



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 15

SYLLABUS 2022

DIRECT TAX LAWS AND INTERNATIONAL TAXATION

Time Allowed: 3 Hours

Full Marks: 100

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

SECTION – A (Compulsory)

1) Choose the correct option:

[15 x 2 = 30]

- (i) A return filed under which of the following sections of the Income Tax Act can be revised under Section 139(5)?
- (a) Section 139(1) – Return filed within due date
 - (b) Section 139(4) – Belated return
 - (c) Both (a) and (b)
 - (d) Section 142(1) – Return filed in response to notice
- (ii) When an assessee has paid advance tax more than the tax due on the returned income and the return is filed before the ‘due date’ specified in section 139(1), the refund amount is eligible for interest @ _____.
- (a) 1% per month
 - (b) ½% per month
 - (c) ¾% per month
 - (d) 1.50% per month
- (iii) The minimum percentage of income that must be applied for charitable purposes to claim exemption is:
- (a) 70%
 - (b) 75%
 - (c) 80%
 - (d) 85%
- (iv) Time limit for rectification under Section 154 is:
- (a) 4 years
 - (b) 2 years
 - (c) 5 years
 - (d) 6 years
- (v) Penalty for failure to maintain books of accounts as required under Section 44AA is:
- (a) ₹25,000
 - (b) ₹50,000
 - (c) ₹1,00,000
 - (d) ₹ 10,000
- (vi) Which of the following sections provides deduction for specified investments in tax planning?
- (a) Section 80C



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- (b) Section 10
(c) Section 24
(d) Section 194A
- (vii)** ICDS are applicable to:
(a) Only companies
(b) Only individuals
(c) All assesseees following mercantile system of accounting
(d) Only partnership firms
- (viii)** An assessee acquired a house property outside India in the previous year 2009-10 for ₹50 lakh. Out of this investment, ₹20 lakh had already been assessed to tax in earlier years. The asset came to the notice of the Assessing Officer in FY 2025 (AY 2026-27). The value of the asset in the year 2025-26 is ₹ 1 crore. What will be the amount chargeable to tax under the Black Money Act?
(a) ₹40,00,000
(b) ₹60,00,000
(c) ₹50,00,000
(d) ₹80,00,000
- (ix)** If a slump sale occurs after holding the undertaking for more than 24 months, the capital gain is treated as:
(a) Short-term capital gain
(b) Long-term capital gain
(c) Business income
(d) All of the above
- (x)** Which of the following is not a method for determining Arm's Length Price?
(a) CUP Method
(b) Resale Price Method
(c) Profit Split Method
(d) Historical Cost Method
- (xi)** APA provisions are covered under which section of the Income-tax Act?
(a) Section 92A
(b) Section 92C
(c) Section 92CC
(d) Section 94
- (xii)** Thin Capitalisation rules were introduced in India following recommendations of:
(a) IMF
(b) OECD BEPS Project
(c) World Bank
(d) RBI
- (xiii)** Which method is commonly used to avoid double taxation under DTAA?
(a) Depreciation method



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- (b) Credit method
- (c) Installment method
- (d) Deduction method

(xiv) Which Article of DTAA generally deals with Business Profits?

- (a) Article 5
- (b) Article 12
- (c) Article 7
- (d) Article 10

(xv) GAAR is introduced mainly to:

- (a) Increase corporate tax rate
- (b) Prevent aggressive tax planning
- (c) Promote exports
- (d) Reduce customs duty

Answer:

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)
c	b	d	c	a	a	c	b	b	d	c	b	b	c	b

SECTION – B

(Answer any five questions out of seven questions given. Each question carries 14 marks.)

[5 x 14 = 70]

2) (a) A charitable institution registered under section 12AB furnishes the following details for the Previous Year 2025-26 (A.Y. 2026-27):

Particulars	(₹ in Lacs)
(a) Gross receipts from students (educational institution)	60.00
(b) Voluntary contributions (not forming part of corpus)	10.00

Additional Information

- During the year, the institution applied ₹ 35.00 lacs towards revenue and capital expenditure for education.
- The institution wants to accumulate ₹ 20.00 lacs for the construction of a new auditorium. It has deposited this amount in modes specified u/s 11(5) and furnished the statement in Form 10 to the Assessing Officer two months prior to the due date of filing the return of income.

