545

Roll No. **.....** **OPEN BOOK EXAMINATION**

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 12***

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

(2) *All the references to the Question Paper relate to the Income-Tax Act, 1961 and relevant Assessment Year 2026-27 unless stated otherwise.*

(3) *Wherever necessary, suitable assumptions can be made by the candidate and stated clearly in the answer.*

(4) *Working notes should form part of your answer.*

1. The Statement of Profit & Loss of Kamal Private Ltd., a domestic company engaged in manufacturing, shows net profit of ₹ 1,07,00,000 for the financial year ended on 31st March, 2026, after considering following items :

(A) Credited to the Statement of Profit and Loss :

(*i*) Rent received from vacant land ₹ 2,50,000

(*ii*) Rent received (gross) from a commercial property owned by the company ₹ 5,00,000 (Tax deducted by tenant @ 10%)

(*iii*) Profit on sale of plot ₹ 5,00,000

(*iv*) Dividend from Pink Inc., USA, a wholly owned subsidiary in February, 2026 ₹ 5,00,000

(B) Debited to the Statement of Profit and Loss :

(*i*) Donation of ₹ 85,000 paid to Swachh Bharat Kosh.

(*ii*) Actual contribution to the pension scheme of employees : ₹ 1,80,000.

(*iii*) Bonus to employees ₹ 4,50,000. However, payment was made on 20th December, 2026.

(*iv*) Provision made for income-tax ₹ 4,20,000 (including interest of ₹ 70,000 thereon)

(*v*) Contribution of ₹ 1,00,000 to a University approved and notified under section 35(1)(ii).

(*vi*) Interest of ₹ 1,50,000 on loan borrowed for acquiring shares in Pink Inc., USA.

Additional Information :

(1) Provision for audit fee ₹ 50,000 was made in the books for the year ended on 31st March, 2025 without deducting tax at source. Such fee was paid to auditors in October 2025, after deducting tax at source under Section 194J and tax so deducted was deposited on 15th December, 2025.

(2) During the FY 2024-25, the company made a provision for an outstanding bill of ₹ 80,000 for purchase of raw material. Out of such outstanding amount, the company paid ₹ 40,000 in cash on 20th August, 2025.

(3) During the year, the company has issued 1,00,000 equity shares of face value of ₹ 10 each at premium of ₹ 90 each. The fair market value is ₹ 60 per share at the time of issue of shares.

(4) Plot was sold in March, 2026 for ₹ 50,00,000 was acquired by the company in January, 2024 for ₹ 45,00,000 (ignore Indexation).

(5) The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.

(6) The company declared interim dividend @10% of share capital being ₹ 6,00,000 in September, 2025.

On the basis of the above information, you are required to compute the following for Kamal Private Limited :

(*a*) Income from house property and income from business and profession as per section 115BAA for AY 2026-27 stating reasons for treatment of each item.

(*15 marks*)

(*b*) Income from capital gain, income from other sources and gross total income as per section 115BAA for the AY 2026-27 stating reasons for treatment of each item.

(*5 marks*)

(*c*) Total income and net tax liability as per section 115BAA for the AY 2026-27.

(*5 marks*)

2. During an Income Tax Assessment of Mr. Mukesh, the assessing officer needed to determine the Fair Market Value of an Investment declared by Mr. Mukesh. AO referred to the valuation officer, to properly estimate the Fair Market Value (FMV) of the investment. The Valuation officer upon receiving the reference from the AO proceeded to estimate the value of Mr. Mukesh's investment. But during the valuation process, the behaviour of Mr. Mukesh is uncooperative with the valuation officer as he thinks that the AO was satisfied with the valuation of Investment and hence, he cannot further make a reference to the valuation officer. In this background, you are required to answer the following :

(*a*) What is the primary purpose for which an assessing officer would make a reference to a valuation officer ?

(*b*) Is Mr. Mukesh right in claiming that, as the AO is satisfied with the valuation of the Investment shown, he cannot make a reference to the valuation officer. Explain your answer.

(*c*) What recourse does a valuation officer have if the assessee is uncooperative during the valuation process ?

(*d*) To whom the valuation officer submits the valuation report upon completion and under what time frame ?

(*e*) What procedural safeguard is in place for the assessee after the AO receives the valuation report but before it is considered in the assessment ?

(3 marks each)

3. (*a*) Compute the total income of Global Co-operative Society for the PY 2025-26 (AY 2026-27) with the information given below assuming the assessee has not opted for Section 115BAD :

S. No.	**Receipts**	**Amount (₹)**
1.	Marketing of agricultural produce of its members	20,000
2.	Interest from members on delayed payment of the price of goods purchased	2,000
3.	Processing (without aid of power) of agricultural produce of its members	16,000
4.	Supplying milk to the Government (raised by its members)	30,000
5.	Agency business	50,000
6.	Dividends from other Co-operative Societies	30,000
7.	Income from letting of godowns (Net)	40,000
8.	Income from House Property (Net)	60,000

(5 marks)

(*b*) Santosh Parsad, aged 30 years, a high school passed boy, by filing its return of income, u/s 44AD of the Income Tax Act shows its income @ 8% on receipts of ₹ 28,30,800 from the business of running a stationery shop and online small services like stamp paper printing, Aadhar updating, passport related services etc.

