Income-tax Act, 1961	56,500 11,300	45,200
(vi)	Family pension received from employer of deceased husband @ ₹ 7,000 per month Less: - Standard deduction under section 57 1/3 rd of ₹ such pension or ₹ 25,000 Whichever is less (1/3 rd of ₹ 84,000 i.e., ₹ 28,000 or ₹ 25,000)	84,000 25,000	59,000
Income chargeable to tax under the head Income from other sources			2,31,200

5. (a) Mr Subhash, a resident individual, furnished the following information in respect of income earned and losses incurred by him for the previous year 2025-26: -

Sr. No.	Particulars	Amount (₹)
(i)	Income from let-out property in Delhi	3,26,000
(ii)	Loss from let-out property in Noida	(1,08,000)
(iii)	Profit and gains from manufacturing business (after deducting normal depreciation of ₹1,50,000 and additional depreciation of ₹38,000)	18,85,000
(iv)	Long-term capital loss on sale of shares of PQR Company Ltd, STT has been paid both at the time of acquisition and sale shares	(65,000)

The other details pertaining to assessment year 2025-26 are as follows (all losses and depreciation related to such assessment year): -

Sr. No.	Particulars	Amount (₹)
(i)	Business loss from manufacturing business	(4,65,000)
(ii)	Unabsorbed normal depreciation	(1,25,000)

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(iii)	Loss from the activity of owning and maintaining racehorses	(60,000)
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Mr Subhash filed his return of income every year before due date and did not opt out of the default tax regime under section 115BAC of the Income Tax Act, 1961.

Required:

Analyze the case and calculate the gross total income of Mr Subhash for the assessment year 2026-27, by showing clearly the manner of set-off and the items eligible for carry forward if he wants to continue with the provisions under section 115BAC of the Income-tax Act, 1961. [7]

- (b) Mr Ramesh, aged 50 years, a resident individual, who is handicapped (not severe but 45 % disability and certified by the medical authority), furnishes the following particulars of his income for the previous year 2025-2026: -

S.N.	Particulars	Amount (₹)
(i)	Taxable income from business	12,35,000
(ii)	Interest on income-tax refund	2,500
(iii)	Short term capital gains on transfer of listed equity shares in a company on which STT is paid	1,00,000
(iv)	Interest on Government securities (Gross)	50,000
(v)	Winnings from horse races (Gross)	60,000
(vi)	Deposit in LIC annuity plan	15,000
(vii)	Premium paid by cheque towards health insurance policy covering himself, his spouse and his children	45,000

Required:

- (i) Calculate total taxable income and total tax liability of Mr Ramesh for the assessment year 2026-27 under the default tax regime under section 115BAC and optional tax regime as per the Regular provisions (old regime) of the Income-tax Act, 1961.
- (ii) Discuss with reason which scheme is better for him for the assessment year 2026-27. [7]

Answer:

- (a) Computation of total income of Mr Subhash for the assessment year 2026-27

		Amount (₹)	Amount (₹)
(i)	Income from House Property		
	Income from let-out property in Delhi	3,26,000	
	Less: - Set-off of loss from let-out property in Noida	(1,08,000)	
			2,18,000
(ii)	Profits and gains from business or profession		
	Profit from manufacturing business	18,85,000	
	Add: - Additional depreciation not allowable in case of section 115BAC	38,000	
		19,23,000	
	Less: - Brought Forward business loss of A.Y. 2025-26	(4,65,000)	
	Less: - Unabsorbed normal depreciation	(1,25,000)	



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			13,33,000
(iii)	Income from Capital Gains		
	Long-term capital loss on sale of shares of PQR Company Ltd, STT has been paid can be set-off only against long-term capital gains. Hence it has to be carried forward		Nil
	Gross total Income		15,51,000
	Losses to be carried forward		₹
(i)	Brought forward loss from the activity of owning and maintaining race horses of A.Y. 2025-26 can be set-off only against the income from the activity of owning and maintaining race horses. Hence, it has to be carried forward.		(60,000)
(ii)	Long-term capital loss on sale of shares of PQR Company Ltd, STT has been paid can be set-off only against long-term capital gains. Hence it has to be carried forward		(65,000)

(b) Computation of total income of Mr Ramesh for the assessment year.2026-27

SN	Particulars	Regular provision Amount (₹)	Section 115 BAC Amount (₹)
(i)	Income from business	12,35,000	12,35,000
(ii)	Income from capital gains		
	Short term capital gains on transfer of listed equity shares in a company on which STT is paid	1,00,000	1,00,000
(iii)	Income from other sources		
	Interest on income-tax refund	2,500	
	Interest on Government securities (Gross)	50,000	
	Winnings from horse races (Gross)	60,000	1,12,500
	Gross total income	14,47,500	14,47,500
	Less: - Deductions under Chapter VI-A		
(i)	Deduction under section 80CCC (Deposit in LIC annuity plan)	15,000	Not eligible
(ii)	Deduction under section 80D (Since maximum deduction under section 80D is ₹ 25,000)	25,000	Not eligible
(iii)	Deduction under section 80U	75,000	Not eligible
	Total Taxable Income	13,32,500	14,47,500