Calculate the taxable income of the institution for A.Y. 2026-27.

[7]



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(b) M/s. Global Traders provides the following Profit & Loss Account for the year ending 31-3-2026. The firm has three partners: Leo, Mike, and Neo.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cost of Goods Sold	65,00,000	By Sales	85,00,000
To Salary to Partners	6,50,000	By Long Term Capital Gain (Sale of Plot purchased in 2010)	2,00,000
To Interest on Capital @ 10%	1,00,000	By Dividend	10,000
To Donation (Political Party)	25,000		
To Municipal Taxes (Shop)	15,000		
To Net Profit	14,20,000		
	87,10,000		87,10,000

Additional Information

- Partners share profits equally.
- Salary is paid only to Leo and Mike (Working Partners). Neo is a sleeping partner.
- The donation was made by cheque to a registered political party.
- Long Term Capital Gain is computed as per provisions of IT Act.

Compute the Total Income and Tax Liability for the A.Y. 2026-27.

[7]

Answer:

(a) Computation of Total Income for A.Y. 2026-27

Particulars	₹
Gross receipts from students	60,00,000
Voluntary contributions	10,00,000
Gross Income	70,00,000
Less: 15% of income eligible for unconditional accumulation (15% of ₹ 70 Lakhs)	10,50,000
Income available for application	59,50,000
Less: Amount applied for charitable purposes (Revenue + Capital)	35,00,000
Shortfall in application	24,50,000
Less: Accumulated u/s 11(2) for specific purpose (Note)	20,00,000
Taxable Income	4,50,000

Note: The institution can accumulate the shortfall u/s 11(2) because it has fulfilled the conditions:

1. Furnished Form 10 stating the purpose (auditorium) and period (not exceeding 5 years).
2. Invested the money in section 11(5) modes.
3. The deduction is allowed to the extent of the amount actually set apart (₹ 20 Lakhs), leaving the remaining balance (₹ 4.50 Lakhs) taxable.

(b) Computation of Total Income of M/s. Global Traders for the A.Y. 2026-27

Particulars	Amount	Amount	Amount
Profits & gains of Business or Profession			



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Net profit as per Profit and Loss Account		14,20,000	
<u>Add: Expenditure disallowed but debited in books</u>			
Remuneration to partner as per book	6,50,000		
Donation to Political Party	25,000	<u>6,75,000</u>	
		20,95,000	
<u>Less: Income taxable under other head</u>			
Long Term Capital Gain	2,00,000		
Dividend Income	10,000	<u>(2,10,000)</u>	
Book Profit		18,85,000	
Less: Remuneration allowed to partner		6,50,000	12,35,000
<u>Capital Gains</u>			
Long Term Capital Gain (Land)			2,00,000
<u>Income from Other Sources</u>			
Dividend Income			<u>10,000</u>
Gross Total Income			14,45,000
<u>Less: Deduction</u>			
U/s 80GGC [Donation to political party]			25,000
Total Income			14,20,000

Calculation of Tax Liability

Details	Rate	Amount (₹)
Tax on LTCG (₹ 2,00,000)	12.5%	25,000
Tax on Balance Income (₹ 12,20,000)	30%	3,66,000
Total Tax		3,91,000
Add: Health & Education Cess	4%	15,640
Net Tax Payable		4,06,640

Working Note: Calculation of allowable remuneration

- (a) Remuneration as per IT Act
- 90% of First ₹ 6,00,000: ₹ 5,40,000
 - 60% of Balance ₹ 12,85,000: ₹ 7,71,000
 - Total Limit: ₹ 13,11,000

- (b) Remuneration as per books: ₹ 6,50,000

Allowable Deduction: Lower of (a) or (b) = ₹ 6,50,000

- 3) (a) Mr. A Naresh, who is neither a director nor has a substantial interest in any company, is offered employment by Freewheel Ltd., Mumbai with the following two alternatives:

Particulars	I	II
Basic pay	17,66,000	17,66,000
Bonus	90,000	90,000
Education allowance for 2 children	30,200	-
Education facility for 2 children in school maintained by employer	-	30,200
Sweeper allowance	10,000	-
Sweeper facility	-	10,000

