

Roll No. ....

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 11

**NOTE :** (1) Answer **ALL** Questions.

(2) All the references of the question paper relate to the Income-tax Act. 1961 and relevant Assessment Year 2025-26 unless stated otherwise.

(3) Wherever necessary, suitable assumption can be made and the same to be stated clearly in the answer.

(4) Working notes should form part of the answer.

1. Frency and Falak Tyres Limited, an Indian Company engaged in the manufacture of Tyres in Gujrat, has adopted Ind AS from 1-4-2020. The following particulars are provided for the year ended 31-3-2025 :

Net profit as per statement of profit and loss is ₹ 18 crores after considering the following items :

**Items Debited :**

- (i) Depreciation ₹ 15 crores. Included in depreciation is ₹ 2 crores, being amount provided on revalued assets.
- (ii) Provision for the loss of subsidiary company ₹ 5.4 crores.
- (iii) Provision for gratuity based on actuarial valuation ₹ 30 lakhs.
- (iv) Provision for income-tax ₹ 72 lakhs. It includes ₹ 3 lakhs of interest payable on income-tax.

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- (v) Interest charged for delay in remittance of tax deducted at source ₹ 20 lakhs.
- (vi) Amount debited to the Statement of Profit and Loss towards interest to a public financial institution is ₹ 7 lakhs. Out of this, ₹ 3 lakhs were paid on 12-11-2025.

**Items Credited :**

- (i) Share of income from Association of Persons in which the company is a member ₹ 62 lakhs. (The AOP is charged to tax at Maximum Marginal Rate)
- (ii) Profit from unit established in Special Economic Zone ₹ 12.5 lakhs.
- (iii) Amount of ₹ 4 crores withdrawn from revaluation reserves on account of revaluation of assets.
- (iv) Dividend from Indian companies (listed) ₹ 1.6 crores.
- (v) Short term capital gains on Sale of Listed Equity Share ₹ 1.3 crores.

**Other Information :**

- (1) The application of a financial creditor for corporate insolvency resolution process has been admitted by the Hyderabad Bench of the National Company Law Tribunal under section 7 of the Insolvency and Bankruptcy Code, 2016
- (2) Brought forward business loss and unabsorbed depreciation of Company :

Assessment Year	Business Loss	Depreciation
2021-22	₹ 2 crores	₹ 3 crores
2022-23	₹ 5 crores	₹ 2 crores

- (3) Items credited to other comprehensive income which will not be reclassified to profit or loss :
  - (i) Re-measurement of defined employee retirement benefits plan ₹ 30 lakhs.
  - (ii) Revaluation surplus of property, plant and equipment ₹ 1 crore.

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- (4) The transition amount as on convergence date 1-4-2020 stood at ₹ 5 crores including capital reserve of ₹ 50 lakhs (credit balance).
- (5) Tax payable under the regular provisions of the Income Tax Act, 1961 is ₹ 1.75 crores.

Based on the information provided :

- (a) Compute the Book Profit u/s 115JB of the Income Tax Act, 1961 for the company for the Assessment Year 2025-26.

(15 marks)

- (b) Compute the Minimum Alternate Tax (MAT) payable by the company for the Assessment Year 2025-26.

(5 marks)

- (c) Compute the amount of eligible MAT Credit u/s 115JAA of the Income Tax Act, 1961 to be carried forward by the company. Also explain the time limit for carry forward of such MAT Credit.

(5 marks)

2. Mr. Balwant, a resident individual, engaged in retail trade, reports a turnover of ₹ 2,97,50,000 for financial year 2024-25. The amount received in cash during the PY 2024-25 is ₹ 13,50,000 and balance through prescribed electronic modes on or before 31st October 2025. His income from the said business as per books of account is ₹ 16,00,000 computed as per the provisions of chapter IV-D “Profits and Gains from Business or Profession” of the Income Tax Act, 1961. Retail trade is the only source of income for Mr. Balwant. Assessment year 2024-25 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

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In this background, you are requested to answer the following :

- (i) Is Mr. Balwant eligible to opt for presumptive taxation for A.Y. 2025-26 ? For whom the presumptive taxation scheme of section 44AD is designed ?
- (ii) Are there any businesses which are not covered under the presumptive taxation scheme of section 44AD ?
- (iii) Is presumptive income computed as per the prescribed rate is the final income ? Any further expenses will be allowed or not ?
- (iv) Determine the income of Balwant from retail trade as per the applicable presumptive provisions.
- (v) What are the consequences if Balwant opts out from the presumptive taxation scheme of section 44AD ?

