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**DIRECT TAX**  
& INTERNATIONAL TAXATION

As  
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The Finance  
(No.2)  
Act, 2024



**PRACTICE MANUAL**  
by CA Shirish Vyas

**CA SHIRISH VYAS**

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**WITH THE BLESSING OF MATA VAISHNO DEVI**

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# INCOME FROM BUSINESS

## QUESTION 1:

Atrax Ltd. provides following details for computation of depreciation:

Block of 3 Motor Cars: WDV as on 1/4/2024 - ₹ 76,00,000

During the PY 2024-25, the company purchased 5 Air conditioners costing ₹ 60,000 each on 12th December, 2024. An old motor car costing ₹ 18,00,000 was sold for ₹ 7,00,000 on 30<sup>th</sup> September, 2024.

You are required to compute the amount of depreciation allowable u/s 32 for the PY 2024-25.

## ANSWER:

### COMPUTATION OF DEPRECIATION

	<u>Amount</u>	<u>No.</u>
Opening WDV	76,00,000	(3)
<u>Add:</u> Purchases		
→ 180 days or more	—	
→ less than 180 days	3,00,000	(5)
	<u>79,00,000</u>	<u>(8)</u>
<u>Less:</u> Sales (SP)	- 7,00,000	(1)
	<u>72,00,000</u>	<u>(7)</u>

Cost of Asset used for  
For less than 180 days  
**Half year** depreciation  
 $3,00,000 \times 15\% \times \frac{1}{2}$   
= 22,500

Balance  
↓  
Full year depreciation  
 $69,00,000 \times 15\%$   
= 10,35,000

Hence, Dep. allowable u/s 32 = 22,500 + 10,35,000 = 10,57,500

## Note 1:

Motor Car and Air conditioner belong to the **same class** i.e. Plant & Machinery having **same rate** of depreciation i.e. 15%. Hence, all the motor cars and air conditioners form a **single block**.

**QUESTION 2:**

Raman purchased a machinery on 9<sup>th</sup> October, 2021 for ₹ 80,00,000. After using it for his business, he gifted this machinery to his friend Rameez on 15<sup>th</sup> September, 2024. Compute the actual cost of machinery for Rameez and the amount of depreciation allowable to him in the PY 2024-25.

**ANSWER:**

As per section 43(1), actual cost of the machinery for Rameez will be taken at notional figure i.e. WDV of the previous owner. It is calculated as follows:

Original cost to the previous owner [Raman]	80,00,000
<u>Less: Depn. [2021-22] [80,00,000 x 15% x ½]</u>	<u>- 6,00,000</u>
	74,00,000
<u>Less: Depn. [2022-23] [15%]</u>	<u>- 11,10,000</u>
	62,90,000
<u>Less: Depn. [2023-24] [15%]</u>	<u>- 9,43,500</u>
WDV as on 1/4/2024	<u>53,46,500</u>

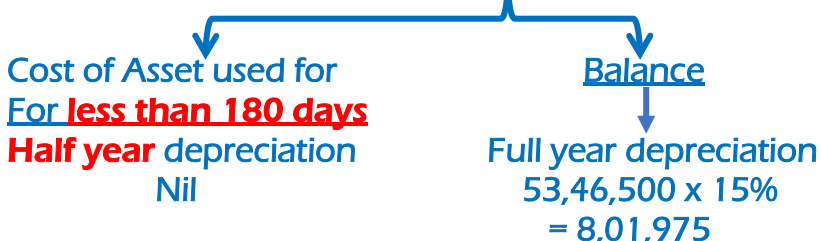
Hence, actual cost of machinery for Rameez is ₹ 53,46,500.

**Note:**

For calculating WDV, exact date of gift is not relevant because in Income Tax, WDV always means opening WDV.

**COMPUTATION OF DEPRECIATION**

	<u>Amount</u>	<u>No.</u>
Opening WDV	Nil	(0)
<u>Add: Purchases</u>		
→ 180 days or more	53,46,500	(1)
→ less than 180 days [Note 1]	Nil	(0)
	<u>53,46,500</u>	<u>(1)</u>
<u>Less: Sales (SP)</u>	—	—
	<u>53,46,500</u>	<u>(1)</u>



Hence, Depreciation allowable u/s 32 = ₹ 8,01,975

**QUESTION 3:**

Max Power [engaged in power generation] opted for straight line method of depreciation for tax purpose. On 1st July, 2022, it purchased a power generating asset for ₹ 30,00,000 [eligible for 8% depreciation under straight line method]. On 31st December, 2024, this asset was sold for ₹ 28,00,000. Discuss the tax treatment on sale of this asset.

**ANSWER:**

Since MAX Power has opted for SLM, it is governed by individual asset system and under this system, profit or loss is computed on sale of each asset. Accordingly, in the given question, sale of asset shall be treated as follows:

	Amount
Sale Price	28,00,000
Less: WDV	- 25,20,000
Balancing charge u/s 41(2) (Business income)	2,80,000

Original Cost	30,00,000
Less: Depn @ 8% [PY 22-23]	- 2,40,000
Less: Depn @ 8% [PY 23-24]	- 2,40,000
WDV as on 1/4/2024	25,20,000

**Note:**

For calculating WDV, exact date of sale is not relevant because in Income Tax, WDV always means opening WDV.

**IMPORTANT NOTE**

Whenever we **transfer** an asset, we **don't see the exact date**. However, when we **purchase** an asset, we should **see the exact date** of "put to use" to check whether the asset is put to use for atleast 180 days or not. If put to use date is not given then date of purchase = date of put to use.

In Income Tax,

- In the year of purchase – either full year/half year depn.
- In Subsequent years – Full depn.
- In the year of sale – No depn.

**QUESTION 4:**

From the following details, compute the taxable business income for the PY 2024-25 of Mr. Bean who is engaged in manufacturing business:

- 1) Gross Profit for the year ₹ 2,42,00,000.
- 2) Repairs of Plant and Machinery ₹ 60,000.
- 3) Contribution to National Laboratory for scientific research ₹ 1,25,000.
- 4) During the year, Mr. Bean spent following amounts on scientific research related to his business:
  - Salary to research personnel ₹ 14,00,000 [including perquisites ₹ 5 Lakhs];
  - Materials for research ₹ 18,00,000;
  - Purchase of Equipment ₹ 30,00,000;
  - Purchase of Land ₹ 50,00,000.
- 5) WDV of the block of Plant and Machinery as on 1/4/2024 is ₹ 94,00,000. On 16<sup>th</sup> October, 2024, Mr. Bean purchased a new machinery costing ₹ 30,00,000 [Subsidy received from Govt. ₹8,00,000]. Amount spent on trial run of this machinery is ₹ 40,000. He purchased another machinery for ₹ 5,00,000 on 18<sup>th</sup> August, 2024 [this machinery was previously used by Raghav].
- 6) Contribution to National Fund for Rural Development ₹ 20,000.
- 7) Mr. Bean purchased a Motor car on 3<sup>rd</sup> September, 2019. WDV of this motor car as on 1/4/2024 is ₹ 14,00,000.
- 8) Other expenses during the year ₹ 23,00,000.

**ANSWER:****STATEMENT OF "INCOME FROM BUSINESS"**

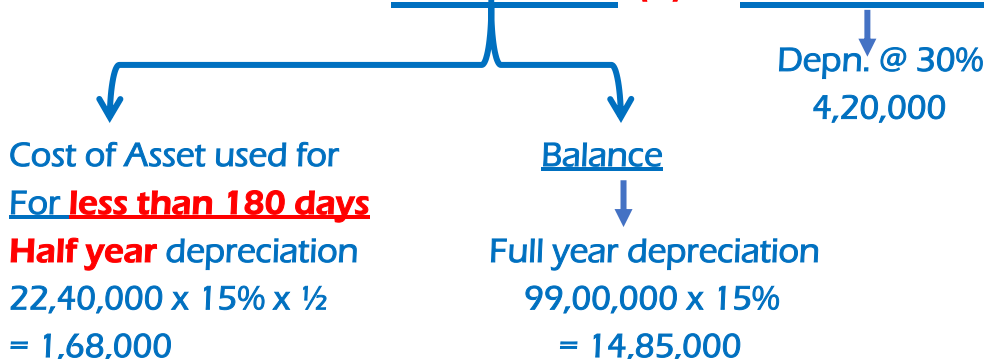
	Amt.
<b>GROSS BUSINESS INCOME:</b>	
Gross Profit [sec. 28]	2,42,00,000
<b>Less: DEDUCTIONS u/s 30 TO 37:</b>	
Repairs of P & M [sec. 31]	- 60,000
Depreciation [sec. 32] [Note. 2]	- 22,97,000
Contribution to National lab. [sec. 35]	- 1,25,000
Exps. on in-house research [sec.35] [Note. 1]	- 62,00,000
Contribution to NFRD [sec. 35CCA]	- 20,000
Other expenses [sec. 37(1)]	- 23,00,000
<b>TAXABLE IFB</b>	<b>1,31,98,000</b>

**Note 1:****Deduction for in-house research related to the business:**

Salary to research personnel	14,00,000
Materials for research	18,00,000
Purchase of Equipment	30,00,000
Purchase of Land [Dedn. is not allowed]	Nil
	62,00,000

**Note 2: Deduction for Depreciation u/s 32:****COMPUTATION OF DEPRECIATION**

	<u>P &amp; M (15%)</u>		<u>Motor Car (30%)</u>	
	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>
Opening WDV	94,00,000	(1)	14,00,000	(1)
<u>Add: Purchases</u>				
→ 180 days or more	5,00,000	(1)	—	—
→ less than 180 days	22,40,000	(1)	—	—
	<u>1,21,40,000</u>	<u>(3)</u>	<u>14,00,000</u>	<u>(1)</u>
<u>Less: Sales (SP)</u>	—	—	—	—
	<u>1,21,40,000</u>	<u>(3)</u>	<u>14,00,000</u>	<u>(1)</u>



Hence, Depreciation allowable u/s 32 will be:

Plant & Machinery

→ Normal depreciation (1,68,000 + 14,85,000)

16,53,000

→ Additional depn. (22,40,000 x 20% x ½)

2,24,000

Motor Car

4,20,000

22,97,000

Actual cost of P & M purchased on 16<sup>th</sup> October, 2024 as per sec. 43(1) is calculated as follows:

Purchase price of machinery	₹ 30,00,000
<u>Add: Trial run expenses</u>	+ 40,000
<u>Less: Subsidy received from Govt.</u>	- 8,00,000
	<u>₹ 22,40,000</u>

Additional depreciation is not allowed in case of motor car [Road transport vehicles] and second-hand plant & machinery.

Since motor car is purchased **between 23/8/19 and 31/3/20**, depreciation on such motor car will be at enhanced rate of **30%**.

**QUESTION 5:**

Zenith Ltd. commenced business of production of fertilizers on 14<sup>th</sup> October, 2016 [claiming deduction u/s 35AD]. Apart from this business, it also carries on the retail business of pharmaceuticals. On 15<sup>th</sup> July, 2024, an office building which was purchased on 22<sup>nd</sup> December, 2021 for the business of fertilizers was converted in to a retail shop of pharmaceuticals [Original cost of the building is ₹ 2 crores]. Discuss the tax treatment of this conversion.

**ANSWER:**

Zenith Ltd. is engaged in the business of production of fertilizers which is eligible for deduction u/s 35AD. As per section 35AD, asset acquired for specified business should be used for specified business only for **minimum 8 years** from the year of acquisition.

In the given question, office building acquired on 22<sup>nd</sup> Dec. 2021 for the business of fertilizers was converted in to retail shop of non-specified business. Since the asset is put to use in non-specified business on 15<sup>th</sup> July, 2024 [within 8 years], following amount shall be **taxable in the PY 2024-25**:

	Amt.
Deduction claimed in PY 2021-22 withdrawn	2,00,00,000
Less: Dep. [PY 2021-22] [2 crores x 10% x ½]	- 10,00,000
	1,90,00,000
Less: Depreciation [PY 2022-23]	- 19,00,000
	1,71,00,000
Less: Depreciation [PY 2023-24]	- 17,10,000
Net amount taxable in PY 2024-25	1,53,90,000

**QUESTION 6:**

Digable Ltd. is engaged in the business of production of semi-conductor wafers. The company started setting up the business on 1<sup>st</sup> June, 2017 and commenced its operations on 15<sup>th</sup> May, 2020. From following details, you are required to compute its taxable income under the head Profits and gains from business or profession for the PY 2024-25:

- 1) Gross profit earned during the year ₹ 3 crores.
- 2) During the previous year, company invested ₹ 1.5 crores in new manufacturing plant.
- 3) Expenses incurred before commencement of operations amounted to ₹ 4 crores [including cost of land ₹ 1.8 crores].
- 4) A Machinery purchased during PY 2021-22 at a cost of ₹ 60,00,000 was sold on 14<sup>th</sup> October, 2024 for ₹ 35,00,000.
- 5) Insurance premium paid for P & M ₹ 65,000.
- 6) Other Expenses ₹ 67,50,000.

**ANSWER:****STATEMENT OF "INCOME FROM BUSINESS"**

	Amt.
<b>GROSS BUSINESS INCOME:</b>	
Gross Profit [sec. 28]	3,00,00,000
Sale proceeds of old machinery [sec. 28]	35,00,000
	3,35,00,000
<b>Less: DEDUCTIONS u/s 30 TO 37:</b>	
Insurance of P & M [sec. 31]	- 65,000
Purchase of new plant [sec. 35AD]	- 1,50,00,000
Other expenses [sec. 37(1)]	- 67,50,000
<b>TAXABLE IFB</b>	<b>1,16,85,000</b>

**Note 1:**

Pre-commencement expenses are ignored as the deduction of the same is **already claimed** in the first year of business i.e. PY2020-21.

**QUESTION 7:**

Beta Telecom Ltd. commenced the business of telecommunication services on 1<sup>st</sup> April, 2024. From the following details, compute its taxable income from business for the AY 2025-26:

- 1) Cost of license to operate telecommunication services ₹ 1,75,00,000 acquired on 1/4/2023. Life of the license is 15 years.
- 2) Revenue earned during the PY 2024-25 ₹ 2,15,64,000
- 3) Borrowings from NBFC ₹ 5 crores. Interest accrued during the PY 2024-25 ₹ 62,00,000 was paid on 7<sup>th</sup> August, 2025.
- 4) Contribution to Employees provident fund for the month of March 2025 ₹ 2,00,000 deposited on 12<sup>th</sup> November, 2025.
- 5) Expenses incurred before commencement of business:
  - Expense on feasibility study ₹ 2,00,000
  - Market survey expenses ₹ 1,05,000
- 6) Other expenses incurred during the previous year ₹ 23,14,000.

**ANSWER:****STATEMENT OF "INCOME FROM BUSINESS"**

	Amt.
<b><u>GROSS BUSINESS INCOME:</u></b>	
Revenue [sec. 28]	2,15,64,000
<b><u>Less: DEDUCTIONS u/s 30 TO 37:</u></b>	
Cost of license [Sec. 35ABB] [Note 1]	- 12,50,000
Int. to NBFC [Sec.36(1) read with sec. 43B]	- 62,00,000
Contribution to PF [Not paid] [Note 2]	—
Preliminary expenses [Sec. 35D] [Note 3]	- 61,000
Other expenses [sec. 37(1)]	- 23,14,000
<b>TAXABLE IFB</b>	<b>1,17,39,000</b>

**Note 1: Deduction u/s 35ABB:**

Life of the license – 15 years

Date of acquisition of license – 1/4/23

Date of commencement of business – 1/4/24

Although the cost of license is incurred on 1/4/23 and payment is done on 1/4/23, deduction will not be allowed in PY 2023-24.

Deduction is allowed only **after commencement of business** [i.e. from 1/4/24] and **from PY 2024-25, remaining life** of the license is **14 years**. Accordingly, deduction u/s 35ABB in each of the 14 years commencing from PY 2024-25 will be ₹ 12,50,000 (1,75,00,000 ÷ 14 years).

**Note 2: Contribution to PF [assumed as Recognized PF]:**

Contribution to Employees PF is allowed under section 36(1) if it is paid up to the due date of filing return as required by section 43B. In this question, contribution of March 2025 is **deposited** on 12th November, 25 which is **after the due date of filing return** [ i.e. 31st October, 2025]. Hence, deduction is **not allowed** in PY 2024-25.

**Note 3: Preliminary Expenses:**

Expenses on feasibility study and market survey are eligible as preliminary expenses **u/s 35D**. Deduction of the same is allowed in **5 equal installments**. Accordingly, deduction in the PY 2024-25 will be ₹ 61,000 (3,05,000 ÷ 5 years).

**QUESTION 8:**

The business profit of TEE Ltd., a tea growing and manufacturing company, is ₹ 120 lacs (before deduction under section 33AB) for the AY 2025-26. It deposits ₹ 50 lacs with NABARD on 31st May, 2025. Compute the taxable business income of TEE Ltd. for the AY 2025-26.

**ANSWER:****STATEMENT OF "INCOME FROM BUSINESS"**

	Amt. (in lacs)
Business Profits [before dedn. u/s 33AB]	120
<b>Less: Deduction u/s 33AB:</b>	- 48
1) 40% of 120 lacs = 48 lacs	
2) Actual amount deposited = 50 lacs whichever is less	
Business Profits [after dedn. u/s 33AB]	72
<b>Less: 60% exempt as agricultural income*</b>	- 43.2
<b>TAXABLE IFB</b>	<b>28.8</b>

\* Since the assessee is growing and manufacturing tea, 60% of its business income is treated as agricultural income [which is exempt].

**QUESTION 9:**

Deewan Housing Finance Co. Ltd., engaged in the business of providing long term finance for purchase or construction of residential houses in India, provides following particulars for the year ended 31/3/2025 for computation of its taxable business income for the PY 2024-25:

- Revenue earned during the year ₹ 580 lacs
- Capital expenditure on promoting family planning amongst its employees ₹ 20 lacs.
- Bonus to employees ₹ 5 lacs paid on 15<sup>th</sup> October, 2025.
- Other expenses ₹ 11 lacs.
- Transfer to special reserve ₹ 105 lacs.
- Paid up share capital ₹ 500 lacs.
- General Reserve ₹ 100 lacs.
- Balance in special reserve as on 31/3/2024 ₹ 1,100 lacs.

**ANSWER:****STATEMENT OF "INCOME FROM BUSINESS"**

	Amt (in lacs)
<b><u>GROSS BUSINESS INCOME:</u></b>	
Revenue [sec. 28]	580
<b><u>Less: DEDUCTIONS u/s 30 TO 37:</u></b>	
Cap. exp. on family planning [Sec.36(1)] [Note 1]	- 4
Bonus to employees [Sec.36(1)] [Note 2]	- 5
Other expenses [sec. 37(1)]	- 11
<b>TAXABLE IFB (Before transfer to special reserve)</b>	<b>560</b>
<b><u>Less: Transfer to Special Reserve [Sec.36(1)] [Note 3]</u></b>	<b>- 100</b>
<b>TAXABLE IFB</b>	<b>460</b>

**Note 1:** Capital expenditure on family planning is allowed in **5 equal installments**. Hence, deduction in PY 2024-25 = 20 lacs/5 = 4 lacs.

**Note 2:** Since bonus to employees is paid before the due date of filing return as required by **section 43B**, deduction is allowed.

**Note 3:** Amt of dedn for transfer to Sp. Reserve is least of following:

- 1) Actual amount transferred to Special Reserve = 105 lacs
- 2) 20% of Taxable IFB [Before this deduction]  
= 560 x 20% = 112 lacs
- 3) 200% of [SC + GR] – Opening Balance in Special Reserve  
= 200% of [500 + 100] – 1,100 = 1,200 – 1,100 = **100 lacs**

**QUESTION 10:**

Joggers Ltd. has been manufacturing footwear since 2011. From the following particulars, you are required to compute its taxable income from business for the PY 2024-25:

- 1) Gross Profit for the year ₹ 1,24,60,000;
- 2) Purchase of pollution control equipment costing ₹ 12,50,000 on 13<sup>th</sup> Sept., 2024 [put to use on 2<sup>nd</sup> November, 2024];
- 3) Advance of ₹ 5,00,000 given to its subsidiary could not be recovered;
- 4) ₹ 35,00,000 spent on construction of research laboratory for scientific research related to its business;
- 5) Transfer to General Reserve ₹ 5,50,000;
- 6) Provision for tax ₹ 10,00,000;
- 7) Recovery of bad debts ₹ 7,00,000 [which was allowed as deduction in the PY 2016-17];
- 8) Watch dog kept for the security of factory died on 22<sup>nd</sup> Dec., 2024 (Original cost ₹ 20,000);
- 9) ₹ 11,00,000 was spent on corporate social responsibility;
- 10) Advertisement expenditure during the year ₹ 22,00,000 which includes ₹ 2,50,000 in the souvenir of a political party;
- 11) GST Penalty paid ₹ 20,000;
- 12) Rent of Showroom ₹ 24,00,000 p.a. [Tax was not deducted at source];
- 13) Compensation of ₹ 60,00,000 paid to employees on account of voluntary retirement scheme;
- 14) Interest on loan taken from Ruby Ltd., a company in which assessee holds 24% equity shares. Amount of loan taken is ₹ 1,20,00,000. Rate of interest charged by Ruby Ltd. is 16% p.a. whereas the market rate is 12% p.a.;
- 15) Legal charges ₹ 2,00,000 paid to lawyer by crossed cheque;
- 16) Other expenses ₹ 9,54,000.

**ANSWER:****STATEMENT OF "INCOME FROM BUSINESS"**

	Amt.
<b>GROSS BUSINESS INCOME:</b>	
Gross Profit [Sec. 28]	1,24,60,000
Bad debts recovery [Sec. 41(4)]	7,00,000
	1,31,60,000
<b>Less: DEDUCTIONS u/s 30 TO 37:</b>	
Depreciation [Sec. 32] [Note 1]	- 3,75,000
Advance irrecoverable [Note 2]	—
Cost of Research Laboratory [Sec.35]	- 35,00,000
Transfer to Gen. Res. [Not an expense]	—
Prov. for Tax [I. tax] [Not allowed] [Sec. 40(a)]	—
Animal [Watch dog] written off [Sec. 36(1)]	- 20,000
CSR Expense [Not allowed u/s 37(1)]	—
Advt. (Political party) [Not allowed u/s 37(2B)]	—
Other Advt. [Allowed u/s 37(1)]	- 19,50,000
GST Penalty [Not allowed u/s 37(1)]	—
Rent of showroom	—
[30% disallowed u/s 40(a)]	
Rent of showroom [70% allowed u/s 30]	- 16,80,000
V R. Compensation [60 lacs/5] [Sec. 35DDA]	- 12,00,000
Interest on loan [Reasonable]	- 14,40,000
[Sec. 36(1)] [Note 3]	
Interest on loan [Excess]	—
[Disallowed u/s 40A(2)]	
Legal charges [Crossed cheque]	—
[Disallowed u/s 40A(3)]	
Other expenses [sec. 37(1)]	- 9,54,000
<b>TAXABLE IFB</b>	<b>20,41,000</b>

**Note 1: Depreciation on Pollution Control Equipment:**

Since the pollution control equipment is put to use for **less than 180 days**, only half year's depreciation is allowed.

Normal depreciation =  $12,50,000 \times 40\% \times \frac{1}{2} = ₹ 2,50,000$

Additional depreciation =  $12,50,000 \times 20\% \times \frac{1}{2} = ₹ 1,25,000$

Total depreciation = ₹ 3,75,000

Additional depreciation is allowed because the assessee is engaged in **Manufacturing** business and pollution control equipment is an item of **Plant & Machinery**.

**Note 2:**

Advance given to subsidiary is a loan and **bad debts related to loans** is **not allowed** as deduction because it is not related to business [assessee is not engaged in money lending business].

**Note 3:**

Loan is taken from Ruby Ltd. [where assessee holds 24% equity shares]. This means, the assessee has **substantial interest** [ $\geq 20\%$  shares] in the business of Ruby Ltd. Accordingly, interest on loan paid to Ruby Ltd. is a **payment to relative**. Hence, deduction of interest is allowed only to the extent it is reasonable i.e. 12% and the **excess** interest of 4% is **disallowed u/s 40A (2)**.

**QUESTION 11:**

Jupiter Ltd., an Indian company, is engaged in the manufacture and sale of textiles. From the following details, compute its taxable business income for the PY 2024-25:

- 1) Gross Profit for the year ₹ 3,10,00,000;
- 2) Interest on Bank FD ₹ 2,25,000;
- 3) Income Tax Refund ₹ 4,00,000;
- 4) Provision for gratuity based on actuarial valuation ₹ 27,00,000;

- 5) The company has made cash payments for certain expenses as below:  
On 04-06-2024 ₹ 5 lakhs (Due to Strike by bank staff)  
On 05-06-2024 ₹ 7 lakhs (Due to cash demanded by the party)  
On 04-03-2025 ₹ 32,000 (to transport operator)
- 6) ₹ 5,00,000 contribution to a university approved and notified u/s 35(1)(ii);
- 7) ₹ 3,00,000 spent on gift items distributed to various dealers under the company's sales incentive scheme;
- 8) ₹ 4,25,000 being expenses incurred on installation of a traffic signal, so as to facilitate its employees coming to office to overcome traffic jam and save office time;
- 9) ₹ 7,50,000 being amount received on sale of scientific research equipment which was purchased on 14-09-2021 for ₹ 7,00,000;
- 10) Dividend of ₹ 10,00,000 received from a foreign company;
- 11) Transport subsidy received from Government ₹ 2,20,000;
- 12) ₹ 1,15,000 being sale proceeds of import license;
- 13) ₹ 6,00,000 paid to a contractor for repair work at company's factory. No Tax was deducted on such payment;
- 14) Freight charges ₹ 1,50,000 due to Indian Railways was paid on 16<sup>th</sup> October, 2025;
- 15) Payment of interest on money borrowed from bank for purchase of land ₹ 1,32,000. The land was meant for construction of a factory building and for which the approval from local authority is pending till 31-03-2025;
- 16) Provision for bonus for the year 2022-23 paid on 15-11-2024 ₹ 1,25,000;
- 17) Compensation recd. from supplier for delay in supply of raw materials ₹ 1,00,000;
- 18) Interest on short payment of advance tax ₹ 1,35,000;
- 19) Other Expenses ₹ 1,20,00,000.

**ANSWER:****STATEMENT OF "INCOME FROM BUSINESS"**

	Amt.
<b>GROSS BUSINESS INCOME:</b>	
Gross Profit [Sec. 28]	3,10,00,000
Interest on bank FD [IFOS]	—
Income tax refund [Not an income]	—
Sale of research equipment [Note 2]	7,00,000
Dividend from foreign company [IFOS]	—
Transport subsidy [Sec. 28]	2,20,000
Sale of Import license [Sec. 28]	1,15,000
Compensation from supplier [Sec. 28]	1,00,000
	3,21,35,000
<b>Less: DEDUCTIONS u/s 30 TO 37:</b>	
Provision for gratuity [Disallowed u/s 40A (7)]	—
Cash pymt. on the day of bank strike [Disallowed u/s 40A (3)]	—
Cash pymt. demanded by party [Disallowed u/s 40A (3)]	—
Cash pymt. to transport operator [Rule 6DD]	- 32,000
Contribution for scientific research [Sec. 35]	- 5,00,000
Gift items distributed [Sec. 37(1)]	- 3,00,000
Installation of traffic signal [Note. 1]	- 4,25,000
Repairs at factory [30% disallowed u/s 40(a)]	—
Repairs at factory [70% allowed u/s 30]	- 4,20,000
Freight charges [Note 3]	- 1,50,000
Int. on loan to purchase land [Note 4]	—
Bonus of 22-23 paid [Sec.36(1) read with 43B]	- 1,25,000
Int. on short pymt. of advance tax [Sec. 40(a)]	—
Other Expenses [Sec. 37(1)]	- 1,20,00,000
<b>TAXABLE IFB</b>	<b>1,81,83,000</b>

**Note 1:**

Installation of a traffic signal to facilitate employees is an expense related to **business** and **revenue** in nature. Hence, it is **allowed** as deduction u/s 37(1).

⇒ It is related to business:

It's related to business because it is to facilitate employees. Any expense for the **benefit of employees** or for the convenience of employees is a **business expense**.

⇒ It is revenue in nature:

It may not be a recurring expense but it **neither creates an asset** (Traffic signal is not a fixed asset) **nor** it leads to **growth** in business. This expense simply **maintains** the business and any expense which **maintains** the business is a **revenue** expense.

**Note 2:** Sale of scientific research equipment [Sec. 41(3)]:

Cost	7,00,000
<u>Less: Dedn u/s 35</u>	<u>- 7,00,000</u>
WDV	<u>Zero</u>

SP.	7,50,000
<u>Less: WDV</u>	<u>Nil</u>
Profit	<u>7,50,000</u>
↓	
<u>Capital gains</u>	<u>Bus. Income u/s 41(3)</u>
50,000	7,00,000
[SP – Cost]	

**Note 3:**

Freight charges paid to **Indian railways** is allowed as deduction u/s 37(1) only if it is **paid** up to the due date of filing return as required by **sec. 43B**. Since it is paid on 16<sup>th</sup> October, 2025 [before the due date of filing return], it is allowed as deduction.

**Note 4:**

Land is purchased for construction of factory building. Since the approval for construction is pending from local authority, the land is **not yet put to use**. Hence, interest on loan for purchase of land should be **capitalized** i.e. **added to the cost of land**. Accordingly, deduction is **not allowed**.

**QUESTION 12:**

Following is the P & L A/c of Ericson & Co., a partnership firm engaged in manufacturing of auto parts.

## Profit &amp; Loss A/c for the year ended 31/3/2025

	₹		₹
To Office Exp.	40,00,000	By Gross Profit	80,00,000
To Commission to staff	13,00,000	By GST Refund	30,000
To Travelling expenses	1,75,000	By Dividend	1,40,000
To Repairs of Generator	36,000	By Rent of office bldg.	6,60,000
To Audit fees	1,00,000	By I.T. Refund	1.30,000
To Prov. for Bad debts	46,000	By Subsidy	4,00,000
To Income Tax	2,00,000	By Interest income	9,00,000
To Freight charges	1,44,000		
To Donation to trust	80,000		
To Donation to NFRD	40,000		
To Int. on loan from NBFC	60,000		
To Preliminary exps.	50,000		
To Interest on Partners' Capital @15%	1,35,000		
To Remuneration to Partners:			
Mr. P [Sleeping]	2,50,000		
Mr. Q	7,00,000		
Mr. R	8,00,000		
To Depreciation	12,50,000		
To Net Profit	8,94,000		
	1,15,60,000		1,15,60,000

**Additional information:**

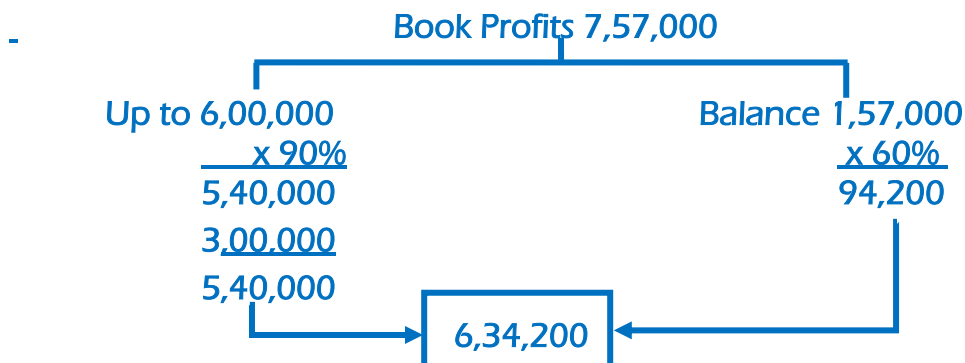
1. Dep. as per I. Tax ₹ 17,00,000.
  2. Freight charges incl. ₹ 26,000 paid in cash to goods transporter.
  3. Interest to NBFC was paid on 25<sup>th</sup> December, 2025.
  4. Office expenses include ₹ 1,50,000 salary paid to brother of Mrs. R. Reasonable amount of salary is ₹ 1,20,000.
  5. Legal charges of ₹60,000 was debited to general reserves.
- You are required to compute the taxable business income of Ericson & Co. and its partners.

**ANSWER:**

**STATEMENT OF INCOME FROM BUSINESS (of P. Firm)**

	Amt.	Amt.
N.P. as per P/L		8,94,000
<b>Add: DISALLOWED EXPENSES:</b>		
Provision for bad debts	46,000	
Income Tax [Sec.40(a)]	2,00,000	
Donation to trust	80,000	
Interest to NBFC not paid [Sec.43B]	60,000	
Preliminary expenses (4/5 x 50,000)	40,000	
Depn as per books	12,50,000	
Interest on P. Cap (3%)	27,000	
Remuneration to partners (2,50,000 + 7,00,000 + 8,00,000)	17,50,000	+34,53,000
		43,47,000
<b>Less: NON-BUSINESS INCOMES:</b>		
Dividend [IFOS]	1,40,000	
Rent from office bldg. [IFHP]	6,60,000	
I.T.Refund	1,30,000	
Interest income [IFOS]	9,00,000	- 18,30,000
		25,17,000
<b>Less: U B E:</b>		
Depn. As per I.Tax	17,00,000	
Legal charges	60,000	- 17,60,000
		7,57,000
<b>Add: U B I:</b>		NIL
<b>BOOK PROFITS</b>		<b>7,57,000</b>
<b>Less: Ded. for partners' remuneration</b>		<b>(6,34,200)</b>
1) Actual Remuneration to WP	15,00,000	
2) Limit u/s 40(b) (Note.1)	6,34,200	
<b>TAXABLE INCOME FROM BUSINESS</b>		<b>1,22,800</b>

**Note 1: Limit u/s 40 (b):**



**STATEMENT OF INCOME FROM BUSINESS (of Partners)**

	X	Y	Z
<b><u>GROSS BUSINESS INCOME:</u></b>			
→ Remuneration from P. Firm ( <b>to the extent is allowed</b> to the Firm) [6,34,200 in remuneration ratio 7:8]	Nil	2,95,960	3,38,240
→ Interest from P. Firm ( <b>to the extent allowed</b> to the Firm) [1,08,000 in cap. ratio assuming equal]	36,000	36,000	36,000
→ Share in Profit [ <b>Exempt u/s 10 (2A)</b> ]	-	-	-
<b><u>Less: DEDUCTION u/s 30 to 37</u></b>	-	-	-
<b>Taxable Income from business</b>	<b>36,000</b>	<b>3,31,960</b>	<b>3,74,240</b>

**QUESTION 13:**

M/s Hind Udyog, a manufacturing partnership firm, consisting of three partners namely X, Y and Z provides following information relating to the year ending on 31.03.2025. Net profit of ₹118.75 Lakhs as per profit & loss account, was arrived at after debiting/crediting the following items:

- (i) Payment of ₹ 1,10,000 in cash to producers of agricultural products;
- (ii) Sale proceeds of import entitlements amounting to ₹ 1 lakh have been credited to profit and loss account, which the firm claims as capital receipt not chargeable to income tax;
- (iii) Goods and Service Tax paid includes ₹ 1,50,000 charged as penalty for delayed filling of returns and ₹ 6,02,750 towards interest for delay in deposit of tax;
- (iv) Provision for Gratuity based on actuarial valuation ₹ 13,00,000;
- (v) Remuneration to partners ₹ 75,00,000;
- (vi) Interest on partners' capital ₹ 24,00,000;
- (vii) Income Tax ₹ 12,25,000;
- (viii) Long-term capital gains on sale of plot of land ₹ 20,00,000.

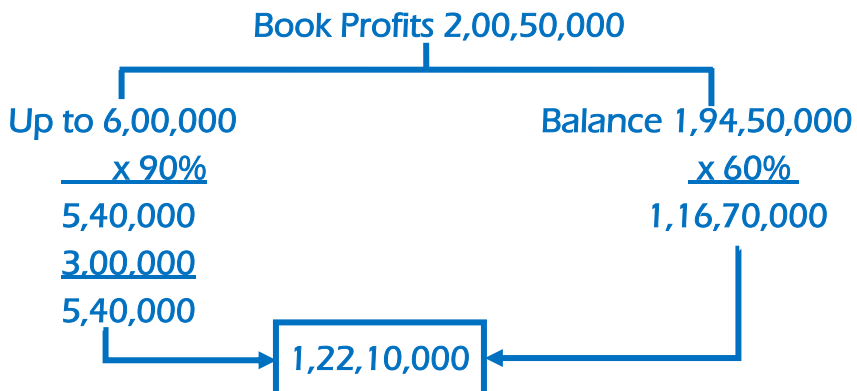
Compute the profits & gains of M/s Hind Udyog for the A.Y. 2025-26 by applying the relevant provisions of Income tax law. Explain in brief, the reasons for the treatment of each item. All partners are working partners. The firm fulfils the conditions of Sec. 184.

**ANSWER:**

**STATEMENT OF INCOME FROM BUSINESS**

	Amt.	Amt.
N.P. as per P/L A/c		1,18,75,000
<b>Add: DISALLOWED EXPENSES:</b>		
Cash pymt to Ag. producers [Rule 6DD]	—	
GST Penalty [Breach of law]	1,50,000	
GST Interest [Allowed]	—	
Provision for Gratuity [Sec. 40A(7)]	13,00,000	
Remuneration to partners	75,00,000	
Interest to partners	—	
Income tax [Sec. 40(a)]	12,25,000	+1,01,75,000
		2,20,50,000
<b>Less: NON-BUSINESS INCOMES:</b>		
Sale of import entitlements [Sec.28]	—	
LTCG	20,00,000	- 20,00,000
		2,00,50,000
<b>Less: U B E:</b>		Nil
<b>Add: U B I:</b>		Nil
<b>BOOK PROFITS</b>		<b>2,00,50,000</b>
<b>Less: Dedn for partners' rem.... :</b>		(75,00,000)
↓ 1) Actual Remuneration to WP	75,00,000	
↓ 2) Limit u/s 40(b) (Note.1)	1,22,10,000	
<b>TAXABLE INCOME FROM BUSINESS</b>		<b>1,25,50,000</b>

**Note 1: Limit u/s 40 (b):**



**TREATMENT OF EACH ITEM:**

- 1) Payment to producers of agricultural products is allowed in cash as per **Rule 6DD**.
- 2) Sale of import entitlements i.e. sale of import license is taxable as business income as per **section 28**. Since it is already credited to P & L Account i.e. **already included in the net profit**, there is no need to make any adjustment.
- 3) GST penalty is disallowed as it is penalty for **breach of law**. However, GST interest is allowed.
- 4) Provision for gratuity is expressly disallowed u/s **40A(7)**.
- 5) Remuneration to partners is allowed subject to limit u/s 40(b) as all the partners are working partners and conditions u/s 184 are satisfied.
- 6) Interest on partners capital is fully allowed assuming it does not exceed **12% p.a.**
- 7) Income tax is expressly disallowed u/s **40(a)**.
- 8) LTCG credited to P & L is deducted from the Net Profit as it is taxed under the head "**Capital Gains**".

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# TOTAL INCOME / MAT - QUESTIONS

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## QUESTION 1:

Netherlands Oil Corporation is a Foreign Company engaged in the exploration of Oil and Gas in all countries including India. In respect of its Indian Business, the company has prepared the Profit and Loss Account and such Profit and Loss Account for the previous year ended 31.3.2025 shows a Net profit of ₹ 65 lakhs. The Net profit from activities in all other countries stands at ₹ 550 lakhs.