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Entertainment allowance	6,000	-
Club facility	-	6,000
Transport allowance for personal use	1,800 pm	-
Free car (1200 cc) facility for performing journey between office to home and vice versa (car owned by employer)	-	12,000
Medical allowance	18,000	-
Medical bills reimbursement facility	-	18,000
Allowance for gas, electricity and water supply	4,500	-
Free gas, electricity and water supply (bills will be in the name of the employer)	-	4,500
Holiday home allowance	8,000	-
Holiday home facility	-	8,000
Lunch allowance	18,000	-
Free lunch (₹ 70 x 200 days + ₹ 80 x 50 days)	-	18,000
Diwali gift allowance	7,500	-
Gift on Diwali	-	7,500
A rent-free unfurnished home – lease rent	2,40,000	2,40,000

Which of the two alternatives Naresh should opt for on the assumption that both employer and employee will contribute 10% of salary towards unrecognized provident fund? Suggest the better alternative.

Interest free loan of ₹ 20,000 will be given to him for purchasing household items. Assume that he has opted for the old tax regime.

[7]

- (b) Sure Success Ltd. wants to acquire an asset costing ₹ 1,00,000. It has two options are available, the first one is buying the asset by taking a loan repayable in five instalments of ₹ 20,000 each with 14% interest per annum. The second is leasing the asset for which the annual lease rental charge is ₹ 30,000 up to 5 years. The lessor charges 1% as a processing fee in the first year. Assume the internal rate of return to be 10%. The present value factors are:—

Year	1	2	3	4	5
P/V Factor	.909	.826	.751	.683	.621

Assuming that the payments are made at the end of the year, suggest which alternative is better for the company. The rate of depreciation is 15% while the tax rate is 33.22%.

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Answer:

- (a) As both the options are yielding equivalent facilities, hence the option where tax liability can be minimized is the better choice for the assessee. Accordingly, computation of taxable salary of Naresh under both options are as under

Particulars	Working	Option1	Option2
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		Details	Amount	Details	Amount
Basic salary			17,66,000		17,66,000
Bonus			90,000		90,000
<u>Allowances</u>					
Children education allowance		30,200			
Less: Exemption u/s 10(14) Rule 2BB	100 x 2 x 12	2,400	27,800		
Transport allowance		21,600			
Less: Exemption u/s 10(14)		Nil	21,600		
Holiday home allowance			8,000		
Medical allowance			18,000		
Sweeper allowance			10,000		
Entertainment allowance			6,000		
Lunch allowance			18,000		
Gas, electricity & water allowance			4,500		
Diwali gift allowance			7,500		
<u>Perquisites u/s 17(2)</u>					
Rent free accommodation					
(Being minimum of the following):					
Rent paid by employer		2,40,000		2,40,000	
10% of salary*		1,97,740	1,97,740	1,85,600	1,85,600
Car facility for performing journey between office to home and vice versa	Exempted				Nil
Education facility				30,200	
Less: Exempted				24,000	6,200
Interest free loan exempted up to ₹ 20,000			Nil		Nil
Sweeper facility					10,000
Club facility					6,000
Holiday home facility					8,000
Medical facility					18,000
Gift	7,500 – 5,000				2,500
Gas, electricity & water facility					4,500
Free lunch facility	(20×200)+(30×50)				5,500
Gross Taxable Salary			21,75,140		21,02,300
Less: Standard Deduction u/s 16(ia)			50,000		50,000
Taxable Salary			21,25,140		20,52,300



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*** Salary for the purpose of -**

Particulars	Rent free accommodation	
	Option 1	Option 2
Basic	17,66,000	17,66,000
Bonus	90,000	90,000
Children education allowance	27,800	-
Transport allowance	21,600	-
Holiday home allowance	8,000	-
Medical allowance	18,000	-
Sweeper Allowance	10,000	-
Entertainment allowance	6,000	-
Lunch allowance	18,000	-
Gas, electricity & water allowance	4,500	-
Diwali gift allowance	7,500	-
Total	19,77,400	18,56,000

Note: Contribution to URPF is not taxable.

Conclusion: Option 2 is better.

