

November 2025



# CA FINAL

## DIRECT TAX

### Question Bank

- ▶ Applicable for May/Nov 2025
- ▶ As per Finance Act, 2024 (No.1) & (No.2)
- ▶ Covering all Amendment Notifications, Circulars Till 31st Oct. 2024
- ▶ Ques. of ICAI study material RTP and PYQs

A background image showing a hand holding a pen over a keyboard. On the keyboard, there are several gold coins and a calculator. The word 'Tax' is written in large white letters across the image.

Tax

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## CHAPTER 1: BASIC CONCEPTS AND EXEMPT INCOME

### Question 01 [Study Material]

XYZ Ltd. took over the running business of a sole-proprietor by a sale deed. As per the sale deed, XYZ Ltd. undertook to pay overriding charges of ₹ 15,000 p.a. to the wife of the sole-proprietor in addition to the sale consideration. The sale deed also specifically mentioned that the amount was charged on the net profits of XYZ Ltd., who had accepted that obligation as a condition of purchase of the going concern. Is the payment of overriding charges by XYZ Ltd. to the wife of the sole-proprietor in the nature of diversion of income or application of income? Discuss.

### Solution

This issue came up for consideration before the Allahabad High Court in *Jit & Pal X-Rays (P.) Ltd. v CIT (2004) (All)*. The Allahabad High Court observed that the overriding charge which had been created in favour of the wife of the sole-proprietor was an integral part of the sale deed by which the going concern was transferred to the assessee. The obligation, therefore, was attached to the very source of income i.e., the going concern transferred to the assessee by the sale deed. The sale deed also specifically mentioned that the amount in question was charged on the net profits of the assessee-company and the assessee-company had accepted that obligation as a condition of purchase of the going concern. Hence, it is clearly a case of diversion of income by an overriding charge and not a mere application of income.

### Question 02 [Study Material]

MKG Agency is a partnership firm consisting of Mr. Mohan and his three major sons. The partnership deed provided that after the death of Mr. Mohan, the business shall be continued by the sons, subject to the condition that the firm shall pay 20% of the profits to their mother, Lakshmi. Mr. Mohan died in March, 2024. In the previous year 2024-25, the reconstituted firm paid ₹ 1 lakh (equivalent to 20% of the profits) to Lakshmi and claimed the amount as deduction from its income. Examine the correctness of the claim of the firm.

### Solution

The issue raised in the problem is based on the concept of diversion of income by overriding title, which is well recognised in the income-tax law. In the instant case, the amount of ₹ 1 lakh, being 20% of profits of the firm, paid to Lakshmi gets diverted at source by the charge created in her favour as per the terms of the partnership deed. Such income does not reach the assessee-firm. Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. The firm might have received the said amount but it so received for and on behalf of Lakshmi, who possesses the overriding title. Therefore, the amount paid to Lakshmi should be excluded from the income of the firm. This view has been confirmed in *CIT v Nariman B. Bharucha & Sons (1981) (Bom)*.

**Question 03 [Study Material]**

Mr. Bhargava, a leading advocate on corporate law, decided to reduce his practice and to accept briefs only for paying his taxes and making charities with the fees received on such briefs. In a particular case, he agreed to appear to defend one company in the Supreme Court on the condition that he would be provided with ₹ 5 lakhs for a public charitable trust that he would create. He defended the company and was paid the sum by the company. He created a trust of that sum by executing a trust deed. Decide whether the amount received by Mr. Bhargava is assessable in his hands as income from profession.

**Solution**

In the instant case, the trust was created by Mr. Bhargava himself out of his professional income. The client did not create the trust. The client did not impose any obligation in the nature of a trust binding on Mr. Bhargava. Thus, there is no diversion of the money to the trust before it became professional income in the hands of Mr. Bhargava. This case is one of application of professional income and not of diversion of income by overriding title. Therefore, the amount received by Mr. Bhargava is chargeable to tax under the head "Profits and gains of business or profession".

**Question 04 [Study Material]**

Compute the marginal relief available to Y Ltd., a domestic company, assuming that the total income of Y Ltd. for A.Y. 2025-26 is ₹ 10,01,00,000 and the total income does not include any income in the nature of capital gains. Assume that the company has not exercised option under section 115BAA or 115BAB.

[ Note - the gross receipts of Y Ltd. for the P.Y. 2022-23 is ₹ 410 crore]

**Solution**

The tax payable on total income of ₹ 10,01,00,000 of Y Ltd. computed @ 33.6% (including surcharger@12%) is ₹ 3,36,33,600.