The company informs that while arriving at the net profit as indicated above in respect of Indian business, the following debits/credits have been made in its Profit & Loss Account.

| Credits to the Profit and Loss Account                        | ₹ (in lakhs) |
|---------------------------------------------------------------|--------------|
| (a) Net agricultural income in India                          | 16           |
| (b) Share of profits from a firm engaged in business in India | 15           |
| (c) Amt. withdrawn from reserve                               | 3            |
| (d) Profits from sick industrial undertaking                  | 30           |

| Debits to the Profit and Loss Account                                  | ₹ (in lakhs) |
|------------------------------------------------------------------------|--------------|
| (a) Expenditure relating to sick undertaking                           | 12           |
| (b) Depreciation for current year under Companies Act, 2013            | 25           |
| (c) Int. to financial institution not paid upto the due date of return | 6            |
| (d) Penalty for infraction of law                                      | 1            |
| (e) Proposed dividend                                                  | 3            |
| (f) Provision for Taxation (Income Tax)                                | 2            |
| (g) Transfer to General Reserve                                        | 5            |
| (h) Provision for Unascertained Liabilities                            | 2            |

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The following information is also provided:

|                                                                                                                      |    |
|----------------------------------------------------------------------------------------------------------------------|----|
| Brought forward book loss (incl. Unabsorbed dep. ₹ 5,00,000)                                                         | 12 |
| Depreciation allowable under Tax Rules                                                                               | 30 |
| Brought forward business loss and unabsorbed depreciation as per Income Tax Law (Loss ₹ 8 lakhs and Dep. ₹ 10 lakhs) | 18 |

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You are required to compute the total tax liability for the A.Y. 2025-26.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                               | Amt.             |
|-------------------------------------------|------------------|
| * Income from Salaries                    | Nil              |
| * Income from House Property              | Nil              |
| * Income from Business [Note 1]           | 27,00,000        |
| * Capital Gains                           | Nil              |
| * <u>Income from Other Sources:</u>       |                  |
| Agricultural Income [Ex. u/s 10(1)]       | Nil              |
| <b>GROSS TOTAL INCOME</b>                 | <b>27,00,000</b> |
| <u>Less:</u> Deduction under Chapter VI A | Nil              |
| <b>NET TAXABLE INCOME</b>                 | <b>27,00,000</b> |

**STATEMENT OF TAX**

|                           | STCG<br>111A | LTCG<br>112A | LTCG<br>(Others) | Win..      | Balance          |
|---------------------------|--------------|--------------|------------------|------------|------------------|
| <b>Net Taxable Income</b> | <b>Nil</b>   | <b>Nil</b>   | <b>Nil</b>       | <b>Nil</b> | <b>27,00,000</b> |
| Tax on above @35%         |              |              |                  |            | 9,45,000         |
| <u>Add:</u> Surcharge     |              |              |                  |            | —                |
| <u>Add:</u> HEC @ 4%      |              |              |                  |            | + 37,800         |
| <b>NORMAL TAX</b>         |              |              |                  |            | <b>9,82,800</b>  |

**Note 1:****STATEMENT OF INCOME FROM BUSINESS**

| Particulars                                    | ₹         | ₹         |
|------------------------------------------------|-----------|-----------|
| Net Profit as per Profit & Loss A/c            |           | 65,00,000 |
| <b>Add: DISALLOWED EXPENSES:</b>               |           |           |
| Depn as per books                              | 25,00,000 |           |
| Int. to PFI<br>[Not paid – disallowed u/s 43B] | 6,00,000  |           |
| Penalty for infraction of Law                  | 1,00,000  |           |
| Proposed Dividend                              | 3,00,000  |           |

CA SHIRISH VYAS / CA FINAL / DIRECT TAX

|                                               |           |                  |
|-----------------------------------------------|-----------|------------------|
| Provision for Tax [Sec.40(a)]                 | 2,00,000  |                  |
| Trf. to General Reserve                       | 5,00,000  |                  |
| Provision for unascertained liabilities       | 2,00,000  | +44,00,000       |
|                                               |           | 1,09,00,000      |
| <b>Less: NON-BUSINESS INCOMES:</b>            |           |                  |
| Net Agricultural Income                       | 16,00,000 |                  |
| Share in NP of P.Firm                         | 15,00,000 |                  |
| Amt withdrawn from reserves                   | 3,00,000  | - 34,00,000      |
|                                               |           | 75,00,000        |
| <b>Less: UNRECORDED BUS.. EXPS:</b>           |           |                  |
| Depn as per I.Tax                             |           | - 30,00,000      |
|                                               |           | 45,00,000        |
| <b>Add: UNRECORDED BUS.. INCOME:</b>          |           | —                |
| <u>Less: B/f Business Loss (as per I.Tax)</u> |           | - 8,00,000       |
| <u>Less: Unabsorbed Depn (as per I.Tax)</u>   |           | - 10,00,000      |
| <b>TAXABLE INCOME FROM BUSINESS</b>           |           | <b>27,00,000</b> |

COMPUTATION OF MAT

| Particulars                                                       | ₹   | ₹      |
|-------------------------------------------------------------------|-----|--------|
| Net Profit as per Profit & Loss A/c                               |     | 65 L   |
| <b>Add: P<sub>3</sub> R I D<sub>3</sub> E:</b>                    |     |        |
| P <sub>1</sub> : Provision for unascertained liabilities          | 2 L |        |
| P <sub>2</sub> : Provision for diminution in value of assets      | Nil |        |
| P <sub>3</sub> : Provision for loss of subsidiary company         | Nil |        |
| R: Transfer to Reserves (General Reserve)                         | 5 L |        |
| I: Income Tax and Interest on Income Tax                          | 2 L |        |
| D <sub>1</sub> : Deferred Tax                                     | -   |        |
| D <sub>2</sub> : Dividend & Dividend Distribution Tax             | 3 L |        |
| D <sub>3</sub> : Depreciation on Revaluation                      | Nil |        |
| E: Exps. related to incomes exempt u/s 10/11/12 {Except Sec.10AA} | Nil | + 12 L |
|                                                                   |     | 77 L   |

|                                                                  |      |               |
|------------------------------------------------------------------|------|---------------|
| <b>Less: D P R<sub>2</sub> E S:</b>                              |      |               |
| D: Deferred Tax                                                  | Nil  |               |
| P: Amount withdrawn from Provisions                              | Nil  |               |
| R <sub>1</sub> : Amount withdrawn from Rev. Reserve              | Nil  |               |
| R <sub>2</sub> : Amount withdrawn from Other Reserves            | 3 L  |               |
| E: Income exempt u/s 10/11/12 [16 L + 15 L]<br>[Except Sec.10AA] | 31 L |               |
| S: Profit of Sick Industrial Unit [30 L – 12 L]                  | 18 L | - 52 L        |
|                                                                  |      | 25 L          |
| Less: ↓ B/f Business Loss (As per A/c)                           | 7 L  |               |
| ↓ UAD (As per A/c)                                               | 5 L  | - 5 L         |
| <b>BOOK PROFITS</b>                                              |      | <b>20 L</b>   |
| Tax on above @ 15%                                               |      | 3 L           |
| Add: Surcharge                                                   |      | -             |
| Add: HEC @ 4%                                                    |      | + 0.12        |
| <b>MINIMUM ALTERNATE TAX</b>                                     |      | <b>3.12 L</b> |

→ **FINAL TAX LIABILITY:**

|                    |                 |
|--------------------|-----------------|
| ↑ Normal Tax       | 9,82,800        |
| ↑ MAT              | 3,12,000        |
| <b>Tax Payable</b> | <b>9,82,800</b> |

**QUESTION 2:**

The accounts of Scullers Ltd. have been prepared in accordance with Schedule III to the Companies Act and its P & L A/c laid before the Annual General Meeting for the P.Y. ending 31.3.2025 shows a net profit of ₹ 15 lakhs. The following information relevant for the purpose of computing its assessable income has been extracted from a scrutiny of the P & L A/c.

Credits in Profit and Loss Account ₹

|                                                                                       |           |
|---------------------------------------------------------------------------------------|-----------|
| (a) Profit from a new industrial undertaking qualifying for deduction u/s 80-IA (Net) | 17,00,000 |
| (b) Profit from a sick industrial undertaking                                         | 10,00,000 |
| (c) Long Term Capital Gains                                                           | 3,00,000  |

| Debits in Profit and Loss Account                | ₹         |
|--------------------------------------------------|-----------|
| (a) Exp. relating to sick industrial undertaking | 7,00,000  |
| (b) Depn. relating to 2014-15 brought forward    | 10,00,000 |
| (c) Business loss of 2017-18 brought forward     | 12,00,000 |
| (d) Current year's depreciation                  | 10,00,000 |
| (e) Penalty for infraction of Law                | 1,00,000  |
| (f) Provision for Sales Tax                      | 3,00,000  |
| (g) Dividend Proposed                            | 2,00,000  |

Depreciation admissible under the Income Tax Act and Rules for the P.Y. is ₹ 19,50,000. Capital Gain has been invested in specified assets u/s 54EC. Sales tax provided in the accounts has been remitted before due date. There is no loss or unabsorbed depreciation to be carried forward and adjusted as per Income Tax Assessment.

You are required to compute the total tax liability of the A.Y. 2025-26 assuming the turnover of the company in the PY 2022-23 is ₹ 96 crores.

**ANSWER:**

**STATEMENT OF TOTAL INCOME**

| Particulars                                | Amt. | Amt.             |
|--------------------------------------------|------|------------------|
| * Income from Salaries                     |      | Nil              |
| * Income from House Property               |      | Nil              |
| * Income from Business [Note 1]            |      | 27,50,000        |
| * Capital Gains [Ex. u/s 54EC]             |      | Nil              |
| * Income from Other Sources                |      | Nil              |
| <b>GROSS TOTAL INCOME</b>                  |      | <b>27,50,000</b> |
| <b>Less: Deduction under Chapter VI A:</b> |      |                  |
| → Sec. 80-IA: Profit of eligible unit      |      | - 17,00,000      |
| <b>NET TAXABLE INCOME</b>                  |      | <b>10,50,000</b> |

**STATEMENT OF TAX**

|                           | STCG<br>111A | LTCG<br>112A | LTCG       | Win..      | Balance          |
|---------------------------|--------------|--------------|------------|------------|------------------|
| <b>Net Taxable Income</b> | <b>Nil</b>   | <b>Nil</b>   | <b>Nil</b> | <b>Nil</b> | <b>10,50,000</b> |
| Tax on above (25%)        |              |              |            |            | 2,62,500         |
| Add: Surcharge            |              |              |            |            | Nil              |
| Add: HEC @ 4%             |              |              |            |            | + 10,500         |
| <b>NORMAL TAX</b>         |              |              |            |            | <b>2,73,000</b>  |

Since the turnover of PY 2022-23 is up to Rs. 400 crores,  
rate of tax is 25%.

**Note 1:****STATEMENT OF INCOME FROM BUSINESS**

| Particulars                          | ₹         | ₹                |
|--------------------------------------|-----------|------------------|
| Net Profit as per P & L A/c          |           | 15,00,000        |
| <b>Add: DISALLOWED EXPENSES:</b>     |           |                  |
| Depreciation as per books (2014-15)  | 10,00,000 |                  |
| Business loss as per books (2017-18) | 12,00,000 |                  |
| Depreciation for current year (C.Y.) | 10,00,000 |                  |
| Penalty for infraction of law        | 1,00,000  |                  |
| Proposed Dividend                    | 2,00,000  | +35,00,000       |
|                                      |           | 50,00,000        |
| <b>Less: NON-BUSINESS INCOMES:</b>   |           |                  |
| Long Term Capital Gains              |           | - 3,00,000       |
|                                      |           | 47,00,000        |
| <b>Less: UNRECORDED BUS.. EXPS:</b>  |           |                  |
| Depreciation as per Income Tax       |           | - 19,50,000      |
|                                      |           | 27,50,000        |
| <b>Add: UNRECORDED BUS.. INCOME:</b> |           | Nil              |
|                                      |           | 27,50,000        |
| Less: B/f Business Loss (as per tax) |           | Nil              |
| Less: Unabsorbed Depn. (as per tax)  |           | Nil              |
| <b>TAXABLE INCOME FROM BUSINESS</b>  |           | <b>27,50,000</b> |

**COMPUTATION OF MAT**

| Particulars                                                       | ₹           | ₹               |
|-------------------------------------------------------------------|-------------|-----------------|
| Net Profit as per P & L A/c [15L + 12L + 10L]                     |             | 37 L            |
| <b>Add: P<sub>3</sub> R I D<sub>3</sub> E:</b>                    |             |                 |
| P <sub>1</sub> : Provisions for unascertained liabilities         | -           |                 |
| P <sub>2</sub> : Prov.. for diminution in value of assets         | -           |                 |
| P <sub>3</sub> : Prov. for loss of subsidiary company             | -           |                 |
| R: Transfer to Reserves (General Reserve)                         | -           |                 |
| I: Income Tax and Int. on Income Tax                              | -           |                 |
| D <sub>1</sub> : Deferred Tax                                     | -           |                 |
| D <sub>2</sub> : Dividend & Dividend Distribution Tax             | 2 L         |                 |
| D <sub>3</sub> : Depreciation on Revaluation                      | -           |                 |
| E: Exps. related to incomes exempt u/s 10/11/12 {Except Sec.10AA} | -           | + 2 L           |
|                                                                   |             | 39 L            |
| <b>Less: D P R<sub>2</sub> E S:</b>                               |             |                 |
| D: Deferred Tax                                                   | -           |                 |
| P: Amount withdrawn from Provisions                               | -           |                 |
| R <sub>1</sub> : Amount withdrawn from Rev. Reserve               | -           |                 |
| R <sub>2</sub> : Amt withdrawn from Other Reserves                | -           |                 |
| E: Income exempt u/s 10/11/12 [Except Sec.10AA]                   | -           |                 |
| S: Profit of Sick Industrial Unit                                 | 3 L         | - 3 L           |
|                                                                   |             | 36 L            |
| <b>Less: B/f Business Loss (As per A/c)</b>                       | <b>10 L</b> |                 |
| <b>↓ UAD (As per A/c)</b>                                         | <b>12 L</b> | <b>- 10 L</b>   |
| <b>BOOK PROFITS</b>                                               |             | <b>26 L</b>     |
| Tax on above @ 15%                                                |             | 3,90,000        |
| Add: Surcharge                                                    |             | -               |
| Add: HEC @ 4%                                                     |             | +15,600         |
| <b>MINIMUM ALTERNATE TAX</b>                                      |             | <b>4,05,600</b> |

**→ FINAL TAX LIABILITY:**

|                    |                 |
|--------------------|-----------------|
| ↑ Normal Tax       | 2,73,000        |
| ↑ MAT              | 4,05,600        |
| <b>Tax Payable</b> | <b>4,05,600</b> |

**QUESTION 3:**

From the following P & L A/c of Future Score Ltd., you are required to calculate the Tax Liability of the Company assuming the turnover of the company for PY 2022-23 was ₹ 115 crores.

Profit & Loss A/c for the year ended 31/3/2025

|                      | ₹         |                                             | ₹         |
|----------------------|-----------|---------------------------------------------|-----------|
| To Office Exp.       | 14,00,000 | By Gross Profit                             | 28,00,000 |
| To Advertisement     | 3,00,000  | By Bad debts recovery                       | 3,00,000  |
| To Sales Tax (O/s)   | 75,000    | By Power subsidy                            | 40,000    |
| To Wealth Tax        | 20,000    | By Dividend                                 | 60,000    |
| To Income Tax        | 1,00,000  | By Wealth tax refund                        | 30,000    |
| To Depreciation      | 3,00,000  | By LTCG                                     | 4,50,000  |
| To Dep (revaluation) | 1,00,000  | By Revaluation reserve                      | 1,80,000  |
| To R.D.D.            | 80,000    | By Profit from sick unit                    | 10,00,000 |
| To Sales tax penalty | 10,000    | By Amount withdrawn<br>from General reserve | 2,50,000  |
| To Deferred tax      | 60,000    |                                             |           |
| To Trf. to Gen. Res. | 40,000    |                                             |           |
| To Dividend          | 60,000    |                                             |           |
| To Net Profit        | 25,65,000 |                                             |           |
|                      | 51,10,000 |                                             | 51,10,000 |

**Additional information:**

- Dep. as per I. Tax ₹ 7,00,000.
- Advt. includes ₹ 75,000 in the souvenir of political party.
- Amt. withdrawn from general reserve includes ₹ 50,000 which was not created from P & L A/c.
- Brought forward business loss
  - As per Accounts - ₹ 1,00,000
  - As per Income Tax - ₹ 75,000
- Unabsorbed depreciation
  - As per Accounts - Nil
  - As per Income Tax - ₹ 50,000

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                          | Amt. | Amt.             |
|--------------------------------------|------|------------------|
| * Income from Salaries               |      | —                |
| * Income from House Property         |      | —                |
| * Income from Business [Note 1]      |      | 16,90,000        |
| * Income from Capital Gains [LTCG]   |      | 4,50,000         |
| * Income from Other Sources:         |      |                  |
| Dividend [Taxable]                   |      | 60,000           |
| <b>GROSS TOTAL INCOME</b>            |      | <b>22,00,000</b> |
| <b>Less: Ded. under Chapter VIA:</b> |      |                  |
| → Sec. 80GGB: Donation to P. Party   |      | - 75,000         |
| → Sec. 80M: Dividend distributed     |      | - 60,000         |
| <b>NET TAXABLE INCOME</b>            |      | <b>20,65,000</b> |

**STATEMENT OF TAX**

|                    | ST u/s 111A | LTCG              | Winnings        | Balance           |
|--------------------|-------------|-------------------|-----------------|-------------------|
| Net Taxable Income | Nil         | 4,50,000          | Nil             | 16,15,000         |
| Tax on above       |             | 56,250<br>(12.5%) |                 | 4,03,750<br>(25%) |
|                    |             |                   | 4,60,000        |                   |
| Add: Surcharge     |             |                   | —               |                   |
| Add: HEC @ 4%      |             |                   | + 18,400        |                   |
| <b>NORMAL TAX</b>  |             |                   | <b>4,78,400</b> |                   |

Since the turnover of PY 2022-23 is up to Rs. 400 crores, rate of tax is 25%.

It is assumed that the LTCG is in respect of transfer on/after 23/7/2024

**Note 1:****STATEMENT OF INCOME FROM BUSINESS**

| Particulars                                 | ₹        | ₹                |
|---------------------------------------------|----------|------------------|
| Net Profit as per Profit & Loss A/c         |          | 25,65,000        |
| <b>Add: DISALLOWED EXPENSES:</b>            |          |                  |
| Advt. – Political party [37(2B)]            | 75,000   |                  |
| Sales Tax (o/s) [Sec. 43B]                  | 75,000   |                  |
| Wealth Tax [Sec. 40(a)]                     | 20,000   |                  |
| Income Tax [Sec. 40(a)]                     | 1,00,000 |                  |
| Depreciation (as per A/c)                   | 3,00,000 |                  |
| Depreciation on Revaluation                 | 1,00,000 |                  |
| RDD                                         | 80,000   |                  |
| Sales tax penalty                           | 10,000   |                  |
| Deferred tax [Sec. 40(a)]                   | 60,000   |                  |
| Trf. to GR (Not an exp. - appropriation)    | 40,000   |                  |
| Dividend (Not an exp. - appropriation)      | 60,000   | + 9,20,000       |
|                                             |          | 34,85,000        |
| <b>Less: NON-BUSINESS INCOMES:</b>          |          |                  |
| Amt. withdrawn from General Reserve         | 2,50,000 |                  |
| Dividend from other companies (IFOS)        | 60,000   |                  |
| Wealth tax refund                           | 30,000   |                  |
| LTCG                                        | 4,50,000 |                  |
| Revaluation Reserve (Artificial Profit)     | 1,80,000 | (9,70,000)       |
| <b>Less: UNRECORDED BUSINESS EXPS:</b>      |          | 25,15,000        |
| Depreciation as per Income Tax              |          | (7,00,000)       |
|                                             |          | 18,15,000        |
| <b>Add: UNRECORDED BUS. INCOME:</b>         |          | —                |
| <b>Less: B/f Business Loss (as per tax)</b> |          | (75,000)         |
| <b>Less: Unabsorbed Depn. (as per tax)</b>  |          | (50,000)         |
| <b>TAXABLE INCOME FROM BUSINESS</b>         |          | <b>16,90,000</b> |

**COMPUTATION OF MAT**

| Particulars                                                       | ₹         | ₹                |
|-------------------------------------------------------------------|-----------|------------------|
| Net Profit as per Profit & Loss A/c                               |           | 25,65,000        |
| <b>Add: P<sub>3</sub> R<sub>1</sub> D<sub>3</sub> E:</b>          |           |                  |
| P <sub>1</sub> : Provisions for unascertained liab.               | —         |                  |
| P <sub>2</sub> : Provision for diminution in assets               | 80,000    |                  |
| P <sub>3</sub> : Provision for loss of subsidiary co.             | —         |                  |
| R: Transfer to Reserves (GR)                                      | 40,000    |                  |
| I: Income Tax and Interest on I. Tax                              | 1,00,000  |                  |
| D <sub>1</sub> : Deferred Tax                                     | 60,000    |                  |
| D <sub>2</sub> : Dividend & Dividend Dist. Tax                    | 60,000    |                  |
| D <sub>3</sub> : Depreciation on Revaluation                      | 1,00,000  |                  |
| E: Exps. related to incomes exempt u/s 10/11/12 {Except Sec.10AA} | —         | + 4,40,000       |
|                                                                   |           | 30,05,000        |
| <b>Less: D P R<sub>2</sub> E S:</b>                               |           |                  |
| D: Deferred Tax                                                   | —         |                  |
| P: Amt withdrawn from Provisions                                  | —         |                  |
| R <sub>1</sub> : Amt withdrawn from Rev. Res.                     | 1,00,000  |                  |
| R <sub>2</sub> : Amt. withdrawn from Other Res.                   | 2,00,000  |                  |
| E: Income exempt u/s 10/11/12                                     | —         |                  |
| S: Profit of Sick Industrial Unit                                 | 10,00,000 | (13,00,000)      |
|                                                                   |           | 17,05,000        |
| <b>Less:   B/f Business Loss (As per A/c)</b>                     | 1,00,000  |                  |
| <b>↓ UAD (As per A/c)</b>                                         | Nil       | Nil              |
| <b>BOOK PROFITS</b>                                               |           | <b>17,05,000</b> |
| Tax on above @ 15%                                                |           | 2,55,750         |
| Add: Surcharge                                                    |           | Nil              |
| Add: HEC @ 4%                                                     |           | + 10,230         |
| <b>MINIMUM ALTERNATE TAX</b>                                      |           | <b>2,65,980</b>  |

**→ FINAL TAX LIABILITY:**

|                    |                 |
|--------------------|-----------------|
| ↑ Normal Tax       | 4,78,400        |
| ↑ MAT              | 2,65,980        |
| <b>Tax Payable</b> | <b>4,78,400</b> |

**QUESTION 4:**

The Net Profit of Nexus Ltd. after debit and credit of following items is ₹ 46 lakhs:

1. One-time license fee of ₹ 20 lakhs paid to a foreign company for obtaining franchise on June 1, 2024.
2. ₹ 29,000 paid to A & Co., a goods transport operator, in cash on January 31, 2025 for distribution of the company's products to its warehouse.
3. ₹ 2 lakhs, being contribution for scientific research to a University approved and notified under Section 35(1)(ii).
4. ₹ 50,000, being proportionate part of the cost of animals (purchased and kept for entertainment of the guests of hotel), is debited in the profit and loss account as amortization of expenditure as per the accounting policy of the company. ₹10,000 is credited on account of sale proceeds of carcass of an animal which died during the year. Cost of animal died was ₹ 2 lakhs.
5. Foreign exchange fluctuation loss (net) amounting to ₹ 30 lakhs arising from restatement of the year-end liabilities to foreign suppliers of goods as per the requirement of AS-11 of ICAI.
6. Income-tax refund ₹ 44,570 incl. interest thereon ₹ 4,570.
7. The company had made an investment of ₹ 25 lakhs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from September 15, 2024 and the income from this activity ₹ 20 lakhs is credited in the profit and loss account under the head of warehousing charges. Cost of the warehouse is capitalized.
8. ₹ 2 lakhs contributed to employees' welfare trust.
9. Travelling expenses of ₹ 90,000 on a foreign tour of a director for negotiating collaboration with a foreign manufacturer for initiation of new line of business.
10. The company has converted arrears of interest of ₹ 3,00,000 on term loan into a new term loan with a revised repayment schedule. The company has paid ₹ 50,000 towards such funded interest during the year. Entire ₹ 3,00,000 is debited to profit and loss account. However, out of this a further sum of ₹ 50,000 is paid before the due date of submission of return of income.

11. ₹ 5,00,000, being contribution to S Ltd. (wholly owned subsidiary company) for construction of a school for the benefit of its employees.
12. The opening and closing stocks of the year were ₹ 90,000 and ₹ 1,17,000 respectively and were undervalued by 10 per cent on cost.
13. Loss of ₹ 5 lakhs due to non-realisation of advances given to a wholly owned subsidiary company engaged in the business of hire-purchase financing charged to Profit & Loss Account.
14. Amount of ₹ 25,000 debited in commission account represents payment to a party as secret commission duly approved by the board.

Compute the net income of the company.

**ANSWER:**

|                                                 |                  |
|-------------------------------------------------|------------------|
| Income from Salary                              | —                |
| Income from House Property                      | —                |
| Income from Business                            |                  |
| → Specified Business (Note 2)                   | —                |
| → Other Business (Note 1)                       | 51,73,430        |
| Capital Gains                                   | —                |
| Income from Other Sources [Int. on I.T. Refund] | 4,570            |
| <b>GTI/NTI</b>                                  | <b>51,78,000</b> |

**Note 1: Income from Business (Other Business):**

|                                  |           |             |
|----------------------------------|-----------|-------------|
| Net Profit as per P & L          |           | 46,00,000   |
| <b>Add: Disallowed Exps:</b>     |           |             |
| Licence fees (Capital Exp.)      | 20,00,000 |             |
| Proportionate cost of animal     | 50,000    |             |
| Dep. On warehouse (25 L × 10%)   | 2,50,000  |             |
| Employees welfare trust (Note4)  | 2,00,000  |             |
| Travelling expenses (Note 5)     | 90,000    |             |
| Arrears of interest (Note 6)     | 2,00,000  |             |
| Loss on non-realisation of adv.. | 5,00,000  |             |
| Secret Commission                | 25,000    | + 33,15,000 |

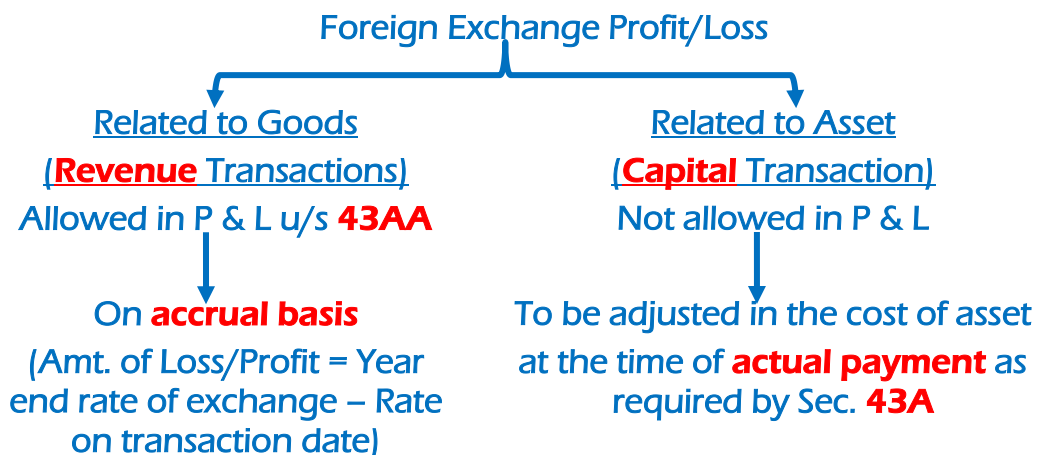
|                                                           |            |                  |
|-----------------------------------------------------------|------------|------------------|
| <b><u>Less: Non-Business Income</u></b>                   |            |                  |
| Sale proceeds of carcass                                  | 10,000     |                  |
| Income tax refund                                         | 40,000     |                  |
| Interest on refund (IFOS)                                 | 4,570      |                  |
| WH income (specified business)<br>(considered separately) | 20,00,000  | - 20,54,570      |
| <b><u>Less: Unrecorded Business Exps.</u></b>             |            |                  |
| Write off allowance for animals<br>(2,00,000 – 10,000)    | (1,90,000) |                  |
| Dep. On License (20 L × 25%)                              | (5,00,000) |                  |
| Opening stock undervalued                                 | (10,000)   | - 7,00,000       |
| <b><u>Add: Unrecorded Business Income</u></b>             |            |                  |
| Closing stock undervalued                                 |            | + 13,000         |
| <b>Taxable Income from Business</b>                       |            | <b>51,73,430</b> |

**Note 2: Income from Business (Specified Business)**

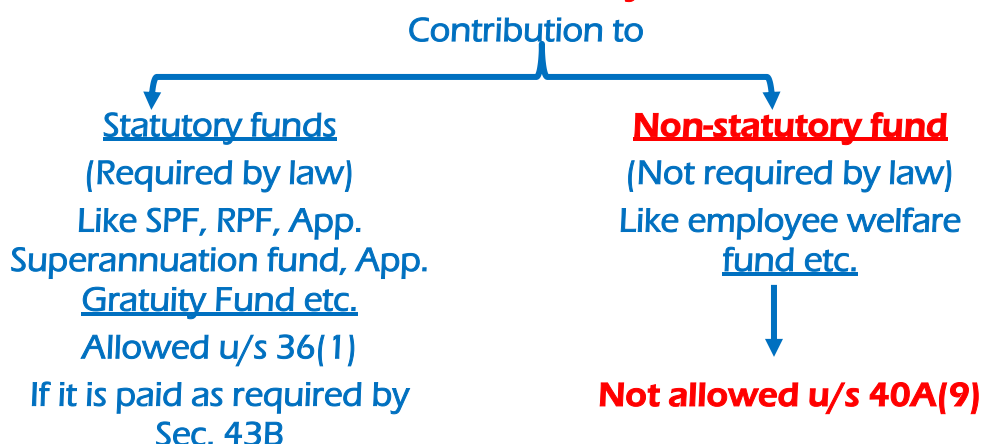
|                                                        |             |
|--------------------------------------------------------|-------------|
| Income from Warehousing                                | 20,00,000   |
| <u>Less:</u> Capital Exp. u/s 35AD (Full cost allowed) | (25,00,000) |
| Loss from Specified Business [to be c/f]               | (5,00,000)  |

Since the cost of warehouse is capitalized (shown in B/S), it is assumed that the company has provided depreciation on it @ 10% (assumed as per tax rules). However, this is not allowed because as per Section 35AD, 100% deduction is allowed for the cost of warehouse. Income from warehousing activity credited to P & L A/c i.e. ₹ 20,00,000 is to be considered separately because it is a specified business. Income from specified business is separately computed because loss from specified business cannot be set off against non-specified business.

**Note 3: Foreign Exchange Profit/Loss:**



**Note 4: Contribution to Non-Statutory Fund**



**Note 5: Travelling Expenses**

New line of business means new project and expenses before commencement of new project are preliminary. However, travelling expenses is not covered u/s 35D (Not there in the list of PFME DRSO]. Hence, not allowed u/s 35D. Even u/s 37(1), it is not allowed because it is not revenue in nature.

**Note 6: Interest on Loan**

Since the question uses the words “term loan” and revised repayment schedule, it means it is a loan from bank and interest on loan from bank is allowed if paid upto the due date of filing the return as required by **Sec. 43B** (PFI, SFC, SIIC, Scheduled **Banks**).

When outstanding interest is converted into a new loan, such conversion is not treated as payment of interest. However, when such loan is repaid, it is treated as payment of interest. In this sum, outstanding interest of 3 Lakhs is converted into a new loan of 3 Lacs & out of such 3 Lakhs, only ₹ 1 Lakh is paid (50,000 + 50,000). Hence, 1 Lakh is allowed and balance 2 Lakhs is not allowed.

| P & L A/c         |                                    |
|-------------------|------------------------------------|
| To Interest (O/s) | 3,00,000                           |
|                   | 50,000 ✓<br>50,000 ✓<br>2,00,000 × |

**Note 7: Contribution to Subsidiary Company**

Contribution by assessee to its subsidiary company for construction of school is allowed **u/s 37(1)** because the contribution is for the benefit of the employees of assessee. Hence, it is an expense related to **business** and the expense is **revenue** in nature (because this expense simply maintains the business).

**QUESTION 5:**

VISION Ltd., engaged in diversified activities, earned a net profit of ₹ 19,25,000 after debit/credit of the following items to its Profit & Loss A/c for the year ended on 31/3/2025:

| Items debited to Profit and Loss Account:                       | ₹        |
|-----------------------------------------------------------------|----------|
| Provision for Loss of Subsidiary                                | 70,000   |
| Prov. for Sales Tax Demand (paid on 18 <sup>th</sup> Nov, 2025) | 75,000   |
| Provision for Income Tax Demand                                 | 1,05,000 |
| Provision for Doubtful Debts                                    | 60,000   |
| Provision for Gratuity on actuarial basis                       | 2,15,000 |
| Provision for Leave Salary on ad hoc basis                      | 1,32,000 |
| Provision for Contingencies                                     | 50,000   |

CA SHIRISH VYAS / CA FINAL / DIRECT TAX

|                                                                                       |          |
|---------------------------------------------------------------------------------------|----------|
| Expenses on purchase / sale of equity shares                                          | 15,000   |
| Depreciation                                                                          | 3,60,000 |
| Int. on deposit credited to buyers on 31.3.2025 for advance recd. from them           | 90,000   |
| Development charges paid to Govt. on a piece of industrial land purchased             | 75,000   |
| Amt. paid for obtaining an expert opinion for setting up an office building           | 60,000   |
| Exp. on developing & making of gardens and lawns in factory compound                  | 1,50,000 |
| Registration fees & listing fees paid to ROC & Stock Ex. On issue of bonus shares     | 50,000   |
| Exp. relating to 80-IA undertaking                                                    | 3,00,000 |
| Penalty for infraction of law                                                         | 75,000   |
| Legal charges including a sum paid to consultant for framing a scheme of amalgamation | 45,000   |
| Purchase of Scrap materials paid in cash on 15/8/2024                                 | 60,000   |
| Capital Exp. for promoting family planning amongst its employees                      | 3,00,000 |
| Interest on short payment of advance tax                                              | 20,000   |
| Interim and Proposed Dividend                                                         | 1,00,000 |
| Dividend Distribution Tax                                                             | 16,995   |
| Transfer to Reserves                                                                  | 80,000   |
| <b>Items credited to Profit and Loss Account</b>                                      | <b>₹</b> |
| LTCG                                                                                  | 3,60,000 |
| Income from units of UTI                                                              | 75,000   |
| Rent from letting out part of the office building                                     | 2,00,000 |
| Profits from an industrial undertaking covered u/s 80-IA                              | 6,00,000 |
| Share of profit from a P. Firm                                                        | 2,20,000 |
| Deferred Tax                                                                          | 1,20,000 |
| Sale proceeds of import entitlements                                                  | 1,00,000 |
| Amount withdrawn from General Reserve                                                 | 75,000   |
| [₹ 50,000 created from P & L A/c]                                                     |          |
| Amount withdrawn from Revaluation Reserve                                             | 2,20,000 |
| Profits of Sick Industrial Unit                                                       | 95,000   |

**Additional Information:**

1. Depreciation includes ₹ 1,50,000 on account of revaluation of fixed assets.
2. Depreciation allowable as per Income Tax Rules is ₹ 2,80,000.
3. Brought forward Business Loss / Unabsorbed Depreciation:

|         | As per books |          | As per Income Tax |          |
|---------|--------------|----------|-------------------|----------|
|         | LOSS         | DEPN     | LOSS              | DEPN     |
| 2016-17 | 2,50,000     | 3,00,000 | 2,00,000          | 2,50,000 |
| 2017-18 | Nil          | 2,70,000 | 1,00,000          | 1,80,000 |
| 2019-20 | 3,50,000     | 3,15,000 | 1,20,000          | 2,10,000 |

4. Payment of labour charges debited to P & L A/c ₹ 25,000 was made in cash on 6.8.24 ₹ 15,000 and on 6.9.24 ₹ 10,000.
5. A sum of ₹ 6,000 on account of liability foregone by a creditor has been taken to General Reserve.
6. Being also engaged in the biotechnology business, the company incurred the following expenditure on in house research & development as approved by prescribed authority:
  - Research equipments purchased ₹ 1,50,000
  - Remuneration paid to scientists ₹ 50,000
 The total of ₹ 2,00,000 is debited to P & L A/c.

You are required to compute the tax liability of the company and the amount of MAT credit, if any for the assessment year 2025-26. Turnover of the company in PY 2022-23 was ₹ 600 crores.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                                | Amt. | Amt.             |
|--------------------------------------------|------|------------------|
| * Income from Salaries                     |      | –                |
| * Income from HP [2,00,000 – 30%]          |      | 1,40,000         |
| * Income from Business [Note 1]            |      | 11,80,995        |
| * Capital Gains [LTCG]                     |      | 3,60,000         |
| * Income from Other Sources:               |      |                  |
| Income from UTI                            |      | 75,000           |
| <b>GROSS TOTAL INCOME</b>                  |      | <b>17,55,995</b> |
| <b>Less: Deduction under Chapter VI A:</b> |      |                  |
| → Sec. 80IA – 100% of (6 L – 3 L)          |      | - 3,00,000       |
| <b>NET TAXABLE INCOME</b>                  |      | <b>14,55,995</b> |

**STATEMENT OF TAX**

|                       | STCG<br>111A | LTCG<br>Others | Win...          | Balance   |
|-----------------------|--------------|----------------|-----------------|-----------|
| Net Taxable Income    | Nil          | 3,60,000       | Nil             | 10,95,995 |
| Tax on above          |              | 45,000         |                 | 3,28,799  |
|                       |              |                | 3,73,799        |           |
| <u>Add:</u> Surcharge |              |                | —               |           |
| <u>Add:</u> HEC @ 4%  |              |                | + 14,952        |           |
| <b>NORMAL TAX</b>     |              |                | <b>3,88,751</b> |           |

Since turnover of PY 2022-23 is ₹ 600 crores,  
tax is calculated @30%

It is assumed that the LTCG is in respect of  
transfer on/after 23/7/2024

**Note 1: STATEMENT OF INCOME FROM BUSINESS**

| Particulars                              | ₹        | ₹         |
|------------------------------------------|----------|-----------|
| Net Profit as per Profit & Loss A/c      |          | 19,25,000 |
| <b><u>Add: DISALLOWED EXPENSES:</u></b>  |          |           |
| Provision for Loss of Subsidiary         | 70,000   |           |
| Provision for Sales Tax [Sec.43B]        | 75,000   |           |
| Prov. for Income Tax [Sec.40(a)]         | 1,05,000 |           |
| Provision for Gratuity – Actuarial basis | 2,15,000 |           |
| Provision for Leave Salary – Ad-hoc      | 1,32,000 |           |
| Provision for Contingencies              | 50,000   |           |
| Exps on Purchase/Sale of Equity Shs.     | 15,000   |           |
| Depreciation (As per A/c)                | 3,60,000 |           |
| Provision for Doubtful Debt              | 60,000   |           |
| Penalty for Infraction of Law            | 75,000   |           |
| Amalgamation Exps (4/5 × 45,000)         | 36,000   |           |
| Purchase of scrap materials in cash      | 60,000   |           |
| Cap. Exp. – Family Planning (4/5 × 3L)   | 2,40,000 |           |
| Interest on short payment of adv.. tax   | 20,000   |           |
| Interim & Proposed Dividend              | 1,00,000 |           |
| Dividend Distribution Tax                | 16,995   |           |

CA SHIRISH VYAS / CA FINAL / DIRECT TAX

|                                             |          |                  |
|---------------------------------------------|----------|------------------|
| Transfer to Reserves                        | 80,000   |                  |
| Develop.. charges to Govt. [Cap. Exp]       | 75,000   |                  |
| Paid for expert opinion [Cap.Exp]           | 60,000   |                  |
| Cash payment of labour charges              | 15,000   | +18,59,995       |
| <b>Less: NON-BUSINESS INCOMES:</b>          |          |                  |
| LTCG                                        | 3,60,000 |                  |
| Income from Units of UTI (IFOS)             | 75,000   |                  |
| Rent from Letting out                       | 2,00,000 |                  |
| Share of Profit [Exempt 10(2A)]             | 2,20,000 |                  |
| Deferred Tax                                | 1,20,000 |                  |
| Amount w/d from General Reserve             | 75,000   |                  |
| Amount w/d from Rev..Reserve                | 2,20,000 | (12,70,000)      |
| <b>Less: UNRECORDED BUSINESS EXPS:</b>      |          |                  |
| Depreciation (as per Income Tax)            |          | (2,80,000)       |
| <b>Add: UNRECORDED BUS.. INCOME:</b>        |          |                  |
| Liability forgone by creditor               |          | + 6,000          |
| <b>Less: B/f Business Loss (as per tax)</b> | 4,20,000 |                  |
| <b>Less: Unabsorbed Depn (as per tax)</b>   | 6,40,000 | (10,60,000)      |
| <b>TAXABLE INCOME FROM BUSINESS</b>         |          | <b>11,80,995</b> |

COMPUTATION OF MAT

| Particulars                                                       | ₹        | ₹         |
|-------------------------------------------------------------------|----------|-----------|
| Net Profit as per Profit & Loss A/c                               |          | 19,25,000 |
| <b>Add: P<sub>3</sub> R I D<sub>3</sub> E:</b>                    |          |           |
| P <sub>1</sub> : Provisions for unascertained liab.               | 1,82,000 |           |
| P <sub>2</sub> : Provision for diminution in assets               | 60,000   |           |
| P <sub>3</sub> : Provision for loss of subsidiary co.             | 70,000   |           |
| R: Transfer to Reserves                                           | 80,000   |           |
| I: Income Tax and Interest on I.Tax                               | 1,25,000 |           |
| D <sub>1</sub> : Deferred Tax                                     | -        |           |
| D <sub>2</sub> : Dividend & Dividend Dist. Tax                    | 1,16,995 |           |
| D <sub>3</sub> : Depreciation on Revaluation                      | 1,50,000 |           |
| E: Exps. Related to incomes exempt u/s 10/11/12 {Except Sec.10AA} | -        | 7,83,995  |
|                                                                   |          | 27,08,995 |
| <b>Less: D P R<sub>2</sub> E S:</b>                               |          |           |
| D: Deferred Tax                                                   | 1,20,000 |           |
| P: Amt withdrawn from Provisions                                  | -        |           |
| R <sub>1</sub> : Amt withdrawn from Rev. Reserve                  | 1,50,000 |           |
| R <sub>2</sub> : Amt withdrawn from Other Res..                   | 50,000   |           |

CA SHIRISH VYAS / CA FINAL / DIRECT TAX

|       |                                                  |          |                  |
|-------|--------------------------------------------------|----------|------------------|
| E:    | Income exempt u/s 10/11/12<br>[Except Sec. 10AA] | 2,20,000 |                  |
| S:    | Profit of Sick Industrial Unit                   | 95,000   | (6,35,000)       |
|       |                                                  |          | 20,73,995        |
| Less: | B/f Business Loss (As per A/c)                   | 6,00,000 |                  |
|       | ↓ UAD (As per A/c)                               | 8,85,000 | (6,00,000)       |
|       | <b>BOOK PROFITS</b>                              |          | <b>14,73,995</b> |
|       | Tax on above @ 15%                               |          | 2,21,099         |
|       | Add: Surcharge                                   |          | —                |
|       | Add: HEC @ 4%                                    |          | 8,844            |
|       | <b>MINIMUM ALTERNATE TAX</b>                     |          | <b>2,29,943</b>  |

→ **FINAL TAX LIABILITY:**

|                    |                 |
|--------------------|-----------------|
| ↑ Normal Tax       | 3,88,751        |
| ↑ MAT              | 2,29,943        |
| <b>Tax Payable</b> | <b>3,88,751</b> |

Since normal tax is higher, the credit does not arise.

**QUESTION 6:**

The Net profit for the year ended on 31.3.2025 of India Biotech Ltd., engaged in the business of bio-technology works out at ₹ 45 lakhs after debit/credit of the following items:

1. Profit of ₹ 2,50,000 from hedging contract entered into for meeting out the loss in foreign currency payments towards an imported machinery of ₹ 80 lakhs installed on 1.2.2025.
2. Incidental charges of ₹ 20 lakhs paid to a financial institution for taking short term loan of ₹ 25 crores repayable in 18 months.
3. Commission of ₹ 25,000 paid to recovery agent for getting realization of an old outstanding.
4. Registration fees of ₹ 20,000 & listing fees of ₹ 30,000 paid to the Registrar of Companies and the Stock Exchange respectively on the issue of bonus shares.
5. Amount of ₹ 1,00,000 towards carry forward losses for A.Y. 2012-13 of X Ltd. which got merged with the company during the Financial Year 2017-18.
6. Int. received from banks of ₹ 90,000 net of TDS of ₹ 10,000.
7. ₹ 1,50,000 incurred towards reconditioning of generator.