(b) Cost of Ownership

Year	Instalment	Interest	Depreciation	Tax Benefit	Net Outflow	P/V	Net
	(a)	(b)	(c)	(d) = (b+c)*33.22%	(a+b-d)		
1	20,000	14,000	15,000	9,634	24,366	.909	22,151
2	20,000	11,200	12,750	7,956	23,244	.826	19,210
3	20,000	8,400	10,838	6,391	22,009	.751	16,536
4	20,000	5,600	9,212	4,921	20,679	.683	14,124
5	20,000	2,800	7,830	3,531	19,269	.621	11,965
Total							83,985

It is assumed that salvage value is Nil after 5 years.

Cost of Lease

Year	Lease	Tax Benefit	Net Outflow	P/V	Net
	(a)	(b)	(a-b)		
0	1,000	332	668	1	668
1	30,000	9,966	20,034	.909	18,211
2	30,000	9,966	20,034	.826	16,557
3	30,000	9,966	20,034	.751	15,052
4	30,000	9,966	20,034	.683	13,683
5	30,000	9,966	20,034	.621	12,440
Total					76,611

Since net present value in case of lease is less; hence lease is benefited.



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- 4) (a) X Ltd. has several undertakings carrying on several businesses. During the year 2025-26, the company sold one of its undertaking (as it was continuously generating loss since last 5 years) for a lump sum value of ₹ 300 lacs without assigning value to individual asset and liabilities. The fair market value of the capital asset of that unit is ₹ 350 lacs. Book value of sundry assets and liabilities of the undertaking as on the date of sale is as under:

Items	Book Value
Land	₹ 50 lacs (Value for the purpose of Stamp duty ₹ 70,00,000)
Machinery	₹ 70 lacs (WDV as per IT Act ₹ 60 lacs)
Furniture	₹ 50 lacs (WDV as per IT Act ₹ 90 lacs)
Stock	₹ 30 lacs
Debtors	₹ 40 lacs
Creditors	₹ 50 lacs

Brokerage on transfer paid @ 5%. Compute capital gain.

[7]

- (b) Mr. Crown, a non-resident, gives you the following information for the year ended 31-3-2026

Interest on Government securities (gross)	12,21,000
Dividend on shares of foreign companies received aboard	52,000
Interest from deposits in Indian companies (gross)	30,000
Income from horse races in India	20,000

He has donated a sum of ₹ 2,00,000 to Municipal Corporation of Delhi for promotion of family planning. He has paid ₹ 20,000 by cheque to New India Assurance Co. for Mediclaim for himself. He has also spent ₹ 16,000 on medical treatment of his minor son who is physically handicapped.

Compute total income of Mr. Crown for the assessment year 2026-27, assuming that he has opted for old regime.

[7]

Answer:

- (a) Since the undertaking is owned by the company for more than 2 years hence the gain on transfer shall be liable to long term. Calculation of cost of acquisition (i.e. Net worth)

Particulars	Workings	Details	Amount
Value of asset taken over			
Land	Book value of non-depreciable assets	₹ 50 lacs	
Stock	Book value of non-depreciable assets	₹ 30 lacs	
Debtors	Book value of non-depreciable assets	₹ 40 lacs	
Machinery	WDV as per I.T. Act	₹ 60 lacs	
Furniture	WDV as per I.T. Act	₹ 90 lacs	₹ 270 lacs
Less: Value of liabilities taken over			
Creditors	Book Value		₹ 50 lacs
	Net worth (cost of acquisition)		₹ 220 lacs



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Computation of capital gains in the hands of X Ltd. for the A.Y. 2026-27

Particulars	Details	Amount	Amount
Sale Consideration	Higher of actual consideration and FMV of capital assets transferred		350 lacs
Less: Expenses on transfer	5% of ₹ 300 lacs		15 lacs
Net Sale Consideration			335 lacs
Less: Cost of Acquisition	Calculated above	220 lacs	
Less: Cost of improvement		Nil	220 lacs
Long Term Capital Gain			115 lacs

(b) Computation of Total Income of Mr. Crown, a non-resident, for the A.Y.2026-27