Computation of total tax liability by Mr Ramesh for the A.Y. 2026-27

		Regular provision Amount (₹)	Section 115 BAC Amount (₹)
(i)	Tax on short term capital gains on transfer of listed shares @ 20% u/s 111A (₹ 1,00,000 x 20%)	20,000	20,000

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(ii)	Tax on winnings from horse races (₹ 60,000 x 30%)		18,000		18,000
(iii)	Tax on total taxable income of ₹ 11,72,500 (₹ 12,500 + ₹ 1,00,000 + ₹ 51,750)		1,64,250		
	Tax on total taxable income of ₹ 12,87,500 (₹ 20,000 + ₹ 40,000 + ₹ 13,125)				73,125
	Tax liability		2,02,250		1,11,125
	Add: - Health & Education cess @4%		8,090		4,445
	Total tax liability		2,10,340		1,15,570
In the instant case, tax liability under default tax regime under section 115BAC is lower, hence it is advisable to must opt for default tax regime under section 115BAC of the Act.					

6. (a) **Demonstrate the salient features of indirect taxes.** [7]
- (b) **Demonstrate the functions of the Goods and Services Network (GSTN).** [7]

Answer:**(a)**

An important source of revenue: Indirect taxes are a major source of tax revenues for Governments worldwide and continue to grow as more countries move to consumption oriented tax regimes. In India, indirect taxes contribute more than 50% of the total tax revenues of Central and State Governments.

- (i) Tax on commodities and services: It is levied on commodities at the time of supply or manufacture or purchase or sale or import/export thereof. Hence, it is also known as commodity taxation. It is also levied on supply of services.
- (ii) Shifting of burden: There is a clear shifting of tax burden in respect of indirect taxes. For example, GST paid by the supplier of the goods is recovered from the buyer by including the tax in the cost of the commodity.
- (iii) No perception of direct pinch: Since, value of indirect taxes is generally inbuilt in the price of the commodity, most of the time the taxpayer/consumer pays the same without actually knowing that he is paying tax to the Government. Thus, taxpayer does not perceive a direct pinch while paying indirect taxes.
- (iv) Inflationary: Tax imposed on commodities and services causes an all- round price spiral. In other words, indirect taxation directly affects the prices of commodities and services and leads to an inflationary trend.
- (v) Wider tax base: Unlike direct taxes, the indirect taxes have a wide tax base. Majority of the products or services are subject to indirect taxes with low thresholds.
- (vi) Promotes social welfare: Higher taxes are imposed on the consumption of harmful products (also known as 'sin goods') such as alcoholic products, tobacco products etc. This not only checks their consumption but also enables the State to collect substantial revenue.

(b)

SN	Particulars
	The functions of the GSTN would, inter alia, include:
(i)	facilitating registration;

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(ii)	forwarding the returns to Central and State authorities;
(iii)	computation and settlement of IGST;
(iv)	matching of tax payment details with banking network;
(v)	providing various MIS reports to the Central and the State Governments based on the tax payer return information;
(vi)	providing analysis of tax payers' profile; and
(vii)	running the matching engine for matching, reversal and reclaim of input tax credit.

7. (a) Examine the following individual cases and calculate tax to be paid under reverse charge mechanism (RCM) in each case if RCM is applicable under the GST law.

Particulars	Amount (₹)
Rent received for showroom located at Delhi and rented to LEENA Bank Ltd of Delhi by Mr. Ramesh registered in Noida	1,00,000
Amount received for sponsorship services from Khanna and Associates; an unregistered partnership firm of Gurugram by Mr. Kunal registered in Noida	80,000
Security services (by way of supply of security personnel) provided by Mr. Aman registered in Noida to Municipal Corporation, Noida	50,000

All the amounts are exclusive of GST. No need to differentiate tax as intra-state or inter-state. Rate of tax on supply of services is 18%.

A brief explanation for treatment of each item should form part of your answer.