8. Employees share to the EPF for the month of March, 2025 of ₹ 40,000. The amount was deposited with the PF Commissioner on 22.4.2025 (After the due date of the fund). Compute the total income of the company for A.Y. 2025-26 and give brief reasons for the treatment given to each of the items.

**ANSWER:**

**STATEMENT OF TOTAL INCOME**

|                                           |                  |
|-------------------------------------------|------------------|
| Income from Salaries                      | —                |
| Income from House Property                | —                |
| Income from Business ( <b>Note 1</b> )    | 42,43,750        |
| Capital Gains                             | —                |
| Income from Other Sources (Bank interest) | 1,00,000         |
| <b>GROSS TOTAL INCOME</b>                 | <b>43,43,750</b> |
| <u>Less:</u> Deduction under Chapter VIA  | —                |
| <b>NET TAXABLE INCOME</b>                 | <b>43,43,750</b> |

**Note 1: Statement of "Income from Business"**

|                                            |          |            |
|--------------------------------------------|----------|------------|
| Net Profit as per P & L                    |          | 45,00,000  |
| <b>Add: Disallowed Expenses:</b>           |          |            |
| Excess Depreciation (Note 2)               | 43,750   |            |
| Employees Contribution (Note 9)            | 40,000   | + 83,750   |
| <b>Less: Non-Business Incomes:</b>         |          |            |
| Profit from hedging contract (Note 2)      | 2,50,000 |            |
| Interest received from banks               | 90,000   | (3,40,000) |
| <b>Less: Unrecorded Business Expenses:</b> |          | ---        |
| <b>Add: Unrecorded Business Income:</b>    |          | ---        |
| Taxable Income from Business               |          | 42,43,750  |

**Note 2: Profit from Hedging Contract:**

It is wrongly credited to P & L because as per **Section 43A**, any profit or loss on account of foreign currency fluctuation related to purchase of asset should be **adjusted in the cost** of asset.

| Wrong Entry |           | Correct Entry           |           |
|-------------|-----------|-------------------------|-----------|
| Machinery   | 80,00,000 | Machinery               | 77,50,000 |
| To Cash/Bk  | 77,50,000 | (80L – 2.5L) – Sec. 43A |           |
| To P & L    | 2,50,000  | To Cash/Bk              | 77,50,000 |

Since, machinery is debited with Rs. 80L instead of 77.50L, the company has provided excess depreciation on 2.50L as follows:

|                    |                                           |   |               |
|--------------------|-------------------------------------------|---|---------------|
| Normal:            | $2,50,000 \times 15\% \times \frac{1}{2}$ | = | 18,750        |
| Add <sup>n</sup> : | $2,50,000 \times 20\% \times \frac{1}{2}$ | = | <u>25,000</u> |
|                    |                                           |   | <u>43,750</u> |

It is assumed that the company has provided depreciation in the books as per tax rules.

| P & L A/c   |          |                     |            |
|-------------|----------|---------------------|------------|
| Excess Depn | 43,750 ⊗ | Profit from Hedging | 2,50,000 ⊗ |

### **Note 3: Incidental Charges:**

Incidental charges for taking short term loan is allowed u/s **37(1)** because the loan is for business purpose and since it is short term loan, it is for day to day working capital requirements and it is revenue in nature.

### **Note 4: Commission to Recovery Agent**

Commission to recovery agent is allowed u/s **37(1)** because it is related to business and revenue in nature.

### **Note 5: Expenses on Bonus Issue**

Bonus issue does not increase the capital structure of the company. It **maintains** the capital structure of company, and any expense which simply maintains the business is **revenue** in nature. Hence, expenses on bonus issue shall be allowed u/s **37(1)**.

If the expenses are on fresh issue then deduction can be claimed u/s 35D (PFME DRSO) assuming the fresh issue is for new project.

### **Note 6: Loss of Amalgamating Company**

As per **Section 72A**, loss of amalgamating company (X Ltd.) can be carried forward by amalgamated company (India Biotech) for **fresh 8 years** [year of amalgamation + 8 years].

|                        | P.Y.           | 11 – 12                       | Loss 1,00,000    |
|------------------------|----------------|-------------------------------|------------------|
|                        |                | 12 – 13                       |                  |
|                        |                | 13 – 14                       |                  |
|                        |                | 14 – 15                       |                  |
|                        |                | 15 – 16                       |                  |
|                        |                | 16 – 17                       |                  |
| India                  | Amalgamation   |                               |                  |
| <b>17 – 18</b> Biotech | ←              | X Ltd.                        | ← <b>17 – 18</b> |
| 18 – 19                |                | 18 – 19                       |                  |
| 19 – 20                |                | 19 – 20                       |                  |
| 20 – 21                |                |                               |                  |
| 21 – 22                |                |                               |                  |
|                        |                | <u>P &amp; LA/c (2024-25)</u> |                  |
| 22 – 23                | Loss of X Ltd. | <b>Allowed</b>                |                  |
| 23 – 24                |                | because set                   |                  |
| <b>24 – 25</b>         | 1,00,000 ✓     | off within                    |                  |
|                        |                | <u>fresh</u> 8 years          |                  |
| 25 – 26                |                |                               |                  |

### **Note 7: Interest from Bank**

Interest received from bank is not a business income. It is **IFOS**.

### **Note 8: Reconditioning of Generator**

Reconditioning of generator is repairs of P & M which is **allowed u/s 31**.

### **Note 9: Employees Contribution**

Employer's contribution to PF is allowed if it is paid upto the due date of filing return as required by Section 43B.

But, **employee's** contribution is allowed if it is paid upto the **due date of the "FUND"** as required by **Section 36(1)(va)**

In this sum, it is employee's contribution and it is disallowed because it's paid after the due date of the fund.

**QUESTION 7:**

Globus Ltd, engaged in the manufacture of footwear and leather products, for past 8 years, reported a net profit of ₹ 272 lakhs as per the statement of profit and loss for the year ended 31<sup>st</sup> March, 25. The company was subject to tax audit u/s 44AB of the Income Tax Act, 1961. The net profit is arrived at after debiting or crediting the following amounts:

- 1) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 32 lakhs.
- 2) A sundry creditor whose amount of ₹ 32 lakhs was outstanding since long time, has been settled for ₹ 26 lakhs on 31/3/2025 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.
- 3) Employer's contribution to EPF of ₹ 3 lakhs for the month of March 2025 was deposited on 29<sup>th</sup> August, 2025.
- 4) Payment of ₹ 20 lakhs to contractors without deducting tax at source.
- 5) Interest payments debited ₹ 30 lakhs [includes interest on term loan of ₹ 65 lakhs availed on 1/4/2024 at interest rate of 12% p.a. towards purchase of machinery during the year].
- 6) Provision for gratuity as per actuarial valuation ₹ 72 lakhs.
- 7) Payment of ₹ 2 lakhs by crossed cheque to tax consultant.
- 8) Contribution to a research association for scientific research ₹ 1,20,000.
- 9) Expenditure on in-house research ₹ 20,00,000.
- 10) Provision for GST ₹ 4,50,000 which was paid on 3/6/2025.
- 11) STCG on sale of equity shares ₹ 6,00,000.

**Additional information:**

The WDV of Factory buildings as on 1/4/24 as per income tax rules is ₹ 180 lakhs & that of P & M is ₹ 170 lakhs. Machinery costing ₹ 80 lakhs were purchased & put to use on 1/11/24.

Compute the total income and tax payable of Globus Ltd. for the AY 25-26. The turnover of the company for the year ended 31.3.2023 was ₹ 425 crores. Ignore the provisions of MAT.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                               | Amt. | Amt.               |
|-------------------------------------------|------|--------------------|
| * Income from Salaries                    |      | —                  |
| * Income from HP                          |      | —                  |
| * Income from Business [Note 1]           |      | 3,24,25,375        |
| * Capital Gains [STCG – Eq. Shares]       |      | 6,00,000           |
| * Income from Other Sources               |      | —                  |
| <b>GROSS TOTAL INCOME</b>                 |      | <b>3,30,25,375</b> |
| <u>Less:</u> Deduction under Chapter VI A |      | Nil                |
| <b>NET TAXABLE INCOME</b>                 |      | <b>3,30,25,375</b> |

**STATEMENT OF TAX**

|                   | STCG<br>111A      | LTCG<br>112A | LTCG               | Win.. | Balance            |
|-------------------|-------------------|--------------|--------------------|-------|--------------------|
| N.T.I.            | 6 lakhs           | Nil          | Nil                | Nil   | 3,24,25,375        |
| Tax on above      | 1,20,000<br>(20%) |              |                    |       | 97,27,613<br>(30%) |
|                   |                   |              | 98,47,613          |       |                    |
| (+) Surcharge     |                   |              | + 6,89,333         |       |                    |
|                   |                   |              | 1,05,36,946        |       |                    |
| (+) HEC @ 4%      |                   |              | + 4,21,478         |       |                    |
| <b>TAX LIAB..</b> |                   |              | <b>1,09,58,424</b> |       |                    |

It is assumed that the STCG [Eq.] is from transfer on/after 23/7/24.

**Note 1: STATEMENT OF INCOME FROM BUSINESS**

| Particulars                                                                |           |              |
|----------------------------------------------------------------------------|-----------|--------------|
| Net Profit as per Profit & Loss A/c                                        |           | 2,72,00,000  |
| <b>Add: DISALLOWED EXPENSES:</b>                                           |           |              |
| Depn as per books                                                          | 32,00,000 |              |
| Paid to contractors [30% u/s 40(a)]                                        | 6,00,000  |              |
| Int. on loan for machinery up to the date of put to use [65L x 12% x 7/12] | 4,55,000  |              |
| Provision for gratuity – Sec. 40A(7)                                       | 72,00,000 |              |
| Payment to tax consultant [crossed chq]- 40A(3)                            | 2,00,000  | +1,16,55,000 |

|                                      |  |                    |
|--------------------------------------|--|--------------------|
| <b>Less: NON-BUSINESS INCOMES:</b>   |  |                    |
| STCG on sale of equity shares        |  | (6,00,000)         |
| <b>Less: UNRECORDED BUS.. EXPS:</b>  |  |                    |
| Depn. as per Income Tax (Note 2)     |  | (58,29,625)        |
| <b>Add: UNRECORDED BUS. INCOME:</b>  |  | Nil                |
| Less: B/f Business Loss (as per tax) |  | Nil                |
| Less: Unabsorbed Depn (as per tax)   |  | Nil                |
| <b>TAXABLE INCOME FROM BUS..</b>     |  | <b>3,24,25,375</b> |

**Note 2: DEPN. AS PER INCOME TAX:**

|                      | FACTORY BLDG. |     | MACHINERY    |     |
|----------------------|---------------|-----|--------------|-----|
|                      | Amt.          | No. | Amt.         | No. |
| Opening WDV          | 1,80,00,000   | (1) | 1,70,00,000  | (1) |
| Add: Purchases       |               |     |              |     |
| → 180 days or more   | Nil           |     | Nil          |     |
| → Less than 180 days | Nil           |     | + 84,55,000* | (1) |
| Less: Sales (SP)     | Nil           |     | Nil          |     |
|                      | 1,80,00,000   | (1) | 2,54,55,000  | (2) |

Depn. @ 10%

**18,00,000**

Cost of Machinery used for  
less than 180 days

$$\text{Depn} = 84,55,000 \times 15\% \times \frac{1}{2} = \mathbf{6,34,125}$$

Balance

$$\text{Depn} = 1,70,00,000 \times 15\% = \mathbf{25,50,000}$$

Additional depn on new machinery =  $84,55,000 \times 20\% \times \frac{1}{2} = \mathbf{8,45,500}$

Hence, Depn as per Income tax =

|                                                 |                  |
|-------------------------------------------------|------------------|
| Depn on Factory Building                        | 18,00,000        |
| Normal Depn on Machinery [6,34,125 + 25,50,000] | 31,84,125        |
| Addl Depn on New Machinery                      | <u>8,45,500</u>  |
|                                                 | <u>58,29,625</u> |

**\*Actual Cost of Machinery as per section 43(1)**

= Cost of Machinery + Interest on loan **up to the date of put to use**  
 =  $80,00,000 + (65,00,000 \times 12\% \times 7 \text{ months}/12 \text{ months}) = 84,55,000$

**QUESTION 8:**

Ganga Ltd., an Indian company, earned a profit of ₹ 52 lakhs after debit/credit of the following items to its Statement of Profit and Loss for the year ended on 31.3.2025 –

**Items debited to Statement of Profit and Loss:**

1. Provision for the loss of subsidiary ₹ 84,000
2. Provision for doubtful debts ₹ 2,93,000
3. Provision for income-tax ₹ 1,46,000
4. Provision for gratuity (on actuarial valuation) ₹ 4,17,000
5. Depreciation ₹ 3,08,000
6. Interest to financial institution (not paid before filing of return) ₹ 72,000
7. Penalty for infraction of law ₹ 14,000
8. Payment to commission agent ₹ 2,00,000 without TDS

**Items credited to Statement of Profit and Loss:**

1. Profit from export unit located in SEZ ₹ 15,20,000
2. Share in income of a Partnership firm ₹ 1,95,000
3. Long term capital gains ₹ 3,20,000
4. Sale of Import entitlements ₹ 2,50,000
5. Refund of GST ₹ 40,000

**Other Information:**

- (i) Depreciation includes ₹ 80,000 on account of revaluation of fixed assets.
- (ii) Depreciation as per Income-tax Rules, 1962 is ₹ 4,12,000.
- (iii) Balance of Statement of Profit and Loss shown in Balance Sheet at the asset side as at 31.3.2024 was ₹ 32 lakhs which includes unabsorbed depreciation of ₹ 18 lakhs. Brought forward loss as per Income Tax assessment is ₹ 10,00,000 which includes unabsorbed depreciation of ₹ 6,00,000.
- (iv) Provision for income-tax includes ₹ 65,000 of interest payable on income-tax.

You are required to compute the tax liability of the company for the A.Y. 2025-26 assuming the turnover of the company in PY 2022-23 was ₹ 390 crores.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                           | Amt. | Amt.               |
|---------------------------------------|------|--------------------|
| * Income from Salaries                |      | Nil                |
| * Income from House Property          |      | Nil                |
| * Income from Business [Note 1]       |      | <b>46,67,000</b>   |
| * Capital Gains                       |      | 3,20,000           |
| * Income from Other Sources           |      | Nil                |
| <b>GROSS TOTAL INCOME</b>             |      | <b>49,87,000</b>   |
| <b>Less: Ded. Under Chapter VI A:</b> |      | <b>Nil</b>         |
| <b>Less: Deduction u/s 10AA</b>       |      | <b>- 15,20,000</b> |
| <b>NET TAXABLE INCOME</b>             |      | <b>34,67,000</b>   |

**STATEMENT OF TAX**

|                   | STCG<br>111A | LTCG<br>112A | LTCG<br>(Others)  | Win. | Balance           |
|-------------------|--------------|--------------|-------------------|------|-------------------|
| N.T.I             | Nil          | Nil          | 3,20,000          | Nil  | 31,47,000         |
| Tax on above      | —            | —            | 40,000<br>(12.5%) | —    | 7,86,750<br>(25%) |
|                   |              |              | 8,26,750          |      |                   |
| Add: Surcharge    |              |              | + Nil             |      |                   |
| Add: HEC @ 4%     |              |              | +33,070           |      |                   |
| <b>NORMAL TAX</b> |              |              | <b>8,59,820</b>   |      |                   |

It is assumed that the LTCG is in respect of transfer on/after 23/7/2024

**Note 1:****STATEMENT OF INCOME FROM BUSINESS**

| Particulars                                 | ₹        | ₹                |
|---------------------------------------------|----------|------------------|
| Net Profit as per Profit & Loss A/c         |          | 52,00,000        |
| <b>Add: DISALLOWED EXPENSES:</b>            |          |                  |
| Provision for loss of subs.                 | 84,000   |                  |
| Provision for DD                            | 2,93,000 |                  |
| Provision for I. Tax [Sec 40(a)]            | 1,46,000 |                  |
| Provision for Gratuity [Sec. 40A(7)]        | 4,17,000 |                  |
| Dep. as per books                           | 3,08,000 |                  |
| Int. to PFI [Not paid – Sec. 43B]           | 72,000   |                  |
| Pen. For infraction of law                  | 14,000   |                  |
| Comm. Paid w/o TDS                          | 60,000   |                  |
| <b>[30% disallowed u/s 40(a)]</b>           |          | +13,94,000       |
|                                             |          | 65,94,000        |
| <b>Less: NON-BUSINESS INCOMES:</b>          |          |                  |
| Share in NP of P.F. [Ex. u/s 10(2A)]        | 1,95,000 | -                |
| LTCG                                        | 3,20,000 | - 5,15,000       |
|                                             |          | 60,79,000        |
| <b>Less: UNRECORDED BUSINESS EXPS:</b>      |          |                  |
| Dep. As per I. Tax                          |          | - 4,12,000       |
| <b>Add: UNRECORDED BUS. INCOME:</b>         |          | Nil              |
| <b>Less: B/f Business Loss (as per tax)</b> |          | - 4,00,000       |
| <b>Less: Unabsorbed Depn (as per tax)</b>   |          | - 6,00,000       |
| <b>TAXABLE INCOME FROM BUSINESS</b>         |          | <b>46,67,000</b> |

**COMPUTATION OF MAT**

| Particulars                                                      | ₹         | ₹                |
|------------------------------------------------------------------|-----------|------------------|
| Net Profit as per Profit & Loss A/c                              |           | 52,00,000        |
| <b>Add: P<sub>3</sub> R I D<sub>3</sub> E:</b>                   |           |                  |
| P <sub>1</sub> : Provision for unascertained liab.               | —         |                  |
| P <sub>2</sub> : Prov. for diminution in assets (RDD)            | 2,93,000  |                  |
| P <sub>3</sub> : Provision for loss of subsidiary co.            | 84,000    |                  |
| R: Transfer to Reserves                                          | —         |                  |
| I: Income Tax and Interest on I.T.                               | 1,46,000  |                  |
| D <sub>1</sub> : Deferred Tax                                    | —         |                  |
| D <sub>2</sub> : Dividend & Dividend Dist. Tax                   | —         |                  |
| D <sub>3</sub> : Depreciation on Revaluation                     | 80,000    |                  |
| E: Exps related to incomes exempt u/s 10/11/12 {Except Sec.10AA} | —         | + 6,03,000       |
|                                                                  |           | 58,03,000        |
| <b>Less: D P R<sub>2</sub> E S:</b>                              |           |                  |
| D: Deferred Tax                                                  | —         |                  |
| P: Amt withdrawn from Provisions                                 | —         |                  |
| R <sub>1</sub> : Amt withdrawn from Rev. Res.                    | —         |                  |
| R <sub>2</sub> : Amt withdrawn from Other Res.                   | —         |                  |
| E: Income exempt u/s 10/11/12 Share in NP [Except Sec.10AA]      | 1,95,000  |                  |
| S: Profit of Sick Industrial Unit                                | —         | - 1,95,000       |
|                                                                  |           | 56,08,000        |
| <b>Less:</b> ↓ B/f Business Loss (As per A/c)                    | 14,00,000 |                  |
| ↓ UAD (As per A/c)                                               | 18,00,000 | -14,00,000       |
| <b>BOOK PROFITS</b>                                              |           | <b>42,08,000</b> |
| Tax on above @ 15%                                               |           | 6,31,200         |
| <b>Add:</b> Surcharge                                            |           | —                |
| <b>Add:</b> HEC @ 4%                                             |           | +25,248          |
| <b>MINIMUM ALTERNATE TAX</b>                                     |           | <b>6,56,448</b>  |

**→ FINAL TAX LIABILITY:**

|              |          |
|--------------|----------|
| ↑ Normal Tax | 8,59,820 |
| ↑ MAT        | 6,56,448 |
| Tax Payable  | 8,59,820 |

**QUESTION 9:**

Alpha and Beta Tyres Limited, an Indian Company engaged in the manufacture of Tyres in Andhra Pradesh, has adopted Ind AS from 1/4/22. The following particulars are provided for the year ended 31.3.25:

Net profit as per statement of profit and loss is ₹ 20 crores after debit and credit of the following items:

**Items Debited:**

- (i) Depreciation ₹ 18 crores. Included in depreciation is ₹ 3 crores, being amount provided on revalued assets.
- (ii) Interest on Income-tax ₹ 20 lakhs.

**Items Credited:**

- (i) Share in Income of AOP in which the company is a member ₹ 50 lakhs.
- (ii) Royalty from Patents developed in India ₹ 6 crores [The company has opted for 10% Tax u/s 115BBF].

**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 u/s 7 of the Insolvency and Bankruptcy Code, 2016.
2. Brought forward business loss and depreciation.

| Assessment Year | Business Loss | Depreciation |
|-----------------|---------------|--------------|
| 2020-21         | ₹ 3 crores    | ₹ 1 crore    |
| 2021-22         | ₹ 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 ₹ 50 lakhs.
  - (ii) Revaluation surplus of property, plant & equipment ₹ 1 crore.
4. The transition amount as on convergence date 1-4-2022 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 ₹ 0.73 crores.

Compute MAT payable by the company for the AY 2025-26 and the amount of MAT credit.

**ANSWER:****COMPUTATION OF MAT**

| Particulars                                            | ₹                  |
|--------------------------------------------------------|--------------------|
| Net Profit as per Profit & Loss A/c                    | 20,00,00,000       |
| <b>Add: P<sub>3</sub> R I D<sub>3</sub> E:</b>         |                    |
| I: I.Tax and Interest on Income Tax                    | +20,00,000         |
| D <sub>3</sub> : Depreciation on Revaluation           | +3,00,00,000       |
|                                                        | 23,20,00,000       |
| <b>Less: D P R<sub>2</sub> E S:</b>                    |                    |
| D: Deferred Tax                                        | —                  |
| P: Amount withdrawn from Provisions                    | —                  |
| R <sub>1</sub> : Amount w/d from Rev. Reserve          | —                  |
| R <sub>2</sub> : Amount w/d from Other Reserves        | —                  |
| E: Income exempt u/s 10/11/12                          | —                  |
| S: Profit of Sick Industrial Unit                      | —                  |
| Share in Income of AOP                                 | - 50,00,000        |
| Royalty income u/s 115BBF                              | - 6,00,00,000      |
|                                                        | 16,70,00,000       |
| <b>Less: B/f Business Loss (As per A/c)</b>            | - 8,00,00,000      |
| <b>Less: UAD (As per A/c)</b>                          | - 3,00,00,000      |
|                                                        | 5,70,00,000        |
| <b>Add: OCI Credits [not reclassified to P&amp;L]:</b> |                    |
| Re-measurement of retirement benefits plan             | + 50,00,000        |
| Revaluation surplus [not added]                        | Nil                |
| <b>Less: OCI Debits [not reclassified to P&amp;L]:</b> | Nil                |
| <b>Add: 1/5th of Transition amt [excl. Cap. Res.]</b>  | + 90,00,000        |
| [5,00,00,000 – 50,00,000 = 4,50,00,000 x 1/5]          |                    |
| <b>BOOK PROFITS</b>                                    | <b>7,10,00,000</b> |
| Tax on above @ 15%                                     | 1,06,50,000        |
| <b>Add: Surcharge</b>                                  | + 7,45,500         |
|                                                        | 1,13,95,500        |
| <b>Add: HEC @ 4%</b>                                   | 4,55,820           |
| <b>MINIMUM ALTERNATE TAX</b>                           | <b>1,18,51,320</b> |

⇒ **Amount of MAT Credit =**

$$\text{MAT} - \text{Normal Tax} = 1,18,51,320 - 73,00,000 = 45,51,320$$

**Note 1:**

Since the company is under Corporate Insolvency Resolution Process, Brought business loss **as well as** Unabsorbed depn [**both**] can be deducted while computing book profits.

**QUESTION 10:**

TATA TEA Limited is an Indian Company engaged in growing and manufacturing of tea since 1996. Net profit as per the statement of profit and loss for the year ended 31-03-2025 is ₹ 14.50 crores after debit and credit of the following items:

- 1) Payment of ₹ 30 lakhs to A & Co., a sub-contractor for processing tea. Tax on the same was deducted on 14-06-2024 and deposited on 06-11-2025;
- 2) Industrial power tariff concession of ₹ 6.50 lakhs received from Tamil Nadu Government;
- 3) Contribution of ₹ 5 lakhs to a scientific laboratory functioning at national level with a specific direction for use of amount for scientific research programme approved by prescribed authority;
- 4) Dividend from other domestic companies ₹ 8 lakhs;
- 5) Expenditure incurred on scientific research ₹ 11 lakhs

**Additional Information:**

- i) The company deposited ₹ 30 lakhs in Tea Deposit Account with NABARD on 23-03-2025;
- ii) On 16-09-2025, the company distributed dividend of ₹ 6 lakhs to its shareholders;
- iii) Other deductions under chapter VIA ₹ 20 lakhs

Compute the tax liability of the company assuming the company has opted for Section 115BAA.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                                | Amt.     | Amt.        |
|--------------------------------------------|----------|-------------|
| * Income from Salaries                     |          | —           |
| * Income from House Property               |          | —           |
| * Income from Business <b>[Note 1]</b>     |          | 5,82,40,000 |
| * Income from Capital Gains                |          | —           |
| * <u>Income from Other Sources:</u>        |          |             |
| Dividend from other companies              |          | 8,00,000    |
| <b>GROSS TOTAL INCOME</b>                  |          | 5,90,40,000 |
| <b>Less: Deduction under Chapter VI A:</b> |          |             |
| → <b>Sec.80M: Inter-co. dividend:</b>      |          | - 6,00,000  |
| ↓ Dividend Received                        | 8,00,000 |             |
| ↓ Dividend distributed till 30/9/25        | 6,00,000 |             |
| <b>NET TAXABLE INCOME</b>                  |          | 5,84,40,000 |

**STATEMENT OF TAX**

|                      | ST u/s<br>111A | LT u/s<br>112A | LTCG | Win.. | Balance            |
|----------------------|----------------|----------------|------|-------|--------------------|
| N. T. I.             | Nil            | Nil            | Nil  | Nil   | 5,84,40,000        |
| Tax @22%             |                |                |      |       | 1,28,56,800        |
| <u>Add: SC @10%</u>  |                |                |      |       | + 12,85,680        |
|                      |                |                |      |       | 1,41,42,480        |
| <u>Add: HEC @ 4%</u> |                |                |      |       | + 5,65,699         |
| <b>TAX LIABILITY</b> |                |                |      |       | <b>1,47,08,179</b> |

Since the company has opted for section 115BAA,  
**provisions of MAT are not applicable.**

**Note 1:****STATEMENT OF INCOME FROM BUSINESS**

| Particulars                                                                             | ₹                    |
|-----------------------------------------------------------------------------------------|----------------------|
| Net Profit as per Profit & Loss A/c                                                     | 14,50,00,000         |
| <b>Add: DISALLOWED EXPENSES:</b>                                                        |                      |
| Payment to sub-contractor [without TDS]<br>[30 lakhs x 30%] – <b>Sec.40(a) [Note 1]</b> | +9,00,000            |
| Contribution for research<br>[Not allowed as company opted for sec.115BAA]              | +5,00,000            |
|                                                                                         | 14,64,00,000         |
| <b>Less: NON-BUSINESS INCOMES:</b>                                                      |                      |
| Dividend from other companies (IFOS)                                                    | - 8,00,000           |
| <b>Less: UNRECORDED BUSINESS EXPS:</b>                                                  | —                    |
| <b>Add: UNRECORDED BUSINESS INCOME:</b>                                                 | —                    |
|                                                                                         | 14,56,00,000         |
| <b>Less: 60% Treated as Agricultural income [Ex.]</b>                                   | <b>- 8,73,60,000</b> |
| <b>TAXABLE INCOME FROM BUSINESS</b>                                                     | <b>5,82,40,000</b>   |

**Note 2:**

Expenses subject to TDS shall be allowed as deduction if:

- 1) TDS is **deducted** latest up to **31<sup>st</sup> March** of the PY **and**
- 2) TDS is **deposited** latest up to the **due date of filing return**.

In case of payment to sub-contractors, TDS was deducted on 14-06-2024 [i.e. up to 31-03-2025] but it was deposited on 6-11-2025 i.e. **after the due date of filing return**. Hence, **30%** of such payment will be **disallowed u/s 40(a)**.

**Note 3:**

Industrial **power tariff concession** i.e. **power subsidy** received from Tamil Nadu Government is taxable as **business income** u/s 28.

**Note 4:**

Since, the company has **opted for section 115BAA**, deduction u/s **33AB**, deduction for **contribution** for scientific research and deduction under **chapter VIA** [except **sec.80JJAA, 80LA and 80M**] **shall not be allowed**.

**QUESTION 11:**

Auris Builders and Constructions (P) Ltd. a closely held company, is engaged in the business of construction and real estate. Net profit as per profit and loss account is ₹58,80,000 (prepared in accordance with ICDS) after debiting / crediting the following items:

- (i) The company committed breach of building norms while extending the office building. The City Corporation initiated proceedings against the company and the company settled the issue by paying compounding fee of ₹1 lakh.
- (ii) Interest paid on loan from bank for payment of advance tax ₹3,00,000.
- (iii) Trade creditors ₹5,00,000 were outstanding for more than 5 years and there is no business relationship with them. The amount was unilaterally written back and transferred to credit of statement of profit and loss.
- (iv) Gross revenue includes ₹5,00,000 in respect of a service contract for maintenance of the office building for NX Ltd. for the period from 1<sup>st</sup> March, 2025 to 30<sup>th</sup> April, 2025. The expenses incurred on the project till 31.3.2025 amounts to ₹1,27,000 which is included in other expenses.
- (v) The amount of employee benefits includes a sum of ₹4,41,000 in respect of bonus payable to employees. In the PY 2024 – 25, the company and its employee's union had a dispute over payment of bonus. To avoid late payment of bonus, the company formed a trust and transferred the amount of bonus payable to employees to the said trust on 24<sup>th</sup> December, 2024. The dispute was settled in the month of November, 2025 and the trust paid the amount of bonus to the employees on 30<sup>th</sup> December, 2025.
- (vi) In respect of one of its on – going projects, the assessee had made some structural changes contrary to what was earlier approved by the municipal authorities. The assessee paid a sum of ₹98,000 as regularization fee in respect of such changes made in the construction plan.
- (vii) During the PY 2024 – 25, the assessee company decided to expand its business and open a retail petrol outlet. Accordingly, a sum of ₹1,75,000 was deposited with the concerned authority. However, the assessee could not start this operation and the deposit with the authority was forfeited.

- (viii) Loss of ₹17 Lakhs, due to destruction of a machine worth ₹24 Lakhs by fire due to short circuit. ₹ 3 Lakh received as scrap value was credited to the statement of profit and loss. The insurance company did not admit the claim of the company on charge of gross negligence.
- (ix) Depn as per books ₹4,00,000

**Additional information:**

- (a) Depreciation as per Income – tax Act, 1961 ₹5,14,000.
- (b) On 26<sup>th</sup> October 2024, out of 5 unsold office space in a mall, the assessee converted one such space into its own office. The fair market value of that space as on that date was ₹15,00,000. The cost incurred originally to construct such space was ₹10,00,000.
- (c) In respect of ongoing construction contracts, there was a claim for escalation of prices, to the tune of ₹8,50,000. The company had filed a lawsuit in the year 2021. In the previous year 2024–25, the court gave its judgement in favour of the company. The company has received ₹2,00,000 till 31.3.2025. Gross revenue in the profit and loss account includes ₹2,00,000 in respect of such claims.
- (d) The assessee completed one civil construction contract of the value of ₹ 15 lakhs. The contractee withheld 20% of the contract amount which would be released only after 2 years. The amount withheld has not been credited to statement of profit and loss.
- (e) During the year, 1,00,000 equity shares of ₹10 each were issued for ₹25 per share. The fair market value of the shares as per rule 11UA of the Income-tax Rules, 1962 was determined @ ₹17 per share.

You are required to compute the income – tax payable by the company for the assessment year 2025–26. The turnover of company for the P.Y. 2022–23 was ₹350 crore. Ignore the provisions of MAT.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                                                                                  | Amt.               |
|----------------------------------------------------------------------------------------------|--------------------|
| * Income from Salaries                                                                       | Nil                |
| * Income from House Property                                                                 | Nil                |
| * Income from Business <b>[Note 1]</b>                                                       | 1,03,57,000        |
| * Income from Capital Gains                                                                  | Nil                |
| * <b>Income from Other Sources:</b>                                                          |                    |
| Issue of shares at premium in excess of FMV<br>[1,00,000 shares x (25 – 17)] <b>[Note 2]</b> | Nil                |
| <b>GROSS TOTAL INCOME</b>                                                                    | <b>1,03,57,000</b> |
| <b>Less: Deduction under Chapter VI A</b>                                                    | <b>Nil</b>         |
| <b>NET TAXABLE INCOME</b>                                                                    | <b>1,03,57,000</b> |

**STATEMENT OF TAX**

|                    | STCG<br>u/s<br>111A | LTCG<br>u/s<br>112A | LTCG<br>(Other) | Win. | Balance            |
|--------------------|---------------------|---------------------|-----------------|------|--------------------|
| Net Taxable Income | Nil                 | Nil                 | Nil             | Nil  | <b>1,03,57,000</b> |
| Tax on above @25%  |                     |                     |                 |      | 25,89,250          |
| Add: Surcharge     |                     |                     |                 |      | + 1,81,248         |
|                    |                     |                     |                 |      | 27,70,498          |
| Add: HEC @ 4%      |                     |                     |                 |      | + 1,10,820         |
| <b>TAX PAYABLE</b> |                     |                     |                 |      | <b>28,81,318</b>   |

**Note 1:****STATEMENT OF INCOME FROM BUSINESS**

| Particulars                                                                                         | ₹        | ₹         |
|-----------------------------------------------------------------------------------------------------|----------|-----------|
| Net Profit as per Profit & Loss A/c                                                                 |          | 58,80,000 |
| <b>Add: DISALLOWED EXPENSES:</b>                                                                    |          |           |
| Compounding fee for breach of bldg. norms [penalty for breach of law]                               | 1,00,000 |           |
| Interest on loan to pay advance tax [not a loan for business purpose]                               | 3,00,000 |           |
| Bonus to employees [disallowed u/s sec.43B since it is not paid upto the due date of filing return] | 4,41,000 |           |

CA SHIRISH VYAS / CA FINAL / DIRECT TAX

|                                                                                                                                                                                                                      |           |                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--------------------|
| Regularization fees paid to municipal authorities [Penalty for breach of law]                                                                                                                                        | 98,000    |                    |
| Exp on new retail petrol outlet [retail petrol outlet is not related to the existing business of construction and real estate. Hence, the expenditure on setting up such business would not be allowed as deduction] | 1,75,000  |                    |
| Loss on destruction of machinery by fire [capital in nature]                                                                                                                                                         | 17,00,000 |                    |
| Depn as per books                                                                                                                                                                                                    | 4,00,000  | + 32,14,000        |
|                                                                                                                                                                                                                      |           | 90,94,000          |
| <b>Less: NON-BUSINESS INCOMES:</b>                                                                                                                                                                                   |           |                    |
| Trade creditors written back [Cessation of trading liability is taxable as business income]                                                                                                                          | Nil       |                    |
| Revenue from service contract [Since the contract is for a period not exceeding 90 days, revenue should be recognized on completion of contract i.e in PY 2024-25 [5,00,000 – 1,27,000]                              | 3,73,000  |                    |
| Scrap value of machinery destroyed [to be deducted from the block]                                                                                                                                                   | 3,00,000  | - 6,73,000         |
|                                                                                                                                                                                                                      |           | 84,21,000          |
| <b>Less: UNRECORDED BUS..EXPS:</b>                                                                                                                                                                                   |           |                    |
| Depreciation as per I.Tax                                                                                                                                                                                            |           | - 5,14,000         |
|                                                                                                                                                                                                                      |           | 79,07,000          |
| <b>Add: UNRECORDED BUS. INCOME:</b>                                                                                                                                                                                  |           |                    |
| FMV of stock in trade converted in to capital asset [cost already debited]                                                                                                                                           | 15,00,000 |                    |
| Claim for escalation to be recognised on the basis of reasonable certainty as per section 145B [8.5 L – 2 L already credited]                                                                                        | 6,50,000  |                    |
| Retention money to be recognised as revenue as per ICDS - III [15 L x 20%]                                                                                                                                           | 3,00,000  | + 24,50,000        |
| <b>TAXABLE BUSINESS INCOME</b>                                                                                                                                                                                       |           | <b>1,03,57,000</b> |

**Note 2:**

**Before 1/4/24**, issue of shares [at premium] by a **closely held company** at a price in **excess of FMV** was taxable as **IFOS u/s 56(2)(viib)**. However, **w.e.f. 1/4/24**, this section is **not applicable** and it shall not be taxable as IFOS.

**QUESTION 12:**

SAM Ltd., a foreign company, earned a profit of ₹25 lakhs after debit and credit of the following items to its statement of Profit and Loss for the year ended on 31.3.2025:

**(i) Items debited to Statement of Profit and Loss:**

| No. | Particulars                                                        | ₹        |
|-----|--------------------------------------------------------------------|----------|
| 1.  | Provision for the loss of subsidiary                               | 70,000   |
| 2.  | Provision for doubtful debts                                       | 75,000   |
| 3.  | Provision for income – tax                                         | 1,05,000 |
| 4.  | Provision for gratuity based on actuarial valn.                    | 2,00,000 |
| 5.  | Depreciation                                                       | 3,60,000 |
| 6.  | Interest to financial institution (unpaid before filing of return) | 1,00,000 |
| 7.  | Penalty for infraction of law                                      | 50,000   |
| 8.  | Expenditure of Sick industrial undertaking                         | 2,00,000 |

**(ii) Items credited to Statement of Profit and Loss:**

| No. | Particulars                                                                                                                                 | ₹        |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------|----------|
| 1.  | Profit from unit in SEZ eligible for sec.10AA                                                                                               | 5,00,000 |
| 2.  | Share in income of an AOP as a member                                                                                                       | 1,00,000 |
| 3.  | Income from units of UTI                                                                                                                    | 75,000   |
| 4.  | Long term capital gains on sale of building                                                                                                 | 3,00,000 |
| 5.  | Amount withdrawn from reserve created in P.Y. 2022–23 (Book profit was not increased by the amount trd. to the reserve in the year 2022–23) | 4,00,000 |
| 6.  | Amount withdrawn from revaluation reserve                                                                                                   | 2,00,000 |
| 7.  | Royalty from MNO Ltd., an Indian company                                                                                                    | 3,00,000 |
| 8.  | Interest from Infrastructure debt fund                                                                                                      | 1,00,000 |
| 9.  | Interest from REIT                                                                                                                          | 50,000   |
| 10. | Rent from REIT                                                                                                                              | 2,50,000 |
| 11. | Profit from Sick industrial undertaking                                                                                                     | 7,00,000 |

**Other information:**

- (i) Depreciation includes ₹1,50,000 on account of revaluation of fixed assets.
- (ii) Depreciation as per Income – tax Rules is ₹2,80,000
- (iii) Brought forward book loss of ₹10 lakhs which includes unabsorbed depreciation of ₹4 lakhs.
- (iv) The AOPs of which the company is a member, has paid tax at maximum marginal rate.
- (v) Provision for income – tax includes ₹45,000 of interest payable in income – tax.

Compute minimum alternate tax under section 115JB of the Income – tax Act, 1961, for A.Y. 2025 – 26.

**ANSWER:****COMPUTATION OF MAT**

| Particulars                                                                                | ₹    | ₹  |
|--------------------------------------------------------------------------------------------|------|----|
| Net Profit as per Profit & Loss A/c                                                        |      | 25 |
| <b>Add: P<sub>3</sub> R I D<sub>3</sub> E:</b>                                             |      |    |
| P <sub>1</sub> : Provision for unascertained liabilities                                   | Nil  |    |
| P <sub>2</sub> : Provision for diminution in value of assets [RDD]                         | 0.75 |    |
| P <sub>3</sub> : Provision for loss of subsidiary company                                  | 0.70 |    |
| R: Transfer to Reserves                                                                    | Nil  |    |
| I: Income Tax and Interest on Income Tax                                                   | 1.05 |    |
| D <sub>1</sub> : Deferred Tax                                                              | Nil  |    |
| D <sub>2</sub> : Dividend & Dividend Distribution Tax                                      | Nil  |    |
| D <sub>3</sub> : Depreciation on Revaluation                                               | 1.50 |    |
| E: Expenses related to incomes exempt u/s 10/11/12 {Except Sec.10AA}                       | Nil  | 4  |
|                                                                                            |      | 29 |
| <b>Less: D P R<sub>2</sub> E S:</b>                                                        |      |    |
| D: Deferred Tax                                                                            | Nil  |    |
| P: Amount withdrawn from Provisions                                                        | Nil  |    |
| R <sub>1</sub> : Amount withdrawn from Rev. Reserve [to the extent of depn on revaluation] | 1.50 |    |

|                                                                                            |      |              |
|--------------------------------------------------------------------------------------------|------|--------------|
| R <sub>2</sub> : Amount withdrawn from Other Reserves<br>[If created from P&L A/c]         | Nil  |              |
| E: Income exempt u/s 10/11/12<br>[Except Sec. 10AA]                                        | Nil  |              |
| S: Profit of Sick Industrial Unit [7L – 2L]                                                | 5    |              |
| <b>Less: Share in AOP [net]</b>                                                            | 1    |              |
| <b>Less: Royalty u/s 115BBF [net]</b>                                                      | Nil  |              |
| <b>Less: Income of foreign co. under Chapter XII<br/>taxable at a rate below 15% [net]</b> |      |              |
| - Interest from IDF (Taxable @5%)                                                          | 1    |              |
| - Interest from REIT (Taxable @5%)                                                         | 0.50 | - 9          |
|                                                                                            |      | 20           |
| <b>Less: B/f Business Loss (As per A/c)</b>                                                | 6    |              |
| <b>↓ UAD (As per A/c)</b>                                                                  | 4    | - 4          |
| <b>BOOK PROFITS</b>                                                                        |      | <b>16</b>    |
| Tax on above @ 15%                                                                         |      | 2.40         |
| Add: Surcharge                                                                             |      | Nil          |
| Add: HEC @ 4%                                                                              |      | 0.096        |
| <b>MINIMUM ALTERNATE TAX</b>                                                               |      | <b>2.496</b> |

### **QUESTION 13:**

Shubh Fragrance Ltd. established in 2015, is engaged in the manufacturing and selling of pharmaceutical products. The net profit of the company as per profit and loss account for the year ended 31<sup>st</sup> March 2025 is ₹ 900 lakhs, after debiting or crediting the following items:

- (i) Payment of ₹ 50 lakhs in the month of November 2024 to a foreign company for obtaining know-how for a product launched in the month of December 2024.
- (ii) Electricity charges of ₹ 7 lakhs for the month of March 2025 were unpaid up to the due date of filing of return of income.
- (iii) Loss of ₹ 4 lakhs due to hedging contract against future price fluctuations in respect of import of raw material, used in the course of manufacturing.
- (iv) Depreciation charged to the Statement of Profit and Loss was ₹ 38 lakhs.