Particulars	Working	Amount	Amount
<u>Income from other sources</u>			
<u>Dividend from</u>			
Foreign company	Non-resident	Nil	
<u>Interest from</u>			
Government securities		12,21,000	
Indian company deposits		30,000	12,51,000
<u>Casual income</u>			
Winning from horse races			20,000
Gross Total Income			12,71,000
<u>Less: Deduction</u>			
U/s 80D (Medical insurance)		20,000	
U/s 80DD (Handicapped son)	Non-resident	Nil	
U/s 80G (Donation)	Note	1,25,100	1,45,100
Total Income			11,25,900

Note: Computation of Deduction u/s 80G

Computation of Adjusted GTI:

$$\begin{aligned}\text{Adj. GTI} &= \text{GTI} - \text{Deduction u/s 80CCC to 80U other than 80G} \\ &= ₹ 12,71,000 - ₹ 20,000 = ₹ 12,51,000\end{aligned}$$

Qualifying amount for donation = 10% of Adjusted GTI = 10% of ₹ 12,51,000 = ₹ 1,25,100

Deduction: In case of donation to Municipal Corporation for family planning, rate of deduction is 100% of qualifying amount. Hence, deduction u/s 80G shall be ₹ 1,25,100 (being 100% of ₹ 1,25,100).

5) (a) Explain the meaning of “Advance Ruling” under Section 245N(a) of the Income-tax Act and discuss the matters covered under it.

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(b) A firm furnished its return of income on 30th June, 2026 showing income of ₹ 1,00,000. The return shows other particulars as follows -

Advance tax ₹ 20,000

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The AO passed the assessment order enhancing income by ₹ 5,000 on 29-3-2027. Compute interest u/s 234B.

[7]

Answer:**(a) Advance ruling means:**

- (i) A determination by the Board for Advance Rulings in relation to a transaction which has been undertaken or is proposed to be undertaken by a non-resident applicant; or
- (ii) A determination by the Board for Advance Rulings in relation to the tax liability of a non-resident arising out of a transaction which has been undertaken or is proposed to be undertaken by a resident applicant with such non-resident; or
- (iia) A determination by the Board for Advance Rulings in relation to the tax liability of a resident applicant, arising out of a transaction which has been undertaken or is proposed to be undertaken by such applicant. In above cases, such determination shall include the determination of any question of law or of fact specified in the application.
- (iii) A determination or decision by the Board for Advance Rulings in respect of an issue relating to computation of total income which is pending before any income-tax authority or the Appellate Tribunal and such determination or decision shall include the determination or decision of any question of law or of fact relating to such computation of total income specified in the application.
- (iv) A determination or decision by the Board for Advance Rulings whether an arrangement, which is proposed to be undertaken by any person being a resident or a non-resident, is an impermissible avoidance arrangement as referred to in Chapter X-A or not.

(b) Computation of interest u/s 234B

Particulars	Amount
Assessed Income	1,05,000
Tax liability before surcharge [₹ 1,05,000 x 30%]	31,500
Add: Health & Education cess @ 4%	1,260
Tax and cess payable	32,760
Less: Tax deducted at source	1,000
Assessed tax	31,760
90% of above	28,584
Advance tax paid	20,000
Since advance tax paid by the firm is less than 90% of assessed tax, sec. 234B is applicable	
Shortfall (Assessed tax less Advance tax paid)	11,760
Rounded off	11,700
Period of default [From April 2026 to March 2027]	12 months
Interest u/s 234B (1% × ₹ 11,700 × 12)	1,404



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6) (a) Explain the provisions relating to Advance Pricing Agreement under Section 92CC of the Income-tax Act. [7]

(b) Amar, an individual, resident of India, receives the following payments after TDS during the previous year 2025-26:

(i)	Professional fees on 17.08.2025	12,40,000
(ii)	Professional fees on 04.03.2026	1,60,000

Both the above services were rendered in country X on which TDS of ₹ 50,000 and ₹ 30,000 respectively have been deducted. He had incurred an expenditure of ₹ 2,00,000 for earning both these receipts / incomes. His income from other sources in India is ₹ 5,00,000 and he has made payment of ₹ 70,000 towards LIC. Compute the tax liability of Amar and the relief u/s 91, if any, for A.Y.2026-27.