However, tax cannot exceed ₹ 3,22,00,000 [i.e., the tax of ₹ 3,21,00,000 (32.1% of ₹ 10 crore) payable on total income of ₹ 10 crore plus ₹ 1,00,000, being the amount of total income exceeding ₹ 10 crore].

Therefore, the tax payable on ₹ 10,01,00,000 would be ₹ 3,22,00,000.

The marginal relief is ₹ 14,33,600 (i.e., ₹ 336,33,600 – ₹ 3,22,00,000).

**Question 05 [Study Material]**

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2024-25.

|   |              |
|---|--------------|
| Income from salary (computed)                     | – ₹ 4,00,000 |
| Income from house property (computed)             | – ₹ 3,80,000 |
| Agricultural income from a land in Assam          | – ₹ 4,50,000 |
| Expenses incurred for earning agricultural income | – ₹ 1,60,000 |

Compute his tax liability assuming that MR. X has exercised the option to shift out of the default tax regime and his age is:

- (a) 40 years
- (b) 75 years

**Solution****Computation of total income of Mr. X**

| Particulars   | ₹          | ₹               |
|---|------------|-----------------|
| Income from salary                                  |            | 4,00,000        |
| Income from house property                          |            | 3,80,000        |
| Net agricultural income [₹ 4,50,000 (-) ₹ 1,60,000] | 2,90,000   |                 |
| Less : Exempt under section 10(1)                   | (2,90,000) |                 |
| Gross Total Income                                  |            | 7,80,000        |
| Less : Deductions under Chapter VI-A                |            |                 |
| <b>Total Income</b>                                 |            | <b>7,80,000</b> |

**(a) Computation of tax liability (age 40 years)**

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000.

His tax liability is computed in the following manner:

|              |  |  |
|--------------|--|--|
| Step 1:      | ₹ 7,80,000 + ₹ 2,90,000  | = ₹ 10,70,000                          |
|              | Tax on ₹ 10,70,000   | = ₹ 1,33,500                           |
|              | (i.e., 5% of ₹ 2,50,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 70,000) |  |
| Step 2:      | ₹ 2,90,000 + ₹ 2,50,000  | = ₹ 5,40,000                           |
|              | Tax on ₹ 5,40,000  | = ₹ 20,500                             |
|              | (i.e. 5% of ₹ 2,50,000 plus 20% of ₹ 40,000)                         |  |
| Step 3:      | ₹ 1,33,500 – ₹ 20,500  | = ₹ 1,13,000                           |
| Step 4 & 5 : | Total tax payable  | = ₹ 1,13,000 + 4% cess<br>= ₹ 1,17,520 |

**(b) Computation of tax liability (age 75 years)**

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a. and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000

His tax liability is computed in the following manner:

|              |  |  |
|--------------|--|--|
| Step 1:      | ₹ 7,80,000 + ₹ 2,90,000  | = ₹ 10,70,000                          |
|              | Tax on ₹ 10,70,000   | = ₹ 1,31,000                           |
|              | (i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 70,000) |  |
| Step 2 :     | ₹ 2,90,000 + ₹ 3,00,000  | = ₹ 5,90,000                           |
|              | Tax on ₹ 5,90,000  | = ₹ 28,000                             |
|              | (i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 90,000)                         |  |
| Step 3 :     | ₹ 1,31,000 – ₹ 28,000  | = ₹ 1,03,000                           |
| Step 4 & 5 : | Total tax payable  | = ₹ 1,03,000 + 4% cess<br>= ₹ 1,07,120 |

**Question 06 [Study Material]**

Zenith Ltd is incorporated on October 20, 2023 to commence manufacture of Bikes in Rajasthan. Manufacturing activity is started on December 10, 2023. For the year ending March 31, 2025, income of Zenith Ltd. is as follows :

| Particulars   | ₹         |
|---|-----------|
| Income from manufacturing of Bikes (computed as per provisions of 115BAB) | 60,45,000 |
| Bank FD interest  | 3,00,000  |
| Short-term capital gain on transfer of land (Computed)                    | 18,00,000 |
| Short-term capital gain on transfer of a Depreciable Assets (Computed)    | 2,00,000  |
| Rental Income from Commercial Property                                    | 7,00,000  |

Zenith Ltd has donated ₹ 50,000 to a political party. Zenith Ltd. has opted for lower tax regime of section 115BAB. Necessary option uploaded at the time of submission of first income-tax return. Find out the tax liability of Zenith Ltd.