- (v) Loss of ₹ 2 lakh from hedging contracts entered into for mitigating the loss arising due to fluctuation in foreign currency payment towards an imported machinery purchased from Japan for ₹ 65 lakhs, which was installed in the month of December 2024.
- (vi) ₹ 20 lakhs received from Z Ltd. under an agreement in the form of non-compete fees for not carrying out any business in a particular product.
- (vii) Advance received amounting to ₹ 20 lakhs on proposed sale of land, forfeited due to non-receipt of balance amount of ₹ 70 lakhs on time, as per terms of agreement. The land was purchased during F.Y. 2019-20.
- (viii) Excess on sale of unlisted shares - ₹ 15 lakhs (Sold on 15<sup>th</sup> Feb. 2025).
- (ix) The company purchased goods from Mr. A, Mr. B & Mr. C. The details of purchases and payment made are as under:

| Supplier                   | Date of purchase | Purchase amount (₹) | Payment due as per written agreement, if any | Date of payment |
|----------------------------|------------------|---------------------|----------------------------------------------|-----------------|
| Mr. A, a micro enterprise  | 15.02.25         | 5 lakhs             | Within 30 days from the date of purchase     | 29.03.25        |
| Mr. B, a small enterprise  | 17.03.25         | 7 lakhs             | No written agreement                         | 15.04.25        |
| Mr. C, a medium enterprise | 25.03.25         | 8 lakhs             | Within 40 days from the date of purchase     | 30.11.25        |

**Additional Information:**

- (1) Normal depreciation allowable as per the Income-tax Act, 1961 ₹ 35 lakhs [depreciation, if any required to be computed on the amount debited or credited to Statement of profit or loss is not included].
- (2) The unlisted shares were acquired on 29.3.2021 for ₹ 80 lakhs.
- (3) Cost Inflation Index F.Y. 2019-20 - 289, F.Y. 2020-21 - 301, F.Y. 2024-25 - 363.

The total turnover of the company for previous year 2022-23 was ₹ 282 crores and for the financial year 2023-24 ₹ 405 crores. The company has MAT credit of ₹ 20 lakhs of the assessment year 2017-18. The book profit (computed) for the assessment year 2025-26 is ₹ 1520 lakhs.

Compute the total income and tax liability (computed in the most beneficial manner) for the assessment year 2025-26.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                               |             | Amt.               |
|-------------------------------------------|-------------|--------------------|
| * Income from Salaries                    |             | Nil                |
| * Income from House Property              |             | Nil                |
| * Income from Business <b>[Note 1]</b>    |             | 9,09,02,500        |
| * Income from Capital Gains               |             |                    |
| FVOC [15 L + 80 L]                        | 95,00,000   |                    |
| <u>Less: COA [No index after 23/7/24]</u> | - 80,00,000 | 15,00,000          |
| * <u>Income from Other Sources:</u>       |             |                    |
| Advance money forfeited                   |             | 20,00,000          |
| <b>GROSS TOTAL INCOME</b>                 |             | <b>9,44,02,500</b> |
| <u>Less: Dedn under Chapter VI A</u>      |             | Nil                |
| <b>NET TAXABLE INCOME</b>                 |             | <b>9,44,02,500</b> |

## STATEMENT OF TAX

|                       | STCG<br>u/s<br>111A | LTCG<br>u/s<br>112A | LTCG<br>(Other)  | Win.       | Balance            |
|-----------------------|---------------------|---------------------|------------------|------------|--------------------|
| <b>Taxable Income</b> | <b>Nil</b>          | <b>Nil</b>          | <b>15,00,000</b> | <b>Nil</b> | <b>9,29,02,500</b> |
| Tax on above          |                     |                     | 1,87,500         |            | 2,32,25,625        |
|                       |                     |                     | [12.5%]          |            | ↓ [25%]            |
|                       |                     |                     |                  |            | 2,34,13,125        |
| <b>Add: Surcharge</b> |                     |                     |                  |            | + 16,38,919        |
|                       |                     |                     |                  |            | 2,50,52,044        |
| <b>Add: HEC @ 4%</b>  |                     |                     |                  |            | + 10,02,082        |
| <b>TAX PAYABLE</b>    |                     |                     |                  |            | <b>2,60,54,126</b> |
| <b>Rounded off</b>    |                     |                     |                  |            | <b>2,60,54,130</b> |

**Note 1:**

## STATEMENT OF INCOME FROM BUSINESS

| Particulars                                                                                                                                                                     | ₹         | ₹           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------|
| Net Profit as per Profit & Loss A/c                                                                                                                                             |           | 9,00,00,000 |
| <b>Add: DISALLOWED EXPENSES:</b>                                                                                                                                                |           |             |
| Payment towards know-how<br>[capital exp. i.e., an intangible asset]                                                                                                            | 50,00,000 |             |
| Electricity charges unpaid upto the due<br>of filing return of income<br>[not covered u/s section 43B]                                                                          | Nil       |             |
| Loss due to hedging contract in respect<br>of raw material [revenue in nature]                                                                                                  | Nil       |             |
| Depreciation as per books                                                                                                                                                       | 38,00,000 |             |
| Loss from hedging contract in respect of<br>imported machinery from Japan [capital<br>in nature. It should to added to the actual<br>cost of the machinery as per section 43A.] | 2,00,000  |             |
| Purchase of goods from Mr. B, a small<br>enterprise [disallowed u/s 43B as it is paid<br>after 15 days]                                                                         | 7,00,000  | + 97,00,000 |
|                                                                                                                                                                                 |           | 9,97,00,000 |

|                                                                                                                |           |                    |
|----------------------------------------------------------------------------------------------------------------|-----------|--------------------|
| <b>Less: NON-BUSINESS INCOMES:</b>                                                                             |           |                    |
| Non-compete fees for not carrying out any business in a particular product [taxable as business income u/s 28] | Nil       |                    |
| Advance forfeited in respect of sale of land [taxable as IFOS]                                                 | 20,00,000 |                    |
| Profit on sale of unlisted shares [Taxable as "Capital Gains"]                                                 | 15,00,000 | - 35,00,000        |
|                                                                                                                |           | 9,62,00,000        |
| <b>Less: UNRECORDED BUS.. EXPS:</b>                                                                            |           |                    |
| Depn on P&M                                                                                                    |           |                    |
| - Normal Depn. {[65L+2L] x 15% x ½ }                                                                           | 5,02,500  |                    |
| - Addl. Depn. {[65L+2L] x 20% x ½ }                                                                            | 6,70,000  |                    |
| Depn on Knowhow [50 L x 25% x ½]                                                                               | 6,25,000  |                    |
| Depn. on Other Assets                                                                                          | 35,00,000 | - 52,97,500        |
| <b>TAXABLE INCOME FROM BUSINESS</b>                                                                            |           | <b>9,09,02,500</b> |

## COMPUTATION OF MAT

| Particulars                  | ₹                   |
|------------------------------|---------------------|
| <b>BOOK PROFITS</b>          | <b>15,20,00,000</b> |
| Tax on above @ 15%           | 2,28,00,000         |
| Add: Surcharge               | + 27,36,000         |
|                              | 2,55,36,000         |
| Add: HEC @ 4%                | + 10,21,440         |
| <b>MINIMUM ALTERNATE TAX</b> | <b>2,65,57,440</b>  |

→ **FINAL TAX LIABILITY:**

|                    |                    |
|--------------------|--------------------|
| ↑ Normal Tax       | 2,60,54,130        |
| ↑ MAT              | 2,65,57,440        |
| <b>Tax Payable</b> | <b>2,65,57,440</b> |

→ Amount of MAT Credit = 2,65,57,440 - 2,60,54,130 = ₹5,03,310

MAT credit of ₹ 20,00,000 of A.Y. 2017-18 is allowed to be carried forward till A.Y. 2032-33 and MAT credit of ₹ 6,56,140 relating to A.Y. 2025-26 is allowed to be carried forward till A.Y. 2040-41.

**Note:**

Shubh Fragrance Ltd. is eligible for concessional rate under section 115BAA @22% plus surcharge @10% plus HEC @4%.

In case Shubh Fragrance Ltd. opted for concessional rate of tax u/s 115BAA, it would not be eligible for additional depreciation on plant and machinery. In that case, its total income u/s 115BAA would be as follows:

**STATEMENT OF TOTAL INCOME u/s 115BAA**

| Particulars                                 | ₹           |
|---------------------------------------------|-------------|
| Net Taxable Income under regular provisions | 9,44,02,500 |
| Add: Additional depn. on plant & machinery  | + 6,70,000  |
| Net Taxable Income under sec. 115BAA        | 9,50,72,500 |

**STATEMENT OF TAX u/s 115BAA**

|                       | STCG<br>u/s<br>111A | LTCG<br>u/s<br>112A | LTCG<br>(Other)  | Win.       | Balance            |
|-----------------------|---------------------|---------------------|------------------|------------|--------------------|
| <b>Taxable Income</b> | <b>Nil</b>          | <b>Nil</b>          | <b>15,00,000</b> | <b>Nil</b> | <b>9,35,72,500</b> |
| Tax on above          |                     |                     | 1,87,500         |            | 2,05,85,950        |
|                       |                     |                     | [12.5%]          |            | [22%]              |
|                       |                     |                     |                  |            | 2,07,73,450        |
| Add: SC @ 10%         |                     |                     |                  |            | + 20,77,345        |
|                       |                     |                     |                  |            | 2,28,50,795        |
| Add: HEC @ 4%         |                     |                     |                  |            | + 9,14,032         |
| <b>TAX PAYABLE</b>    |                     |                     |                  |            | <b>2,37,64,827</b> |
| <b>Rounded off</b>    |                     |                     |                  |            | <b>2,37,64,830</b> |

**→ Suggestion to Shubh Fragrance Ltd.**

In case Shubh Fragrance Ltd opts for section 115BAA for assessment year 2025-26, it would not be eligible for balance 10% additional depreciation on plant & machinery in A.Y. 2026-27 and would also lose MAT credit of ₹ 20 lakhs. Further, once option under section 115BAA has been exercised for any P.Y., it cannot subsequently be withdrawn for the same or any other P.Y. However, in such a case its tax liability for A.Y. 2025-26 would be ₹ 2,37,64,830 which would be lower than tax liability under regular provisions of the Act including MAT.

**QUESTION 14:**

The accounts of Sun Pvt. Ltd. are prepared in accordance with the provisions of the Companies Act, 2013. Its Statement of Profit and Loss for the previous year ended 31st March, 2025 shows a net profit of ₹ 95 Lacs after debiting or crediting the following items:

| <b>Credits in Statement of Profit and Loss</b> |                                                                                      |           |
|------------------------------------------------|--------------------------------------------------------------------------------------|-----------|
| (1)                                            | Profit from a new industrial undertaking qualifying for dedn u/s 80-IA (Net)         | 17,00,000 |
| (2)                                            | Dividend received from Investment in Indian companies                                | 2,50,000  |
| (3)                                            | Net agricultural income                                                              | 5,00,000  |
| <b>Debits in Statement of Profit and Loss</b>  |                                                                                      |           |
| (1)                                            | Depreciation                                                                         | 10,00,000 |
| (2)                                            | Penalty for infraction of law                                                        | 1,00,000  |
| (3)                                            | Provision for GST                                                                    | 3,00,000  |
| (4)                                            | Provision for doubtful debts                                                         | 2,00,000  |
| (5)                                            | Interest on financial institutions unpaid before due date of filing return of income | 1,50,000  |
| (6)                                            | Reserves of currency foreign fluctuation                                             | 1,25,000  |

**Other Information:**

- i) Depreciation as per I.Tax for the PY 2024-25 is ₹ 19,50,000.
- ii) Depreciation (as per books) includes ₹ 1,90,000 on account of revaluation of assets.
- iii) GST provided in the accounts has been remitted before the due date for filing return of income.
- iv) Brought forward losses as per books are as under:  
(₹ In lakhs)

| Financial Year | Business loss | Depreciation |
|----------------|---------------|--------------|
| 2022-23        | 9.10          | 6.40         |
| 2023-24        | 6.10          | 8.10         |

The National Company Law Tribunal (NCLT), Mumbai Bench has admitted an application under section 7 of Insolvency and Bankruptcy Code, 2016 (IBC) made by financial creditor against the company for initiation of Corporate Insolvency Resolution Process on 30<sup>th</sup> March, 2025.

The particulars of "Other Comprehensive Income" for the year ended 31.03.2025:

### Other Comprehensive Income (OCI)

(that will not be re-classified to Statement of profit and loss)

|       |                                                       | Debit        | Credit |
|-------|-------------------------------------------------------|--------------|--------|
|       |                                                       | (₹ In lakhs) |        |
| (i)   | Deferred costs of hedging                             | 2.80         |        |
| (ii)  | Changes in fair values of equity instruments          | 7.40         |        |
| (iii) | Revaluation surplus for assets                        |              | 6.10   |
| (iv)  | Deferred gains on cash flow hedges                    |              | 7.50   |
| (v)   | Re-measurement of post-employment benefit obligations |              | 6.20   |

The transition amount as on convergence date (01-04-2023) stood at ₹ 68 lakhs (credit balance) including capital reserve of ₹ 8 lakhs and adjustment of ₹ 6 lakhs relating to translation difference in a foreign operation.

You are required to **compute the MAT liability** for the assessment year 2025-26, applying the provisions relating to **Ind AS compliant companies**.

Assuming that the income tax under normal provisions of Income-tax Act, 1961 for the assessment year 2025-26 works out to ₹ 12.80 lakhs, **compute the tax credit**, if any, to be carried forward by the company.

**ANSWER:****COMPUTATION OF MAT**

| Particulars                                                       | ₹         | ₹                |
|-------------------------------------------------------------------|-----------|------------------|
| Net Profit as per Profit & Loss A/c                               |           | 95,00,000        |
| <b>Add: P<sub>3</sub> R I D<sub>3</sub> E:</b>                    |           |                  |
| P <sub>1</sub> : Provisions for unascertained liabilities         | —         |                  |
| P <sub>2</sub> : Provision for diminution [RDD]                   | 2,00,000  |                  |
| P <sub>3</sub> : Prov. for loss of subsidiary company             | —         |                  |
| R: Trf. to Reserve (currency fluctuation)                         | 1,25,000  |                  |
| I: I. Tax and Interest on Income Tax                              | —         |                  |
| D <sub>1</sub> : Deferred Tax                                     | —         |                  |
| D <sub>2</sub> : Dividend & Dividend Distribution Tax             | —         |                  |
| D <sub>3</sub> : Depreciation on Revaluation                      | 1,90,000  |                  |
| E: Exps. related to incomes exempt u/s 10/11/12 [Except Sec.10AA] | —         | +5,15,000        |
|                                                                   |           | 1,00,15,000      |
| <b>Less: D P R<sub>2</sub> E S:</b>                               |           |                  |
| D: Deferred Tax                                                   | —         |                  |
| P: Amount withdrawn from Provisions                               | —         |                  |
| R <sub>1</sub> : Amount withdrawn from Rev. Reserve               | —         |                  |
| R <sub>2</sub> : Amt. withdrawn from Other Reserves               | —         |                  |
| E: Income exempt u/s 10/11/12 [Except Sec.10AA]                   | 5,00,000  |                  |
| S: Profit of Sick Industrial Unit                                 | —         | (5,00,000)       |
|                                                                   |           | 95,15,000        |
| <b>Less: B/f Business Loss (As per A/c)</b>                       | 15,20,000 |                  |
| <b>UAD (As per A/c)</b>                                           | 14,50,000 | (29,70,000)      |
| <b>BOOK PROFITS [Before IndAS adjustments]</b>                    |           | <b>65,45,000</b> |
| <b>Add: OCI Credits</b> [except revaluation]                      |           |                  |
| Deferred gains on cash flow hedges                                |           | +7,50,000        |
| Re-measurement of employment benefit                              |           | +6,20,000        |
| <b>Add: OCI Debits</b> [except revaluation]                       |           |                  |
| Deferred costs of hedging                                         |           | -2,80,000        |
| <b>Add: 1/5th of Transition amount</b>                            |           | +10,80,000       |
| 1/5th of (68L – 8L – 6L)                                          |           |                  |
| <b>BOOK PROFITS [After IndAS adjustments]</b>                     |           | <b>87,15,000</b> |
| Tax on above @15%                                                 |           | 13,07,250        |
| Add: Surcharge @7%                                                |           | Nil              |
| Add: HEC @4%                                                      |           | +52,590          |
| <b>Minimum Alternate Tax</b>                                      |           | <b>13,59,540</b> |

**→ FINAL TAX LIABILITY:**

|                    |                  |
|--------------------|------------------|
| ↑ Normal Tax       | 12,80,000        |
| ↑ MAT              | 13,59,540        |
| <b>Tax Payable</b> | <b>13,59,540</b> |

Since MAT is higher, credit will arise.

Amt of MAT Credit = 13,59,540 – 12,80,000 = ₹ 79,540

## MASTER PROBLEM ON COMPUTATION

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The Statement of Profit and Loss of Maxus Ltd., engaged in the manufacture of pharmaceuticals and other products for the year ended 31st March, 2025, exhibits a **Net Profit** of ₹ 180 lakhs **after debiting/crediting the following items:**

- 1) Interest on term loan from bank ₹ 24 lakhs relating to F.Y.2024-25, which is settled by issuing 8% debentures of ₹ 100 each in August, 2025.
- 2) Income-tax assessment of A.Y.2023-24 was completed in September, 2024 with a tax demand of ₹ 5,80,000 which included surcharge of ₹ 50,700 and cess of ₹ 22,308. The entire sum has been duly paid during the F.Y. 2024 -25.
- 3) GST paid includes an amount of ₹ 1,20,000 charged as penalty for delayed filing of returns and ₹ 1,54,000 towards interest for delay in deposit of tax.
- 4) Provision for gratuity based on actuarial valuation ₹ 18 lakhs. Actual gratuity paid during the year of ₹ 15 lakhs is debited to provision for gratuity account.
- 5) Depreciation ₹ 36 lakhs.
- 6) ₹ 6,00,000 to Mr. George, a non-resident, towards fee for technical services without deduction of tax at source. TDS was, however, deducted and paid on 30<sup>th</sup> December, 2025.
- 7) ₹ 10 lakhs as sales commission paid during the year without deducting tax at source to Mr. John, a citizen of U.S.A. and non-resident, for procuring orders from outside India.
- 8) Marked to market loss amounting to ₹ 6,00,000 in respect of an unsettled derivative contract.
- 9) Industrial power tariff concession of ₹ 5.40 lakhs, received from State Government was credited to Statement of Profit and Loss.
- 10) Interest of ₹ 15 lakhs paid on term loan taken specifically for purchase of plant and machinery. Out of this, ₹ 5 lakhs is for the period till such machinery was commissioned on 12.08.2024.

- 11) Expenditure incurred towards foreign travel of directors ₹ 6.5 lakhs to explore opening of a branch in a foreign country to market its products in the said foreign country.
- 12) Sold a vacant land to its wholly owned subsidiary Presi (P) Ltd., Mumbai. The LTCG of ₹ 18 lakhs is credited to the Statement of Profit & Loss.
- 13) Paid ₹ 2.2 lakhs to a university as donation to be used for research in social science approved under section 35(1)(iii). Out of this, ₹ 1.2 lakh was paid through net banking and balance by cash.
- 14) Interim dividend distributed during the year of ₹ 15 lakhs.
- 15) Contributed ₹ 300 lakhs towards employees' pension scheme notified by the Central Government u/s 80CCD calculated at 15% of aggregate of salary and dearness allowance (forming part of retirement benefits) payable to employees as per the terms of employment.
- 16) ₹ 40 lakhs by way of dividend received from Kellogs Ltd. of Singapore in which Maxus Ltd. has 28% voting power. Interest paid on loan to invest in shares of Kellogs Ltd. ₹ 9 lakhs is also debited to the Statement of Profit and Loss.
- 17) Paid ₹ 6 lakhs as donation to a recognised political party and ₹ 1 lakh to electoral trust by way of account payee cheque.
- 18) ₹ 5 lakhs, being the additional compensation received from the State Government pursuant to an interim order of Court in respect of land acquired by the State Government in the previous year 2021-22.
- 19) The opening and closing stock for the year were ₹ 55 lakhs and ₹ 54 lakhs respectively. Opening stock was overvalued by 10% and Closing stock was undervalued by 10%.
- 20) ₹ 45,000 paid in cash to Mr. Raj employee of the company at the time of his retirement.
- 21) Profit on sale of 2000 shares of KT Ltd. a listed company ₹ 3,50,000. These shares acquired on 10.06.2021 and sold on 04.06.2024. STT paid both at the time of purchase and sale of shares.
- 22) ₹ 2,00,000 paid as penalty for company's failure in performance.

- 23) An amount of ₹ 5 lakhs was paid to the manager of the company under Voluntary Retirement Scheme.
- 24) Employer's contribution to EPF of ₹ 18 lakhs together with similar amount of Employee's contributions for the month of March, 2025 was remitted on 20 May, 2025. (The due date for the remittance to the credit of employee's EPF account being 15 April, 2025).
- 25) ₹ 10 lakhs incurred on notified skill development project u/s 35CCD.
- 26) The company has paid ₹ 2,25,000 to share brokers for transaction in relation to equity shares listed in stock exchange and ₹ 1,20,000 to commodity broker for transactions in relation to commodities at MCX. Tax was not deducted at source on such transactions.
- 27) Expenses of ₹ 7,00,000 has been incurred for providing freebies to medical practitioners.
- 28) Interest and borrowing costs amounting to ₹ 6,50,000 and ₹ 5,00,000 though not meeting the criteria for recognition as a component of cost, is included in the cost of opening and closing inventory, respectively.
- 29) Advertisement expenditure includes a sum of ₹ 1.60 lakhs paid in cash to sister concern of a director of the company. The Fair market value of such expenditure in the market is ₹ 50,000.
- 30) Repairs of plant and machinery include ₹ 1.80 lakhs towards replacement of worn-out parts of machineries.
- 31) An executive Mr. Q, while on business trip abroad, died and the company voluntarily paid gratuity to his family amounting to ₹ 2 lakhs.
- 32) Capital Expenditure of ₹ 2 lakhs incurred for the purpose of promoting family planning amongst its employees debited in the Profit and Loss account.
- 33) Retrenchment compensation paid to employees of one of the unit of the company which was closed down during the year amounted to ₹ 14 lakhs.

- 34) ₹ 4 lakhs, being amounts waived by a co-operative bank out of principal and ₹ 1 lakh being amount waived by the bank on arrears of interest, respectively, in one-time settlement. The loan was obtained for meeting working capital requirement four years back.
- 35) One-time license fee of ₹ 22 lakh paid to ABC Ltd (an Indian company) for obtaining franchise on 1<sup>st</sup> June, 2024.
- 36) Rent of ₹ 60,000 p.m. received from letting out a part of its office premises. Municipal tax paid in respect of the said part of the building is ₹ 10,000. The same has been debited to statement of profit and loss.
- 37) Salary of ₹ 20,00,000 to foreign technicians for installation of machinery at the factory premises was paid.
- 38) ₹ 32 lakhs received from Zen Ltd. under an agreement in the form of non-compete fees for not carrying out any business in a particular product.
- 39) Advance received amounting to ₹ 22 lakhs on proposed sale of land, forfeited due to non-receipt of balance amount of ₹ 70 lakhs on time, as per terms of agreement. The land was purchased during FY 2020-21.
- 40) Excess on sale of unlisted shares - ₹ 18 lakhs (Sold on 18<sup>th</sup> July 2024). The unlisted shares were acquired for ₹ 75.25 lakhs. Indexed Cost of Acquisition is 82.75 lakhs.
- 41) Loss of ₹ 2 lakh from hedging contracts entered into for mitigating the loss arising due to fluctuation in foreign currency payment towards an imported machinery purchased from Japan for ₹ 70 lakhs, which was installed and put to use in the month of November 2024.
- 42) Loss of ₹ 2.2 lakhs due to hedging contract against future price fluctuations in respect of import of raw material, used in the course of manufacturing.
- 43) Payment of ₹ 65 lakhs on 15<sup>th</sup> October 2024 to a foreign company for obtaining know how for a product launched in the month of November 2024.

Additional Information:

- (i) Normal depn. as per Income-tax - ₹ 82 lakhs.
- (ii) Additional depn. as per Income-tax - ₹ 24 lakhs
- (iii) Brought forward unabsorbed depreciation (out of normal depreciation) of A.Y. 2021-22 ₹ 14 lakhs.
- (iv) Debenture of face value of ₹ 1500 lakhs having 5 years tenure were issued at a discount of 3% and were subscribed in full.
- (v) The company has purchased 1,00,000 units of chemicals at ₹ 50 per unit from a firm in which it has 30% interest. The normal selling price in the market for the same material is ₹ 80 per unit.
- (vi) The company had credited in the account of a sub-contractor, an amount of ₹ 23,33,330 on 31<sup>st</sup> Mar. 2024 towards repairs of factory building. TDS on such payment was remitted on 31<sup>st</sup> Dec., 2024.
- (vii) 102 new employees employed during the P.Y. 2024-25, the details of whom are as follows –

|       | No. of employees | Date of joining | Regular or Casual | Total monthly emoluments per employee (₹) |
|-------|------------------|-----------------|-------------------|-------------------------------------------|
| (i)   | 15               | 1.4.2024        | Regular           | 24,000                                    |
| (ii)  | 35               | 1.5.2024        | Regular           | 26,000                                    |
| (iii) | 42               | 1.8.2024        | Casual            | 24,500                                    |
| (iv)  | 10               | 1.9.2024        | Regular           | 24,000                                    |

The regular employees participate in recognized provident fund while the casual employees do not.

- (viii) The company had collected GST from its customers and remitted to the Government before the due dates. Consequent to an appeal filed, the High Court ordered the GST department to refund ₹ 5,00,000 to the company. The company in turn refunded ₹ 3,00,000 to its customers from whom GST was collected. Balance amount is shown under "current liabilities".

- (ix) The company sold goods for ₹ 22 lakhs to M/s ABC, a sole proprietary concern, on 01.11.2021. On 01.02.2025 ₹ 12 lakhs was written off in the books as bad debts. The sole proprietor died on 01.03.2025 and the company managed to collect ₹ 11 lakhs towards full and final settlement on 30.03.2025. The entire amount collected was shown as bad debts recovered and credited to Statement of Profit & Loss.
- (x) The company has obtained a loan of ₹ 4 lakhs from ABC Private Limited in which it holds 16% voting rights. The accumulated profit of ABC Private Limited on the date of receipt of loan was ₹ 1 lakh.
- (xi) The company has given iPhone Mobile sets to 5 distributors as incentive costing ₹ 60,000 each on 28.10.2024. The accountant of the company debited the same amount to the Statement of Profit and Loss, being business expenditure and did not deduct any tax at source.

You are required to compute the **total income** and **tax liability** of Maxus Ltd. for A.Y. 2025-26 with **brief reasons** for the treatment of each item given above. Maxus Ltd. has **opted** to pay tax as per the provisions of **sec. 115BAB**.

**SOLUTION****STATEMENT OF TOTAL INCOME** [Amt. in lakhs]

| Particulars                                                                                                                          | Amt. | Amt.          |
|--------------------------------------------------------------------------------------------------------------------------------------|------|---------------|
| * <b>Income from Salaries</b>                                                                                                        |      | Nil           |
| * <b>Income from HP</b> [60,000 x 12 months]<br>[Gross Rent because assessee opted sec. 115BAB]                                      |      | 7.20          |
| * <b>Income from Business</b> [Note 1]                                                                                               |      | 252.81        |
| * <b>Capital Gains:</b>                                                                                                              |      |               |
| LTCG on sale of land to 100% sub.. [Ex. u/s 47]                                                                                      |      | —             |
| Add. Compensation for compulsory acquisition<br>[Received as per the interim order of court]<br>[Taxable at the time of final order] |      | —             |
| LTCG on listed shares [STT paid]                                                                                                     |      | 3.50          |
| LTCG on unlisted shares<br>[FVOC 93.25 L – Indexed COA 82.75 L]                                                                      |      | 10.50         |
| * <b>Income from Other Sources:</b>                                                                                                  |      |               |
| Dividend from Kellogs Ltd.<br>[Gross Amt because assessee opted sec. 115BAB]                                                         |      | 40            |
| Deemed Dividend u/s 2(22)(e)<br>[Loan from closely held company to the extent of<br>accumulated profits]                             |      | 1             |
| Advance money forfeited                                                                                                              |      | 22            |
| <b>GROSS TOTAL INCOME</b>                                                                                                            |      | <b>337.01</b> |
| <b>Less: Deduction under Chapter VIA:</b>                                                                                            |      |               |
| → Sec. 80M: Inter-Company Dividend                                                                                                   |      | - 15          |
| → Sec.80JJAA: 30% of the Salary of New Employees<br>30% of [24,000 x 12m x 15 Employees]                                             |      | - 12.96       |
| <b>NET TAXABLE INCOME</b>                                                                                                            |      | <b>309.05</b> |

**STATEMENT OF TAX**

|                           | STCG<br>u/s<br>111A | LTCG<br>u/s<br>112A | LTCG<br>[Others] | Mfg<br>Profits   | Excess<br>Profits | Other<br>Heads |
|---------------------------|---------------------|---------------------|------------------|------------------|-------------------|----------------|
|                           | <b>15%*</b>         | <b>10%*</b>         | <b>20%*</b>      | <b>15%</b>       | <b>30%</b>        | <b>22%</b>     |
| <b>Net Taxable Income</b> | Nil                 | 3.50                | 10.50            | 209.85           | 30                | 55.20          |
| Tax on above              | Nil                 | 0.25                | 2.10             | 31.4775          | 9                 | 12.144         |
|                           |                     |                     |                  | 54.9715          |                   |                |
| Add: Surcharge            |                     |                     |                  | +5.49715         |                   |                |
| Add: HEC @ 4%             |                     |                     |                  | +2.418746        |                   |                |
| <b>TAX PAYABLE</b>        |                     |                     |                  | <b>62.887396</b> |                   |                |

\* If transfer before 23/7/2024

**Note 1: STATEMENT OF INCOME FROM BUSINESS**

| Particulars                                                                                                                                              | ₹ [Lakhs] | ₹ [Lakhs] |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Net Profit as per Profit & Loss A/c                                                                                                                      |           | 180       |
| <b>Add: DISALLOWED EXPENSES:</b>                                                                                                                         |           |           |
| Int. on term loan from bank settled by issue of debentures [not treated as paid as per sec. 43B]                                                         | 24        |           |
| Income Tax [Sec. 40(a)]                                                                                                                                  | 5.80      |           |
| GST Penalty [Breach of Law]                                                                                                                              | 1.20      |           |
| Provision for Gratuity [Sec.40A(7)]                                                                                                                      | 18        |           |
| Depreciation as per books                                                                                                                                | 36        |           |
| Fees for technical services paid to NR [TDS deposited after due date of return] [Sec.40(a)]                                                              | 6         |           |
| Comm. to NR for securing orders outside India [Allowed even if tax not deducted because TDS not applicable as income is accrued outside India]           | Nil       |           |
| MTM Loss - unsettled derivative contract [Sec.40A(13)]                                                                                                   | 6         |           |
| Interest on loan for Machinery up to put to use date                                                                                                     | 5         |           |
| Interest on term loan after put to use [allowed assuming paid up to due date of filing return]                                                           | Nil       |           |
| Foreign Travel Exps. for opening new branch [Allowed as it is for existing business – disallowed as capital exp. if it would have been for new business] | Nil       |           |
| Donation for research in social science [Disallowed as the assessee has opted Sec. 115BAB]                                                               | 2.20      |           |
| Interim Dividend [Not an expense – appropriation]                                                                                                        | 15        |           |
| Excess Contribution to NPS [1% of Basic + DA(in terms) is disallowed – 300L x 1/15]                                                                      | 20        |           |
| Interest paid on loan to earn dividend                                                                                                                   | 9         |           |
| Donation to P.Party and E.Trust [not a business exp.]                                                                                                    | 7         |           |
| Opening stock overvalued [55L x 10/110]                                                                                                                  | 5         |           |
| Payment of terminal benefit to employee [Mr. Raj] [Allowed in cash up to ₹ 50,000 as per Rule 6DD]                                                       | Nil       |           |

CA SHIRISH VYAS / CA FINAL / DIRECT TAX

|                                                                                                                                                                         |      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| Penalty for failure in performance<br>[Penalty for breach of contract is allowed]                                                                                       | Nil  |
| Voluntary Retirement Compensation<br>[5L x 4/5]                                                                                                                         | 4    |
| Employer's Contribution to PF<br>[Allowed as it is paid up to the due date of filing return]                                                                            | Nil  |
| Employee's Contribution to PF<br>[Disallowed as it is paid after the due date of PF]                                                                                    | 18   |
| Exp on Skill Development Project<br>[Disallowed as the assessee has opted Sec. 115BAB]                                                                                  | 10   |
| Brokerage to share brokers [not related to business]                                                                                                                    | 2.25 |
| Brokerage to commodity brokers<br>[related to business assuming assessee deals in such commodity – 30% disallowed as TDS is not deducted – sec. 40(a)] [1,20,000 x 30%] | 0.36 |
| Freebies to medical practitioners<br>[prohibited by Indian Medical Council Regulations]                                                                                 | 7    |
| Borrowing cost included in opening stock                                                                                                                                | 6.50 |
| Excess advt paid to sister concern of director<br>[Se.40A(2)]                                                                                                           | 1.10 |
| Reasonable amount of Advt paid in cash [Se. 40A(3)]                                                                                                                     | 0.50 |
| Replacement of worn-out parts of Machinery<br>[Allowed u/s 31 – Revenue in nature]                                                                                      | Nil  |
| Gratuity to family of deceased employee<br>[Allowed u/s 37(1)]                                                                                                          | Nil  |
| Capital Exp. for Family Planning<br>[2,00,000 x 4/5]                                                                                                                    | 1.60 |
| Retrenchment Compensation [Allowed u/s 37(1)]                                                                                                                           | Nil  |
| One time license fees [Intangible asset – Capital Exp.]                                                                                                                 | 22   |
| Mun..Taxes on Let out property                                                                                                                                          | 0.10 |
| Salary to technician -installation of machinery<br>[Cap.Exp]                                                                                                            | 20   |
| Loss from hedging [Machinery]<br>[Capital in nature]                                                                                                                    | 2    |
| Loss from hedging [Raw Materials] [Revenue in nature]                                                                                                                   | Nil  |

CA SHIRISH VYAS / CA FINAL / DIRECT TAX

|                                                                                                    |      |               |
|----------------------------------------------------------------------------------------------------|------|---------------|
| Purchase of Technical Know-how [Intangible Asset]                                                  | 65   |               |
| Value of Benefit provided to distributors on which TDS u/s 194R is not deducted [60,000 x 5 x 30%] | 0.90 | +321.51       |
| <b>Less: NON-BUSINESS INCOMES:</b>                                                                 |      |               |
| Industrial power tariff concession [business income]                                               | Nil  |               |
| LTCG on sale of land to wholly owned subsidiary                                                    | 18   |               |
| Dividend from Kellogs Ltd. – IFOS                                                                  | 40   |               |
| Addl. Compensation for compulsory acquisition [as per the interim order of court]                  | 5    |               |
| Profit on sale of shares [LTCG]                                                                    | 3.50 |               |
| Borrowing cost included in closing stock                                                           | 5    |               |
| Waiver of working capital loan [Principal Amt]                                                     | Nil  |               |
| [Taxable as business income u/s 41(1)]                                                             |      |               |
| Waiver of Interest on above [Not Taxable as interest exp. was not allowed in past]                 | 1    |               |
| Rent of Let out property [60,000 pm x 12][IFHP]                                                    | 7.20 |               |
| Non-Compete fees [Taxable u/s 28]                                                                  | Nil  |               |
| Forfeiture of advance money [IFOS]                                                                 | 22   |               |
| Excess on sale of unlisted shares [CG]                                                             | 18   |               |
| Recovery of 1 TL from Debtors credited to P&L                                                      |      |               |
| ⇒ <b>Good Debts ₹10L fully recovered</b> – Not an income                                           | 10   |               |
| ⇒ <b>Bad Debts ₹12L out of which recovered ₹1L</b>                                                 | Nil  | - 129.7       |
| <b>Less: UNRECORDED BUSINESS EXPS:</b>                                                             |      |               |
| Gratuity paid debited to provision for gratuity a/c                                                | 15   |               |
| Normal Depreciation (as per Income Tax)                                                            | 82   |               |
| Additional Depreciation (as per I.Tax) [Not allowed as assessee has opted for sec. 115BAB]         | Nil  |               |
| Discount of issue of deb. [1500 L x 3% = 45 L ÷ 5 yrs.]                                            | 9    |               |
| Payment to sub-contractor [TDS deposited in PY 24-25]                                              | 7    | - 113         |
| <b>Add: UNRECORDED BUSINESS INCOME:</b>                                                            |      |               |
| Closing Stock undervalued [54L x 10/90]                                                            | 6    |               |
| GST Refund recorded as current liability                                                           | 2    | + 8           |
| <b>Less: B/f Business Loss (as per tax)</b>                                                        |      | Nil           |
| <b>Less: Unabsorbed Depreciation (as per tax)</b>                                                  |      | - 14          |
| <b>TAXABLE INCOME FROM BUSINESS</b>                                                                |      | <b>252.81</b> |

# CAPITAL GAINS

## **QUESTION 1:**

Mr. X purchased a house property during 93-94 for ₹ 20,000 (FMV on 1.4.2001 is ₹ 1,10,000). He spent following amount on improvement:

- 1) ₹ 40,000 during 1995-96
- 2) ₹ 1,00,000 during 2008-09

On 5<sup>th</sup> July, 2024, the house was sold for ₹ 19,50,000 (Brokerage ₹ 25,000).

Compute the amount of capital gains.

## **ANSWER:**

### COMPUTATION OF CAPITAL GAINS

|                                                                                                                                                                   | ₹                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Full Value of Consideration <b>(Sale price)</b>                                                                                                                   | 19,50,000        |
| <u>Less:</u> Transfer Expenses                                                                                                                                    | (25,000)         |
| Net Consideration                                                                                                                                                 | 19,25,000        |
| <u>Less:</u> Indexed Cost of Acquisition                                                                                                                          | (3,99,300)       |
| $\left[ \begin{array}{l} \uparrow 20,000 \times \frac{363}{100} \\ \uparrow 1,10,000 \end{array} \right] \begin{array}{l} \text{Trf.} \\ \text{Pur.} \end{array}$ |                  |
| <u>Less:</u> Indexed Cost of Improvement                                                                                                                          | (2,64,964)       |
| $\left[ \begin{array}{l} 1,00,000 \times \frac{363}{137} \\ \end{array} \right] \begin{array}{l} \text{Trf.} \\ \text{Imp.} \end{array}$                          |                  |
| <b>Long Term Capital Gains</b>                                                                                                                                    | <b>12,62,736</b> |

## **QUESTION 2:**

Mr. X is admitted as a partner in M/s ABC & Co. on 18<sup>th</sup> June, 2024. He introduced his capital in the form of jewellery. The fair market value of the jewellery on 18<sup>th</sup> June, 2024 is ₹ 12,00,000 and the amount credited to his capital account ₹ 15,00,000. Compute the amount of capital gains assuming the jewellery was purchased by Mr. X during 2005-06 for ₹ 40,000.

## **ANSWER:**

**COMPUTATION OF CAPITAL GAINS [Section 45(3)]**

|                                                                          | ₹          |
|--------------------------------------------------------------------------|------------|
| Full Value of Consideration<br><b>(Amt. recorded in the bks of Firm)</b> | 15,00,000  |
| <u>Less:</u> Transfer Expenses                                           | —          |
| Net Consideration                                                        | 15,00,000  |
| <u>Less:</u> Indexed Cost of Acquisition                                 | (1,24,103) |
| $\left[40,000 \times \frac{363}{117}\right]_{PUR}^{TRF}$                 |            |
| <u>Less:</u> Indexed Cost of Improvement                                 | —          |
| Long Term Capital Gains                                                  | 13,75,897  |

**QUESTION 3:**

Messrs. PQR & Co. (Partnership firm) went into dissolution on 5<sup>th</sup> September, 2024. At the time of dissolution, partner 'P' took the land at an agreed value of ₹ 43,00,000. The market value of the land on 5<sup>th</sup> September, 2024 was ₹ 45,00,000. Compute the amount of capital gains assuming the land was purchased by the partnership firm during 1993-94 for ₹ 1,00,000 (FMV on 1.4.2001 is ₹ 5,00,000).

**ANSWER:****COMPUTATION OF CAPITAL GAIN u/s 9B**

|                                                 |           |
|-------------------------------------------------|-----------|
| FVOC <b>(FMV of land)</b>                       | 45,00,000 |
| <u>Less:</u> Trf. Expenses                      | -         |
| Net Consideration                               | 45,00,000 |
| <u>Less:</u> Cost of Acquisition                | 17,40,000 |
| [No indexation since transfer on/after 23/7/24] |           |
| LTCG                                            | 27,60,000 |

**Note:** Computation u/s 45(4) is **not required because it is dissolution** of firm. Section 45(4) is applicable only at the time of **Reconstruction**.

**QUESTION 4:**

Mr. X purchased a property during 1994-95 for ₹ 50,000 (FMV on 1.4.2001 is ₹ 2,70,000). The property was compulsorily acquired by Government during 2018-19 and a compensation of ₹ 18,00,000 was received on 8<sup>th</sup> July, 2024.

Mr. X filed a suit against Govt. challenging the amount of compensation. The court ordered for an additional compensation of ₹ 2,00,000 which was received on 7<sup>th</sup> May, 2026 (Legal expenses ₹ 25,000).