[7]

Answer:

(a) Advance Pricing Agreement (APA) is an agreement between a taxpayer and the tax authority that determines in advance the arm's length price (ALP) or the method for determining the ALP for international transactions. The provisions relating to APA are contained in Section 92CC of the Income-tax Act, 1961.

The important provisions are as follows:

1. Agreement by the Board

The Central Board of Direct Taxes (CBDT), with the approval of the Central Government, may enter into an Advance Pricing Agreement with any person. The agreement determines:

- The arm's length price, or
- The manner in which the arm's length price is to be determined for an international transaction to be entered into by that person.

In case of a non-resident, the agreement may also determine the income attributable to operations carried out in India as referred to in Section 9(1)(i).

2. Method for Determining Arm's Length Price

The determination of the arm's length price may be based on:

- The methods specified under Section 92C, or
- Any other method with suitable adjustments or variations as may be necessary.

3. Determination of ALP as per Agreement

Once an APA is entered into, the arm's length price of the international transaction must be determined according to the terms of the agreement.

4. Validity of Agreement

The APA shall be valid for a period not exceeding five consecutive previous years, as specified in the agreement.

5. Binding Nature of Agreement



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The agreement is binding on:

- The person (taxpayer) in whose case the agreement has been entered into, and
- The Commissioner and other income-tax authorities subordinate to him in respect of that person and transaction.

6. Non-binding in Certain Cases

The agreement will not be binding if there is a change in law or facts that affects the agreement.

7. Agreement Declared Void

The Board may declare the agreement void ab initio with the approval of the Central Government if it is found that the agreement was obtained by fraud or misrepresentation of facts.

8. Consequences of Void Agreement

If the agreement is declared void:

- All provisions of the Income-tax Act will apply as if the agreement had never been entered into.
- The period between the date of the agreement and the date of the order declaring it void will be excluded while computing the limitation period under the Act.

9. Rollback Provision

The APA may also provide for determining the arm's length price for a period not exceeding four previous years preceding the first year of the agreement, subject to prescribed conditions.

10. APA Scheme

The Board may prescribe a scheme specifying the form, procedure, and other matters relating to Advance Pricing Agreements.

(b) Computation of total income and tax liability of Mr. Amar for the A.Y. 2026-27

Particulars	Amount	Amount
Income from profession from foreign	14,00,000	
<i>Less:</i> Expenses	2,00,000	12,00,000
Income from profession in India		5,00,000
Gross Total Income		17,00,000
<i>Less:</i> Deduction u/s 80C		NA
Total income		17,00,000
Tax on above		1,40,000
<i>Add:</i> Health & Education cess		5,600
Tax and cess payable		1,45,600
Average rate of tax [$\frac{\text{₹ } 1,45,600}{\text{₹ } 17,00,000} \times 100$]		8.56%
Rate of tax in Country X		16.67%
Relief u/s 91 [$8.56\% \wedge$ of ₹ 12,00,000]		1,02,720
Tax payable (Rounded off u/s 288B)		42,880

[^]Relief u/s 91 is available at a lower rate i.e., 8.56%



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

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DIRECT TAX LAWS AND INTERNATIONAL TAXATION

7. (a) Compute J Inc. of Korea and CD Ltd, an Indian Company are associated enterprises. CD Ltd manufactures Cell Phones and sells them to J.K.& F Inc., a Company based in Nepal. During the year CD Ltd. supplied 2,50,000 Cellular Phones to J Inc. Korea at a price of ₹ 3,000 per unit and 35,000 units to JK & F Inc. at a price of ₹ 5,800 per unit. The transactions of CD Ltd with JK & F Inc. are comparable subject to the following considerations:

Sales to J Inc. are on FOB basis, sales to JK & F Inc. are CIF basis. The freight and insurance paid by J Inc. for each unit @ ₹ 700. Sales to JK & F Inc. are under a free warranty for Two Years whereas sales to J Inc. are without any such warranty. The estimated cost of executing such warranty is ₹ 500. Since J Inc.'s order was huge in volume, quantity discount of ₹ 200 per unit was offered to it.

Compute the Arm's Length Price and the subsequent amount of increase in the Total Income of CD Ltd, if any.

[7]

- (b) Explain the provisions relating to computation of interest income pursuant to secondary adjustments under Rule 10CB.