**PY 24-25 AY 25-26**

**Solution****Computation of Total Income**

| Particular                                       | ₹        | ₹                |
|--|----------|------------------|
| Income from House Property                       |          |                  |
| Rental Income from Commercial Property           | 7,00,000 |                  |
| Deduction u/s 24                                 | N/A      | 7,00,000         |
| Profit & Gain from Business or Profession        |          |                  |
| Income from Manufacturing Activities             |          | 60,45,000        |
| Capital Gain                                     |          |                  |
| STCG on Land                                     |          | 18,00,000        |
| STCG on Depreciable Assets                       |          | 2,00,000         |
| Income from other sources                        |          |                  |
| Interest on Bank FD                              |          | 3,00,000         |
| Gross Total Income                               |          | 90,45,000        |
| Deduction u/s 80GGB: Donation to Political Party |          | N/A              |
| <b>Total Income(NTI)</b>                         |          | <b>90,45,000</b> |

### Computation of Tax Liability

| Particular                       | Income           | Tax Rate | ₹                |
|----------------------------------|------------------|----------|------------------|
| (i) Tax on House Property Income | 7,00,000         | 22%      | 1,54,000         |
| (ii) Tax on Interest on FD       | 3,00,000         | 22%      | 66,000           |
| (iii) STCG on Land               | 18,00,000        | 22%      | 3,96,000         |
| (iv) Tax on Balance Income       | 62,45,000        | 15%      | 9,36,750         |
| <b>Total</b>                     | <b>90,45,000</b> |          | <b>15,52,750</b> |
| Add: Surcharge @ 10%             |                  |          | 1,55,275         |
|                                  |                  |          | 17,08,025        |
| Add: HEC @ 4%                    |                  |          | 68,321           |
| <b>Net Taxable Payable</b>       |                  |          | <b>17,76,346</b> |

### Question 07 [Study Material]

Anand was the Karta of HUF. He died leaving behind his major son Prem, his widow, his grandmother and brother's wife. Can the HUF retain its status as such or the surviving persons would become co-owners?

#### Solution

In the case of *Gowli Buddanna v. CIT (1966) 60 ITR 293*, the Supreme Court has made it clear that there need not be more than one male member to form a HUF as a taxable entity under the Income-tax Act, 1961. The expression "Hindu Undivided Family" in the Act is used in the sense in which it is understood under the personal law of the Hindus.

Under the Hindu system of law, a joint family may consist of a single male member and the widows of the deceased male members and the Income-tax Act, 1961 does not mandate that it should consist of at least two male members. Therefore, the property of a joint Hindu family does not cease to belong to the family merely because the family is represented by a single co-parcener who possesses the right which an owner of property may possess. Therefore, the HUF would retain its status as such.

### Question 08 [Study Material]

Mr. C borrowed on Hundi, a sum of ₹ 25,000 by way of bearer cheque on 11-09-2024 and repaid the same with interest amounting to ₹ 30,000 by account payee cheque on 12-10-2024.

The Assessing Officer (AO) wants to treat the amount borrowed as income during the previous year. Is the action of the Assessing Officer valid?

#### Solution

Section 69D provides that where any amount is borrowed on a hundi or any amount due thereon is repaid otherwise than by way of an account-payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying the amount for the previous year in which the amount was so borrowed or repaid, as the case may be.

In this case, Mr. C has borrowed ₹ 25,000 on Hundi by way of bearer cheque. Therefore, it shall be deemed to be income of Mr. C for the previous year 2024-25. Since the repayment of the same along with interest was made by way of account payee cheque, the same would not be hit by the provisions

of section 69D. Therefore, the action of the Assessing Officer treating the amount borrowed as income during the previous year is valid in law.

#### Question 09 [Study Material]

The Assessing Officer found, during the course of assessment of a firm, that it had paid rent in respect of its business premises amounting to ₹ 60,000, which was not debited in the books of account for the year ending 31.3.2025. The firm did not explain the source for payment of rent. The Assessing Officer proposes to make an addition of ₹ 60,000 in the hands of the firm for the assessment year 2025-26. The firm claims that even if the addition is made, the sum of ₹ 60,000 should be allowed as deduction while computing its business income since it has been expended for purposes of its business. Examine the claim of the firm.

#### Solution

The claim of the firm for deduction of the sum of ₹ 60,000 in computing its business income is not tenable. The action of the Assessing Officer in making the addition of ₹ 60,000, being the payment of rent not debited in the books of account (for which the firm failed to explain the source of payment) is correct in law since the same is an unexplained expenditure under section 69C. The proviso to section 69C states that such unexplained expenditure, which is deemed to be the income of the assessee, shall not be allowed as a deduction under any head of income. Therefore, the claim of the firm is not tenable.