Compute the amount of capital gains for the previous year 2024-2025 & 2026-2027.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [Sec. 45(5)] (PY 2024-25)**

|                                                                                                                                        | ₹          |
|----------------------------------------------------------------------------------------------------------------------------------------|------------|
| Full Value of Consideration ( <b>Initial Compensation</b> )                                                                            | 18,00,000  |
| <u>Less:</u> Transfer Expenses                                                                                                         | —          |
| Net Consideration                                                                                                                      | 18,00,000  |
| <u>Less:</u> Indexed Cost of Acquisition                                                                                               | (7,56,000) |
| $\left[ \begin{array}{l} \uparrow 50,000 \\ 2,70,000 \end{array} \times \frac{280}{100} \right] \text{ Trf. [2018-19]} \\ \text{Pur.}$ |            |
| <u>Less:</u> Indexed Cost of Improvement                                                                                               | —          |
| Long Term Capital Gains                                                                                                                | 10,44,000  |

**COMPUTATION OF CAPITAL GAINS [Sec. 45(5)] (PY 26-27)**

|                                                        |          |
|--------------------------------------------------------|----------|
| Full Value of Consideration ( <b>Enhanced Comp..</b> ) | 2,00,000 |
| <u>Less:</u> Legal Expenses                            | (25,000) |
| Long Term Capital Gains                                | 1,75,000 |

**QUESTION 5:**

Mr. X purchased a capital asset during 2010-11 for ₹ 3,50,000. During 2016-17, he converted he capital asset into stock in trade. (FMV on the date of conversion is ₹ 9,00,000) The stock in trade was sold on 24<sup>th</sup> Sept., 2024 for ₹ 11,50,000.

Compute the total profits indicating separately amount of capital gains & business income.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [Section 45(2)]**

|                                                                                       | ₹          |
|---------------------------------------------------------------------------------------|------------|
| Full Value of Consideration<br><b>(FMV on the dt. of conversion)</b>                  | 9,00,000   |
| <u>Less:</u> Transfer Expenses                                                        | —          |
| Net Consideration                                                                     | 9,00,000   |
| <u>Less:</u> Indexed Cost of Acquisition                                              | (5,53,293) |
| $\left[ 3,50,000 \times \frac{264}{167} \right]$ <i>Trf. [2016-17]</i><br><i>Pur.</i> |            |
| <u>Less:</u> Indexed Cost of Improvement                                              | —          |
| Long Term Capital Gains                                                               | 3,46,707   |

**COMPUTATION OF BUSINESS INCOME**

|                                            | ₹          |
|--------------------------------------------|------------|
| S.P. of the stock in trade                 | 11,50,000  |
| <u>Less:</u> FMV on the date of conversion | (9,00,000) |
| Income from Business                       | 2,50,000   |

**QUESTION 6:**

Mr. X purchased a property for ₹ 79,000 during 1992-93 (FMV on 1.4.2001 is ₹ 1,12,000). He spent following amounts on improvement:

- ₹ 20,000 during 1999-00
- ₹ 35,000 during 2006-07

On 1<sup>st</sup> May, 2013 he died and the property was transferred to his wife as per his will.

Mrs. X spent ₹ 1,00,000 on improvement on 18<sup>th</sup> June, 2023. The property was sold on 7<sup>th</sup> August, 2024 for ₹ 22,50,000.

Compute amount of capital gains.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [Section 49(1)]**

|                                                                                         | ₹          |
|-----------------------------------------------------------------------------------------|------------|
| Full Value of Consideration <b>(Sale price)</b>                                         | 22,50,000  |
| <u>Less:</u> Transfer Expenses                                                          | —          |
| Net Consideration                                                                       | 22,50,000  |
| <u>Less:</u> Cost of Acquisition <b>(previous owner)</b>                                | (1,12,000) |
| $\left[ \begin{array}{l} \uparrow 79,000 \\   \\ \uparrow 1,12,000 \end{array} \right]$ |            |
| <u>Less:</u> Cost of Improvement (35,000 + 1,00,000)                                    | (1,35,000) |
| Long Term Capital Gains                                                                 | 20,03,000  |

**QUESTION 7:**

Mr. X purchased 2000 unlisted equity Shares of ₹ 10 each at ₹ 40 per share on June 1999 (FMV on 1.4.2001 is ₹ 30 per share). Brokerage paid was 1%.

He was allotted bonus shares as follows:

- a) 1,000 bonus shares on 1<sup>st</sup> August, 2000
- b) 500 bonus shares on 1<sup>st</sup> September, 2009

Mr. X sold all these shares for ₹ 200 per share on 5<sup>th</sup> June, 2024. (Brokerage 2%)

Compute the amount of capital gains.

**ANSWER:****COMPUTATION OF CAPITAL GAINS**

|                                               | 2000 Original Shares                           | 1000 Bonus Shares                              | 500 Bonus Shares |
|-----------------------------------------------|------------------------------------------------|------------------------------------------------|------------------|
| FVOC                                          | 4,00,000                                       | 2,00,000                                       | 1,00,000         |
| <u>Less:</u> Trf. Exp.                        | - 8,000                                        | - 4,000                                        | - 2,000          |
| Net Consideration                             | 3,92,000                                       | 1,96,000                                       | 98,000           |
| <u>Less:</u> Indexed COA                      | - 2,93,304                                     | - 1,08,900                                     | —                |
| $\uparrow \text{Actual Cost FMV on 1/4/2001}$ | $\left[ 80,800 \times \frac{363}{100} \right]$ | $\left[ 30,000 \times \frac{363}{100} \right]$ |                  |
| LTCG                                          | 98,696                                         | 87,100                                         | 98,000           |

**QUESTION 8:**

Mr. X purchased a flat in Mumbai on 14<sup>th</sup> July, 2006 for ₹ 3,50,000. The flat was sold on 7<sup>th</sup> June, 2024 for ₹ 30,00,000.

On 24<sup>th</sup> July, 2025, he purchased another flat in Delhi for ₹ 32,00,000.

Compute the amount of Capital Gains.

What will be your answer if the Delhi flat is sold on 9<sup>th</sup> June, 2026 for ₹ 42,00,000.

**ANSWER:**

**COMPUTATON OF CAPITAL GAINS**

|                                                                                     |           |             |
|-------------------------------------------------------------------------------------|-----------|-------------|
| FVOC (SP) (old house)                                                               |           | 30,00,000   |
| <u>Less:</u> Trf. Expenses                                                          |           | -           |
| Net Consideration                                                                   |           | 30,00,000   |
| <u>Less:</u> ICOA $\left[ 3,50,000 \times \frac{363}{122} \right]$ <i>Trf. Pur.</i> |           | - 10,41,393 |
| Gross LTCG                                                                          |           | 19,58,607   |
| <b><u>Less: Exempt u/s 54:</u></b>                                                  |           |             |
| ↓ 1) CG                                                                             | 19,58,607 |             |
| ↓ 2) Cost of New Asset                                                              | 32,00,000 | (19,58,607) |
| Net LTCG                                                                            |           | Nil         |

In case new house is sold on 9<sup>th</sup> June, 2025 i.e. before lock in period, Capital gains will be computed as follows:

**COMPUTATON OF CAPITAL GAINS (On sale of new house)**

|                                                  |  |             |
|--------------------------------------------------|--|-------------|
| FVOC (SP)                                        |  | 42,00,000   |
| <u>Less:</u> Trf. Expenses                       |  | -           |
| Net Consideration                                |  | 42,00,000   |
| <u>Less: Reduced COA (32,00,000 – 19,58,607)</u> |  | - 12,41,393 |
| STCG                                             |  | 29,58,607   |

**Question 9:**

Mr. X purchased an agricultural land in Chennai on 1st June, 2012 for ₹ 2,00,000.

This land was sold on 7th July, 2024 for ₹ 24,50,000.

On 30th July, 2025, he purchased another agricultural land in urban area for ₹ 26,00,000.

Compute the amount of capital gains.

What will be your answer if the new land is sold on 14th September, 2026 for ₹ 40,00,000.

What will be your answer if the new agricultural land was in rural area and then it is sold for ₹ 40,00,000 on 14th September, 2026.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [PY 2024-25]**

|                                                                                                                | ₹           |
|----------------------------------------------------------------------------------------------------------------|-------------|
| Full Value of Consideration                                                                                    | 24,50,000   |
| <u>Less: Transfer Expenses</u>                                                                                 | —           |
| Net Consideration                                                                                              | 24,50,000   |
| <u>Less: Indexed Cost of Acquisition</u>                                                                       | (3,63,000)  |
| $\left[ 2 \text{ lakhs} \times \frac{363}{200} \right] \begin{matrix} \text{Trf.} \\ \text{Pur.} \end{matrix}$ |             |
| Gross LTCG                                                                                                     | 20,87,000   |
| <b><u>Less: Exempt u/s 54B:</u></b>                                                                            | - 20,87,000 |
| ↓ Amount of CG                                                                                                 | 20,87,000   |
| ↓ Cost of New Asset (CNA) / Deposit                                                                            | 26,00,000   |
| Net LTCG                                                                                                       | Nil         |

**COMPUTATION OF CAPITAL GAINS [PY 2026-27]**

(on sale of new urban ag. land within the lock-in-period of 3 years)

|                                                                                         | ₹          |
|-----------------------------------------------------------------------------------------|------------|
| Full Value of Consideration [SP of new ag.. land]                                       | 40,00,000  |
| <u>Less: Transfer Expenses</u>                                                          | —          |
| Net Consideration                                                                       | 40,00,000  |
| <u>Less: Reduced Cost of Acquisition</u><br>(26,00,000 – 20,87,000 Ex. claimed earlier) | (5,13,000) |
| STCG                                                                                    | 34,87,000  |

If the new agricultural land is in rural area then also exemption will be allowed. However, such exemption cannot be withdrawn even if the new agricultural land is sold within the lock in period of 3 years because capital gains is not computed on transfer of Rural agricultural land in India.

**Question 10:**

Mr. X purchased a plot of land on 1<sup>st</sup> June, 2006 for ₹ 3,00,000. This plot was sold on 17<sup>th</sup> July, 2024 for ₹ 29,25,000 (Commission ₹ 25,000). On 1<sup>st</sup> July, 2025, he purchased a residential house for ₹ 14,00,000. Compute the amount of capital gains.

What will be your answer if the new house is sold on 25<sup>th</sup> May, 2026 for ₹ 22,00,000?

**ANSWER:****COMPUTATION OF CAPITAL GAINS**

|                                                               |                   |
|---------------------------------------------------------------|-------------------|
| FVOC (SP)                                                     | 29,25,000         |
| <u>Less:</u> Trf. Expenses                                    | - 25,000          |
| Net Consideration                                             | 29,00,000         |
| <u>Less:</u> Indexed COA                                      | - 8,92,623        |
| $\left[ 3,00,000 \times \frac{363}{122} \right]$ Trf.<br>Pur. |                   |
| Gross LTCG                                                    | 20,07,377         |
| <b>Less: Exemption u/s 54F</b>                                | <b>- 9,69,079</b> |
| $20,07,377 \times \frac{14,00,000}{29,00,000} = 9,69,079$     |                   |
| LTCG                                                          | 10,38,298         |

In case new house is sold on 25<sup>th</sup> May, 2026 i.e. within 3 year of lock-in-period then Capital Gain in P.Y. 2026-27 will be computed as:

|                                  |                   |
|----------------------------------|-------------------|
| FVOC (SP)                        | 22,00,000         |
| <u>Less:</u> Trf. Expenses       | —                 |
| Net Consideration                | 22,00,000         |
| <u>Less:</u> Full COA            | (14,00,000)       |
| STCG                             | 8,00,000          |
| <b>Add: LTCG (Exemption w/d)</b> | <b>+ 9,69,079</b> |
|                                  | 17,90,274         |

**Question 11:**

'X' Ltd. shifted its industrial undertaking from urban area to a rural area. During the course of shifting, the company sold following assets on 17<sup>th</sup> July, 2024:

| Particulars   | Land        | P & M     | Furniture |
|---------------|-------------|-----------|-----------|
| Purchase on   | 4.11.2007   | 5.5.04    | 16.12.12  |
| Cost          | 42,00,000   | 10,00,000 | 5,00,000  |
| WDV on 1.4.24 | -           | 4,00,000  | 2,00,000  |
| Sale proceeds | 1,30,00,000 | 25,00,000 | 4,20,000  |

'X' Ltd. spent following amounts in rural area:

- 1) Purchase of building costing ₹ 6,00,000 on 4<sup>th</sup> Sept., 2025.
- 2) Purchase of land costing ₹ 8,00,000 on 7<sup>th</sup> Sept., 2025.
- 3) Deposit of ₹ 9,00,000 in capital gains account.
- 4) Purchase of furniture costing ₹ 2,00,000 on 8.9.2025.

Compute the amount of capital gains. Assuming 'X' Ltd. incurred ₹ 40,000 as shifting exps.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [PY 2024-25] [LAND]**

|                                                                                                                 | Rs.           |
|-----------------------------------------------------------------------------------------------------------------|---------------|
| Full Value of Consideration                                                                                     | 1,30,00,000   |
| <u>Less:</u> Transfer Expenses                                                                                  | —             |
| Net Consideration                                                                                               | 1,30,00,000   |
| <u>Less:</u> Indexed Cost of Acquisition                                                                        | (1,18,18,605) |
| $\left[ 42 \text{ lakhs} \times \frac{363}{129} \right] \begin{matrix} \text{Trf.} \\ \text{Pur.} \end{matrix}$ |               |
| Gross LTCG                                                                                                      | 11,81,395     |

**COMPUTATION OF CAPITAL GAINS [PY 2024-25]**

|                         | P & M       |     | FURNITURE  |     |
|-------------------------|-------------|-----|------------|-----|
|                         | Amt.        | No. | Amt.       | No. |
| Opening WDV             | 4,00,000    | (1) | 2,00,000   | (1) |
| <u>Add:</u> Purchases   | Nil         | (0) | Nil        | (0) |
| <u>Less:</u> Sales (SP) | - 25,00,000 | (1) | - 4,20,000 | (1) |
| Gross STCG              | 21,00,000   | (0) | 2,20,000   | (0) |

**FINAL COMPUTATION**

|                                 | Land             | P & M       | Furniture   |
|---------------------------------|------------------|-------------|-------------|
| Gross LTCG                      | 11,81,395        |             |             |
| Gross STCG                      |                  | 21,00,000   | 2,20,000    |
| <b>Less: Exempt u/s 54GA:</b>   | - 2,40,000       | - 21,00,000 | Not Allowed |
| ↓ Amount of CG                  | <b>32,81,395</b> |             |             |
| ↓ CNA/Deposit [ <b>Note 1</b> ] | 23,40,000        |             |             |
| Net LTCG                        | 9,41,395         |             |             |
| Net STCG                        |                  | Nil         | 2,20,000    |

**Note 1:**

|                   |                  |
|-------------------|------------------|
| Cost of Building  | 6,00,000         |
| Cost of Land      | 8,00,000         |
| Deposit in CGAS   | 9,00,000         |
| Cost of Furniture | Not Eligible     |
| Shifting Expenses | <u>40,000</u>    |
|                   | <u>23,40,000</u> |

**QUESTION 12:**

X Ltd. has 3 divisions (A, B & C) started in 2008. During the year 2024-25, division C was sold for a lumpsum price of ₹ 90 lacs. Details of assets & liabilities of division C (As per books) as on the date of sale are as follows:

|                               |         |
|-------------------------------|---------|
|                               | ₹       |
| Land                          | 20 lacs |
| Machinery                     | 2 lacs  |
| Stock                         | 8 lacs  |
| Other assets                  | 40 lacs |
| Creditors & other liabilities | 10 lacs |

The WDV of the block of plant and machinery as on 1.4.2024 is ₹ 23 Lakhs. Out of this block, one machine which was purchased on 8<sup>th</sup> Oct., 2021 for ₹ 4 lakhs was transferred in slump sale. Compute the amount of capital gains.

**ANSWER:****COMPUTATION OF CAPITAL GAIN UNDER SLUMP SALE**

|                                                                |                  |                  |
|----------------------------------------------------------------|------------------|------------------|
| FVOC (SP) (Note)                                               |                  | 90,00,000        |
| ↑ Lumpsum Consideration                                        | 90,00,000        |                  |
| ↑ <b>FMV as per Rule 11 UAE (Note 1)</b>                       | <u>60,00,000</u> |                  |
| <u>Less:</u> Trf. Expenses                                     |                  | -                |
|                                                                |                  | 90,00,000        |
| <u>Less:</u> Cost of undertaking ( <b>Net Worth – Note 2</b> ) |                  | - 60,67,325      |
| <b>LTCG</b>                                                    |                  | <b>29,32,675</b> |

**Note 1: FMV as per Rule 11 UAE:**

|                                                                 |                  |
|-----------------------------------------------------------------|------------------|
| FMV of Jewellery, Artistic Work, Shares & Securities            | Nil              |
| SDV of Immovable Property [Land]                                | 20,00,000        |
| Book Value of Other Assets<br>(2,00,000 + 8,00,000 + 40,00,000) | 50,00,000        |
| <u>Less:</u> Book Value of Outside Liabilities                  | (10,00,000)      |
|                                                                 | <b>60,00,000</b> |

**Note 2: Net Worth [Cost of undertaking]:**

|                                                |                  |
|------------------------------------------------|------------------|
| WDV of Depreciable assets as per I.Tax*        | *2,67,325        |
| Book Value of Other Assets                     |                  |
| - Land                                         | 20,00,000        |
| - Stock                                        | 8,00,000         |
| - Other Assets                                 | 40,00,000        |
| <u>Less:</u> Book Value of Outside Liabilities | (10,00,000)      |
|                                                | <b>60,67,325</b> |

\*WDV of Machinery = Cost 4 lakhs – Depn (21-22) 30,000 – Depn (22-23) 55,500 – Depn (23-24) 47,175 = ₹ 2,67,325

**QUESTION 13:**

Axel Ltd. has two industrial undertakings. Unit-I is engaged in the production of television sets and Unit-II is engaged in the production of refrigerators. On 1<sup>st</sup> April, 2024, the company decided to sell Unit-II as a going concern by way of slump sale for ₹ 260 lacs to a new company called Gama Ltd., in which it holds 85% equity shares.

The following is the extract of the balance sheet of Axel Ltd. as on 1<sup>st</sup> April, 2024:

|                       | ₹ in lacs       |                  |
|-----------------------|-----------------|------------------|
|                       | <u>Unit – I</u> | <u>Unit – II</u> |
| Fixed Assets          | 112             | 158              |
| Debtors               | 88              | 67               |
| Inventories           | 60              | 23               |
| Liabilities           | 33              | 45               |
| Paid up share capital | ₹ 231 lacs      |                  |
| General reserve       | ₹ 160 lacs      |                  |
| Share premium         | ₹ 39 lacs       |                  |
| Revaluation reserve   | ₹ 105 lacs      |                  |

The company set up Unit-II on 1<sup>st</sup> April, 2008. The written down value of the block of assets for tax purpose as on 31<sup>st</sup> March, 2024 is ₹ 150 lacs of which ₹ 60 lacs are attributable to Unit-II.

Determine what would be the tax liability of Axel Ltd. on account of Slump sale.

**ANSWER:**

### COMPUTATION OF CAPITAL GAIN UNDER SLUMP SALE

|                                                                |                    |
|----------------------------------------------------------------|--------------------|
| FVOC (SP) (Note)                                               | 2,60,00,000        |
| ↑ Lumpsum Consideration                                        | 2,60,00,000        |
| ↑ <b>FMV as per Rule 11UAE (Note 1)</b>                        | <b>2,03,00,000</b> |
| <u>Less:</u> Trf. Expenses                                     | -                  |
|                                                                | 2,60,00,000        |
| <u>Less:</u> Cost of undertaking ( <b>Net Worth – Note 2</b> ) | 1,05,00,000        |
| LTCG                                                           | 1,55,00,000        |

### **Note 1: FMV as per Rule 11UAE:**

|                                                      |             |
|------------------------------------------------------|-------------|
| FMV of Jewellery, Artistic Work, Shares & Securities | Nil         |
| SDV of Immovable Property                            | Nil         |
| Book Value of Other Assets                           | 2,48,00,000 |
| (1,58,00,000 + 67,00,000 + 23,00,000)                |             |
| <u>Less:</u> Book Value of Outside Liabilities       | (45,00,000) |
|                                                      | 2,03,00,000 |

**Note 2: Net Worth [Cost of undertaking]:**

|                                                |                    |
|------------------------------------------------|--------------------|
| WDV of Depreciable assets                      | 60,00,000          |
| Book Value of Other Assets                     |                    |
| - Debtors                                      | 67,00,000          |
| - Inventories                                  | 23,00,000          |
| <u>Less: Book Value of Outside Liabilities</u> | <u>(45,00,000)</u> |
|                                                | 1,05,00,000        |

Tax Liability = 1,55,00,000 × 20% + SC@7% + HEC@4% = 33,17,000  
+ HEC = 34,49,680

**QUESTION 14:**

Mr. Ram had purchased 5,000 equity shares in M/s Kamat & Co., Ltd. at the rate of ₹ 2 per share on 14<sup>th</sup> May, 2005. M/s Kamat & Co. Ltd. goes into liquidation on June 30, 2024. The Balance Sheet of the company as on the date of liquidation stood as under:

| Liabilities         | ₹         | Assets       | ₹         |
|---------------------|-----------|--------------|-----------|
| 50,000 Eq. shares   | 5,00,000  | Land & Bldg  | 22,00,000 |
| Accumulated profits | 30,00,000 | Cash in hand | 13,00,000 |
|                     | 35,00,000 |              | 35,00,000 |

In the process, on 30<sup>th</sup> June, 2024, Mr. Ram gets a plot of land (market value ₹ 2,00,000) and ₹ 1,50,000 in cash. He transfers the plot of land on 10<sup>th</sup> Mar., 2025 for ₹ 3,20,000.

Indicate the tax consequences of these transactions.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [Section 46(2)]**

|                                 |          |
|---------------------------------|----------|
|                                 | ₹        |
| Money                           | 1,50,000 |
| Money value of the plot of Land | 2,00,000 |
| Total Consideration             | 3,50,000 |

|                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                        |        |                                |   |                                                             |          |                         |        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------|--------------------------------|---|-------------------------------------------------------------|----------|-------------------------|--------|
| <p style="text-align: center;">↓</p> <p><u>His share in reserves</u><br/>3,00,000<br/>(30,00,000 × 10%)<br/><b>Deemed Dividend</b><br/><b>u/s 2(22)(c)</b><br/><b>IFOS</b></p> | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Full Value of Cons. [<b>Balance</b>]</td> <td style="text-align: right;">50,000</td> </tr> <tr> <td><u>Less:</u> Transfer Expenses</td> <td style="text-align: right;">—</td> </tr> <tr> <td><u>Less:</u> Ind. Cost of Acquisition<br/>[10,000 x 363/117]</td> <td style="text-align: right;">- 31,026</td> </tr> <tr> <td style="border-top: 1px solid black;">Long Term Capital Gains</td> <td style="text-align: right; border-top: 1px solid black;">18,974</td> </tr> </table> | Full Value of Cons. [ <b>Balance</b> ] | 50,000 | <u>Less:</u> Transfer Expenses | — | <u>Less:</u> Ind. Cost of Acquisition<br>[10,000 x 363/117] | - 31,026 | Long Term Capital Gains | 18,974 |
| Full Value of Cons. [ <b>Balance</b> ]                                                                                                                                         | 50,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                        |        |                                |   |                                                             |          |                         |        |
| <u>Less:</u> Transfer Expenses                                                                                                                                                 | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                        |        |                                |   |                                                             |          |                         |        |
| <u>Less:</u> Ind. Cost of Acquisition<br>[10,000 x 363/117]                                                                                                                    | - 31,026                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                        |        |                                |   |                                                             |          |                         |        |
| Long Term Capital Gains                                                                                                                                                        | 18,974                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                        |        |                                |   |                                                             |          |                         |        |

**COMPUTATION OF CAPITAL GAINS [on sale of plot]**

|                                                                                         |            |
|-----------------------------------------------------------------------------------------|------------|
|                                                                                         | ₹          |
| Full Value of Consideration (Sale price of land)                                        | 3,20,000   |
| <u>Less:</u> Cost of Acquisition<br>(Mkt. value of the land at the time of liquidation) | (2,00,000) |
| Short Term Capital Gains                                                                | 1,20,000   |

**Note:**

Transfer of Capital Asset [land] by company to shareholders is **exempt u/s 46(1)**.

**QUESTION 15:**

The assessee was a company carrying on business of manufacture and sale of art-silk cloth. It purchased machinery worth ₹ 4 lakhs on 1.5.2020 and insured it with United India Assurance Ltd., against fire, flood, earthquake etc. The insurance policy contained a reinstatement clause requiring the insurance company to pay the value of the machinery, as on the date of fire etc., in case of destruction or loss. A fire broke out in August, 2024 causing extensive damage to the machinery of the assessee rendering them totally useless. The assessee company received a sum of ₹ 6 lakhs from the insurance company on 15<sup>th</sup> March, 2025. Discuss the issues arising on account of the transactions and their tax treatment.

**ANSWER:**⇒ **Issues rising**

Normally, capital gains is computed only if there is a “transfer”. In case of destruction, there is **no transfer** because in the process of transfer, the asset must exist. The definition of transfer includes extinguishment of “Rights” in a capital asset but in case of destruction, the capital asset itself is extinguished. Hence, destruction is not a transfer [therefore, **no capital gains**].

However, as per section 45(1A), capital gains will be **computed** even in case of destruction **provided** the destruction is due to **Natural calamities, Riots, Fire or Enemy attack**.

⇒ **Tax treatment**

Since machinery is a depreciable asset, mode of computing capital gains will be as prescribed in section 50.

**COMPUTATION OF CG [Sec. 45(1A) read with Sec.50]**

|                               | Amt.       | No. of Assets |
|-------------------------------|------------|---------------|
| Opening WDV ( <b>Note 1</b> ) | 1,59,672   | (1)           |
| <u>Add:</u> Purchases         | Nil        |               |
| <u>Less:</u> Insurance Claim  | - 6,00,000 | (1)           |
| STCG                          | 4,40,328   | (0)           |

**Note 1:**

|                                                                |          |
|----------------------------------------------------------------|----------|
| Original Cost (1.5.2020)                                       | 4,00,000 |
| <u>Less:</u> Normal Dep. @ 15% (20-21)                         | (60,000) |
| <u>Less:</u> Addl. Dep. @ 20% (20-21) ( <b>Mfg. business</b> ) | (80,000) |
|                                                                | 2,60,000 |
| <u>Less:</u> Dep. @ 15% (21-22)                                | (39,000) |
|                                                                | 2,21,000 |
| <u>Less:</u> Dep. @ 15% (22-23)                                | (33,150) |
|                                                                | 1,87,850 |
| <u>Less:</u> Dep. @ 15% (23-24)                                | (28,177) |
| WDV as on 1/4/2024                                             | 1,59,672 |

**QUESTION 16:**

Mr. X purchased a land for ₹ 4,00,000 on 4<sup>th</sup> July, 2006. It was sold for ₹ 2 crores on 24<sup>th</sup> January, 2025. On 6<sup>th</sup> February, 2025 he invested ₹ 56 lacs in bonds of NHAI & further on 14<sup>th</sup> June, 2025, he invested ₹ 41 lacs in bonds of NHAI.

Compute the amount of capital gains.

**ANSWER:****COMPUTATION OF CAPITAL GAINS**

|                                      | ₹                                                                   |
|--------------------------------------|---------------------------------------------------------------------|
| Full Value of Consideration          | 2,00,00,000                                                         |
| <u>Less:</u> Transfer Expenses       | —                                                                   |
| Net Consideration                    | 2,00,00,000                                                         |
| <u>Less:</u> Cost of Acquisition     | (4,00,000)                                                          |
| Gross LTCG                           | 1,96,00,000                                                         |
| <b><u>Less: Exempt u/s 54EC:</u></b> | - 50,00,000                                                         |
| ↓ Amount of CG                       | 1,96,00,000                                                         |
| ↓ Cost of New Asset (56 L + 41 L)    | <span style="border: 1px solid red; padding: 2px;">97,00,000</span> |
| <b>Restricted to ₹50 lakhs</b>       |                                                                     |
| Net LTCG                             | 1,46,00,000                                                         |

**QUESTION 17:**

X Ltd. purchased a factory building during 2010-11 at a cost of ₹ 1 crore (WDV as on 1.4.24 is ₹ 60 lakhs). This factory was compulsory acquired by government on 7.8.2024 and a compensation of ₹ 95 lakhs was received on the same date.

Compute the amount of capital gains assuming the company purchased 2 factory buildings (one building costing ₹ 10 lakhs on 4.12.2024 & other building costing ₹ 12 lakhs on 7.9.2025).

**ANSWER:****COMPUTATION OF CAPITAL GAINS**

|                                                |                                                                       |             |
|------------------------------------------------|-----------------------------------------------------------------------|-------------|
| Opening WDV                                    | 60,00,000                                                             | (1)         |
| <u>Add:</u> Purchases during PY 2024-25        | 10,00,000                                                             | (1)         |
|                                                | 70,00,000                                                             | (2)         |
| <u>Less:</u> Compensation recd during PY 24-25 | (95,00,000)                                                           | (1)         |
| Gross STCG                                     | 25,00,000                                                             | (1)         |
| <b><u>Less: Exemption u/s 54D</u></b>          |                                                                       |             |
| ↓ 1) CG                                        | 25,00,000                                                             |             |
| ↓ 2) Cost of New Asset<br>(10L + 12L)          | <span style="border: 1px solid green; padding: 2px;">22,00,000</span> | - 22,00,000 |
| STCG                                           | 3,00,000                                                              |             |

## CAPITAL GAINS (EXTRA PROBLEMS)

### QUESTION 1:

Sujoy purchased a flat on 12th August, 2011 for ₹ 75,00,000 (Brokerage 2%). On 9th July, 2018, he gifted this flat to Ajay. This flat was subsequently sold by Ajay for ₹ 1,30,00,000 on 6th June, 2024. Stamp duty value of the flat as on 9th July, 2018 is ₹ 98,00,000. Compute the amount of taxable capital gains in the hands of Ajay assuming:

- 1) Sujoy and Ajay are brothers
- 2) Sujoy and Ajay are friends

### ANSWER:

⇒ Assuming Sujoy and Ajay are brothers

#### COMPUTATION OF CAPITAL GAINS

|                                                                                                                                        | ₹             |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Full Value of Consideration ( <b>Sale price</b> )                                                                                      | 1,30,00,000   |
| <u>Less:</u> Transfer Expenses                                                                                                         | —             |
| Net Consideration                                                                                                                      | 1,30,00,000   |
| <u>Less:</u> Indexed Cost of Acquisition                                                                                               | (1,50,92,120) |
| $\left[ \begin{array}{l} 76,50,000 \times \frac{363}{184} \end{array} \right] \begin{array}{l} \text{Trf.} \\ \text{Pur.} \end{array}$ |               |
| Long Term Capital Loss                                                                                                                 | (20,92,120)   |

⇒ Assuming Sujoy and Ajay are friends

#### COMPUTATION OF CAPITAL GAINS

|                                                                                                                                        | ₹             |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Full Value of Consideration ( <b>Sale price</b> )                                                                                      | 1,30,00,000   |
| <u>Less:</u> Transfer Expenses                                                                                                         | —             |
| Net Consideration                                                                                                                      | 1,30,00,000   |
| <u>Less:</u> Indexed Cost of Acquisition                                                                                               | (1,27,05,000) |
| $\left[ \begin{array}{l} 98,00,000 \times \frac{363}{280} \end{array} \right] \begin{array}{l} \text{Trf.} \\ \text{Pur.} \end{array}$ |               |
| Long Term Capital Gains                                                                                                                | 2,95,000      |

**QUESTION 2:**

H Ltd. purchased a land during 2007-08 for ₹ 20,00,000. This land was sold to its subsidiary S Ltd. during 2015-16 for ₹ 50,00,000. S Ltd. sold this land on 7th September, 2024 for ₹ 93,00,000. Compute the Capital Gains in the hands of S Ltd. assuming:

- 1) H Ltd. holds 80% shares of S Ltd.
- 2) S Ltd. is wholly owned subsidiary of H Ltd.

**ANSWER:**

⇒ Assuming H Ltd. holds 80% shares:

**COMPUTATION OF CAPITAL GAINS**

|                                                           | ₹           |
|-----------------------------------------------------------|-------------|
| Full Value of Consideration ( <b>Sale price</b> )         | 93,00,000   |
| <u>Less:</u> Transfer Expenses                            | —           |
| Net Consideration                                         | 93,00,000   |
| <u>Less:</u> COA [no indexation since trf. after 23/7/24] | (50,00,000) |
| Long Term Capital Gains                                   | 43,00,000   |

⇒ Assuming H Ltd. holds 100% shares:

**COMPUTATION OF CAPITAL GAINS**

|                                                           | ₹           |
|-----------------------------------------------------------|-------------|
| Full Value of Consideration ( <b>Sale price</b> )         | 93,00,000   |
| <u>Less:</u> Transfer Expenses                            | —           |
| Net Consideration                                         | 93,00,000   |
| <u>Less:</u> COA [no indexation since trf. after 23/7/24] | (20,00,000) |
| Long Term Capital Gains                                   | 73,00,000   |

**QUESTION 3:**

Krishna purchased a residential property on 11<sup>th</sup> Sept. 2007 for ₹ 90,00,000. On 21<sup>st</sup> May, 2011, he died and the property was transferred to his wife Sukanya as per his will.

On 14<sup>th</sup> June, 2013, Sukanya negotiated for sale of this property with Rodrigues and received an advance of ₹ 1,00,000 on the same date. However, the sale did not materialize and Sukanya forfeited the advance money on 22<sup>nd</sup> October, 2013.

The property was finally sold to Manish on 3<sup>rd</sup> July, 2024 for ₹ 2,59,00,000. Stamp duty value of the property on the date of transfer is ₹ 3,00,00,000 whereas the value of the property as per valuation officer is ₹ 2,80,00,000.

Compute the amount of taxable capital gains in the hands of Sukanya for A.Y. 25-26.

**ANSWER:****COMPUTATION OF CAPITAL GAINS (For Sukanya)**

|                                                       | ₹           | ₹             |
|-------------------------------------------------------|-------------|---------------|
| Full Value of Consideration [As per <b>Sec. 50C</b> ] |             |               |
| ↓ Stamp Duty Value                                    | 3,00,00,000 |               |
| ↓ Value as per V.O.                                   | 2,80,00,000 |               |
| ↑ Whichever is less                                   | 2,80,00,000 |               |
| ↑ Actual Sale Price                                   | 2,59,00,000 | 2,80,00,000   |
| <u>Less:</u> Transfer Expenses                        |             | —             |
| Net Consideration                                     |             | 2,80,00,000   |
| <u>Less:</u> Indexed Cost of Acquisition              |             | (2,50,44,186) |
| { (90 Lakhs – 1 lakh) × $\frac{363}{129}$ } Trf. Pur. |             |               |
| Long Term Capital Gains                               |             | 29,55,814     |

**Note 1:**

Since Sukanya received the property from her husband as per his will, cost, period and index is taken from the **previous owner** (Krishna) as per **section 49(1)**.

**Note 2:**

Since advance money is **forfeited before 1/4/2014**, it is **deducted** from the **cost** of acquisition as required by **sec.51**.

**QUESTION 4:**

Mr. Cooper purchased a plot of land on 4<sup>th</sup> December, 2012 for ₹ 92,00,000. On 1<sup>st</sup> June, 2019, he entered into a joint development agreement with Shah Builders and handed over the possession of his plot to Shah Builders. Shah Builders will pay a non-refundable amount of ₹ 60,00,000 to Mr. Cooper on 1<sup>st</sup> June, 2019. Shah Builders will construct 10 units on the plot of land and will give 6 units to Mr. Cooper. All the units were completed on 31.07.2024 and a completion certificate was obtained from the competent authority. Stamp duty value of the plot as on 01.06.2019 is ₹ 2 crores and on 31.07.2024 stamp duty value of each unit is ₹ 45 lakhs. Compute the amount of capital gains taxable in the hands of Mr. Cooper for the PY 2024-25.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [Sec. 45(5A)] (PY 2024-25)**

|                                                                          | ₹             |
|--------------------------------------------------------------------------|---------------|
| Monetary Consideration                                                   | 60,00,000     |
| SDV of his share in the project [45 L x 6 units]                         | 2,70,00,000   |
| Full Value of Consideration                                              | 3,30,00,000   |
| <u>Less:</u> Transfer Expenses                                           | —             |
| Net Consideration                                                        | 3,30,00,000   |
| <u>Less:</u> Indexed Cost of Acquisition                                 | (1,32,94,000) |
| { 92 Lakhsx <b>289</b> } <i>Transfer* [2019-20]</i><br>200 } <i>Pur.</i> |               |
| Long Term Capital Gains                                                  | 1,97,06,000   |

\* Year of trf. is the year when possession of land is handed over to the builder.

Year of tax = Year of Completion certificate i.e. PY 2024-25.

**QUESTION 5:**

Mr. Wye is a property dealer. He held 20 properties as stock in trade. One of these properties which was purchased on 06.09.2004 for ₹ 25,00,000 was converted in to a capital asset on 15.11.2020 (FMV as on 15.11.2020 is ₹ 82,00,000).

This property was subsequently sold on 25.03.2025 for ₹ 1,06,00,000. Discuss the tax consequence of such conversion and its subsequent sale.

**ANSWER:**

As per Sec. 49(9), in case of conversion of stock in trade to capital asset, the transaction is taxed as income from business on date of conversion to capital asset and capital gains will be taxed when the cap. asset is sold by the assessee.

In the given scenario, capital gain will be computed as follow:

|                                                    |                  |
|----------------------------------------------------|------------------|
| FVOC (SP of Capital Asset)                         | 1,06,00,000      |
| Less: Trf. Expenses                                | -                |
|                                                    | 1,06,00,000      |
| Less: COA [no indexation since trf. after 23/7/24] | - 82,00,000      |
| <b>LTCG</b>                                        | <b>24,00,000</b> |

## Income from Business

|                              |             |
|------------------------------|-------------|
| FMV on date of convresion    | 82,00,000   |
| (-) Cost of Acquisition      | - 25,00,000 |
| Taxable Income from business | 57,00,000   |

**QUESTION 6:**

Mr. Khurana purchased a commercial property in Gurgaon on 16<sup>th</sup> August, 2007 for ₹ 53,40,000. On 16/04/2018, he negotiated for the sale of this property with Mr. Khalid and received an advance of ₹ 1,00,000. However, the sale did not materialize and the advance of ₹ 1,00,000 was forfeited. On 24/10/2024, the property was sold to Mr. Raj for ₹ 1,45,00,000 [Stamp duty value of the property as on 24/10/2024 is ₹ 1,59,10,000].

Compute the amount of capital gains.

**ANSWER:**

## COMPUTATON OF CAPITAL GAINS

|                                                                                                                    |             |             |
|--------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| FVOC                                                                                                               |             |             |
| ↑ 1) Actual                                                                                                        | 1,45,00,000 |             |
| ↑ 2) SDV                                                                                                           | 1,59,10,000 |             |
| <b>Since difference between SDV and actual amt. is within limit of 10%, we take FVOC as the Actual Sale Price.</b> |             | 1,45,00,000 |
| <u>Less:</u> Trf. Expenses                                                                                         |             | —           |
|                                                                                                                    |             | 1,45,00,000 |
| <u>Less:</u> COA [No indexation since trf. after 23/7/24]                                                          |             | - 53,40,000 |
| LTCG                                                                                                               |             | 91,60,000   |

Advance forfeited on 16/04/2018 shall be taxable as IFOS in P.Y. 2018-19.

**QUESTION 7:**

Mr. Khanna purchased a house property on 19<sup>th</sup> August, 2009 for ₹ 46,00,000. He gifted this house to his friend Mr. Shenoy on 4<sup>th</sup> March, 2016 (Stamp duty value of the house as on 4<sup>th</sup> March, 2016 is ₹ 75,00,000).

Mr. Shenoy sold this house property on 14<sup>th</sup> June, 2024 for ₹ 1,80,00,000 (Stamp duty value of the house as on 14<sup>th</sup> June, 2024 is ₹ 1,84,00,000).

Compute the amount of Capital Gains in case of Mr. Shenoy assuming he purchased a new house property on 11<sup>th</sup> June, 2025 for ₹ 2,00,00,000.

What will be your answer if the new house is sold on 5<sup>th</sup> October, 2026 for ₹ 2,60,00,000?

**ANSWER:****COMPUTATION OF CAPITAL GAINS [PY 2024-25]**

|                                                                                                                                               | ₹             |
|-----------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Full Value of Consideration ( <b>Actual Sale price—Note 1</b> )                                                                               | 1,80,00,000   |
| Less: Transfer Expenses                                                                                                                       | —             |
| Net Consideration                                                                                                                             | 1,80,00,000   |
| Less: Indexed Cost of Acquisition                                                                                                             | (1,07,18,504) |
| $\left[ \begin{array}{l} 75 \text{ lakhs} \times \frac{363}{254} \end{array} \right] \begin{array}{l} \text{Trf.} \\ \text{Pur.} \end{array}$ |               |
| Gross LTCG                                                                                                                                    | 72,81,496     |
| <b>Less: Exempt u/s 54:</b>                                                                                                                   | -72,81,496    |
| ↓ Amount of CG                                                                                                                                | 72,81,496     |
| ↓ Cost of New Asset (CNA) / Deposit                                                                                                           | 2,00,00,000   |
| Net LTCG                                                                                                                                      | Nil           |

**Note 1:**

As per sec. 50C, if the actual sale price is less than the SDV and if the **difference is not more than 10% of actual sale price** then **SDV is ignored.**

|            |             |
|------------|-------------|
| SDV        | 1,84,00,000 |
| Actual SP  | 1,80,00,000 |
| Difference | 4,00,000    |

< 10% of Actual SP i.e. 18,00,000

Since the difference is not more than 10%, SDV is ignored.

**Note 2:**

Since Mr. Shenoy received the gift of house from a friend, SDV of the house shall be taxable in his hands as IFOS for the PY 2015-16 [as the date of gift is 4<sup>th</sup> March, 2016]. Accordingly, **Cost of Acquisition** of such house as per **section 49(4)** for Mr. Shenoy shall be the same **SDV i.e. ₹ 75,00,000** [Cost, Period and Index from the current owner i.e. Mr. Shenoy]

**COMPUTATION OF CAPITAL GAINS [PY 2026-27]**

(on sale of new house within the lock-in-period of 3 years)

|                                                                                                          | ₹             |
|----------------------------------------------------------------------------------------------------------|---------------|
| Full Value of Consideration [SP of new house]                                                            | 2,60,00,000   |
| <u>Less: Transfer Expenses</u>                                                                           | —             |
| Net Consideration                                                                                        | 2,60,00,000   |
| <u>Less: <b>Reduced</b> Cost of Acquisition</u><br>(2,00,00,000 - <b>72,81,496 Ex. claimed earlier</b> ) | (1,27,18,504) |
| STCG                                                                                                     | 1,32,81,496   |

**QUESTION 8:**

Roopesh purchased an agricultural land in urban area for ₹ 46,00,000 on 29<sup>th</sup> March, 2011. This land was sold by Roopesh on 18<sup>th</sup> July, 2024 for ₹ 1,05,00,000 (SDV on 18<sup>th</sup> August, 2024 is ₹ 1,20,00,000). This land was used by his father for agricultural purpose since 2<sup>nd</sup> June, 2012.