[7]

- (b) Veer Balaji Trader, a registered firm in the State of Punjab pays GST under normal scheme, provides various taxable services and also trades in air conditioners. It furnishes the following information for the month of October, 2025: -

Sr No	Particulars	Amount (₹)
(i)	Sold air conditioner to a registered dealer in Patiala, Punjab	10,00,000
(ii)	Advance received from a client in Punjab for IT support services to be rendered in November, 2025	50,000
(iii)	Provided consultancy services to Shyam Ltd, registered in Jalandhar, Punjab	3,00,000
(iv)	Provided consultancy services to Jai Ltd, registered in Noida, Uttar Pradesh	4,50,000
(v)	Premium paid for health insurance services for employees (services are not provided under Government obligation)	75,000
(vi)	Purchased laptops from a registered supplier in Jaipur, Rajasthan	2,50,000
(vii)	Purchased a delivery van for transportation of air conditioner from a registered supplier in Punjab. No depreciation claimed on GST component.	8,00,000
(viii)	Paid office rent to a registered landlord (Individual)in Punjab	96,000

Additional Information: -

- (a) All the above amounts are exclusive of all kinds of taxes, wherever applicable.
(b) Applicable rate of GST in respect of all inward and outward supplies above is 18% i.e., CGST and SGST @ 9% each and IGST @ 18% unless and until otherwise mentioned.



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- (c) Assume that all the inward supplies used only for outward taxable supply.
- (d) All the conditions necessary for availing the ITC have been fulfilled, subject to restrictions under GST law. Details of GST paid on inward supplies are available in GSTR-2B. There was no opening balance of input tax credit at the beginning of the month.
- (e) Wherever details for determination of Place of Supply are not given in the question, it shall be taken as intra-State transaction.

Required:

From the information given above, you are required to compute the net minimum GST liability payable in cash, if any, by Veer Balaji Trader for the Month of October, 2025 after utilizing input tax credit.

Note: Calculate individual tax amount (if any) for each point and legal explanations for each point should form part of your answer except provision for Place of Supply. [7]

Answer:

(a)

Calculation of tax payable under Reverse charge Mechanism

Particulars	Amount (₹)
Rent received for showroom rented to LENA Bank Ltd (Services by way of renting of any immovable property other than residential dwelling falls under reverse charge mechanism where tax is payable by recipient of service provided the supplier of service is an unregistered person. Here, Mr. Ramesh is a registered person so Ramesh shall pay tax under forward charge mechanism)	Nil
Amount received for sponsorship services from Khanna and Associates a partnership firm registered in Gurugram (Services provided by way of sponsorship to any body corporate or partnership firm by any person other than body corporate fall under reverse charge mechanism where tax is payable by recipient of service. Here services are provided to Khanna and Associates, a partnership firm. So, Khanna and Associates, shall pay tax under RCM)	14,400
Security services (services provided by way of supply of security personnel) provided to Municipal Corporation Noida. (Security services provided to a registered person by any person other than body corporate fall under reverse charge mechanism where tax is payable by recipient of service. However, where service is provided to Local Authority is shall not fall under RCM. Here Municipal Corporation is local authority. Mr. Aman need to pay tax under forward charge mechanism)	Nil

- (b) Computation of net minimum GST liability of Veer Balaji Trader to be paid in cash, for the Month of October, 2025

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SN	Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
(i)	Sold air conditioner to a registered dealer in Patiala, Punjab	10,00,000	90,000	90,000	
(ii)	Advance received from a client in Punjab for IT support services to be rendered in November 2025 (Intra-State, tax payable on advance for services)	50,000	4,500	4,500	
(iii)	Provided consultancy services to Shyam Ltd, registered in Jalandhar, Punjab	3,00,000	27,000	27,000	
(iv)	Provided consultancy services to Jai Ltd, registered in Noida, Uttar Pradesh	4,50,000			81,000
	Total output tax liability		1,21,500	1,21,500	81,000
	Less: - Total Eligible ITC (refer computation of ITC)		80,640	80,640	45,000
	Minimum net GST payable in cash		40,860	40,860	36,000

Computation of total eligible ITC available with Veer Balaji Trader in the month of October, 2025

SN	Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
(i)	Premium paid for health insurance services for employees (services are not provided under Government obligation) (ITC is not available since it is blocked under section 17(5) of the CGST Act, 2017)	75,000	Nil	Nil	
(ii)	Purchased laptops from a registered supplier in Jaipur, Rajasthan (ITC of goods used in the course/furtherance of business is available. Further, it is an inter-State supply, so IGST will be applicable)	2,50,000			45,000
(iii)	Purchased a delivery van for transportation of air conditioner from a registered supplier in Punjab. No depreciation claimed on GST component. (ITC will be available, since the van is used in the course/furtherance of business)	8,00,000	72,000	72,000	
(iv)	Paid office rent to a registered landlord in Punjab (ITC of services used in the course/furtherance of business is available.)	96,000	8,640	8,640	
	Total input tax credit		80,640	80,640	45,000

8. (a) Diksha Ltd is a manufacturer and supplier of goods, registered under GST in the State of Rajasthan. Diksha Ltd provides the following information pertaining to GST paid on goods and services procured by it during the month of October, 2025: -