The amount of ₹ 28,30,800 included the receipt of ₹ 3,15,800 on which TDS was deducted under section 194J of the Act (fees for professional and technical services) and therefore the assessing officer added the income @ 50% under section 44 ADA of the Act.

Aggrieved with the action of assessing officer, Santosh Parsad seeks your opinion whether the action of the assessing officer is valid or not.

(5 marks)

(*c*) Vinod Enterprises proposes to purchase for his business, certain raw materials from Mr. Chetan. In view of the scarcity of the products, Chetan insists on cash payments for the purchases, to which Vinod enterprises agrees.

The cash purchases by the buyer Vinod Enterprises for different raw materials for ₹ 1,40,000 and ₹ 1,70,000 on 13th March, 2026 and 25th March, 2026 respectively through the cash invoices.

In respect of the above transactions, will there be any unfavourable effect in the hands of Vinod Enterprises and Chetan under the provisions of the Income Tax Act, 1961 ? Explain briefly.

(5 marks)

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

4. (*a*) Neha Ltd. (A domestic Company) provides you the information related to A. Y. 2026-27.

(1) Dividend received from Sneha Ltd. (A domestic Company) ₹ 12,20,000 (dividend collection charges paid would be ₹ 17,000 and Interest paid for borrowed money for investment in ABC Ltd. ₹ 3,00,000.

(2) Income from Mutual Fund ₹ 2,50,000 (Interest paid for borrowed money for investment in MF ₹ 16,000 and other charges paid would be ₹ 8,000).

Neha Ltd. has distributed the dividend to shareholders :

Particulars	**F.Y.**	**Date of Payment**	**Amount (₹)**
Interim Dividend	2025-26	13th July, 2025	1,25,000
Interim Dividend	2025-26	29th October, 2026	45,000

You are required to compute the following for Neha Ltd. for the AY 2026-27 :

(*i*) Total income from other sources and

(*ii*) Deduction under section 80M of the Income Tax Act, 1961.

(5 marks)

(*b*) Bina (P) Ltd. has not filed the return for the FY 2024-25. The Assessing Officer issued a notice under section 142(1) on the assessee on 25th February, 2026 calling upon him to file return of income for AY 2025-26. In response to the said notice, the assessee furnished a return of loss and claimed carry forward of business loss and unabsorbed depreciation.

Discuss with the relevant provisions of the Income Tax Act, 1961 whether the assessee would be entitled to carry forward as claimed in the return ?

(5 marks)

(*c*) Mr. Arnav, an individual retired employee of the Aman Ltd. aged 64 years, is a well-known singer deriving income of ₹ 1,40,000 from stage shows abroad. Tax of ₹ 14,000 was deducted in the country where the shows were performed. India does not have any Double Tax Avoidance Agreement with that country. His income in India amounted to ₹ 6,40,000.

In view of Tax planning, he has deposited ₹ 1,45,000 in PPF and paid contribution to approved pension fund of LIC ₹ 22,000. He also contributed ₹ 28,000 to Central government health scheme during the previous year and gave payment of medical insurance premium of ₹ 28,000 to insure the health of her mother, a non-resident aged 84 years who is not dependent on him.

Compute the tax liability of Mr. Arnav for the A.Y. 2026-27 assuming that he has opted out of the default tax regime under section 115BAC.

(5 marks)

OR (Alternate Question to Q. No. 4)

4A. (*i*) Goyal Associates is a partnership firm having annual Turnover of ₹ 3.5 crores as firm fails to get its accounts audited under section 44AB. The Assessing Officer levied penalty under section 271B of the Income Tax Act, 1961 for failure to submit the Tax Audit Report. The firm is of the contention that the penalty should not be levied as the main partner Mr. A was ill and Mr. Vijay, the accountant of the firm unexpectedly leaves the job and therefore the Tax Audit could not be complied.

What is the maximum amount of penalty under the Income Tax Act, 1961 which the AO can levy for non-auditing of books of accounts ? Is the action of AO is justified ? Give reasons.

(5 marks)

(*ii*) Communication Ltd, a telecome service provider, had filed income tax returns for various assessment years claiming refund of income tax. Returns were filed within the time framed prescribed as per Section 139(1). The Income Tax department did not process the refund on the ground of technical difficulties and pending verification of the assessee's tax liability.

The Assessing Officer is of the view income had escaped assessment and reopening of the assessment of the assessee under section 147 of the Income Tax Act, 1961 is to be made.

Is the view of AO being valid ? Explain.

(5 marks)

(*iii*) During the search proceedings of Mr. Meet, the AO find out that the income of Mr. Meet for the AY 2020-21 has escaped assessment to the tune of ₹ 50 Lakhs. The AO send the notice u/s 148 to the Mr. Meet on 14th June 2026. The Mr. Meet is of the opinion that the Notice is time barred and is not in accordance with the approval of specified authority.