Compute the amount of Capital Gains assuming Roopesh purchased a new agricultural land in urban area on 23<sup>rd</sup> June, 2025 for ₹ 1,30,00,000.

What will be your answer if the new agricultural land is sold on 2<sup>nd</sup> Dec., 2026 for ₹ 1,50,00,000.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [PY 2024-25]**

|                                               | ₹                                                                   |
|-----------------------------------------------|---------------------------------------------------------------------|
| Full Value of Consideration                   | 1,20,00,000                                                         |
| ↑ Actual Sale Price                           | 1,05,00,000                                                         |
| Stamp Duty Value                              | <u>1,20,00,000</u>                                                  |
| <u>Less: Transfer Expenses</u>                | —                                                                   |
| Net Consideration                             | 1,20,00,000                                                         |
| <u>Less: Indexed Cost of Acquisition</u>      | (99,98,802)                                                         |
| { 46 lakhs x $\frac{363}{167}$ } Trf.<br>Pur. |                                                                     |
| Gross LTCG                                    | 20,01,198                                                           |
| <b>Less: Exempt u/s 54B:</b>                  | - 20,01,198                                                         |
| ↓ Amount of CG                                | <span style="border: 1px solid red; padding: 2px;">20,01,198</span> |
| ↓ Cost of New Asset (CNA) / Deposit           | 1,30,00,000                                                         |
| Net LTCG                                      | Nil                                                                 |

**COMPUTATION OF CAPITAL GAINS [PY 2026-27]**

(on sale of new urban ag.. land within the lock-in-period of 3 years)

|                                                                                           | ₹             |
|-------------------------------------------------------------------------------------------|---------------|
| Full Value of Consideration [SP of new ag.. land]                                         | 1,50,00,000   |
| <u>Less: Transfer Expenses</u>                                                            | —             |
| Net Consideration                                                                         | 1,50,00,000   |
| <u>Less: Reduced Cost of Acquisition</u><br>(1,30,00,000 – 20,01,198 Ex. claimed earlier) | (1,09,98,802) |
| STCG                                                                                      | 40,01,198     |

**QUESTION 9:**

Blue Ltd. purchased an industrial building on 13<sup>th</sup> October, 2001 for ₹ 6,00,00,000. WDV of this building as per I. Tax as on 1/4/2024 is ₹ 3,20,00,000. This building was compulsorily acquired by State Govt. on 25<sup>th</sup> November, 2024 and the company received a compensation of ₹ 5,75,00,000 on the same date.

Compute the amount of capital gains taxable in the hands of Blue Ltd. assuming it purchased a new industrial building for ₹ 1,00,00,000 on 21<sup>st</sup> January, 2025.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [PY 2024-25]**

| Block of Industrial Building | Amt.               | No. |
|------------------------------|--------------------|-----|
| Opening WDV                  | 3,20,00,000        | (1) |
| <u>Add:</u> Purchases        | + 1,00,00,000      | (1) |
|                              | 4,20,00,000        | (2) |
| <u>Less:</u> Compensation    | - 5,75,00,000      | (1) |
| Gross STCG                   | 1,55,00,000        | (1) |
| <b>Less: Exempt u/s 54D:</b> | (1,00,00,000)      |     |
| ↓ Amount of CG               | <b>1,55,00,000</b> |     |
| ↓ Cost of New Asset (CNA)    | 1,00,00,000        |     |
| Net STCG                     | 55,00,000          |     |

**QUESTION 10:**

Rajiv purchased gold on 15<sup>th</sup> September, 2009 for ₹ 26,00,000. On 26<sup>th</sup> July, 2024, he sold this gold for ₹ 1,85,00,000 [Brokerage ₹ 35,000]. Out of the sale proceeds of this gold, he purchased a residential house on 3<sup>rd</sup> April, 2025 for ₹ 1,00,00,000.

Compute the amount of capital gains.

What will be your answer if Rajiv purchases another house on 3<sup>rd</sup> June, 2026 for ₹ 1,22,00,000?

**ANSWER:****COMPUTATION OF CAPITAL GAINS [PY 2024-25] (GOLD)**

|                                                                                | ₹           |
|--------------------------------------------------------------------------------|-------------|
| Full Value of Consideration                                                    | 1,85,00,000 |
| <u>Less:</u> Transfer Expenses                                                 | - 35,000    |
| Net Consideration                                                              | 1,84,65,000 |
| <u>Less:</u> Cost of Acquisition                                               | (26,00,000) |
| Gross LTCG                                                                     | 1,58,65,000 |
| <b>Less: Exempt u/s 54F:</b>                                                   | - 85,91,931 |
| Gross LTCG x $\frac{\text{Cost of New Asset (CNA)}}{\text{Net Consideration}}$ |             |
| = 1,58,65,000 x $\frac{1,00,00,000}{1,84,65,000}$                              |             |
| Net LTCG                                                                       | 72,73,069   |

**Note 1:**

If the assessee purchases another house on 3<sup>rd</sup> June, 2026 then **exemption** of ₹ 85,91,931 claimed in PY 2024-25 shall be **withdrawn** and it will **taxable** as **LTCG** for the **PY 2026-27** because under section 54F, the assessee **cannot** purchase another house within 2 years from the transfer date or construct another house within 3 years from the transfer date.

**QUESTION 11:**

Shashank owns 3 flats in New Delhi. One of these flats which was purchased on 5<sup>th</sup> November, 2004 for ₹ 50,00,000 was sold on 24<sup>th</sup> June, 2024 for ₹ 3 crores. Part of the sale consideration was received by way of account payee cheque before the agreement for sale. SDV of the flat on the date of sale agreement was ₹ 2,80,00,000 whereas the SDV as on the date of registration was ₹ 3,15,00,000.

Compute the amount of capital gains assuming Shashank purchased two flats on 26<sup>th</sup> June, 2025; one flat in Mumbai for ₹ 1,40,00,000 and another flat in Pune for ₹ 90,00,000.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [PY 2024-25] (Delhi Flat)**

|                                                                                                                                               | ₹                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| Full Value of Consideration                                                                                                                   | 3,00,00,000                                                           |
| ↑ Actual Sale Price                                                                                                                           | 3,00,00,000                                                           |
| ↑ SDV on <i>agreement date</i> (Note 1)                                                                                                       | <u>2,80,00,000</u>                                                    |
| <u>Less:</u> Transfer Expenses                                                                                                                | —                                                                     |
| Net Consideration                                                                                                                             | 3,00,00,000                                                           |
| <u>Less:</u> Indexed Cost of Acquisition                                                                                                      | (1,60,61,947)                                                         |
| $\left[ \begin{array}{l} 50 \text{ lakhs} \times \frac{363}{113} \end{array} \right] \begin{array}{l} \text{Trf.} \\ \text{Pur.} \end{array}$ |                                                                       |
| Gross LTCG                                                                                                                                    | 1,39,38,053                                                           |
| <b><u>Less: Exempt u/s 54:</u> (Note 2)</b>                                                                                                   | - 1,39,38,053                                                         |
| ↓ Amount of CG                                                                                                                                | <span style="border: 1px solid red; padding: 2px;">1,39,38,053</span> |
| ↓ Cost of New Asset (140 lakhs+90 lakhs)                                                                                                      | 2,30,00,000                                                           |
| Net LTCG                                                                                                                                      | Nil                                                                   |

**Note 1:**

As per **section 50C**, if part or whole of the consideration is received by way of account payee cheque/draft/ECS on or before the agreement date then **SDV as on the date of agreement** should be considered.

**Note 2:**

Under **section 54**, exemption is allowed in respect of purchase/construction of only one residential house. However, if the amount of **LTCG is up to ₹ 2 crores** then exemption is allowed for purchase/construction of **2 residential houses** (once in life time). In this question, since the amount of LTCG is up to 2 crores, exemption is allowed in respect of Mumbai flat as well as Pune flat.

**QUESTION 12:**

Relaxo Ltd. shifted its industrial undertaking from urban area to a SEZ. During the course of shifting, the company sold following assets on 17<sup>th</sup> October, 2024:

| Particulars   | Land        | P & M     | Furniture |
|---------------|-------------|-----------|-----------|
| Purchased on  | 24.11.2010  | 25.8.04   | 6.12.10   |
| Cost          | 89,00,000   | 50,00,000 | 15,00,000 |
| WDV on 1.4.24 | —           | 14,00,000 | 8,00,000  |
| Sale proceeds | 2,80,00,000 | 37,00,000 | 11,20,000 |

Relaxo Ltd. invested following amounts in SEZ:

- 1) Purchase of Building costing ₹ 12,00,000 on 14/9/25.
- 2) Purchase of Machinery costing ₹ 9,00,000 on 6/9/25.
- 3) Deposit of ₹ 10,00,000 in CGAS on 26<sup>th</sup> Sep, 2025.
- 4) Purchase of Furniture costing ₹ 2,00,000 on 28.8.2025.

Compute the amount of capital gains for AY 2025-26 assuming Relaxo Ltd. incurred ₹ 50,000 on shifting exps.

What will be your answer if the deposit in CGAS is not utilized?

**ANSWER:****COMPUTATION OF CAPITAL GAINS [PY 2024-25] [LAND]**

|                                  | ₹           |
|----------------------------------|-------------|
| Full Value of Consideration      | 2,80,00,000 |
| <u>Less:</u> Transfer Expenses   | —           |
| Net Consideration                | 2,80,00,000 |
| <u>Less:</u> Cost of Acquisition | (89,00,000) |
| Gross LTCG                       | 1,91,00,000 |

**COMPUTATION OF CAPITAL GAINS [PY 2024-25]**

|                         | <b>P &amp; M</b> |     | <b>FURNITURE</b> |     |
|-------------------------|------------------|-----|------------------|-----|
|                         | Amt.             | No. | Amt.             | No. |
| Opening WDV             | 14,00,000        | (1) | 8,00,000         | (1) |
| <u>Add:</u> Purchases   | Nil              | (0) | Nil              | (0) |
| <u>Less:</u> Sales (SP) | - 37,00,000      | (1) | - 11,20,000      | (1) |
| Gross STCG              | 23,00,000        | (0) | 3,20,000         | (0) |

**FINAL COMPUTATION**

|                                      | Land     | P & M  | Furniture   |
|--------------------------------------|----------|--------|-------------|
| Gross LTCG                           | 191 L    |        |             |
| Gross STCG                           |          | 23 L   | 3.20 L      |
| <b><u>Less: Exempt u/s 54GA:</u></b> | - 8.50 L | - 23 L | Not Allowed |
| ↓ Amount of CG                       | 214 L    |        |             |
| ↓ CNA/Deposit [ <b>Note 1</b> ]      | 31.50 L  |        |             |
| Net LTCG                             | 182.5 L  |        |             |
| Net STCG                             |          | Nil    | 3.20 L      |

**Note 1:**

|                   |                  |
|-------------------|------------------|
| Cost of Building  | 12,00,000        |
| Cost of Machinery | 9,00,000         |
| Deposit in CGAS   | 10,00,000        |
| Cost of Furniture | Not Eligible     |
| Shifting Expenses | <u>50,000</u>    |
|                   | <u>31,50,000</u> |

**Note 2:**

If the amount deposited in CGAS is not utilized then the exemption of ₹ 10,00,000 claimed in PY2024-25 shall be withdrawn in the year when time limit for utilizing the deposit expires i.e. 3 years from the date of transfer. Since the time limit expires on 16<sup>th</sup> October, 2027, exemption will be withdrawn in the PY 2027-28.

**QUESTION 13:**

Alex Ltd. purchased 5,000 equity shares of ₹ 10 each at ₹150 per share through recognized stock exchange on 11<sup>th</sup> June, 2016. The company sold all these shares on 15<sup>th</sup> October, 2024 for ₹ 700 per share.

The price at which these shares were traded in recognized stock exchange on 31<sup>st</sup> January, 2018 is as follows:

Highest Trading Price ₹ 500

Lowest Trading Price ₹ 400

Determine the tax liability of Alex Ltd. assuming:

- 1) Sale is through RSE
- 2) Sale is not through RSE

**ANSWER:****→ IF SALE IS THROUGH RSE:**

In this case, equity shares are purchased through RSE and also sold through RSE. This means, STT is paid at the time of purchase as well as sale. Hence, capital gains is computed as per the provisions of **Sec. 112A**.

**COMPUTATION OF CAPITAL GAINS [EQUITY SHARES]**

|                                              | Amt.        |
|----------------------------------------------|-------------|
| FVOC (SP) (5,000 x 700)                      | 35,00,000   |
| <u>Less: COA*</u> (5,000 x 500)              | - 25,00,000 |
| LTCG                                         | 10,00,000   |
| *COA                                         |             |
| ↓ FMV (31/1/18) <b>Highest Trading Price</b> | 500         |
| ↓ SP                                         | 700         |
| ↑ Lower                                      | 500         |
| ↑ Actual Cost                                | 150         |
| Higher (COA)                                 | 500         |

## STATEMENT OF TAX

|                       | STCG<br>111A | LTCG<br>u/s 112A        | LTCG       | Winnings   | Balance    |
|-----------------------|--------------|-------------------------|------------|------------|------------|
| <b>Taxable Income</b> | <b>Nil</b>   | <b>10,00,000</b>        | <b>Nil</b> | <b>Nil</b> | <b>Nil</b> |
| Tax on above          | Nil          | 1,09,375                | Nil        | Nil        | Nil        |
|                       |              | 12.5% of<br>(10L-1.25L) |            |            |            |
|                       |              | 1,09,375                |            |            |            |
| Add: Surcharge        |              | Nil                     |            |            |            |
|                       |              | 1,09,375                |            |            |            |
| Add: HEC @ 4%         |              | + 4,375                 |            |            |            |
| <b>TAX LIABILITY</b>  |              | <b>1,13,750</b>         |            |            |            |

## → IF SALE IS NOT THROUGH RSE:

In this case, equity shares are purchased through RSE but not sold through RSE. This means, STT is paid only at the time of purchase and not at the time of sale. Hence, capital gains is not computed as per the provisions of Sec. 112A.

## COMPUTATION OF CAPITAL GAINS

|                                                | ₹               |
|------------------------------------------------|-----------------|
| Full Value of Cons.. (5,000 x 700)             | 35,00,000       |
| <u>Less:</u> Cost of Acquisition (5,000 x 150) | (7,50,000)      |
| LTCG                                           | 27,50,000       |
| Tax on above                                   | <b>12.5%</b>    |
| Tax Liability                                  | <b>3,43,750</b> |

## STATEMENT OF TAX

|                       | STCG<br>111A | LTCG<br>112A | LTCG<br>(Others) | Winnings   | Balance    |
|-----------------------|--------------|--------------|------------------|------------|------------|
| <b>Taxable Income</b> | <b>Nil</b>   | <b>Nil</b>   | <b>27,50,000</b> | <b>Nil</b> | <b>Nil</b> |
| Tax on above          | Nil          | Nil          | 3,43,750         | Nil        | Nil        |
| Add: Surcharge        |              |              | Nil              |            |            |
| Add: HEC @ 4%         |              |              | + 13,750         |            |            |
| <b>TAX LIABILITY</b>  |              |              | <b>3,57,500</b>  |            |            |

**QUESTION 14:**

Shobha purchased 500 units of equity-oriented fund for ₹ 350 per unit on 1<sup>st</sup> May, 2016. Since the units were not listed on the date of purchase, STT was not paid. On 7<sup>th</sup> Feb. 2019, the units were listed in recognized stock exchange. Shobha sold all the units through recognized stock exchange on 6<sup>th</sup> April, 2024 for ₹ 600 each. Net Asset Value of the units as on 31/1/2018 is ₹ 650 per unit. Compute the amount of capital gains.

**ANSWER:****COMPUTATION OF CAPITAL GAINS [Sec. 112A] [UNITS OF EOF]**

|                                        | Amt.       |
|----------------------------------------|------------|
| FVOC (SP) (500 x 600)                  | 3,00,000   |
| Less: COA* (500 x 600)                 | - 3,00,000 |
| LTCG                                   | Nil        |
| *COA                                   |            |
| ↓ FMV (31/1/18) <b>Net Asset Value</b> | 650        |
| ↓ SP                                   | 600        |
| ↑ Lower                                | 600        |
| Actual Cost                            | 350        |
| Higher (COA)                           | 600        |

**Note:**

Above capital gains is computed as per sec. 112A because the units are sold through RSE and STT is paid at the time of sale. In case units of EOF, benefit of section 112A is allowed even if STT was not paid at the time of purchase.

**QUESTION 15:**

Scarlet (P) Ltd., an Indian company having two undertakings engaged in manufacture of cement and steel, decided to hive off cement division to Incite (P) Ltd., an Indian company, by way of demerger. The net worth of Scarlet (P) Ltd. immediately before demerger was ₹ 40 crores. The net book value of assets transferred to Incite (P) Ltd. was ₹ 10 crores. In the scheme of demerger, it was fixed that for each equity share of ₹ 10 each of Scarlet (P) Ltd., two equity shares of ₹ 10 each were to be issued.

Mr. Richard held 25,000 equity shares in Scarlet (P) Ltd. which were acquired in the financial year 2005-06 for ₹ 6,00,000. He received 50,000 equity shares from Incite (P) Ltd. consequent to demerger in January 2025. He sold all the shares of Incite (P) Ltd. for ₹ 8,00,000 in March 2025.

You are required to compute the amount of capital gains arising in the hands of Mr. Richard on sale of shares of Incite (P) Ltd.

**ANSWER:****COMPUTATION OF CAPITAL GAINS**

(On sale of 50,000 shares of Resulting Co. – Incite P. Ltd.)

|                                            | ₹          |
|--------------------------------------------|------------|
| Full Value of Consideration (Sale Price)   | 8,00,000   |
| <u>Less:</u> Transfer Expenses             | -          |
| Net Consideration                          | 8,00,000   |
| <u>Less:</u> Cost of Acquisition* (Note 1) | (1,50,000) |
| Long Term Capital Gains                    | 6,50,000   |

\* No indexation since trf. after 23/7/24

**Note 1:**

Scarlet (P) Ltd. = Demerged Company (D.Co.)

Incite (P) Ltd. = Resulting Company (R.Co.)

As per **section 49(2C)**, Cost of shares in resulting company

$$= \text{Cost of Shares in D.Co} \times \frac{\text{Net Book Value of Assets trf}^{\text{ed}} \text{ to R Co.}}{\text{Net Worth of D.Co. (before demerger)}}$$

$$= 6,00,000 \times 10 \text{ crores}/40 \text{ crores} = ₹ 1,50,000$$

**Note 2:**

**Period** [to decide ST/LT] of shares of Resulting Co. shall be calculated from the date of purchase of **shares of Demerged Co.** [i.e. PY 2005-06].

**QUESTION 16:**

Ms. Adena purchases 1,000 convertible debentures in X Ltd., an unlisted company, at a cost of ₹ 30 per debenture in January 2009. On 1<sup>st</sup> June, 2015, these debentures are converted in to equity shares and Ms. Adena is allotted 5,000 equity shares in X Ltd. (FMV of the equity shares on 1<sup>st</sup> June, 2015 is ₹ 20 per share). Ms. Adena sold all the equity shares in December, 2024 for ₹ 50 per share. Compute the amount of capital gains arising on sale of equity shares.

**ANSWER:**

**COMPUTATION OF CAPITAL GAINS**

(On sale of 5,000 shares of X Ltd.)

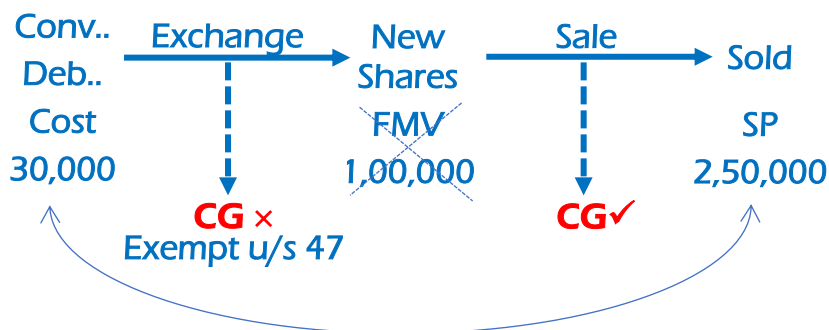
|                                                  | ₹               |
|--------------------------------------------------|-----------------|
| Full Value of Consideration (5,000 shares x ₹50) | 2,50,000        |
| <u>Less:</u> Transfer Expenses                   | -               |
| Net Consideration                                | 2,50,000        |
| <u>Less:</u> Cost of Acquisition* (Note 1)       | (30,000)        |
| <b>Long Term Capital Gains</b>                   | <b>2,20,000</b> |

\* No indexation since trf. after 23/7/24

**Note 1:**

As per **section 49(2A)**,

Cost of shares (received on conversion of convertible debentures)  
= Cost of convertible debentures = ₹ 1,000 x 30 = ₹ 30,000



**QUESTION 17:**

M/s ABC & Co. is a partnership firm. On 13<sup>th</sup> June 2024, Partner "C" retired and on retirement, he received ₹ 5 lakhs and Land towards his dues.

Balance sheet of the firm on the date of retirement is as follows:

| Liabilities               | ₹  | Assets                | ₹  | (In Lakhs) FMV as per Regd. Valuer |
|---------------------------|----|-----------------------|----|------------------------------------|
| <u>Partners' Capital:</u> |    | Gold (2 years old)    | 4  | 55                                 |
| A                         | 10 | Shares (9 months old) | 4  | 55                                 |
| B                         | 10 | Land (5 years old)    | 10 | 50                                 |
| C                         | 10 | Cash                  | 12 |                                    |
|                           | 30 |                       | 30 |                                    |

Compute the amount of Capital Gains for the PY 2024-25 assuming the indexed cost of acquisition of land is ₹ 15 lakhs.

Note: Ignore surcharge and cess in your computation.

**ANSWER:****COMPUTATION OF CAPITAL GAIN (TRF. OF LAND – Sec. 9B)**

|                     |            |
|---------------------|------------|
| FVOC (FMV of land)  | 50,00,000  |
| Less: Trf. Expenses | -          |
| Net Consideration   | 50,00,000  |
| Less: Indexed COA   | -15,00,000 |
| LTCG                | 35,00,000  |
| Tax on above        | 7,00,000   |

The above computation is as per Income Tax but gain on trf. of land as per A/c will be as follows:

|             |            |
|-------------|------------|
| FVOC (FMV)  | 50,00,000  |
| Less: COA   | -10,00,000 |
| Book Profit | 40,00,000  |

Net Profit after tax = 40,00,000 – 7,00,000 (Tax) = 33,00,000

Net Profit after tax of 33,00,000 will be trf. to capital a/c of all the partners in PSR. Hence, adjusted capital of each partner will be → 10L + 11L = 21L

**COMPUTATION OF CAPITAL GAIN u/s 45(4)**

|                                                                            |                  |
|----------------------------------------------------------------------------|------------------|
| Money + Money value of other assets given to "P"<br>(5,00,000 + 50,00,000) | 55,00,000        |
| <u>Less:</u> Adjusted Capital of Partner "P"                               | (21,00,000)      |
| <b>Capital Gains</b>                                                       | <b>34,00,000</b> |

The above capital gains will be taxable as **STCG** because the assets remaining with the firm are Gold [which is a **short term**] and Shares [which is also **short term**]. The above CG (STCG) will be apportioned between Gold & Shares in the **appreciation ratio** (51 : 51). Hence, out of ₹ 34 lakhs of total STCG, ₹ 17,00,000 will be attributed to Gold & ₹ 17,00,000 will be attributed to Shares.

The amount attributed to Gold & Shares will be **reduced from the sale consideration** of Gold & Shares (whenever they are sold in future so that there is no double tax).

**QUESTION 18:**

M/s PQR & Co. is a partnership firm. On 11<sup>th</sup> July 2024, Partner "P" retired and on retirement, he received ₹ 85 lakhs and Land towards his dues.

Balance sheet of the firm on the date of retirement is as follows:

| Liabilities               | ₹   | Assets             | (In Lakhs)<br>₹ | FMV<br>as per<br>Regd.<br>Valuer |
|---------------------------|-----|--------------------|-----------------|----------------------------------|
| <u>Partners' Capital:</u> |     | Land (4 years old) | 30              | 45                               |
| P                         | 100 | Patents            | 45              | 60                               |
| Q                         | 100 | Debtors            | 25              |                                  |
| R                         | 100 | Cash               | 200             |                                  |
|                           | 300 |                    | 300             |                                  |

On retirement, the Goodwill of the firm was valued at ₹ 60 lakhs. Compute the amount of Capital Gains for the PY 2024-25 assuming the indexed cost of acquisition of land is ₹ 45 lakhs.

**ANSWER:****COMPUTATION OF CAPITAL GAIN (TRF. OF LAND – Sec. 9B)**

|                     |           |
|---------------------|-----------|
| FVOC (FMV of land)  | 45,00,000 |
| Less: Trf. Expenses | -         |
| Net Consideration   | 45,00,000 |
| Less: Indexed COA   | 45,00,000 |
| LTCG                | Nil       |
| Tax on above        | Nil       |

The above computation is as per Income Tax but gain on trf. of land as per A/c will be as follows:

|             |           |
|-------------|-----------|
| FVOC (FMV)  | 45,00,000 |
| Less: COA   | 30,00,000 |
| Book Profit | 15,00,000 |

Net Profit after tax = 15,00,000 – Nil (Tax) = 15,00,000

Net Profit after tax of 15,00,000 will be trf. to capital a/c of all the partners in PSR. Hence, adjusted capital of each partner will be →  
 $100L + 5L = 105L$

**COMPUTATION OF CAPITAL GAIN u/s 45(4)**

|                                                                             |               |
|-----------------------------------------------------------------------------|---------------|
| Money + Money value of other assets given to "P"<br>(85,00,000 + 45,00,000) | 1,30,00,000   |
| Less: Adjusted Capital of Partner "P"                                       | (1,05,00,000) |
| Capital Gains                                                               | 25,00,000     |

The above capital gains will be taxable as **STCG** because the assets remaining with the firm are patents [which is a **depreciable asset**] and Goodwill [which is a **self-generated asset**]. The above CG (STCG) will be apportioned between patents & goodwill in the **appreciation ratio** (15 : 60). Hence, out of ₹ 25,00,000 of total STCG, ₹ 5,00,000 will be attributed to patents & ₹ 20,00,000 will be attributed to goodwill.

The amount attributed to patent & goodwill will be **reduced from the sale consideration** of patent & goodwill (whenever they are sold in future so that there is no double tax).

**QUESTION 19:**

M/s PQR & Co. is a partnership firm. During the PY 2024-25, Partner "R" retired and on retirement, he received ₹ 90 lakhs towards his dues.

Balance sheet of the firm on the date of retirement is as follows:

| Liabilities               | ₹   | Assets         | (In Lakhs)<br>₹ | FMV<br>as per<br>Regd.<br>Valuer |
|---------------------------|-----|----------------|-----------------|----------------------------------|
| <b>Partners' Capital:</b> |     |                |                 |                                  |
| P                         | 50  | Building (WDV) | 20              | 80                               |
| Q                         | 50  | Cash           | 130             |                                  |
| R                         | 50  |                |                 |                                  |
|                           | 150 |                | 150             |                                  |

Compute the amount of Capital Gains for the PY 2024-25 assuming the Goodwill was valued at ₹ 60 lakhs.

**ANSWER:****COMPUTATION OF CAPITAL GAINS u/s 45(4) (TRF. OF CASH)**

|                                                 |                    |
|-------------------------------------------------|--------------------|
| Money + Money value of Asset transferred to "R" | 90,00,000          |
| <u>Less: Adjusted Capital of "R"</u>            | <u>(50,00,000)</u> |
| <b>Capital Gains</b>                            | <b>40,00,000</b>   |

The above capital gains will be taxable as **STCG** because the assets remaining with the firm are Building [which is a **depreciable asset**] and Goodwill [which is a **self-generated asset**]. The above STCG will be apportioned between building & goodwill in the **appreciation ratio** (60 : 60). Hence, out of the STCG of ₹ 40,00,000, ₹ 20,00,000 will be attributed to building & ₹ 20,00,000 to goodwill. The amt. attributed to building & goodwill will be **reduced from the sale consideration** of building & goodwill (whenever they are sold in future so that there is no double tax).

**QUESTION 20:**

M/s LMN & Co. is a partnership firm. On 20<sup>th</sup> May 2024, Partner "N" retired and on retirement, he received Gold, Stock and ₹ 35 lakhs towards his dues.

Balance sheet of the firm on the date of retirement is as follows:

| Liabilities               | ₹   | Assets             | (In Lakhs)<br>₹ | FMV as per Regd. Valuer |
|---------------------------|-----|--------------------|-----------------|-------------------------|
| <u>Partners' Capital:</u> |     | Land (4 years old) | 110             | 290                     |
| L                         | 150 | Gold (6 years old) | 80              | 140                     |
| M                         | 150 | Stock              | 90              | 120                     |
| N                         | 150 | Cash               | 170             |                         |
|                           | 450 |                    | 450             |                         |

On retirement, the Goodwill of the firm was valued at ₹ 180 lakhs. Compute the amount of Capital Gains for the PY 2024-25 assuming the indexed cost of acquisition of Gold is ₹ 110 lakhs.

Note: Ignore surcharge and cess in your computation.

**ANSWER:****COMPUTATION OF CAPITAL GAIN u/s 9B (TRF. OF GOLD)**

|                            |               |
|----------------------------|---------------|
| FVOC (FMV of Gold)         | 1,40,00,000   |
| <u>Less:</u> Trf. Expenses | -             |
| Net Consideration          | 1,40,00,000   |
| <u>Less:</u> Indexed COA   | - 1,10,00,000 |
| LTCG                       | 30,00,000     |

Tax on above @ 20% = ₹ 6,00,000

**COMPUTATION OF BUSINESS INCOME u/s 9B  
(TRF. OF STOCK)**

|                              |             |
|------------------------------|-------------|
| Consideration (FMV of Stock) | 1,20,00,000 |
| <u>Less:</u> COA             | 90,00,000   |
| Income from Business         | 30,00,000   |

Tax on above @ 30% = ₹ 9,00,000

The above computation is as per Income Tax but the gain on trf. of Gold & Stock as per accounts will be:

|                                 |               |
|---------------------------------|---------------|
| FVOC ( <b>Gold + Stock</b> )    | 2,60,00,000   |
| (-) COA (80,00,000 + 90,00,000) | (1,70,00,000) |
| Book Profit                     | 90,00,000     |
| (-) Tax (9L + 6L)               | (15,00,000)   |
| Profit after tax                | 75,00,000     |

Profit after tax of ₹ 75,00,000 will be trf. to capital a/c of all partner's in PSR. Hence, adjusted capital of partner L, M & N is ₹150L + ₹25L = ₹1,75,00,000 each.

#### COMPUTATON OF CAPITAL GAIN u/s 45(4)

|                                                                       |               |
|-----------------------------------------------------------------------|---------------|
| Money + Money value of other assets trf to "N"<br>(35L + 120L + 140L) | 2,95,00,000   |
| <u>Less:</u> Adjusted Capital of "N"                                  | (1,75,00,000) |
| Capital Gains                                                         | 1,20,00,000   |

The above capital gain will be partly taxable as **STCG** and partly taxable as **LTCG** because the remaining assets are goodwill which will be taxable as STCG & land will be taxable as LTCG. The above gains will be apportioned between land & goodwill in appreciation ratio (**180 : 180**). Hence, out of ₹ 1,20,00,000 of total capital gains, ₹ 60,00,000 will be attributed to land as LTCG & ₹ 60,00,000 will be attributed to goodwill as STCG.

The amount attributed to land & goodwill will **be reduced from the sale consideration** of land & goodwill (whenever they are sold in future so that there is no double tax).

#### **QUESTION 21:**

Mr. Prem is a partner in two firms X & Co., Mumbai and Y & Co., Delhi. X & Co. has 3 partners, including Prem, who share profits and losses equally. Mr. Prem resigned from X & Co. on 1.4.2024. On the said date, the capital balance of each of the partners stood at ₹ 32 lakhs. In order to settle the dues of Mr. Prem, the firm revalues its land for the first time since purchase; the valuer also valued self-generated goodwill at ₹ 70 lakhs.

The firm has the following capital assets, whose details are as follows.

|    | Particulars of Assets | Date of purchase | Cost of acquisition (book value) | Value as on 1.4.2024 as per Valuation Report |
|----|-----------------------|------------------|----------------------------------|----------------------------------------------|
| 1. | Land at Pune          | 21.1.14          | ₹ 15 lakhs                       | ₹ 50 lakhs                                   |
| 2. | Land at Nagpur        | 18.4.16          | ₹ 25.4 lakhs                     | ₹ 45 lakhs                                   |
| 3. | Land at Mumbai        | 14.5.14          | ₹ 88 lakhs                       | ₹ 250 lakhs                                  |
| 4. | Self-generated G/W    |                  |                                  | ₹ 70 lakhs                                   |

In April, 2024, X & Co. gave Land at Nagpur and ₹ 15 lakh money to Mr. Prem to settle his capital balance.

The firm Y & Co. dissolved on 1.3.2025 and distributed its land at Chandigarh, Mohali and Gurgaon on the same date to its three partners, Prem, Akshay and Aarav, respectively, who were sharing profits and losses equally. The particulars of these lands are given hereunder –

|    | Particulars of Assets | Date of purchase | Cost of acquisition (book value) | Value as per Valuation Report as on 1.3.2025 |
|----|-----------------------|------------------|----------------------------------|----------------------------------------------|
| 1. | Land at Chandigarh    | 3.7.2012         | ₹ 18.4 lakhs                     | ₹ 62 lakhs                                   |
| 2. | Land at Mohali        | 15.9.2016        | ₹ 15.24 lakhs                    | ₹ 59 lakhs                                   |
| 3. | Land at Gurgaon       | 27.2.2012        | ₹ 16.7 lakhs                     | ₹ 70 lakhs                                   |

In addition, Prem and Akshay were given money of ₹ 8 lakhs & ₹ 11 lakhs, respectively on 1<sup>st</sup> March, 2025.

On the basis of the facts given above, answer following questions:

1. What would be the amount taxable under section 9B in the hands of X & Co. and Y & Co. for A.Y.2025-26?
2. What would be the capital gains taxable under section 45(4) in the hands of X & Co. for A.Y.2025-26?
3. What would be the capital gains taxable under section 45(4) in the hands of Y & Co for A.Y.2025-26?
4. What would be the amount apportioned to Land at Pune and Land at Mumbai of X & Co., to be reduced from full value of consideration for computing capital gains of such asset, when sold at a future date?

**ANSWER:****(1) COMPUTATION OF CAPITAL GAINS u/s 9B (X & Co.)**

|                            | ₹                                    |
|----------------------------|--------------------------------------|
| FVOC (FMV of land)         | 45,00,000                            |
| <u>Less:</u> Trf. Expenses | —                                    |
|                            | 45,00,000                            |
| <u>Less:</u> Indexed COA   | (34,92,500)                          |
|                            | $[25.4 \times \frac{363}{264}]$ Trf. |
| LTCG                       | 10,07,500                            |

=

**COMPUTATION OF CAPITAL GAINS u/s 9B (Y & Co.)**

|                   | Chandigarh  | Monali      | Gurgaon     |
|-------------------|-------------|-------------|-------------|
| FVOC(FMV of land) | 62,00,000   | 59,00,000   | 70,00,000   |
| (-) Trf. Expenses | —           | —           | —           |
| Net Consideration | 62,00,000   | 59,00,000   | 70,00,000   |
| (-) COA           | (18,40,000) | (15,24,000) | (16,70,000) |
| LTCG              | 43,60,000   | 43,76,000   | 53,30,000   |

**(2) CAPITAL GAINS TAXABLE u/s 45(4) (X & Co.)**

|                                                                  |             |
|------------------------------------------------------------------|-------------|
| Money + Money value of assets transferred<br>[15L + 45L]         | 60,00,000   |
| <u>Less:</u> Adjusted Capital of Prem<br>(32,00,000 + 5,83,480*) | - 37,83,480 |
|                                                                  | 22,16,520   |

\* Prem's share in Profit on trf. of land at Nagpur:

|                                                                              |             |
|------------------------------------------------------------------------------|-------------|
| FMV of Nagpur Land                                                           | 45,00,000   |
| (-) Cost                                                                     | (25,40,000) |
| Book Profit                                                                  | 19,60,000   |
| <u>Less:</u> Tax on trf of Nagpur land to Prem<br>(10,07,500 x 20% + 4% HEC) | (2,09,560)  |
| Net Book Profit after tax                                                    | 17,50,440   |
| Prem's Share (1/3 x 17,20,425)                                               | 5,83,480    |

(3) Under Section 45(4) capital gains is computed when there is reconstitution of partnership firm and in case of **Y & Co.** the **firm is being dissolved**. Hence, **section 45(4) is not applicable** in case of Y & Co.

(4) As per Sec. 45(4), in case of any transfer by partnership firm to a partner at the time of reconstruction of firm (X & Co.), capital gains u/s 45(4) should be apportioned between remaining assets in the **ratio of appreciation**. Hence, in the case of X & Co., the capital gains of 22,16,520 will be apportioned in the ratio of 35: 162 : 70.

Amount to be apportioned:

$$\text{Land Pune} = 22,16,520 \times \frac{35}{267} = 2,90,555 \text{ LTCG}$$

$$\text{Land at Mumbai} = 22,16,520 \times \frac{162}{267} = 13,44,855 \text{ LTCG}$$

$$\text{Goodwill} = 22,16,520 \times \frac{70}{267} = 5,81,110 \text{ STCG}$$

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# TRANSFER PRICING

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## **QUESTION 1:**

Mitsubishi Ltd., an Indian company, has borrowings of ₹ 100 crores, out of which ₹ 23 crores is guaranteed by Unicorn Ltd., a company in France. During the PY 2024-25, Mitsubishi Ltd. supplied 1,00,000 mobile phones to Unicorn Ltd. for Euro 330 per unit (FOB).

Mitsubishi Ltd. also supplied 5,000 mobile phones to another company Fax Ltd. in France.

Mobile phones were priced at Euro 465 per unit (CIF) to Fax Ltd. Amount of insurance and freight is Euro 80 per unit.

Sale to Unicorn Ltd. was at discount of Euro 30 per unit. However, the same is not offered to Fax Ltd.

Sale to Unicorn Ltd. was under warranty but sale to Fax Ltd. was without any warranty. Estimated amount of warranty is Euro 50 per unit.

Compute the Arm's length price and the amount of increase in the total income of Mitsubishi Ltd., if any, assuming 1 Euro = ₹ 80.

## **ANSWER:**

As per **section 92A**, two enterprises are AE if one enterprise has **guaranteed at least 10% of the total borrowings** of another enterprise. In this sum, Unicorn Ltd. has guaranteed borrowing of ₹ 23 crores out of Mitsubishi's total borrowings of ₹ 100 crores. Hence, Mitsubishi Ltd. (Resident) and Unicorn Ltd. (NR) are **Associated Enterprises (AE)** and the transaction between them is an **International Transaction (IT)**. Accordingly, income of Mitsubishi Ltd. is computed having regard to the **Arm's length price (ALP)**.

**COMPUTATION OF ARM'S LENGTH PRICE**

	Euro
Price charged in comparable UT i.e. Price charged to Fax Ltd. UNCONTROLLED PRICE	465
<u>Add/Less: Adj. to account for differences between IT and UT:</u>	
Insurance and Freight	- 80
Discount	- 30
Warranty	+ 50
<b>Arm's Length Price</b>	<b>405</b>

**Conclusion:**

Since the ALP is Euro 405, the **genuine sale price** is Euro **405** per unit but Mitsubishi Ltd. has **shown only** Euro **330** per unit [shown less income]. Hence, **difference** of Euro **75 per unit** shall be **added to income** of Mitsubishi Ltd. Total addition in the total income = (1,00,000 units x Euro 75 per unit) x ₹ 80 per Euro = **₹ 60,00,00,000.**

**QUESTION 2:**

Dee Ltd. of Denmark and Zee Ltd of India are associated enterprises.

Zee Ltd. imports 1000 compressors for Air Conditioners from Dee Ltd. at ₹ 7,500 per unit and these are sold to Winland Cooling Solutions Ltd at a price of ₹ 11,000 per unit.

Zee Ltd. had also imported similar products from De-Heat Ltd. and sold outside at a Gross Profit of 20% on Sales.

Dee Ltd. offered a quantity discount of ₹ 1,500 per unit whereas De-Heat Ltd. could offer only ₹ 500 per unit as quantity discount.

The freight and customs duty paid for imports had cost Zee Ltd. ₹ 1,200 per unit.

Determine the Arm's Length Price and the amount of increase in Total income of Zee Ltd.

**ANSWER:****COMPUTATION OF ARMS LENGTH PRICE**

(for purchase by Zee Ltd.)

	₹
Resale Price	11,000
<u>Less:</u> Standard GP margin (20%)	- 2,200
	8,800
<u>Less:</u> Purchase related expenses	- 1,200
	<b>Note 1</b> 7,600
<u>Add/Less:</u>	
<u>Adj. to account for differences between IT &amp; UT:</u>	
Difference in amount of Discount	- 1,000
<b>Arm's Length Price</b>	<b>6,600</b>

**Note 1:**

Purchase price of ₹ **7,600** represents price for **purchase from outsiders** [De-Heat Ltd.] as the GP percent of 20% is on sale of compressors purchased from outsider [De-Heat Ltd.].

It is given that:

- Purchase from **AE** (Dee Ltd.) is at a discount of ₹ **1,500**.
- Purchase from **outsiders** (De-Heat Ltd) is at a discount of ₹ **500**.

Hence, there is "**less discount**" in **outsider's price of ₹ 7,600**.

Hence, further discount of ₹ 1,000 is deducted in the outsider's price of ₹ 7,600 to make it comparable with price charged by AE.