*(3 marks each)*

3. (a) Shanti (P) Ltd. is in the business of manufacturing electronic goods. For the assessment year 2025-26, it paid tax @15% on its book profit computed under section 115JB (MAT Provisions). The Assessing Officer though satisfied that it is liable to pay book profit tax under section 115JB.

Shanti (P) Ltd. has not paid any installment of advance tax during the previous year 2024-25 and therefore, assessing officer wants to charge interest under sections 234B and 234C. The company seeks your opinion on the proposed levy of interest.

*(5 marks)*

- (b) Ajay a resident individual aged 32 years, sold a plot of land on 17th March 2025. LTCG on such sale amounted to 5,00,000. Since he had no other income during PY 2024-25, he did not pay any advance tax instalment.

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You are required to calculate the amount of advance tax payable by Ajay, if any assuming that he has followed old tax regime (OTR). Base your answer on the relevant provisions relating to the payment of advance tax on income from capital gain and advise Ajay suitably so that the liability on late payment does not arise.

(5 marks)

- (c) Varsha (P) Ltd., Bhopal has 2 centres viz. Unit A at Jabalpur and Unit B at Indore. Unit A is eligible for deduction under section 80-IB of the Income-tax Act. During the financial year 2023-24, the company earned a net profit of ₹ 83,00,000 from Unit A and suffered a loss of ₹ 31,00,000 from Unit B. The assessee claimed 100% of the profits from Unit A (amounting to ₹ 83,00,000) as a deduction under section 80-IB. However, the Assessing Officer applied section 80AB and allowed deduction only to the extent of income under the head 'Profits and gains of business and profession'. i.e., ₹ 52 lakhs.

Explain whether the action of the Assessing Officer is tenable in law.

(5 marks)

*Attempt all parts of either Q. No. 4 or Q. No. 4A*

4. (a) M/s Joshi Ranga & Sons, a partnership firm consisting of two partners, reports a net profit of ₹ 12,25,000 for the financial year 2024-25, before deduction of the following items :
- Salary of ₹ 32,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership)
  - Depreciation on plant and machinery under section 32 is ₹ 1,75,000
  - Interest on capital @ 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 6,00,000 each for both partners.
  - Carry forward of business loss of P.Y. 2023-24 – ₹ 85,000.

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In this background, you are requested to answer the following :

- (i) Compute the Book-profit of the firm under section 40(b) of the Income Tax Act, 1961 for Assessment Year 2025-26.
- (ii) Compute the amount of allowed salary that can be paid to working partners as per section 40(b) of the Income Tax Act, 1961.

(5 marks)

- (b) Ankita Arora aged 63 years and a resident in India, has a total income of ₹ 1,20,00,000 comprising :

- Income from trading in crypto currency ₹ 22,00,000 on 1st January, 2025 taxable under section 115BBH.
- Short-term capital gain on sale of listed equity shares on 15th December, 2024 taxable under section 111A of ₹ 35,00,000 and
- Business income during the financial year 2024-25 was ₹ 63,00,000.

Compute her tax liability for A.Y. 2025-26. Assume that she has opted for the default provisions of new tax regime under section 115BAC.