Is the contention of Mr. Meet being correct ? Explain with reasons.

(5 marks)

5. Ms. Shilpi, aged 28 years, furnishes the following information for the Financial Year 2025-26 :

Particulars	**Amount in ₹**
Loss from speculation Business-X	85,000
Profit from Speculation Business-Y	45,000
Interest on borrowings in respect of self-occupied house Property	3,18,000
Income from Let out property (Net)	1,20,000
Presumptive Income from trading and manufacturing business u/s 44AD	1,00,000
Salary from ABC (P) Ltd.	5,25,000
Interest on PPF	65,000
Long term capital gain on sale of vacant site	1,25,000
Short term capital loss on sale of Jewelry	65,000
Contribution in PPF	60,000
Brought forward loss of business of assessment year 2020-21	1,00,000
Donation to charitable trust approved u/s 80G	90,000
Received gift of Jewellery from her fiancée (Fair market value on 17th May, 2025)	3,00,000
Received gift from her employer	26,000
She has purchased an immovable property from B who is not his relative. The stamp duty value of the property is ₹ 26,00,000	24,50,000

Compute the total income and net tax liability of Ms. Shilpi for the assessement year 2026-27. Also show the loss, eligible to be carried forward if any. Assume she has exercised the option to shift out of the default tax regime u/s 115BAC.

(*15 marks*)

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

6. (*a*) State the consequences that would follow if the Assessing Officer makes adjustment to the arm's length price in international transactions of the assessee resulting in increase in taxable income.

What are the remedies available to the assessee to dispute such adjustment ?

(5 marks)

(*b*) Vimal (P) Ltd. is a resident Indian company having registered office in Kota. On 1st April, 2024 it borrowed a sum of ₹ 22 crores from a company ZEENA Ltd. incorporated in UK, which is the holding company of Vimal (P) Ltd. at an interest rate of 9.5% per annum. There were no other borrowings made by Vimal (P) Ltd. The net profit reported by Vimal (P) Ltd. was ₹ 300 lakhs after debiting interest on borrowed funds, depreciation of ₹ 70 Lakhs, provision for income-tax ₹ 80 lakhs and amortization of expenses ₹ 30 lakhs.

You are required to calculate the amount of interest eligible for deduction. Also explain the legal provisions to support your conclusion.

(5 marks)

(*c*) Explain in brief whether in the following independent cases, will GAAR provisions apply.

(*i*) If arrangement is sanctioned by an authority such as Court, NCLT or is in accordance with judicial precedents etc. ?

(*ii*) A fund claims treaty benefits in respect of gains from derivatives in one year and in another year set-off losses from derivatives transactions against gains from shares under the Act.

(*iii*) Aman Ltd. is an Indian Company. It sets up a unit in a SEZ for manufacturing of Cement. It claims 100% deductions of profits earned from that unit during the financial year and subsequent years as per sec 10AA of the Act.

(*iv*) BDX Ltd. has 2 manufacturing units, one which produces certain goods in a non SEZ area and one in a SEZ area. It diverts produce from the non SEZ factory and shows the same as being manufactured in the SEZ factory, whilst it is only packaging the goods therein.

(*v*) Foreign Portfolio Investors (FPIs) is based in a tax friendly jurisdiction for non-tax commercial reasons.

(*5 marks*)

OR (Alternate Question to Q. No. 6)

6A. (*i*) As per Rule 10 C of the Indian Income Tax Rules 1962, what factors shall be taken into account while selecting the most appropriate Transfer Pricing Method ?

(5 marks)

(*ii*) Canada Ltd., a Canadian company has a subsidiary, Maharana Ltd. in India. Canada Ltd. sells computer monitors to Maharana Ltd. for resale in India. It also sells computer monitors to MCl Ltd., another computer reseller. It sells 40,000 computer monitors to Maharana Ltd. at ₹ 10,000 per unit. The price fixed for MCl Ltd. is ₹ 9,000 per unit. The warranty in case of sale of monitors by Maharana Ltd. is handled by Maharana Ltd. However, for sale of monitors by MCI Ltd., Canada Ltd. is responsible for the warranty for 3 months. Both Canada Ltd. and Maharana Ltd. offer extended warranty at a standard rate of ₹ 1,000 per annum.

On these facts, how will A.O. assess Maharana Ltd.'s income, support your answer with workings.

(5 marks)

(*iii*) Ashok aged 54 years, is a salaried employee with TMS Limited. He has furnished the following details for the PY 2025-26 :

S. No.	Particulars	Amount in ₹
1.	Gross Salary	18,00,000
2.	Business Loss from a new part time business of trading in Mobiles	(3,50,000)
3.	Short Term Capital Loss on sale of Property (computed)	(2,60,000)
4.	He purchased 1000 Bibcoins, a virtual digital currency on 01.04.2025 for ₹ 1,000 per coin, which he sold on 15.02.2026 for ₹ 1,300 per coin. Commission for transfer of Bibcoins is 2% of the sale value.	

You are required to compute the total income of Mr. Ashok, assuming that he has opted out from section 115 BAC.

(*5 marks*)

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