**Conclusion:**

Since the ALP is ₹6,600, the genuine purchase price is ₹ 6,600 per unit. However, Zee Ltd. has shown purchase from its AE at a price of ₹ 7,500 per unit [shown more expense]. Hence, the difference of ₹ **900 per unit shall be added back** to the Net Profit of Zee Ltd. Accordingly, the total amount of addition in the total income of Zee Ltd. = ₹ 900 per unit x 1,000 units = ₹ 9,00,000.

**QUESTION 3:**

AXE Ltd. (UK) received an order from Y Ltd (Germany) for developing a software for a sum of US \$ 1,00,000. AXE Ltd. developed this software with the help of its associated enterprises ZED Ltd. (a Japanese company) and ESS Ltd (an Indian company). AXE Ltd. pays to Zed Ltd and ESS Ltd. a sum of US \$ 24,000 and \$ 27,000 respectively and keeps the balance for itself. In the entire transaction, a profit of \$ 16,000 is earned. ESS Ltd. incurred a total cost of \$24,000 in the execution of its work relating to the above project.

Assume the relative contribution of AXE Ltd., ZED Ltd. and ESS Ltd. is 40%, 25% and 35% respectively.

Compute the arm's length price and the amount of increase in the total income of ESS Ltd., if any, due to such arm's length price.

**ANSWER:****COMPUTATION OF ARMS LENGTH PRICE FOR ESS LTD.**

	\$
Cost incurred by the assessee [ESS Ltd.]	24,000
Add: Share of profit as per its contribution [16,000 x 35%]	+ 5,600
<b>Arm's Length Price</b>	<b>29,600</b>

**Conclusion:**

Since, the ALP is \$ 29,600, the genuine share of ESS Ltd. is \$ 29,600 but ESS Ltd. has shown only \$ 27,000 [shown less income]. Hence, the **difference of \$ 2,600 shall be added** to the income of ESS Ltd.

**QUESTION 4:**

Dynamic Ltd. (an Indian company) purchased raw material "M" from following suppliers in Singapore during the PY 2024-25 at different prices:

- From Rose Ltd. at a price of ₹ 103 per unit.
- From Lazer Ltd. at a price of ₹ 110 per unit.
- From Nexus LLP at a price of ₹105 per unit.
- From its holding company Max Ltd. at a price of ₹ 120 per unit.

Compute the Arm's length price of purchases made from Max Ltd.

**ANSWER:**

Actual Price for purchase from Max Ltd. (AE) = ₹ 120 per unit.

Purchase price paid to unrelated suppliers = ₹ 103, ₹ 110 and ₹ 105 per unit. Since there are **less than 6 uncontrolled prices**, **ALP = Arithmetical mean of 3 prices.**

Hence,

$$\text{ALP} = \frac{103 + 110 + 105}{3} = ₹ 106 \text{ per unit.}$$

⇒ **Tolerance Band:**

ALP ₹ 106

Actual Price ₹ 120

Difference ₹ 14 > ₹ 3.6 [3% of Actual Price]

**Conclusion:**

Since the **difference** is **more** than the tolerance band of 3%, the **entire difference** of ₹ 14 per unit shall be **added back** to the Net Profit of Dynamic Ltd.

**QUESTION 5:**

Felix Ltd. manufactured and sold 1,00,000 units to its associated enterprise

Excel Ltd. in Canada for ₹ 133 per unit. Following are prices charged by Felix Ltd. for the same product in comparable uncontrolled transactions:

	1	2	3	4	5	6	7	8	9	10
Sale Price	156	141	134	122	146	163	172	130	159	164

For the AY 2025-26, Felix Ltd. filed its return of income declaring income of ₹ 2 crores under the head "Profits and Gains from Business or Profession" and claimed 30% deduction u/s 80IB. Compute the assessed income of Felix Ltd. assuming it filed the return of income without computing ALP and the Assessing officer computed the ALP.

**ANSWER:**

Felix Ltd. filed the return without computing ALP. Hence, as per section 92C(3), the A.O. shall compute the ALP. Since there **6 or more uncontrolled prices**, ALP shall be computed by **Range concept** as follows:

	1	2	3	4	5	6	7	8	9	10	
Sale Price	156	141	134	122	146	163	172	130	159	164	
Asc. Order	122	130	134	141	146	156	159	163	164	172	
	<b>RANGE</b>										

35<sup>th</sup> Percentile = Total no. of prices x 35/100

= 10 x 35/100 = 3.5 = **4** [next higher number]

Hence, value of 35<sup>th</sup> percentile = ₹ **141** [4<sup>th</sup> price]

65<sup>th</sup> Percentile = Total no. of prices x 65/100

= 10 x 65/100 = 6.5 = **7** [next higher number]

Hence, value of 65<sup>th</sup> percentile = ₹ **159** [7<sup>th</sup> price]

Since, the actual sale price does not fall within the range of 4<sup>th</sup> and 7<sup>th</sup> price, ALP shall be computed as the Median of above data as follows:

Median = Total no. of prices x 50/100 = 10 x 50/100 = **5**

Since "5" is a whole number, Median = **Average of 5<sup>th</sup> & 6<sup>th</sup> Price**

= ₹  $\frac{146 + 156}{2}$  = ₹ **151**

2

**Conclusion:**

Since the ALP is ₹ 151, the genuine sale price is ₹ **151** per unit but Felix Ltd. has shown only ₹ **133** per unit [shown less]. Hence, the difference of ₹ **18 per unit shall be added** to the income of Felix Ltd.

**Total addition** in the income of Felix Ltd.

= ₹ 18 per unit x 1,00,000 units = ₹ **18,00,000**.

## STATEMENT OF TOTAL INCOME

	Return		Asst
Income from Salaries	-		-
Income from HP	-		-
Income from Business	2 crores	+ Rs. 18L*	2.18 cr.
Capital Gains	-	<b>Addition</b>	-
IPOS	-	<b>made by AO</b>	-
<b>GROSS TOTAL INCOME</b>	<b>2 crores</b>		<b>2.18 cr</b>
<u>Less: Deduction u/c VIA:</u>			
→ Sec. 80IB (30% of IFB)	- 60L	same →	- 60L
<b>NET TAXABLE INCOME</b>	<b>1.40 cr.</b>		<b>1.58 cr.</b>

\* Addition made by A.O. = ALP computed by A.O. – Actual Price

**Note:**

Since the assessee failed to compute ALP, the ALP is computed by A.O. As per **section 92C(4)**, if ALP is computed by A.O. then the **addition** made by A.O. is **not eligible for** deduction under **chapter VIA** and **section 10AA**.

**QUESTION 6:**

Shazam Ltd. is an Indian company. It renders services to its associated enterprise DB Ltd. of US. During the PY 2021-22, Shazam Ltd. charges 8% on cost for providing services to DB Ltd. However, Shazam Ltd. has earned a margin of 11% on cost if similar services were provided to unconnected foreign entities.

The Assessing officer makes transfer pricing adjustments to the tune of 3% which comes to an addition of ₹ 15 crores to the reported income of Shazam Ltd. (date of assessment order – May 13, 2024). The adjustment is accepted by Shazam Ltd.

Shazam Ltd. could not repatriate the excess money. Hence, it paid the additional tax on the entire excess money on December 1, 2024 u/s 92CE.

Compute the tax payable by Shazam Ltd. [including additional tax on excess money] for the PY 2024-25 if the MCLR of SBI is 8% and the other income for the PY 2024-25 is 2 crores.

**ANSWER:****STATEMENT OF TOTAL INCOME [PY 2024-25]**

	₹
Interest on deemed advance <b>[Note 1]</b>	92,92,808
Other Income	2,00,00,000
<b>NET TAXABLE INCOME</b>	<b>2,92,92,808</b>

**Note 1:**

Since the assessee agreed to the transfer pricing adjustment done by the AO, the assessee is supposed to repatriate the excess money **within 90 days from the date of order of AO**. However, the assessee could not repatriate the same and the assessee paid additional tax on excess money. Since the assessee has paid the additional tax on 1<sup>st</sup> December, 2024, interest on excess money will be computed for **201 days (from the date of order of AO up to 30<sup>th</sup> Nov, 2024 – Don't Count 1st Dec as on this day, addl. tax was paid)** as follows:

Interest on deemed advance or imputed interest

$$= 15 \text{ crores} \times (8\% + 3.25\%) \times \frac{201 \text{ days}}{365 \text{ days}} \quad (18+30+31+31+30+31+30)$$

$$= 15 \text{ crores} \times 11.25\% \times \frac{201}{365} = 92,92,808$$

**STATEMENT OF TAX [PY 2024-25]**

	₹
<b>NET TAXABLE INCOME</b>	<b>2,92,92,808</b>
Tax on above (2,92,92,808 x 30%)	87,87,842
<u>Add: Surcharge @7%</u>	+ 6,15,149
	94,02,991
<u>Add: HEC@4%</u>	+ 3,76,120
<b>Regular Tax Liability (A)</b>	<b>97,79,111</b>
Additional Tax on excess money [15 cr x 18%]	2,70,00,000
<u>Add: Surcharge @12%</u>	+ 32,40,000
	3,02,40,000
<u>Add: HEC@4%</u>	+ 12,09,600
<b>Additional Tax Liability u/s 92CE (B)</b>	<b>3,14,49,600</b>
<b>TOTAL TAX LIABILITY = (A) + (B) =</b>	<b>4,12,28,711</b>

**QUESTION 7:**

Razor Ltd., an Indian company, paid ₹ 2 crores as fee for technical services to Sam Ltd., a German company, who holds 30% equity shares of Razor Ltd.

Razor Ltd. deducted tax at source amounting to ₹ 21,21,600. Razor Ltd. filed its return of income of ₹ 3 crores after claiming deduction of ₹ 2 crores of fee for technical services paid to Sam Ltd.

The A.O. determines the arms length price of fee for technical services to be ₹ 1,20,00,000.

On determination of ALP by AO, Sam Ltd. claims that its income should be ₹ 1,20,00,000 instead of ₹ 2 crores and claims refund of excess TDS. Is the claim of Sam Ltd. valid?

Discuss in light of provisions of Income-tax Act, 1961 in this regard.

**ANSWER:**

As per **section 92C(4)**, if the International Transaction involves a **payment subject to TDS** then determination of ALP by A.O. shall lead to **recomputation of** the income of assessee [**payer**] but it shall **not** lead to recomputation of the income of its associated enterprise [**receiver**] (i.e. the receiver cannot claim refund of excess TDS).

Accordingly, determination of ALP by A.O. shall lead to recomputation of the income of Razor Ltd. but it shall not lead to recomputation of the income of its associated enterprise [Sam Ltd.]. Hence, Sam Ltd. cannot claim that its income should be ₹ 1,20,00,000 and Sam Ltd. cannot claim refund of excess TDS.

**QUESTION 8:**

Banerjee Co. Ltd., Kolkata is engaged in various business activities. The income tax assessment of Banerjee Co. Ltd. under section 143(3) was pending before the Assessing Officer for the assessment year 2021-22. The Assessing Officer made a reference to the Transfer Pricing Officer (TPO) on 11-12-2022 for determination of arm's length price with regard to the transactions made with its associated enterprises. Upon receipt of the TPO's order dated 01-10-2023, the Assessing Officer issued a draft assessment order to Banerjee Co. Ltd. on 30-10-2023. The assessee filed his objections on 15-11-2023 against the draft assessment order with the Dispute Resolution Panel and the Assessing Officer.

The Dispute Resolution Panel gave its directions on 01-07-2024. The Assessing Officer passed the final assessment order on 28-07-2024 in accordance with the directions of the Dispute Resolution Panel.

Is the assessment made by the Assessing Officer on Banerjee Co. Ltd. as per the directions of DRP barred by limitation? Before whom should the assessee file an appeal against such assessment order? Can the A.O. pass an assessment order which is not in accordance with the directions of the DRP?

**ANSWER:**

(i) When a reference is made to DRP, the time limit for giving direction by the DRP is **9 months** from the end of the month in which the **draft order is forwarded** to the eligible assessee. The Assessing Officer issued draft assessment order on 30.10.2023. The assessee had filed **objections** on 15.11.2023, which is **within 30 days** from the date of receipt of draft order. The DRP has time up to 31.07.2024 for giving the direction to the Assessing Officer.

The DRP gave the directions to the Assessing Officer within 9 months i.e. on 01.07.2024. Therefore, the Assessing Officer has to pass the final order on or before 31.08.2024 i.e., **within one month** from the end of the month in which the direction from DRP was received. In this case, the Assessing Officer also passed the order on 28.7.2024, which is within the above time limit.

Therefore, the order passed by the Assessing Officer is **not barred by limitation**.

(ii) The assessee has to file an appeal before the **Income-tax Appellate Tribunal** against such order passed the Assessing Officer which is in accordance with the directions of the DRP.

(iii) Every direction issued by the DRP is **binding** on the Assessing Officer. Therefore, the Assessing Officer **cannot pass an assessment order** which is **not in conformity** with the direction issued by DRP.

**QUESTION 9:**

Vijay Co. Ltd. entered into an APA for the international transactions effected w.e.f. 01-04-2023 with rollback benefit. The finalized APA after approval by the Central Government was signed on 31-05-2023.

The tax assessment status of Vijay Co. Ltd. for the preceding assessment years are given below:

AY 2019-20: The assessment of this year was completed under section 143(3) and the ALP determined by the TPO was upheld by the tribunal vide its order dated 31-05-2023.

AY 2020-21: The return of income of this year was filed on 15/1/21.

AY 2021-22: The return of income for this year was filed on 11-11-2021. Reassessment proceedings were initiated by issuing notice under section 148 in December, 2022 for the AY 2021-22. The reassessment proceeding of AY 2021-22 was pending as on 01-04-2023.

AY 2022-23: The return of income for this year was filed on 28-09-2022 and it was revised on 28-03-2023.

AY 2023-24: The return of income of this year was filed on 30/5/23. The assessee is contemplating to file modified returns for rollback years wherever it is eligible to do so.

Determine the availability of rollback benefit to Vijay Co. Ltd. for each of the years given in the question (with brief reasons).

**ANSWER:**

## Applicability of APA benefit for rollback years

P.Y./A.Y.	Whether roll back benefit would be available?	Reason
P.Y.2018-19 (A.Y.2019-20)	<b>No</b>	Roll back year means <b>maximum 4 previous years</b> , preceding P.Y.2023-24, being the first of the 5 consecutive previous years specified in the APA. Since P.Y.2018-19 falls <b>beyond</b> the said <b>4 year period</b> , roll back benefit cannot be availed in respect of that year.
P.Y.2019-20 (A.Y.2020-21)	<b>No</b>	The return of income has been filed <b>belatedly</b> u/s 139(4) on 15.1.2021
P.Y.2020-21 (A.Y.2021-22)	<b>Yes</b>	The return of income was filed u/s 139(1) on 11.11.2021 i.e., <b>before the due date</b> i.e., <b>30<sup>th</sup> November, 2021</b>
P.Y.2021-22 (A.Y.2022-23)	<b>Yes</b>	The return of income was originally filed u/s 139(1) on 28.9.2022 i.e., <b>before the due date</b> i.e., <b>30<sup>th</sup> November, 2022</b> . Hence, the revised return filed u/s 139(5) on 28.3.2023 would replace the original return filed u/s 139(1).
P.Y.2022-23 (A.Y.2023-24)	<b>Yes</b>	The return of income has been filed u/s 139(1) on 30.5.2023 i.e., <b>before the due date</b> i.e., <b>30<sup>th</sup> November, 2023</b>

**QUESTION 10:**

The tax assessment status of Banerjee Co. Ltd. for the preceding assessment years are given below:

A.Y.	Transfer Pricing adjustment	Date of filing return of income	Remarks
2022-23	110 lakhs	15-09-2022	The Transfer Pricing adjustment to the ALP was made consequent to order of the TPO. Banerjee Co. Ltd. did not agree with the adjustment so made in assessment and took the matter in appeal. However, the Income Tax Appellate Tribunal (ITAT), vide order dated 20-04-2025, upheld the addition made towards ALP. Banerjee Co. Ltd. has chosen to not file an appeal to the High Court against the order of the ITAT.
2023-24	170 lakhs	25-01-2024	Upon reference to TPO, an adjustment to the ALP was made and thus added to the income vide assessment order under section 143(3) dated 20-12-2024. This adjustment was accepted by Banerjee Co. Ltd.
2024-25	140 lakhs	11-10-2024	Suo Motu admitted by way of adjustment of the income by Banerjee Co. Ltd. while filing its return of income.

The assessee, Banerjee Co. Ltd., has not made any secondary adjustment in the books of account for the above said years.

You have been given the status details of primary transfer pricing adjustments made to the ALP of Banerjee Co. Ltd. for various years. You have to advise the Board of Directors of Banerjee Co. Ltd. as regards the time limits for repatriation of excess money, and the consequences of non-repatriation.

What would be the additional income-tax payable by Banerjee Co. Ltd. for the assessment year 2023-24, in case it cannot get any excess money arising from the transfer pricing adjustment repatriated to it?

**ANSWER:****TIME LIMIT FOR REPATRIATION OF EXCESS MONEY**

A.Y.	Determination of Primary Adjustment to Transfer Price	Time limit for repatriation of excess money	Date by which excess money has to be repatriated (On or before)
(1)	(2)	(3)	(4)
2022-23	Primary adjustment to transfer price determined in the <b>order of the ITAT</b> and accepted by Banerjee Co. Ltd.	<b>90 days</b> from the date of <b>order of ITAT</b> i.e., 90 days from 20.4.2025	19.7.2025
2023-24	Primary adjustment to transfer price determined vide <b>Assessment Order</b> u/s 143(3) and accepted by Banerjee Co. Ltd.	<b>90 days</b> from the date of <b>assessment order</b> i.e., 90 days from 20.12.2024	20.3.2025
2024-25	Primary adjustment to transfer price made <b>suo moto</b> by Banerjee Co. Ltd.	<b>90 days</b> from the <b>due date of filing of return</b> , i.e., 90 days from 30.11.2024	28.2.2025

**CONSEQUENCE OF NON-REPATRIATION OF EXCESS MONEY:**

In all the above cases the primary adjustment exceeds one crore. Hence, section 92CE will be attracted and Banerjee Co. Ltd. has to carry out secondary adjustment.

Consequently, if the excess money is not repatriated within the time limits given in column (3) above, the same would be deemed to be as an advance made by Banerjee Co. Ltd. to such associated enterprise and interest on such advance would be computed as follows and included in the total income of the company.

$$\text{Amt. of Interest income} = \text{Advance Amt} \times \text{Prescribed Int. rate (\%)} \\ \times \text{Period up to the actual date of repatriation}$$

**Note 1:**

Prescribed interest rate =

**SBI rate + 3.25 %** [if the international transaction is in Indian currency]

**LIBOR + 3 %** [if the international transaction is in foreign currency]

**ADDITIONAL TAX PAYABLE FOR AY 2023-24**

Transfer pricing adjustment x 18% [170 lakhs x <b>18%</b> ]	30,60,000
Add: Surcharge @ <b>12%</b>	+ 3,67,200
	34,27,200
Add: HEC @ <b>4%</b>	+ 1,37,088
<b>Additional Tax Payable</b>	<b>35,64,288</b>

**QUESTION 11:**

Best Ltd. is an Indian company and is a wholly owned subsidiary of Best Plc, UK. Best Ltd. is engaged in the business of manufacturing and selling telecommunication equipment. The EBITDA of Best Ltd. for the financial year 2024-25 is ₹ 150 crores.

The following information pertaining to loans obtained and interest payments of Best Ltd. are provided:

- i) On 1<sup>st</sup> April, 2024, Best Ltd. had obtained loan of ₹ 700 crores @ 8% from Star LLC, Singapore. The book value of the total assets of Best Ltd. is ₹ 1,200 crores.
- ii) Interest paid to Bank of London ₹ 6 crores on foreign currency loan of EURO 10 million based on back to back deposit made by Best Plc, UK.
- iii) Loan of ₹ 70 crores from the Bank of Germany based on guarantee provided by Smile Ltd., Germany. Interest paid for the concerned year is ₹ 5 crores. Best Ltd. holds 25% shares in Smile Ltd., Germany.
- iv) Loan of ₹ 100 crores from Bank of London based on a guarantee provided by Best Plc, UK. Interest of ₹ 8 crores is paid on such loan and guarantee fee of ₹ 30 lakhs is paid to Best Plc, UK.

Based on the details provided, determine the permissible interest deduction while computing income under the head "Profits and gains of business or profession" of Best Ltd. for the AY 2025-26 giving reasons for treatment of each item of interest.

**ANSWER:**

	Interest [Not subject to Sec.94B]	Interest [subject to Sec.94B]
Interest paid to Star LLC, Singapore (700 x 8%) [ <b>Sec. 94B applicable</b> because interest is paid to AE – Star LLC is <b>AE</b> because it has advanced <b>loan</b> which is <b>atleast 51% of the total assets</b> of assessee Best Ltd.] {Loan 700/Total Assets 1200 = 58.33%}		56 crores
Interest paid to Bank of London [ <b>Sec.94B applicable</b> because loan is based on <b>back to back deposit</b> made by Best Plc, UK and Best Plc, UK is an <b>AE</b> ]		6 crores
Interest paid to Bank of Germany [ <b>Sec. 94B not applicable</b> because loan is based on guarantee by Smile ltd and Smile ltd is <b>not an AE</b> – <b>25%</b> shareholding is not treated as association]	5 crores	
Interest paid to Bank of London [ <b>Sec. 94B applicable</b> because loan is based on <b>guarantee</b> by Best Plc, UK and Best Plc, UK is an <b>AE</b> ]		8 crores
Guarantee fee paid to Best Plc, UK ☆☆☆ [ <b>Sec. 94B applicable</b> because Guarantee fee paid to AE is also deemed as interest] <b>Note:</b> Sec.94B is applicable to interest or other finance charges that are deductible under the head "Income from business"		30 lakhs
Total Interest payment	5 crores	70.30 crores
	<b>Fully allowed</b>	Allowed upto <b>30% of EBITDA</b> [150 x 30%]
Permissible deduction	5 crores	45 crores

Hence, total deduction under the head Profits and Gains from Business or Profession = 5 + 45 = 50 crores.

**QUESTION 12:**

Ultra Ltd., Russia holds 35% shares in Indica Ltd., India.

Indica Ltd. develops software and does both onsite and offsite consultancy services for the customers.

Indica Ltd., during the year, billed Ultra Ltd., Russia for 120 man-hours at the rate of ₹ 1,800 per man hour. The total cost (direct and indirect) for executing this work amounted to ₹ 2,25,000. However, Indica Ltd. billed Venus Ltd., India at the rate of ₹ 2,800 per man hour for the similar level of manpower and earned a Gross Profit of 50% on its cost.

The transactions of Indica Ltd with Ultra Ltd. and Venus Ltd. are comparable, subject to the following differences:

- i) While Indica Ltd. derives technology support from the Ultra Ltd., there is no such support from Venus Ltd. The value of technology support received from Ultra Ltd. may be put at 18% of normal gross profits.
- ii) As Ultra Ltd. gives business in large volumes, Indica Ltd. offered to Ultra Ltd., a quantity discount which may be valued at 10% of normal gross profits.
- iii) In the case of rendering services to Ultra Ltd., Indica Ltd. neither runs any risk nor incurs any marketing costs. On the other hand, in the case of services to Venus Ltd., Indica Ltd. has to assume all the risk and costs associated with the marketing function which may be estimated at 12% of the normal gross profits.
- iv) Indica Ltd. offered one month credit to Ultra Ltd. The cost of providing such credit may be valued at 2% of the gross profits. No such credit was given to Venus Ltd.

Compute the Arm's Length Price alongwith income to be increased under the Cost plus Method with reference to Sec. 92C read with Rule 10B.

**ANSWER:****COMPUTATION OF ARMS LENGTH PRICE**

(for Billing by Indica Ltd. to Ultra Ltd.)

	₹
Direct Cost and Indirect Cost	2,25,000
<u>Add: Adjusted GP mark-up (31%)</u>	+ 69,750
<b>Arms Length Price</b>	<b>2,94,750</b>

**Conclusion:** Since the ALP is ₹ 2,94,750, the genuine price of transaction of Indica Ltd. with Ultra Ltd. is ₹ 2,94,750 but Indica Ltd. has shown only ₹ 2,16,000 (120 x 1,800). Hence, the **difference of 78,750 shall be added to the income of Indica Ltd.**

**→ Adjusted GP mark-up:**

Normal GP% in uncontrolled transaction [with Venus Ltd.]	50%
<u>Less: Value of technology support [50 x 18%]</u>	- 9%
<u>Less: Quantity discount [50 x 10%]</u>	- 5%
<u>Less: Value of Risk and marketing costs [50 x 12%]</u>	- 6%
<u>Add: Credit facility [50 x 2%]</u>	+ 1%
<b>Adjusted GP</b>	<b>31%</b>

**QUESTION 13:**

Mr. Mahesh received the draft order from the Assessing Officer as per section 144C of the Income-tax Act, 1961 due to variations determined by the Transfer Pricing Officer in the arm's length price. But Mr. Mahesh did not prefer to file the objection against the draft order before the Dispute Resolution Panel; Instead, he preferred to file appeal before the CIT (Appeals) under section 246A against the final order received from the Assessing Officer.

You are required to advise Mr. Mahesh, whether his contentions are tenable? Discuss the issue with reference to provisions of section 144C of the Income-tax Act, 1961.

**ANSWER:**

Section 144C requires the eligible assessee, Mr. Mahesh, to file his objections with the Dispute Resolution Panel (DRP) and the Assessing Officer within 30 days of the receipt by him of the draft assessment order.

If he fails to do so, the Assessing Officer will proceed to complete the assessment on the basis of the draft order.

The **CBDT has clarified** that the **assessee has a choice** whether to **file an objection before the DRP** against the draft assessment order **or** not to exercise this option and **file an appeal later before CIT (Appeals)** against the final assessment order passed by the Assessing Officer. Therefore, Mr. Mahesh's contention to file an appeal before Commissioner (Appeals) against the final assessment order instead of filing objections before the DRP against the draft assessment order is tenable in law.

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# TAXATION OF NR

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## **QUESTION 1:**

Sumeet Patel is a person of Indian origin residing in New York since last 15 years. During 2006-07, he invested foreign currency in following assets:

- 1) Debentures of Indian public company
- 2) Shares of domestic companies
- 3) Government of India securities
- 4) Deposits with Indian private companies

During the PY 2024-25, he earned following incomes in India:

- 1) Interest on Govt. securities ₹ 1,25,000
- 2) Interest paid on loan to invest in Govt. securities ₹30,000
- 3) Interest on deposits with private companies ₹ 1,00,000
- 4) Dividend from domestic companies ₹ 2,00,000
- 5) Amount received on sale of debentures of public company on 30/7/24 ₹ 8,50,000 (Brokerage ₹ 50,000) (Cost of Debentures ₹ 5,00,000).
- 6) Other incomes ₹ 4,00,000

His investments during the PY 2024-25 are as follows:

- 1) Investment in notified savings certificates referred to in Section 10(4B) on 4/12/2024 ₹ 2,00,000.
- 2) Investment in shares of Indian co. on 25/3/2025 ₹ 6,00,000.

You are required to compute the balance tax payable/refund due for the AY 2025-26 as per the special provisions contained in Chapter XIIA [assuming tax of ₹ 76,300 was deducted at source and the assessee has opted for old tax regime.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                                             | Amt.     | Amt.             |
|---------------------------------------------------------|----------|------------------|
| <b>Investment Income - Foreign Ex. Assets</b>           |          | –                |
| Interest on Govt. Securities (Gross)                    | 1,25,000 |                  |
| [Exp dedn not allowed] [ <b>Sec. 115D</b> ]             |          |                  |
| Dividend from domestic companies                        | 2,00,000 | 3,25,000         |
| <b>LTCG from Foreign Ex. Assets</b> [ <b>Note 1</b> ]   |          | 2,25,000         |
| <b>Other Incomes:</b>                                   |          |                  |
| Int. on deposits – <b>private</b> co. [ <b>Note 4</b> ] | 1,00,000 |                  |
| Others                                                  | 4,00,000 | 5,00,000         |
| <b>GROSS TOTAL INCOME</b>                               |          | <b>10,50,000</b> |
| <u>Less:</u> Deduction under Chapter VI A               |          | Nil              |
| <b>NET TAXABLE INCOME</b>                               |          | <b>10,50,000</b> |

**STATEMENT OF TAX**

|                            | Investment income from Foreign Ex Assets | LTCG from Foreign Ex Assets | Other Incomes        |
|----------------------------|------------------------------------------|-----------------------------|----------------------|
| <b>Net Taxable Income</b>  | <b>3,25,000</b>                          | <b>2,25,000</b>             | <b>5,00,000</b>      |
| Tax on above               | 65,000<br>(20%)                          | 28,125<br>(12.5%)           | 12,500<br>(Slab Rt.) |
| <u>Add:</u> Surcharge      |                                          | 1,05,625                    |                      |
|                            |                                          | Nil                         |                      |
| <u>Add:</u> HEC @ 4%       |                                          | 1,05,625                    |                      |
| Tax liability              |                                          | + 4,225                     |                      |
| <u>Less:</u> TDS           |                                          | 1,09,850                    |                      |
|                            |                                          | - 76,300                    |                      |
| <b>Balance Tax Payable</b> |                                          | <b>33,550</b>               |                      |

**Note 1:**

## COMPUTATION OF CAPITAL GAINS

|                                                                                   | ₹        |
|-----------------------------------------------------------------------------------|----------|
| Full Value of Consideration                                                       | 8,50,000 |
| <u>Less:</u> Transfer Expenses                                                    | - 50,000 |
| Net Consideration                                                                 | 8,00,000 |
| <u>Less:</u> Cost of Acquisition ( <b>Note 2</b> )                                | 5,00,000 |
| Gross LTCG                                                                        | 3,00,000 |
| <b><u>Less: Exempt u/s 115F:</u></b>                                              | - 75,000 |
| Gross LTCG x $\frac{\text{Cost of New Asset (Note 3)}}{\text{Net Consideration}}$ |          |
| = 3,00,000 x 2,00,000/8,00,000                                                    |          |
| Net LTCG                                                                          | 2,25,000 |

**Note 2:**

As per **section 115D** of Chapter XIA, **indexation is not allowed**. Even otherwise, indexation is not allowed in case of debentures.

**Note 3:**

Investment of ₹ 2,00,000 in **notified saving certificates** u/s 10(4B) is eligible exemption u/s 115F as the investment is made **within 6 months**. However, investment of ₹ 6,00,000 in **shares of Indian company** is not eligible for exemption u/s 115F as the investment is made **after 6 months**.

**Note 4:**

Deposits with Indian **Private** companies **does not fall in the definition** of foreign exchange asset given in section 115C. Hence, interest on such deposits **shall not be taxable at special rate of 20%**. It will be taxable at normal rates.

**Note 5:**

There is no standard format of computing tax liability but we follow a pattern in which “whenever any income is taxable at **special rate**, we prepare **separate column** for such income”.

**QUESTION 2:**

Bronze Ltd. is a company incorporated in Russia. It's income during the PY 2024-25 is as follows:

- Interest on foreign currency loans given to Indian concern ₹ 15,00,000.
- Interest on foreign currency loan given to Infrastructure debt fund in India ₹ 30,00,000.
- Royalty from an Indian concern ₹ 40,00,000 (Related expenses ₹ 10,00,000)
- Fees from technical services provided by its PE in India ₹ 12,00,000 (Related expenses ₹ 3,00,000).

You are required to:

Compute the tax liability of Bronze Ltd. for AY 2025-26.

**ANSWER:**

**COMPUTATION OF TAX LIABILITY OF BRONZE LTD.  
STATEMENT OF TAX**

|                       | Int. on loan to Indian Concern | Int. on loan to IDF | Royalty          | Fees for Tech. Services |
|-----------------------|--------------------------------|---------------------|------------------|-------------------------|
| <b>Taxable Income</b> | <b>15,00,000</b>               | <b>30,00,000</b>    | <b>40,00,000</b> | <b>9,00,000</b>         |
| Tax on above          | 3,00,000                       | 1,50,000            | 8,00,000         | 3,15,000                |
|                       | (20% u/s 115A – Note 1)        | (5% u/s 115A)       | (20% u/s 115A)   | (35% u/s 44DA – Note 2) |
|                       |                                |                     | 15,65,000        |                         |
| <u>Add:</u> Surcharge |                                |                     | Nil              |                         |
|                       |                                |                     | 15,65,000        |                         |
| <u>Add:</u> HEC @ 4%  |                                |                     | + 62,600         |                         |
| <b>Tax liability</b>  |                                |                     | <b>16,27,600</b> |                         |

**Note 1:**

Indian “**concern**” doesn’t mean Indian “**company**”. “Concern” is a general term which means any person carrying on business. Hence, the tax rate on such interest income will be 20%.

Only if the question clearly states that loan is given to **Indian company** [on/after 1/7/2012 up to 30/6/2023] by way long term **bonds** or **loan agreement approved by Govt.**, then the tax rate will be **5%**.

**Note 2:**

**Fees for technical services** is earned by the foreign company through its PE in India. Hence, it is taxable as per normal rates u/s **44DA** and normal rate for **foreign company** is **35%** [since company is incorporated outside India i.e. Russia, it’s a foreign company].

**Note 3:**

Incomes taxable u/s 115A shall not be eligible for deduction of related expenses. However, FTS taxable u/s 44DA at normal rates is eligible for deduction of related expenses.

**QUESTION 3:**

David Warner, an Australian citizen and a cricketer, came to India during PY 2024–25 for 40 days. During his stay in India, he earned following incomes:

1. Income from participating in Indian Premier League ₹ 50 L.
2. Income from articles published in sports magazine ₹ 2 L.
3. Income from winnings in horse race ₹ 3,00,000.
4. Income from performing in advertisement ₹ 20,00,000  
[Related expenses ₹ 3,00,000].

Compute his tax liability for the AY 2025-26. Advise him whether he is required to file the return for the AY 2025-26.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                               | Amt.      | Amt.             |
|-------------------------------------------|-----------|------------------|
| * <b>Income specified u/s 115BBA:</b>     |           |                  |
| Participating in IPL                      | 50,00,000 |                  |
| Performing in Advt.                       | 20,00,000 |                  |
| Contributing articles in sports magazine  | 2,00,000  | 72,00,000        |
| * <b>Other Incomes:</b>                   |           |                  |
| Winnings from horse race                  |           | 3,00,000         |
| <b>GROSS TOTAL INCOME</b>                 |           | <b>75,00,000</b> |
| <u>Less:</u> Deduction under Chapter VI A |           | Nil              |
| <b>NET TAXABLE INCOME</b>                 |           | <b>75,00,000</b> |

**STATEMENT OF TAX**

|                            | Income u/s 115BBA  | Winnings                |
|----------------------------|--------------------|-------------------------|
| <b>Net Taxable Income</b>  | <b>72,00,000</b>   | <b>3,00,000</b>         |
| Tax on above               | 14,40,000<br>(20%) | 90,000<br>(30%)         |
| <u>Add:</u> Surcharge @10% |                    | 15,30,000<br>+ 1,53,000 |
| <u>Add:</u> HEC @ 4%       |                    | 16,83,000<br>+ 67,320   |
| <b>Tax Liability</b>       |                    | <b>17,50,320</b>        |

**Note 1:**

**Expenses** related to income from performing in advt. is **not allowed as deduction** (in case of incomes covered **under Chapter XII/XIIA**, deduction for expenses is not allowed).

**Note 2:**

If the NRFC sportsperson has only specified incomes in India (specified u/s 115BBA) and tax on that is deducted at source then he is not required to file the return in India. However, in this case, David Warner **also has winnings** from horse race [income other than income specified u/s 115BBA]. Hence, he is **required to file return in India**.

**QUESTION 4:**

INVEST Ltd., a foreign company, is recognized as a Foreign Institutional Investor. It's income from various investments in India during PY 2024-25 is as follows:

1. Interest on Rupee denominated bonds ₹ 16,00,000.
2. Interest on debentures of Indian Companies ₹ 12,00,000.
3. Dividend from domestic companies ₹ 10,00,000
4. Short term capital gains on sale of equity shares through recognized stock exchange ₹ 30,00,000.
5. Short term capital gains sale of bonds of Indian Company ₹ 20,00,000.
6. Long term capital gains on sale of land in India ₹ 10,00,000.

You are required to compute the tax liability of INVEST LTD. for the AY 2025-26.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                                     | Amt.             |
|-------------------------------------------------|------------------|
| * <b>Income specified u/s 115AD:</b>            |                  |
| Interest on RDB                                 | 16,00,000        |
| Interest on Debentures                          | 12,00,000        |
| Dividend from domestic co.                      | 10,00,000        |
| STCG [Eq. sh.]                                  | 30,00,000        |
| STCG [Bonds]                                    | 20,00,000        |
| * <b>Other Incomes [Not covered u/s 115AD]:</b> |                  |
| LTCG [Land]                                     | 10,00,000        |
| <b>GROSS TOTAL INCOME</b>                       | <b>98,00,000</b> |
| <u>Less:</u> Deduction under Chapter VI A       | Nil              |
| <b>NET TAXABLE INCOME</b>                       | <b>98,00,000</b> |

## STATEMENT OF TAX

|                      | Int on RDB            | Int on Deb & Dividend    | STCG (Eq. Sh.)           | STCG [Bonds]             | LTCG [Land]                |
|----------------------|-----------------------|--------------------------|--------------------------|--------------------------|----------------------------|
| <b>Income</b>        | <b>16L</b>            | <b>22L</b>               | <b>30L</b>               | <b>20L</b>               | <b>10L</b>                 |
| Tax                  | 80,000<br><b>(5%)</b> | 4,40,000<br><b>(20%)</b> | 6,00,000<br><b>(20%)</b> | 6,00,000<br><b>(30%)</b> | 1,25,000<br><b>(12.5%)</b> |
| Add: SC              |                       |                          | 18,45,000<br>Nil         |                          |                            |
| Add: HEC@4%          |                       |                          | 18,45,000<br>+ 73,800    |                          |                            |
| <b>Tax Liability</b> |                       |                          | <b>19,18,800</b>         |                          |                            |

**Note 1:** Interest on RDB is taxable @5% assuming investment is made before 1/7/2023.

**Note 2:** Capital Gains given in the question is assumed to be on account of transfer made on/after 23/7/24.

**QUESTION 5:**

Ryan Gomez, a non-resident, sent \$ 50,000 to India on 4/6/2010 which was utilized to purchase 20,000 shares of Indian company on 15/9/2010 for ₹ 17 per share. These shares were sold on 25/8/2024 for ₹ 45 per share [FMV as on 31/1/2018 is ₹ 36 per share]. Compute the amount of Capital Gains assuming:

- The shares are purchased and sold through RSE.
- The shares are not sold through RSE.

Buying rate and selling rate of one dollar adopted by SBI on different dates is as follows:

|           | Buying Rate | Selling Rate |
|-----------|-------------|--------------|
| 15/9/2010 | 1\$ = ₹ 33  | 1\$ = ₹ 35   |
| 25/8/2024 | 1\$ = ₹ 59  | 1\$ = ₹ 61   |

**ANSWER:****→ IF SHARES ARE PURCHASED & SOLD THROUGH RSE:**

If the shares are purchased and sold through RSE i.e. if **STT is paid** at the time of purchase as well as sale, LTCG will be computed as per **section 112A** as follows:

## COMPUTATION OF CAPITAL GAINS

|                                 | Amt.       |
|---------------------------------|------------|
| FVOC (SP) (20,000 x 45)         | 9,00,000   |
| <u>Less: COA*</u> (20,000 x 36) | - 7,20,000 |
| LTCG                            | 1,80,000   |
| *COA                            |            |
| ↓ FMV (31/1/18)                 | 36         |
| ↓ SP                            | 45         |
| ↑ Lower                         | 36         |
| ↑ Actual Cost                   | 17         |
| Higher (COA)                    | 36         |

**→ IF SHARES ARE NOT SOLD THROUGH RSE:**

If the shares are not sold through RSE i.e. if **STT is not paid** at the time of sale, LTCG will be computed as per **first proviso to section 48** because the assessee is **NR** having **shares of Indian Company** acquired in **foreign currency**.

## COMPUTATION OF CAPITAL GAINS

|                                                                   | Amt. (\$) |
|-------------------------------------------------------------------|-----------|
| FVOC (SP) (20,000 x 45 = 9,00,000/60) Avg rate on trf dt.         | 15,000    |
| <u>Less: COA</u> (20,000 x 17 = 3,40,000/34) Avg rate on pur. dt. | - 10,000  |
| LTCG [in foreign currency]                                        | 5,000     |
| LTCG [in Indian currency] [\$5,000 x 59 Buying rate]              | 2,95,000  |

Note: Indexation is not allowed

**QUESTION 6:**

Mr. Robert, a non-resident, (aged 38) operates a ship for the carriage of goods, passengers and livestock between Dubai, Mumbai and Chennai. He provides you the following particulars for the previous year 2024 -25:

- (i) Received ₹200 Lakhs in India on account of carriage of livestock from Mumbai to London.
- (ii) Received ₹50 Lakhs in India on account of carriage of passengers from Dubai to Colombo.
- (iii) Received ₹65 Lakhs in Dubai on account of carriage of goods from Chennai to Dubai.
- (iv) Received ₹85 Lakhs in Dubai on account of carriage of goods from Dubai.
- (v) Expenses incurred during the year in respect of operation of such ships ₹195 Lakhs.
- (vi) Winning from horse races in India ₹25 Lakhs

Compute the total income of Mr. Robert Chargeable to tax in India for the assessment year 2025-26. Also, calculate the tax liability thereon assuming the assessee has shifted out of default tax regime.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                                   | Amt. (₹)         |
|-----------------------------------------------|------------------|
| * <u>Income from Business</u>                 |                  |
| Income from Shipping business <b>(Note 1)</b> | 23,62,500        |
| * <u>Income from Other Sources:</u>           |                  |
| ➔ Winnings                                    | 25,00,000        |
| <b>GROSS TOTAL INCOME</b>                     | <b>48,62,500</b> |
| <u>Less:</u> Deduction under Chapter VI A:    | —                |
| <b>NET TAXABLE INCOME</b>                     | <b>48,62,500</b> |

## STATEMENT OF TAX

|                           | ST<br>111A | LT<br>112A | LT         | Win           | Balance               |
|---------------------------|------------|------------|------------|---------------|-----------------------|
| <b>Net Taxable Income</b> | <b>Nil</b> | <b>Nil</b> | <b>Nil</b> | <b>25L</b>    | <b>23,62,500</b>      |
| Tax on above              | Nil        | Nil        | Nil        | 7.5L<br>(30%) | 5,21,250<br>(Slab Rt) |
| <u>Add:</u> Surcharge     |            |            |            |               | 12,71,250<br>+ Nil    |
| <u>Add:</u> HEC @ 4%      |            |            |            |               | 12,71,250<br>+ 50,850 |
| <b>Tax Payable</b>        |            |            |            |               | <b>13,22,100</b>      |

**Note 1:** As per **sec. 44B**, income of NR from the business of **operating ships** is computed on **presumptive basis** as follows:

| Particulars                                                                                                  | ₹(lakhs)      |
|--------------------------------------------------------------------------------------------------------------|---------------|
| Received in India on account of <b>carriage</b> of livestock <b>from Mumbai</b> to London.                   | 200           |
| <b>Received in India</b> on account of carriage of passengers from Dubai to Colombo.                         | 50            |
| Received in Dubai on account of <b>carriage</b> of goods <b>from Chennai</b> to Dubai.                       | 65            |
| Received in Dubai on account of carriage of goods from Dubai [ <b>accrued &amp; received outside India</b> ] | —             |
| <b>GROSS RECEIPTS</b>                                                                                        | <b>315</b>    |
| <b>Taxable Business Income [7.5% of Gross Receipts]</b>                                                      | <b>23.625</b> |

Since the income is computed on presumptive basis, **expenses** of ₹ 195 lakhs on operation of ships **shall not be allowed** as dedn.