(5 marks)

- (c) Renoll Food and Disposal Ltd. wants to sell one of its Food units (unit first) out of two units on 30th March, 2025, which was set up in June, 2017. Total consideration for sale of Food unit as a going concern by way of Slump Sale is ₹ 47,80,000. The summarized financial position of Food unit as on 30th March. 2025 is as under :

Capital and Liabilities	Amount (₹)	Assets	Amount (₹)
Paid up capital	18,00,000	Fixed assets	19,00,000
General Reserve	12,20,000	Debtors	15,00,000
Revaluation Reserve	10,50,000	Inventories	13,00,000
Current liabilities	6,30,000		
	47,00,000		47,00,000

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Following additional informations are provided by company as under :

- (1) Fixed assets include Land purchased at ₹ 12,50,000 in October, 2020 revalued at ₹ 15,00,000.
- (2) For the remaining fixed assets, their written down value as per the Income-tax Act, 1961 is ₹ 3,50,000.
- (3) Cost index number for F.Y. 2024-25 is 363: F.Y. 2016-17 is 264: F.Y. 2017-18 is 272; and F.Y. 2020-21 is 301.

Compute the Capital Gain arising on sale of Food unit of Renoll Food and Disposal Ltd. for the assessment year 2025-26.

(5 marks)

***OR (Alternate Question to Q. No. 4)***

- 4A. (i) ABC Ltd., Chennai is a part of a large multi-national group. It is engaged in the manufacturing of kids' high-quality toys. During the financial year 2024-25, it sold goods to its foreign associated enterprise, Micky Inc. of UK as well as to some unrelated parties in India and the U.K.

During the course of the assessment, the Transfer Pricing Officer computed arm's length price and the Assessing Officer (AO) applied it on all the transactions, with associated enterprises as well as with unrelated parties.

ABC Ltd. aggrieved with the adjustment made by AO, seeks your opinion whether the action of the Assessing Officer is valid or not ?

(5 marks)

- (ii) Mohit Ltd. filed its return of income under section 139(1) on 14th September, 2023 for A.Y. 2023-24. The return was found to be defective, and an intimation was issued

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on 11th May, 2024, directing the assessee to rectify the defects within 15 days. The defects were rectified on 20th May, 2024. The return was processed, and intimation was sent on 16th July, 2024. Subsequently, the Assessing Officer issued a notice under section 143(2) on 23rd June, 2025.

Company Secretary of Mohit Ltd. contended that the notice was barred by limitation since it was issued beyond the permissible time limit. Examine the validity of the notice issued under section 143(2) by the Assessing Officer.

(5 marks)

- (iii) Greenwood Trust, registered under section 10(23C) (iv) as a charitable educational trust, is undergoing assessment under section 143(3). The Assessing Officer discovers that the trust has diverted a significant portion of its income for purposes other than charitable activities, violating the conditions for exemption under section 10(23C) (iv). Greenwood Trust argues that it has rectified the diversion and should still be eligible for the exemption.

Does the Assessing Officer have the authority to deny the exemption claimed by Greenwood Trust under section 10(23C) (iv) ? Analyse.

(5 marks)

5. Mrs. Radha Chandra, aged 65 years a Resident and ordinary resident in India during the financial year 2024-25. She is Indian classical singer and composer who performs concerts in India and Country P. She visits Country P every year during the music season in December to participate in the Mega music concert held there on the occasion of Christmas. For the rest of the year, she performs concerts in India. She provides the following information relating to financial year 2024-25 :

- (i) Income from concerts held — In India - ₹ 15 lakhs.



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- (ii) Income from concerts held — In Country P - GBP 7,000 (Tax deducted in Country P in December, 2024 in respect of income earned by her in that country was 2,000 GBP).
- (iii) She received dividend from an Indian Company – ₹ 45,000 (after deducting the TDS @ 10%).
- (iv) She also earns Agricultural income of JPY 13,09,000 from Country Q on 25th March, 2025. The expenses incurred by Mrs. Radha Chandra relating to such agricultural income is JPY 1,53,000. The rate of Income Tax in Country Q is 18%.
- (v) In India, she has Interest income of ₹ 2 lakhs from IDBI Bank fixed deposits in her name and ₹ 15,000 from IDBI savings bank account.
- (vi) She pays medical insurance premium of ₹ 22,000 to insure her health and ₹ 32,000 to insure the health of her husband, a resident aged 66 years.
- (vii) She deposits ₹ 1.50 lakhs in public provident fund and ₹ 3 lakhs in five-year fixed deposit in SBI Bank on 31-03-2025.