#### Question 10 [Study Material]

Compute the marginal relief available to X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹ 1,01,00,000 for A.Y.2025-26 and the total income does not include any income in the nature of capital gains. Assume that the company has not exercised option under section 115BAA or 115BAB. [Note - The gross receipts of X Ltd. for the P.Y.2022-23 is ₹ 402 crore]

#### Solution

The tax payable on total income of ₹ 1,01,00,000 of X Ltd. computed @32.1% (including surcharge @7%) is ₹ 32,42,100. However, the tax cannot exceed ₹ 31,00,000 (i.e., the tax of ₹ 30,00,000 payable on total income of ₹ 1 crore plus ₹ 1,00,000, being the amount of total income exceeding ₹ 1 crore). The marginal relief is ₹ 1,42,100 (i.e., ₹ 32,42,100 - ₹ 31,00,000). Therefore, the tax payable on ₹ 1,01,00,000 would be ₹ 32,24,000 (₹ 31,00,000 plus health and education cess @4% of ₹ 1,24,000).

#### Question 11 [Study Material]

Mr. Manish, aged 47 years and a resident in India, has a total income of ₹ 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 if he exercises the option to shift out of the default tax regime.

#### Solution

##### Computation of tax liability of Mr. Manish for A.Y. 2025-26

| Particulars                       | ₹     |
|-----------------------------------|-------|
| Tax on total income of ₹ 4,15,000 |       |
| Tax@5% of ₹ 1,65,000              | 8,250 |

|   |       |
|---|-------|
| Less: Rebate u/s 87A (Lower of tax payable or ₹ 12,500) | 8,250 |
| Tax Liability   | Nil   |

### Question 12 [Study Material]

Mr. Nitin aged 42 years and a resident in India, has a total income of ₹ 7,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.

#### Solution

##### Computation of tax liability of Mr. Nitin for A.Y. 2025-26

| Particulars  | ₹      |
|--|--------|
| Step 1: Total Income of ₹ 7,15,000 - ₹ 7,00,000 (A)                    | 15,000 |
| Step 2: Tax on total income of ₹ 7,15,000                              |        |
| Tax @10% of ₹ 15,000 + ₹ 20,000 (B)                                    | 21,250 |
| Step 3: Since B > A, rebate u/s 87A would be B-A [₹ 21,500 - ₹ 15,000] | 6,500  |
|  | 15,000 |
| Add: HEC@4%  | 600    |
| Tax Liability  | 15,600 |

### Question 13 [Study Material]

Mr. Mahesh aged 32 years and a resident in India, has a total income of ₹ 6,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.

#### Solution

##### Computation of tax liability of Mr. Mahesh for A.Y. 2025-26

| Particulars   | ₹      |
|---|--------|
| Tax on total income of ₹ 6,50,000                       |        |
| Tax@5% of ₹ 3,50,000                                    | 17,500 |
| Less: Rebate u/s 87A (Lower of tax payable or ₹ 25,000) | 17,500 |
| Tax Liability   | Nil    |

### Question 14 [Study Material]

Mr. Arjun has a total income of ₹ 16,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 assuming his age is –

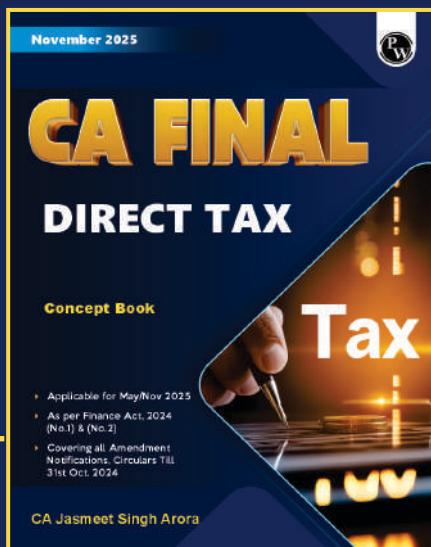
- a) 52 Years
- b) 64 Years
- c) 83 Years

Assume that Mr. Arjun has exercised the option to shift out/ opt out of the default tax regime

## About The Author

**CA Jasmeet Singh Arora** is a renowned faculty for Taxation at PW with teaching experience of more than 10 years; he has mentored more than 100000 students through online & offline medium. Jasmeet Sir qualified his CA Exam in the First attempt & has 5 Exemptions in CA final Exam. Jasmeet Sir believes in blended learning & has a learner- centric approach. With real life examples he tries to transform to the pedagogical processes in his field of instruction. Jasmeet Sir is known for imparting quality education for subjects like Taxation.

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