[7]

Answer:

- a) Computation of Arm's Length Price of Products sold to J Inc. Korea by CD Ltd

Particulars	₹	₹
Price per Unit in a Comparable Uncontrolled Transaction		5,800
Less: Adjustment for Differences -		
(a) Freight and Insurance Charges	700	
(b) Estimated Warranty Costs	500	
(c) Discount for Voluminous Purchase	200	(1,400)
Arms's Length Price for Cellular Phone sold to J Inc. Korea		4,400

Computation of Increase in Total Income of CD Ltd

Particulars	₹
Arm's Length Price per Unit	4,400
Less: Price at which actually sold to J Inc. Korea	(3,000)
Increase in Price per Unit	1,400
No. of Units sold to J Inc. Korea	2,50,000
Increase in Total Income of CD Ltd (2,50,000 × ₹ 1,400)	₹ 35 Crores

- (b) Rule 10CB of the Income-tax Rules provides the manner of computing interest on excess money that arises due to secondary adjustment under Section 92CE when such excess money is not repatriated to India within the prescribed time limit.

- For the purposes of sec. 92CE(2), the time limit for repatriation of excess money or part thereof shall be on or before 90 days,—
 - from the due date of filing of return u/s 139(1) where primary adjustments to transfer price has been made suo-moto by the assessee in his return of income;



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- ii. from the date of the order of Assessing Officer or the appellate authority, as the case may be, if the primary adjustments to transfer price as determined in the aforesaid order has been accepted by the assessee;
 - iii. in a case where primary adjustment to transfer price is determined by an advance pricing agreement entered into by the assessee u/s 92CC in respect of a previous year,-
 - a. from the date of filing of return u/s 139(1) if the advance pricing agreement has been entered into on or before the due date of filing of return for the relevant previous year;
 - b. from the end of the month in which the advance pricing agreement has been entered into if the said agreement has been entered into after the due date of filing of return for the relevant previous year
 - iv. from the due date of filing of return u/s 139(1) in the case of option exercised by the assessee as per the safe harbour rules u/s 92CB; or
 - v. from the date of giving effect by the Assessing Officer under rule 44H to the resolution arrived at under mutual agreement procedure, where the primary adjustment to transfer price is determined by such resolution under a Double Taxation Avoidance Agreement entered into u/s 90 or 90A.
2. The imputed per annum interest income on excess money or part thereof which is not repatriated within the time limit as per sec. 92CE(1) shall be computed,—
- i. at the 1 year marginal cost of fund lending rate of State Bank of India as on 1st of April of the relevant previous year plus 325 basis points in the cases where the international transaction is denominated in Indian rupee; or
 - ii. at 6 months London Interbank Offered Rate as on 30th September of the relevant previous year plus 300 basis points in the cases where the international transaction is denominated in foreign currency.
3. The aforesaid interest shall be chargeable on excess money or part thereof which is not repatriated—
- a. in cases referred to in sub-rule (1)(i), (iii)(a) and (iv), from the due date of filing of return u/s 139(1);
 - b. in cases referred to in sub-rule (1)(ii), from the date of the order of Assessing Officer or the appellate authority, as the case may be;
 - c. in cases referred to in sub-rule (1)(iii)(b), from the end of the month in which the advance pricing agreement has been entered into by the assessee u/s 92CC;
 - d. in cases referred to in sub-rule (1)(v), from the date of giving effect by the Assessing Officer under rule 44H to the resolution arrived at under mutual agreement procedure.

8. (a)

Following is the profit and loss account of Z Ltd. for the year ended on 31-3-2026

Particulars	Amount	Particulars	Amount
To Raw material consumed	20,00,000	By Sale	
To Rent	5,00,000	Export	50,00,000
To Salary & Wages	10,00,000	Domestic	30,00,000
To Depreciation	5,00,000	By Closing Stock	10,00,000
To Provision for contingencies	75,000		
To Wealth Tax of earlier year	50,000		
To Loss of subsidiary co.	50,000		
To Custom Duty	40,000		

**FINAL EXAMINATION****ANSWERS TO PRACTICE TEST PAPER****TERM – JUNE 2026****PAPER – 15****SYLLABUS 2022****DIRECT TAX LAWS AND INTERNATIONAL TAXATION**