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Sr. No	Particulars	GST paid (₹)
(i)	Cement used for making foundation and structural support to plant and machinery	48,500
(ii)	Purchased goods which are used for activities related to its obligation under corporate social responsibility referred to in section 135 of the Companies Act, 2013.	1,15,000
(iii)	Goods given as free sample to prospective customers	35,800
(iv)	Confectionery items for consumption of employees working in the factory under statutory obligation	36,000
(v)	Car purchased for making further supply of such car. Such car is destroyed in accident while being used for test drive by potential customers	75,600
(vi)	Purchase of computer earlier now debit note is issued for difference of the value due to wrong calculation	55,500

You may assume that all the necessary conditions for availing the ITC have been fulfilled by Diksha Ltd.

Required:

Analyze the case and calculate the amount of input tax credit (ITC) available for the month of October, 2025 by giving necessary explanations for treatment of various items as per the provisions of the GST law.

[7]

(b) Jai Bhawani Ltd of Mumbai, imported a machine through vessel from USA in the month of October, 2025.

The details in this regard are as under:

Sr. No.	Particulars	Amount
(i)	Cost of the Machine at the factory of the exporter	US \$ 15,000
(ii)	Freight charges from port of export to port of import in India	US \$ 2,000
(iii)	Engineering charges paid in USA	US \$ 1,000
(iv)	Buying commission paid by the importer	US \$ 50
(v)	Lighterage charges paid at the port of importation	₹ 2,200
(vi)	Insurance charges paid to the place of importation	Not known
Other information		
(i)	Rate of exchange notified by CBIC	1 US \$ = ₹ 90
(ii)	Rate of basic customs duty	10%
(iii)	Rate of social welfare surcharge (SWS)	10%
(iv)	Integrated tax payable u/s 3(7) of the Customs Tariff Act, 1975	12%
Ignore GST compensation cess and Agriculture infrastructure and development cess		

Required:

Examine the above case and, calculate the Assessable value of machine and total duty liability including Integrated tax payable (rounded off to nearest one rupee) with appropriate working notes under Customs Act, 1962.

[7]

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SN	Particulars	GST paid (₹)
(i)	Cement used for making foundation and structural support to plant and machinery (ITC on goods used for construction of plant and machinery is not blocked. Plant and machinery include foundation and structural supports through which the same is fixed to earth)	48,500
(ii)	Goods used for activities related to corporate social responsibility [ITC in respect of goods used for activities related to its obligation under corporate social responsibility (CSR) is blocked under section 17(5) of the CGST Act, 2017]	Nil
(iii)	Goods given as free sample to prospective customers [ITC on goods disposed of by way of free samples is blocked under section 17(5) of the CGST Act, 2017]	Nil
(iv)	Confectionery items for consumption of employees working in the factory under statutory obligation (ITC is available since the same is provided under statutory obligation)	36,000
(v)	Car purchased for making further supply of such car [Though ITC on motor vehicles used for further supply of such vehicles is not blocked. ITC on goods destroyed is blocked under section 17(5)]	Nil
(vi)	Purchase of computer where debit note is issued (ITC can be availed on the basis of debit note issued by the supplier in accordance with Rule 36 of CGST Rules, 2017)	55,500
	Total Input Tax Credit (ITC) available	1,40,000

(b) Computation of the total customs duties and integrated tax payable by Jai Bhawani Ltd

Cost of the Machine at the factory of the exporter	15,000 US \$
	Amount (₹)
Cost of machine in rupees @ ₹ 90 per US \$ (₹ 90 X 15,000 US \$)	13,50,000
Engineering charges paid in USA @ ₹ 90 per US \$ (₹ 90 X 1,000 US \$)	90,000
Buying commission paid by the importer (Buying commission is not included in assessable value)	Nil
	FOB value as per customs
	14,40,000
Add: - Freight charges from port of export to port of import in India (2,000 US \$ x ₹ 90)	1,80,000

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(The cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation are includible in the assessable value)	
Add: - Insurance charges ($\text{₹ } 14,40,000 \times 1.125\%$)	16,200
(If insurance charges are not ascertainable, the same shall be added @ 1.125% of FOB value of the goods)	
Add: - Lighterage charges paid at the port of importation	2,200
	Assessable value
	16,38,400
Add: - Basic custom duty @10% (A)	1,63,840
Add: - Social Welfare Surcharge (SWS) (B) ($\text{₹ } 1,63,840 \times 10\%$)	16,384
Total for Integrated Tax leviable under section 3(7)	18,18,624
Add: - Integrated tax ($\text{₹ } 18,18,624 \times 12\%$) (C)	2,18,234.88
Total duty liability including Integrated tax (A+B+C)	3,98,458.88
Total duty liability including Integrated tax (rounded off to nearest one rupee)	3,98,459