The conversion rates may be taken as follows :

Country	Rate
Country P	1 GBP = ₹ 120
Country Q	1 ₹ = 1.70 JPY

India has no double taxation avoidance agreement with Country P and Country Q. Compute the total income and net tax liability (after taking the relief under section 91) of Mrs. Radha Chandra for A.Y. 2025-26, if she has opted out from the default tax regime u/s 115BAC.

(15 marks)

*Attempt all parts of either Q. No. 6 or Q. No. 6A*

6. (a) Comment on the following independent situations, whether Jack Ltd. and Jill Inc. constitute associated enterprises under the provisions of Section 92A of the Income Tax Act, 1961 :
- (i) Jill Inc. has advanced a loan of ₹ 30 crores to Jack Ltd. on 12-1-2025. The total book value of assets of Jack Ltd. is ₹ 50 crores. The market value of the assets, however, is ₹ 65 crores. Jack Ltd. repaid 10 crores before 31-3-2025.
  - (ii) Jack Ltd. is engaged in trading of furniture. During the previous year 2024-25 it purchases furniture of ₹ 90 lakhs from Jill Inc. Total purchases of Jack Ltd. during the year 2024-25 is ₹ 95 lakhs.
  - (iii) Jill Inc. has the power to appoint 3 of the directors of Jack Ltd., whose total number of directors in the Board is 6.
  - (iv) Jack Ltd. holds whole of equity share capital of Rita Ltd. Rita Ltd. holds 30% equity shares of Jill Inc. Jack Ltd. also holds 60% of preference share capital of Jill Inc.
  - (v) Jack Ltd. borrowed 50 crores from HSBC Bank for which 100% guarantee was given by Jill Inc. The total borrowings of Jack Ltd. 800 crores.
- (b) On 15th August 2024, Smt. Vandana, maternal aunt of Suresh, transferred ₹ 65 lakhs in his account. In this case, additions were made by the Assessing Officer, under section 68 of Income Tax Act, 1961 on the grounds that assessee had failed to show why, without any occasion, ₹ 65 lakhs had been gifted by the maternal aunt without any consideration.
- Comment, whether the action of assessing officer for unexplained addition under section 68 is tenable ?
- (c) Discuss the role of technology in enhancing direct tax compliance in India. What are the key benefits of technological Innovations in Tax Compliance ?

(5 marks each)

**OR (Alternate Question to Q. No. 6)**

- 6A.** (i) Explain the cases where provision of GAAR is not applicable under Rule 10U of the Income Tax Rules.
- (ii) CAMBAY LLP has an income of ₹ 90,00,000 under the head profits and gains of business and profession. One of its businesses is eligible for deduction @ 100% of profits under section 80-IB. The profit from such business included in the business income is ₹ 70,00,000.

Compute the tax payable by the CAMBAY LLP for the A.Y. 2025-26, assuming that it has no other income during the previous year 2024-25 and AMT rate is 18.50%.

- (iii) Simi Techno Ltd. (STL) is an Indian company, having its head office in Mumbai. For the P.Y. 2024-25, it furnished the following information of certain entities and the transactions undertaken with these companies :

Johns Inc. is a wholly owned foreign subsidiary in USA of STL. It is currently paying royalty of USD 4 million per annum to STL for supply of know-how. For similar supply of know-how to Byte LLC., a wholly owned Government Company in USA, STL receives annual royalty of USD 5 million. (1 USD = ₹ 83).

STL supplies goods to Perfect Work Ltd. (PWL), in Singapore. The paid-up capital of PWL in foreign currency equivalent is ₹ 108 crores. STL holds shares to the tune of ₹ 26 crores in PWL. The voting power in the company is directly proportional to the number of shares held.

You are required to examine the above-mentioned transactions entered into by STL and determine the applicability of transfer pricing provisions for each transaction.

(5 marks each)

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