To Proposed dividend	1,00,000		
To Provision for Income tax	1,05,000		
To Net Profit	45,80,000		
	90,00,000		90,00,000

Additional Information

- (1) Interest on bank loan relating to year 2023-24 has been paid during the previous year ₹ 1,00,000.
- (2) Whole of Custom duty is unpaid.
- (3) Company is entitled to get deduction u/s 80G ₹ 1,00,000
- (4) For the purpose of Income tax, depreciation is ₹ 4,00,000.
- (5) Turnover of the company during the previous year was ₹ 65 crores and it is lifetime highest turnover achieved by the company.
- (6) In past few years, company had suffered losses, following balances are still unabsorbed:

	<u>As per Income tax Act</u>	<u>As per books of Accounts</u>
Depreciation	--	₹ 3,50,000
Losses	₹ 42,50,000	₹ 4,00,000

Compute tax liability of the company.

[7]

- (b) Explain the meaning of Specified Domestic Transactions under Section 92BA of the Income-tax Act.

[7]

Answer:

- (a) Computation of total income of Z Ltd. for the A.Y.2026-27 (as per other provisions of the Act)

Particulars	Details	Amount
Net profit as per books of accounts		45,80,000
<u>Add: Expenditure disallowed but debited in P/L A/c</u>		
Excess Depreciation	1,00,000	
Provisions for Contingencies	75,000	
Wealth Tax	50,000	
Loss of subsidiary company	50,000	
Proposed Dividend	1,00,000	
Provision for income tax	1,05,000	
Unpaid customs duty	40,000	5,20,000
		51,00,000
<u>Less: Expenditure allowed but not debited in P/L A/c</u>		
Interest on bank loan of earlier years		1,00,000
		50,00,000
Less: Brought forward business loss		42,50,000
Gross Total Income		7,50,000
Less: Deduction u/s 80G		1,00,000
Total Income		6,50,000

Computation of Book Profit of Z Ltd. for the A.Y.2026-27

Particulars	Details	Amount
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**FINAL EXAMINATION****ANSWERS TO PRACTICE TEST PAPER****TERM – JUNE 2026****PAPER – 15****SYLLABUS 2022****DIRECT TAX LAWS AND INTERNATIONAL TAXATION**

Net profit as per books of accounts		45,80,000
<i>Add:</i>		
Provision for contingencies	75,000	
Loss of subsidiary company	50,000	
Proposed Dividend	1,00,000	
Provision for income tax	1,05,000	
Depreciation	5,00,000	8,30,000
		54,10,000
<i>Less:</i>		
Depreciation (as assets are not revalued)	5,00,000	
Lower of unabsorbed depreciation and brought forward loss (as per books of account)	3,50,000	8,50,000
Book Profit		45,60,000

Computation of tax liability of Z Ltd.

Particulars	Amount
Total income as per other provisions of the Act	6,50,000
Tax on above @ 25% [A]	1,62,500
Book profit u/s 115JB	45,60,000
15% of book profit [B]	6,84,000
Tax [Higher of A & B]	6,84,000
<i>Add:</i> Surcharge [As total income is only ₹ 45,60,000/-, thus, surcharge is not applicable]	Nil
Tax & Surcharge	6,84,000
<i>Add:</i> Health & Education Cess @ 4%	27,360
Tax Liability (Rounded off)	7,11,360

(b) Section 92BA of the Income-tax Act defines Specified Domestic Transactions (SDT). "Specified Domestic Transaction" in case of an assessee means any of the following transactions, not being an international transaction, namely:

- any transaction referred to in sec. 80A;
- any transfer of goods or services referred to in sec. 80-IA(8);
- any business transacted between the assessee and other person as referred to in sec. 80-IA(10);
- any transaction, referred to in any other section under Chapter VI-A or sec. 10AA, to which provisions of sec. 80-IA(8) or (10) are applicable; or
- any business transacted between the persons referred to in sec. 115BAB(4);
- any business transacted between the assessee and other person⁴ as referred to in sec. 115BAE(4);
- any other transaction as may be prescribed,

and where the aggregate of such transactions entered into by the assessee in the previous year exceeds a sum of ₹ 20 crore.