**QUESTION 7:**

ABC Ltd, a software giant in India, set up a 100% subsidiary company by name SHD Inc. in Switzerland on 1st April, 2024. The subsidiary company, SHD Inc., is mainly engaged in the software services, hardware services and data backup services in three different countries viz., Switzerland, Sweden and India.

The following information is furnished by SHD Inc., for FY 24-25:

| Particulars                                                 | In Switzerland | In Sweden | In India |
|-------------------------------------------------------------|----------------|-----------|----------|
| Value of assets as per books                                | 24 cr.         | 12 cr.    | 24 cr.   |
| Number of employees working (including unskilled employees) | 45,000         | 15,000    | 40,000   |
| Pay roll expenditure                                        | 4 cr.          | 2.6 cr.   | 5.4 cr.  |
| Total aggregate income earned                               | 80 crores      |           |          |

Other Information:

1) Break up of total income:

- ₹28 crores derived from the transactions where purchases are made from AE and sold to non-AE;
- ₹24 crores derived from the transactions where both purchases and sales are made from/to AE;
- ₹16 crores derived from the transactions where purchases are made from non-AE and sold to AE;
- ₹8 crores by way of capital gains on trading of shares;
- ₹4 crores by way of interest from non-AE;

2) During FY 2024-25, total 5 board meetings were held, 2 in India, 1 in Sweden and 2 in Switzerland.

Based on the above information, determine the residential status of SHD Inc., applying the provisions of POEM for the A.Y.2025-26.

Because of increased operations in India, 30,000 more employees are required. The company can either take these employees directly in its roll or can outsource the increased operation to an external agency which will engage the 15,000 employees in its roll and finish the work for the company. Which choice will be better?

**ANSWER:**

SHD Inc., a foreign company, would be resident in India in the P.Y. 2024-25, if its place of effective management is in India in that year.

For determining the POEM of SHD Inc., the important criteria is whether the company is engaged in active business outside India or not.

A company shall be said to be engaged in "Active Business Outside India" (ABOI) for POEM, if all 4 conditions are satisfied:

|                      |   |                          |
|----------------------|---|--------------------------|
| Passive Income       | ≤ | 50% of Total Income      |
| Assets In India      | < | 50% of Total Assets      |
| Employees In India   | < | 50% of Total Employees   |
| Payroll Exp In India | < | 50% of Total Payroll Exp |

**Condition 1: Passive Income** should be ≤ 50% of Total Income

|                                           |                  |
|-------------------------------------------|------------------|
| - Income by Purchase from AE & Sale to AE | 24 crores        |
| - Interest/Dividend/Rent/Royalty income   | 4 crores         |
| - Capital Gains                           | 8 crores         |
| Passive Income                            | 36 crores        |
| Total income                              | 80 crores        |
| Percentage                                | <b>45%</b>       |
| Satisfied or not                          | <b>Satisfied</b> |

**Condition 2: Assets In India** must be < 50% of Total Assets

|                         |                  |
|-------------------------|------------------|
| - Assets in Switzerland | 24 crores        |
| - Assets in Sweden      | 12 crores        |
| - Assets in India       | 24 crores        |
| Total Assets            | 60 crores        |
| Total Assets In India   | 24 crores        |
| Percentage              | <b>40%</b>       |
| Satisfied or not        | <b>Satisfied</b> |

**Condition 3: Emp. In India should be < 50% of Total Emp.**

|                            |                  |
|----------------------------|------------------|
| - Employees in Switzerland | 45,000           |
| - Employees in Sweden      | 15,000           |
| - Employees in India       | 40,000           |
| Total No. of Employees     | 1,00,000         |
| Employees In India         | 40,000           |
| Percentage                 | <b>40 %</b>      |
| Satisfied or not           | <b>Satisfied</b> |

**Condition 4: Payroll Exp Outside India  $\geq$  50% of Total Payroll Exp**

|                              |                  |
|------------------------------|------------------|
| - Payroll Exp in Switzerland | 4 crores         |
| - Payroll Exp in Sweden      | 2.6 crores       |
| - Payroll Exp in India       | 5.4 crores       |
| Total Payroll Exp            | 12 crores        |
| Payroll Exp In India         | 5.4 crores       |
| Percentage                   | <b>45 %</b>      |
| Satisfied or not             | <b>Satisfied</b> |

**Conclusion:**

Since SHD Inc. satisfies all the above four conditions, it has **passed the Active Business Outside India (ABOI) test.**

POEM of a company engaged in active business outside India shall be presumed to be outside India, if the majority of the board meetings are held outside India.

Since SHD Inc. is engaged in active business outside India in P.Y. 2024-25 and **majority of its board meetings** i.e., 3 out of 5, were held **outside India**, POEM of SHD Inc. would be outside India. Therefore, SHD Inc. would be **non-resident** in India for the P.Y. 2024-25.

|                            | Option 1                           | Option 2                              |
|----------------------------|------------------------------------|---------------------------------------|
|                            | 30,000 Emp.<br>in SHD's<br>Payroll | 15,000 Emp.<br>in External<br>Payroll |
| - Employees in Switzerland | 45,000                             | 45,000                                |
| - Employees in Sweden      | 15,000                             | 15,000                                |
| - Employees in India       | 70,000                             | 55,000                                |
| Total No. of Employees     | 1,30,000                           | 1,15,000                              |
| Employees In India         | 70,000                             | 55,000                                |
| Percentage                 | 53.85 %                            | 47.83 %                               |
| Satisfied or not           | Not Satisfied                      | <b>Satisfied</b>                      |

**Conclusion:**

**Option 2 is better** as in this option, the company can continue to maintain the status of Active BOI and can **continue to remain NR**.

**QUESTION 8:**

Mr. Kevin (Indian citizen), a non-resident, earned following incomes during the PY 2024-25:

- Dividend/Interest from Russian Co. ₹ 10,000 (50% of interest received in India).
- STCG of ₹ 20,000 on sale of shares of an Indian company received in London.
- STCG of ₹ 80,000 on sale of 8% shares held by him in a German company (Total assets owned by such company is 100 cr. out of which 53 cr. is the market value of assets located in India).
- Income earned from business in Germany which is controlled from Delhi ₹ 70,000.
- Income from house property in London deposited in an Indian Bank at London, brought to India (Computed) 50,000
- Royalty/Fees of ₹ 20 lakhs from an Indian company for use of patent/services for a business outside India.

- (g) Royalty/Fees of ₹ 10 lakhs from Govt of India for use of patent/services for a business outside India.
- (h) Interest of ₹ 8 lakhs on moneys borrowed by a resident for the purpose of business outside India. Amount was received in Korea.
- (i) Profits of ₹ 2,50,000 from operations which are confined to purchase of goods in India for the purpose of export.
- (j) Profits of ₹ 10 lakhs from business of collection of news and views in India for transmission outside India.
- (k) Salary of ₹ 7,50,000 (computed) from Government of India for rendering his services in Japan and allowances of ₹ 2,40,000 for rendering his services in Japan.

Examine briefly whether the above incomes are chargeable to tax in India.

### ANSWER:

Since Kevin is a **non-resident**, he is liable to pay tax in India only if his income either **accrues in India** or it is **received in India**.

|                                                                                                | Taxable or not         | Reason                                                                                                                             |
|------------------------------------------------------------------------------------------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| Dividend/Interest from <b>Russian Co.</b><br>⇒ 50% received in India<br>⇒ 50% received outside | Taxable<br>Not taxable | Received in India<br>Accrued and received outside India                                                                            |
| STCG on sale of shares of an <b>Indian co.</b>                                                 | Taxable                | Accrued in India                                                                                                                   |
| STCG on sale of 8% shares held by him in a <b>German company.</b>                              | Taxable                | Accrued in India b'coz shares derive value from Indian Assets<br>[FMV of Indian Assets > 10 cr. and it is >/= 50% of Total Assets] |
| Income from business in <b>Germany</b> controlled from Delhi.                                  | Not taxable            | Accrued and received outside India                                                                                                 |

|                                                                                                            |             |                                                                                                                                                      |
|------------------------------------------------------------------------------------------------------------|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| Income from HP in <b>London</b> deposited in London, brought to India.                                     | Not taxable | Accrued and received outside India [later, brought to India is not relevant]                                                                         |
| Royalty/Fees from an Indian company for use of patent/services for a <b>business outside</b> India.        | Not taxable | Accrued and received outside India (b'coz used for business outside India)                                                                           |
| Royalty/Fees from <b>Govt of India</b> for use of patent/services for a business outside India.            | Taxable     | Accrued in India (b'coz received from Indian Govt.)                                                                                                  |
| Interest on moneys borrowed by a resident for <b>business outside</b> India. [received in Korea].          | Not taxable | Accrued and received outside India (b'coz used for business outside India)                                                                           |
| Profits from operations which are <b>confined to purchase</b> of goods in India for the purpose of export. | Not taxable | No business connection in India (b'coz operations confined to purchase of goods in India)                                                            |
| Profits from operations which are <b>confined to collection of news and views</b> in India.                | Not taxable | No business connection in India (b'coz operations confined to collecting news in India)                                                              |
| Salary from <b>Govt of India</b> for rendering services in Japan and                                       | Taxable     | Accrued in India [Ind. citizen employee of Ind. Govt.]                                                                                               |
| Allowances from Govt of India for rendering services in Japan.                                             | Exempt      | <b>Allowances</b> or <b>perquisites</b> received by Indian citizen from Govt of India for services outside India are fully <b>exempt u/s 10(7)</b> . |

**QUESTION 9:**

"NEPTUNE" is a shipliner, used in carrying passengers and cargo, owned by M/s Thomas & Thomas of U.K. The ship carried the passengers and cargo in June, 2024 from Singapore to Chennai and vice versa and collected charges thereof amounting to ₹200 lacs. It left Chennai port on 15.6.2024 for its journey to Korea. No other journey to India was undertaken by any of the vessels of the company during the year ended on 31.3.2025. The non-resident company had authorized its Indian agent to comply with the income tax provisions.

You are consulted by the company to explain about the procedure as to return of income to be filed and the period within which the assessment thereof will be completed by the Assessing Officer.

**ANSWER:**

In case of NR carrying on shipping business in India, sec. 172(3) requires the master of the ship to file the voyage return before the departure of ship from India.

Accordingly, M/s. Thomas & Thomas of UK shall be required to **file the voyage return before the ship leaves** for onward journey to Korea.

However, where the Assessing Officer is satisfied that it is **not possible** for the master of the ship to furnish the return before the departure of the ship from the port, and if satisfactory arrangements have been made for filing of return and payment of tax by the authorised agent in India, he may permit filing of return **within 30 days of departure** of the ship.

Section 172(4A) provides a time limit of **9 months** for completion of assessment in such cases. The period of 9 months is reckoned **from the end of the financial year in which the return under section 172(3) is furnished.**

**QUESTION 10:**

The Net Profit of the business carried on by a branch of a foreign company in India for the financial year ended 31.03.2025 was ₹82 lakhs after charge of the following expenses:

- i. Depreciation for the current financial year of ₹15 lakhs.
- iii. Capital Expenditure incurred for promoting family planning amongst its employees of ₹7 lakhs (being 1/5<sup>th</sup> of the total capital expenditure).
- iv. Expenditure incurred for Scientific research ₹11 lakhs.
- vi. Head Office expenses of ₹125 lakhs allocated to the branch.

Additional Information:

- ii. Unabsorbed depreciation for PY 2022-23 ₹17 lakhs.
- v. Business loss brought forward for PY 2022-23 ₹25 lakhs.
- vi. Deductions under Chapter VI-A of ₹20 lakhs.

Compute income to be declared by the branch in its return for the A.Y. 2024-25.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                                   | ₹<br>lakhs    |
|-----------------------------------------------|---------------|
| * <u>Income from Business</u>                 |               |
| Taxable PGBP (before HO Exp) (82+125)         | 207           |
| <b>Less: Dedn u/s 44C for HO Exp (Note 1)</b> | <b>- 10.7</b> |
|                                               | 196.3         |
| <u>Less: B/f Business Loss</u>                | - 25          |
| <u>Less: UAD</u>                              | - 17          |
| * Income under other heads                    | Nil           |
| <b>GROSS TOTAL INCOME</b>                     | <b>154.3</b>  |
| <u>Less: Deduction under Chapter VI A</u>     | - 20          |
| <b>NET TAXABLE INCOME</b>                     | <b>134.3</b>  |

**Note 1: Deduction u/s 44C:**

- 1) 5% of Adjusted Total Income  
= 5% of 214 lakhs = ₹10.7 lakhs
- 2) Actual HO Exp = ₹125 lakhs

**→ Adjusted Total Income:**

|                                                                           | ₹ (in lakhs) |
|---------------------------------------------------------------------------|--------------|
| PGBP ( <b>Before</b> HO Exp)                                              | 207          |
| <u>Add:</u> Dedn of 1/5 <sup>th</sup> Cap. Exp on <b>F</b> amily Planning | + 7          |
| Income under "Other heads"                                                | Nil          |
| <b>Adjusted Total Income</b>                                              | <b>214</b>   |

**QUESTION 11:**

Pranab, a non-resident Indian (aged 61) has furnished the following particulars of income relating to financial year 2024-25:

| Particulars                                                                                                                                                                                                    | ₹        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Loss from house property located in India                                                                                                                                                                      | 2,50,000 |
| Income from business carried on in India                                                                                                                                                                       | 3,50,000 |
| Interest on debentures of Indian co. subscribed in US\$                                                                                                                                                        | 1,50,000 |
| Interest on loan taken for purchase of above deb..                                                                                                                                                             | 20,000   |
| Sale of debentures of Indian Co.<br>(subscribed in US\$ in the year 2012 - 13 for ₹ 5,00,000<br>and sold on 31 <sup>st</sup> July 2024 for ₹ 8,00,000)<br>Cost Inflation Index – 2012-13: 200 and 2024-25: 363 |          |
| Brokerage on sale of debentures                                                                                                                                                                                | 12,000   |
| Interest on deposits held with private companies                                                                                                                                                               | 50,000   |
| Investment in shares of Indian co. on 31.12.2024                                                                                                                                                               | 3,94,000 |
| Investment in notified savings certificates referred to<br>in section 10(4B) on 25.02.2025                                                                                                                     | 1,50,000 |

Compute tax liability by Pranab for Assessment Year 2025-26, as per the provisions of Chapter XII-A and old tax regime of the Income-tax Act, 1961.

What will be your answer if the shares acquired on 31.12.2024 are sold on 30.06.2025 for ₹ 4,50,000.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                                                                        | Amt.       | Amt.            |
|------------------------------------------------------------------------------------|------------|-----------------|
| <b>Invt. Income - Foreign Ex. Assets</b>                                           |            |                 |
| Interest on Deb. of Indian co. [Gross]<br>[Int. paid i.e. Exp dedn is not allowed] |            | 1,50,000        |
| <b>LTCG from Foreign Ex. Assets [Note 1]</b>                                       |            | 1,44,000        |
| <b>Other Incomes:</b>                                                              |            |                 |
| * Income from Business                                                             | 3,50,000   |                 |
| Less: HP Loss [max. 2,00,000]                                                      | - 2,00,000 | 1,50,000        |
| Loss of ₹50,000 shall be c/f                                                       |            |                 |
| * Int. on deposits- <b>private</b> co. [Note 4]                                    |            | 50,000          |
| <b>GROSS TOTAL INCOME</b>                                                          |            | <b>4,94,000</b> |
| Less: Deduction under Chapter VI A                                                 |            | Nil             |
| <b>NET TAXABLE INCOME</b>                                                          |            | <b>4,94,000</b> |

**STATEMENT OF TAX**

|                           | Int/Div from Foreign Ex Assets | LTCG from Foreign Ex Assets | Other Incomes     |
|---------------------------|--------------------------------|-----------------------------|-------------------|
| <b>Net Taxable Income</b> | <b>1,50,000</b>                | <b>1,44,000</b>             | <b>2,00,000</b>   |
| Tax on above              | 30,000<br>(20%)                | 18,000<br>(12.5%)           | Nil<br>(Slab Rt.) |
|                           |                                | 48,000                      |                   |
| Less: Rebate u/s 87A      |                                | Not allowed<br>(B'coz NR)   |                   |
| Add: Surcharge            |                                | Nil                         |                   |
|                           |                                | 48,000                      |                   |
| Add: HEC @ 4%             |                                | + 1,920                     |                   |
| Tax Payable               |                                | 49,920                      |                   |

**Note 1:****COMPUTATION OF CAPITAL GAINS**

|                                                                            | ₹          |
|----------------------------------------------------------------------------|------------|
| Full Value of Consideration                                                | 8,00,000   |
| <u>Less:</u> Transfer Expenses                                             | - 12,000   |
| Net Consideration                                                          | 7,88,000   |
| <u>Less:</u> Cost of Acquisition ( <b>Note 2</b> )                         | 5,00,000   |
| Gross LTCG                                                                 | 2,88,000   |
| <b><u>Less: Exempt u/s 115F:</u></b>                                       | - 1,44,000 |
| Gross LTCG x <u>Cost of New Asset (<b>Note 3</b>)</u><br>Net Consideration |            |
| = 2,88,000 x 3,94,000/7,88,000                                             |            |
| Net LTCG                                                                   | 1,44,000   |

**Note 2:**

Under Chapter XIA, **indexation** is **not allowed**. Even otherwise, indexation is not allowed in case of debentures.

**Note 3:**

Investment of ₹ 3,94,000 in **shares of Indian company** is eligible for exemption u/s 115F as the investment is made **within 6 months**. However, investment of ₹ 1,50,000 in **notified saving certificates** u/s 10(4B) is not eligible for exemption u/s 115F as the investment is made **after 6 months**.

**Note 4:**

Deposits with Indian **Private** companies **does not fall in the definition** of foreign exchange asset given in section 115C. Hence, interest on such deposits **shall not be taxable at special rate of 20%**. It will be taxable at normal rates.

**Note 5:**

Shares in Indian Co. purchased on 31.12.2024 **should not be transferred within 3 years** from the date of it purchase.

**COMPUTATION OF CAPITAL GAINS – PY 2025-26**  
**(on sale of shares within 3 years)**

|                                  | ₹        |
|----------------------------------|----------|
| Full Value of Consideration      | 4,50,000 |
| <u>Less:</u> Transfer Expenses   | —        |
| Net Consideration                | 4,50,000 |
| <u>Less:</u> Cost of Acquisition | 3,94,000 |
| STCG                             | 56,000   |

In addition to above STCG, exemption in respect of LTCG of 1,44,000 shall be withdrawn and taxable as LTCG in PY 2025-26.

**QUESTION 12:**

Lords Inc., a British company, received, in the P.Y.2024-25, income by way of fees for technical services of ₹3.20 crore from Yamuna Ltd., an Indian company, in pursuance of an agreement between Yamuna Ltd. and Lords Inc. entered into in the year 2013, which is approved by the Central Government. Expenses incurred for earning such income is ₹28 lakhs.

- (i) Examine the taxability of the above sum in the hands of Lords Inc as per the provisions of the Income-tax Act, 1961 and the requirement, if any, to file return of income, assuming that Lords Inc does not have a PE in India.
- (ii) Examine the taxability of the above if India has a DTAA with UK, which provides for taxation of such FTS @ 15%
- (iii) If Lords Inc. has a permanent establishment in India and the contract/agreement with Yamuna Ltd. for rendering technical services is effectively connected with such PE in India, examine the taxability based on the following details provided relating to P.Y.2024-25

| Particulars                                                                                                                                       | Amount      |
|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| 1 Fees for technical services received from Yamuna Ltd.                                                                                           | ₹3.20 crore |
| 2 Expenses incurred for earning such income                                                                                                       | ₹28 lakhs   |
| 3 Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2007 to 2011 | ₹2 crore    |

|   |                                                                                                               |           |
|---|---------------------------------------------------------------------------------------------------------------|-----------|
| 4 | Expenses incurred for earning such income                                                                     | ₹21 lakhs |
| 5 | Expenditure not wholly and exclusively incurred for the business of such PE [not included in (2) & (4) above] | ₹8 lakhs  |
| 6 | Amounts paid by the PE to HO (not in the nature of reimbursement of actual exps.)                             | ₹14 lakhs |

What are the other requirements, if any, under the I.T Act, 1961 in this case?

### **ANSWER:**

#### (i) **Where Lords Inc. does not have a PE in India:**

In this case, fees for technical services of ₹ 3.20 crore would be taxable @20% (plus surcharge @2% and HEC @4%) under **section 115A. No deduction**, however, would be allowed in respect of expenditure of ₹28 lakhs incurred to earn such income.

If TDS @21.216% has been fully deducted, Lords Inc. **need not file its return** of income in India for A.Y.2025-26.

#### (ii) **Where Lords Inc. does not have a PE in India (India – UK DTAA provides for taxation of FTS @15%):**

Section 90(2) makes it clear that where the Central Government has entered into a DTAA with a country outside India, then the provisions of the I.T. Act shall apply to the extent they are **more beneficial** to the assessee. Therefore, if the DTAA provides for a rate lower than 20%, then, the provisions of DTAA would apply. Accordingly, FTS of ₹ 3.20 crore would be taxable @15% (plus surcharge @2% and HEC @4%). If tax is levied at a rate lower than 20% then there is no exemption from filing the return.

#### (iii) **Where Lords Inc. has a PE in India:**

As per **section 44DA**, FTS shall be taxable as per **normal rates** (subject to all deductions) if following **3 conditions** are satisfied (in such case, section 115A i.e. special rate shall not apply):

- a) Foreign Co./NR should have a **PE in India**.
- b) FTS should be effectively **connected with such PE**.
- c) The agreement should be entered **after 31.3.03**.

Accordingly,

FTS from **Yamuna Ltd.** of ₹3.20 crores shall be taxable at **normal rate u/s 44DA i.e. 35%** and **expenses** of ₹28 lakhs incurred for earning such fees is **allowable** as deduction therefrom because the contract/agreement with Yamuna Ltd. is effectively connected with PE in India.

However,

FTS from **Other Domestic companies** of ₹2 crores shall be taxable at **special rate u/s 115A i.e. 20%** and **expenses** of ₹21 lakhs incurred for earning such fees is **not allowable** as deduction therefrom because the contract/agreement with other domestic companies is not effectively connected with PE in India.

Note:

Expenditure of ₹8 lakhs which is not incurred wholly and exclusively for the business of the PE and amount of ₹14 lakhs paid by the PE to the HO (not being in the nature of reimbursement of actual expenses) is not allowable as deduction. Reimbursement by PE of actual exps. incurred by H.O. shall be allowed as deduction.

As per section 44DA, Lords Inc. is required to **maintain books** of account under section 44AA and get the same **audited** under section 44AB and furnish report atleast one month prior to the due date of filing return u/s 139(1).

**QUESTION 13:**

BIG Inc, a notified Foreign Institutional Investor (FII), derived the following incomes for the financial year 2024-25:

- (1) Interest received on investment in Rupee Denominated Bonds of ABC Ltd., an Indian company (investment was made in the F.Y.2020-21) ₹8,50,000
- (2) Dividend from listed shares of Indian companies - ₹6,20,000
- (3) Interest on securities - ₹17,32,000 (Expenses of ₹26,000 has been incurred to earn such income)
- (4) Income from sale of securities and shares:

|                                                      |            |
|------------------------------------------------------|------------|
| (i) <b><u>Bonds of Jay Ltd.</u></b>                  |            |
| Date of purchase 5 <sup>th</sup> May 2017;           |            |
| Date of sale 7 <sup>th</sup> March 25                |            |
| Sale proceeds                                        | ₹47,00,000 |
| Cost of purchase                                     | ₹32,00,000 |
| Cost Inflation Index:                                |            |
| FY 2017-18:272; FY2024-25:363                        |            |
| (ii) <b><u>Listed Shares of E Ltd.</u></b>           |            |
| Date of purchase – 2 <sup>nd</sup> May, 2023;        |            |
| Date of sale – 9 <sup>th</sup> February, 2025        |            |
| Sale Consideration                                   | 12,40,000  |
| Purchase cost                                        | 7,80,000   |
| [STT paid at the time of purchase & sale]            |            |
| (iii) <b><u>Unlisted equity shares of M Ltd.</u></b> |            |
| Date of purchase – 1 <sup>st</sup> July, 2023;       |            |
| Date of sale – 7 <sup>th</sup> March, 2025           |            |
| Sale Consideration                                   | 8,40,000   |
| Purchase cost                                        | 3,72,000   |

Compute the total income and tax liability of the FII, BIG Inc., for the A.Y. 2025-26 as per section 115AD, assuming that no other income is derived by BIG Inc. during the FY.2024-25.

**ANSWER:****STATEMENT OF TOTAL INCOME**

| Particulars                                                 | ₹         | ₹                |
|-------------------------------------------------------------|-----------|------------------|
| Interest on Rupee Denominated Bonds                         | 8,50,000  |                  |
| Dividend income                                             | 6,20,000  |                  |
| Interest on securities<br>[Expense deduction – Not Allowed] | 17,32,000 | 32,02,000        |
| <u>LTCG [bonds of Jay Ltd.]</u>                             |           |                  |
| Sale consideration                                          | 47,00,000 |                  |
| <u>Less: Cost [Indexation – not allowed]</u>                | 32,00,000 | 15,00,000        |
| <u>LTCG [equity shares of E Ltd.]</u>                       |           |                  |
| Sale consideration                                          | 12,40,000 |                  |
| <u>Less: Cost of acquisition</u>                            | 7,80,000  | 4,60,000         |
| <u>STCG [unlisted equity shares of M Ltd.]</u>              |           |                  |
| Sale consideration                                          | 8,40,000  |                  |
| <u>Less: Cost of acquisition</u>                            | 3,72,000  | 4,68,000         |
| <b>Total Income</b>                                         |           | <b>56,30,000</b> |

**STATEMENT OF TAX**

| Particulars                                                                           | ₹               |
|---------------------------------------------------------------------------------------|-----------------|
| Interest on RDB (8,50,000 x <b>5% – Before 1/7/2023</b> )                             | 42,500          |
| Dividend income (6,20,000 x <b>20%</b> )                                              | 1,24,000        |
| Interest on securities (17,32,000 x <b>20%</b> )                                      | 3,46,400        |
| LTCG [bonds of Jay Ltd.] (15,00,000 x <b>12.5%</b> )                                  | 1,87,500        |
| LTCG [eq. sh. of E Ltd. – <b>STT paid</b> ]<br>(4,60,000 – 1,25,000) x <b>12.5%</b> ) | 41,875          |
| STCG [unlisted equity shares] (4,68,000 x <b>30%</b> )                                | 1,40,400        |
|                                                                                       | 8,82,675        |
| <u>Add: Surcharge</u>                                                                 | Nil             |
| <u>Add: HEC @4%</u>                                                                   | +35,307         |
| <b>Tax Liability</b>                                                                  | <b>9,17,982</b> |
| <b>Tax Liability [rounded off]</b>                                                    | <b>9,17,980</b> |

The above special rates for taxation of FII are provided **u/s 115AD**.

**QUESTION 14:**

Wioni Inc., a company incorporated in Country "A". During the Financial Year 2024-25, its shareholders met in India for three times. The first two meetings were held to discuss the modification of rights attached to various classes of shares and the third meeting was held to discuss and decide about sale of companies' assets situated in India. It provides the following additional information pertaining to Financial Year 2024-25:

- (i) Dividend declared by a Miani Inc., a German Company: ₹54,000 (Miani Inc. holds 70% of its total assets in India).
- (ii) Dividend of ₹6,50,000 earned on GDR of Trex Ltd., an Indian company purchased in foreign currency.
- (iii) Dividend of ₹15,50,000 earned on equity shares of Indian companies.
- (iv) Dividend of ₹5,00,000 received from a unit in an International Financial Services Centre.
- (v) Interest of ₹7,00,000 from MMS Ltd. (Mumbai) on loan given in foreign currency on 1/9/22 [rate approved by Govt.]
- (vi) Interest of ₹8,00,000 on Rupee Denominated Bonds of an Indian company listed in IFSC Stock Exchange (issued after 30/6/2023).
- (vii) Interest received from Om Ltd., a unit located in IFSC in respect of monies borrowed by Om Ltd.: ₹15,400.
- (viii) Interest of ₹2,85,000 earned on debentures of 30,00,000 issued on 1<sup>st</sup> August 2024, in consideration of providing technical knowhow to MNO Ltd., an Indian Company, for the purpose of business carried out in India.
- (ix) Service charges @2.5% of the value of plant and machinery leased out to Blue Ltd. (Value of P&M - ₹ 500 Lakhs)
- (x) LTCG of ₹1,32,000 on transfer of unlisted shares of an Indian Company (computed with indexation benefit). If computed without indexation benefit, LTCG would be ₹2,32,000.
- (xi) Business Income of ₹8,50,000 from a unit located in Delhi. The Unit in Delhi is not involved in any manner in provision of technical knowhow/royalty.

You are required to compute the tax liability of Wioni Inc. for the assessment year 2025-26 assuming India has no DTAA with Country "A" and Wioni Inc. has paid ₹10 lakhs as tax in Country "A" in respect of the above-mentioned income earned from India.

**ANSWER:**

Wioni Inc. is a company incorporated in Country "A" (a Foreign Company). It would be resident in India, if its place of effective management is in India.

POEM is in India if **key management and commercial decisions** that are necessary for the **conduct of business** are taken in India. The decisions made by a shareholder for sale of company's assets, or the modification of the rights attaching to various classes of shares or the issue of a new class of shares etc. are decisions typically affecting the existence of the company itself or the rights of the shareholders as such, rather than the conduct of the company's business from a management or commercial perspective. Therefore, such decisions are not relevant for determination of a company's place of effective management. Therefore, the **POEM** of Wioni Inc. is **not in India** and hence, it is a **non-resident** for A.Y.2025-26.

In case of a non-resident, only income which is accrued or received in India will be taxable in India.

**STATEMENT OF TOTAL INCOME**

| Particulars                                                                                                       | ₹                |
|-------------------------------------------------------------------------------------------------------------------|------------------|
| Dividend from Miani Inc., German Co.<br><b>(not accrued in India – not taxable)</b>                               | <b>Nil</b>       |
| Dividend from GDR of Indian Co. (in Foreign Curr.)                                                                | 6,50,000         |
| Dividend from Eq. Shares of Indian Companies                                                                      | 15,50,000        |
| Dividend from IFSC Unit                                                                                           | 5,00,000         |
| Interest from MMS Ltd [loan given before 1/7/2023<br>in foreign currency – Rate approved by Govt]                 | 7,00,000         |
| Interest on RDB listed in IFSC St. Ex.[after 30/6/2023]                                                           | 8,00,000         |
| Interest on loan given to IFSC Unit <b>[Ex.. u/s 10(15)]</b>                                                      | <b>Nil</b>       |
| Interest on Debentures of MNO Ltd [Indian co.]                                                                    | 2,85,000         |
| Fees for Technical Services in the form of debentures<br>[accrued in India b'coz services used for bus. in India] | 30,00,000        |
| Service charges for P&M leased to Blue Ltd.<br>[500 lakhs x 2.5%] – treated as Royalty                            | 12,50,000        |
| LTCG on unlisted shares [without index]                                                                           | 2,32,000         |
| Business income from unit in Delhi [PE]                                                                           | 8,50,000         |
| <b>Taxable Income</b>                                                                                             | <b>98,17,000</b> |

## STATEMENT OF TAX

| Particulars                                                                                                    | ₹         |
|----------------------------------------------------------------------------------------------------------------|-----------|
| Dividend from Miani Inc., German Co.                                                                           | Nil       |
| Dividend from GDR (6,50,000 x <b>10% u/s 115AC</b> )                                                           | 65,000    |
| Dividend from Shares (15,50,000 x <b>20% u/s 115A</b> )                                                        | 3,10,000  |
| Dividend from IFSC Unit (5,00,000 x <b>10% u/s 115A</b> )                                                      | 50,000    |
| Interest from MMS Ltd (loan before 1/7/2023)<br>(Rate approved by Govt.) (7,00,000 x <b>5% u/s 115A</b> )      | 35,000    |
| Interest on RDB listed in IFSC St. Ex. [ <b>after 30/6/23</b> ]<br>(8,00,000 x <b>9% u/s 115A</b> )            | 72,000    |
| Interest on loan given to IFSC Unit — <b>Ex.. u/s 10(15)</b>                                                   | Nil       |
| Interest on Debentures of MNO Ltd [Indian co.]<br>(2,85,000 x <b>35%</b> b'coz not incurred in foreign curr..) | 99,750    |
| Fees for Technical Services in the form of debentures<br>(30,00,000 x <b>20% u/s 115A</b> )                    | 6,00,000  |
| Service charges for P&M leased to Blue Ltd.<br>(12,50,000 x <b>20% u/s 115A</b> ) – treated as Royalty         | 2,50,000  |
| LTCG on unlisted shares (2,32,000 x <b>12.5% u/s 112</b> )                                                     | 29,000    |
| Business income from unit in Delhi (8,50,000 x <b>35%</b> )                                                    | 2,97,500  |
|                                                                                                                | 18,08,250 |
| <u>Add:</u> Surcharge                                                                                          | Nil       |
| <u>Add:</u> HEC @4%                                                                                            | + 72,330  |
| Tax Liability                                                                                                  | 18,80,580 |

**Note 1:** Since the unit in Delhi does not play any role in provision of technical know/royalty, the provisions of **section 44DA** are **not attracted** in this case in respect of fees for technical services and royalty.

**Note 2:** **No credit** will be available in respect of ₹10 lakhs paid as tax in Country "A" since there is **no DTAA** with Country "A" and the provisions of section 91 providing for relief in cases where there is no DTAA will not apply because the **assessee is not a resident** of India.

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# BUSINESS TRUST

## QUESTION 1:

A business trust, registered with SEBI (Real Estate Investment Trusts) Regulations 2014, has provided following particulars of its income for the PY 2024-25:

- 1) Interest from Excel Ltd. ₹ 1 crore.
- 2) Dividend from Excel Ltd. ₹ 2 crores.
- 3) STCG on sale of listed equity shares of Excel Ltd. ₹ 3 crores.
- 4) LTCG on sale of commercial properties ₹ 6 crores.
- 5) Interest from debentures of Zed Ltd. ₹ 1 crore.
- 6) Rental income from investment in real estate assets ₹ 5 crores.
- 7) Dividend from Star Ltd. ₹ 2 crores.

Excel Ltd. is an Indian company [engaged in real estate business] in which business trust holds 70% shares. Excel Ltd. has not opted for new tax regime u/s 115BAA.

Discuss the tax consequences of above income in the hands of business trust and its unit holders assuming that the business trust has distributed ₹ 12 crores to the unit holders during PY 2024-25.

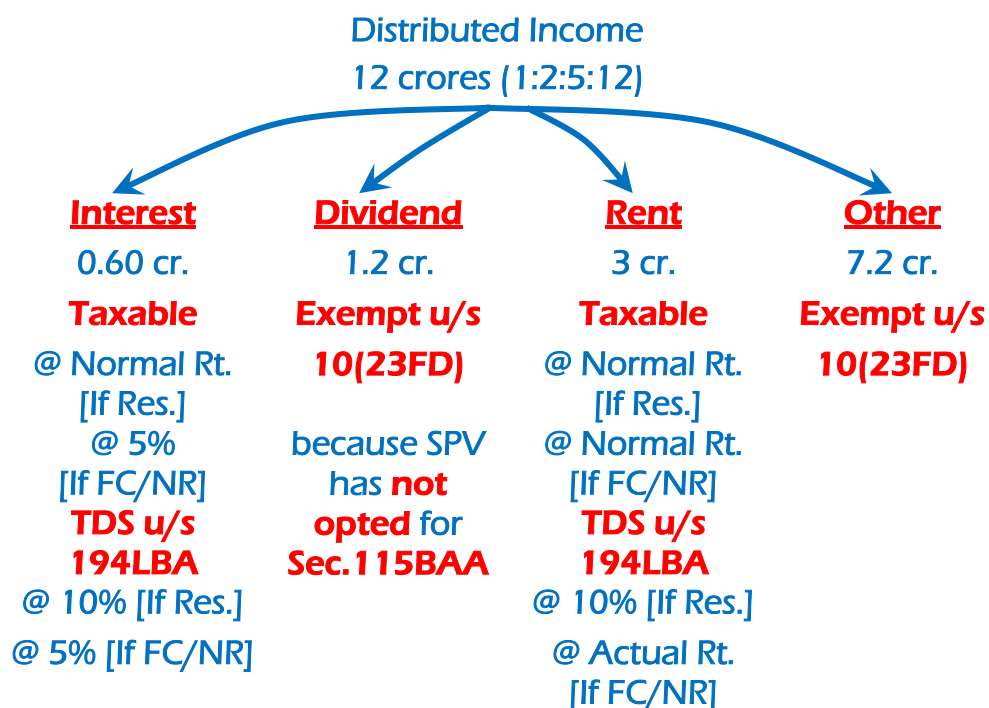
## ANSWER:

### TAX TREATMENT FOR BUSINESS TRUST

Particulars			Amt.
<b>Interest Income:</b>			
From Excel Ltd. [SPV]	Exempt u/s 10(23FC)		<b>1 cr.</b>
<b>Dividend Income:</b>			
From Excel Ltd. [SPV]	Exempt u/s 10(23FC)		<b>2 cr.</b>
<b>Rent Income:</b>			
From Real Estate Assets	Exempt u/s 10(23FCA)		<b>5 cr.</b>
<b>Other Incomes:</b>			
STCG [Eq. Shares]	20% Tax u/s 111A	3 cr.	
LTCG [Comm. Prop..]	12.5% Tax	6 cr.	
Div. from Star Ltd. [Non SPV]	42.74% MMRT	2 cr.	
Int. from Zed Ltd. [Non SPV]	42.74% MMRT	1 cr.	<b>12 cr.</b>
<b>TOTAL INCOME</b>			<b>20 cr.</b>

**TAX TREATMENT FOR UNIT-HOLDERS**

Out of the total income of Rs. 20 crores, the business trust has distributed Rs. 12 crores. This distributed income of Rs. 12 crores is assumed to be earned by the unit-holders in the **same nature** and in the **same proportion** in which business trust has earned it. Since the business trust has earned the **interest** from SPV, **dividend** from SPV, **rent** and **other** income in the ratio of **1 : 2 : 5 : 12** [see above working], the unit-holders are assumed to have earned the distributed income of Rs. 12 crores in the same ratio. Tax treatment of such distributed income is as follows:



**QUESTION 2:**

Mr. Rajesh is a resident unitholder of Shipra Ltd. Shipra Ltd. is a Real Estate Investment Trust. (REIT), which holds 100% shareholding in GPL Ltd., an Indian company.

Mr. Rajesh acquired 10% units in Shipra Ltd. in the year 2021-22 at an issue price of ₹20,00,000. The particulars of income of Shipra Ltd. for the P.Y. 2024-25 are given below:

Particulars	Amount
Dividend Income from GPL Ltd.	₹ 2 crores
Interest Income from GPL Ltd.	₹ 3 crores
STCG on sale of developmental properties	₹ 1 crore
Other receipts [in the nature of loan repayment]	₹ 2.8 crores

GPL Ltd. does not exercise option under section 115BAA for A.Y. 2025-26. Shipra Ltd. distributed 90% of the above amounts to the unit-holders during the year.

Compute total income and tax payable by Mr. Rajesh for the A.Y. 2025-26, assuming that he has not shifted out of default tax regime.

What would be Rajesh's total income if, during PY 2022-23, he received 24,80,000 from Shipra Ltd. which was not in the nature of income for Shipra Ltd.

**ANSWER:****COMPUTATION OF TOTAL INCOME (U/H – Rajesh)**

	Particulars	₹
(i)	Dividend income from GPL Ltd. (SPV)	—
	<p><b>Exempt u/s 10(23FD)</b> since GPL Ltd. (<b>SPV</b>) has <b>not exercised</b> the option u/s <b>115BAA</b>.</p> <p>Accordingly, ₹ 18 lakhs (10% of ₹ 1.80 crore, being 90% of ₹ 2 crore), being the dividend component of income received by Mr. Rajesh from Shipra Ltd. is not taxable in his hands.</p>	
(ii)	Interest income from GPL Ltd. (SPV)	27,00,000
	<p>As per <b>sec.115UA</b>, interest income distributed to unit holders would be taxable for the unit holders.</p> <p>Accordingly, ₹ 27 lakhs i.e., 10% of ₹ 2.7 crores (90% of ₹ 3 crores), being the interest component of income distributed to Mr. Rajesh, is taxable in his hands.</p>	
(iii)	STCG on sale of developmental properties	—
	<p><b>Exempt u/s 10(23FD)</b> [STCG on sale of development properties is taxable at maximum marginal rate of 42.74% in the hands of the REIT].</p> <p>No tax liability arises in the hands of Mr. Rajesh on ₹ 9 lakh (10% of ₹ 90 lakh, being 90% of ₹ 1 crore).</p>	
(iv)	Other Receipts	5,20,000
	<p><b>Taxable u/s 56(2)(xii)</b> for the unit holder as Income from Other Sources</p> <p>Taxable amount = Amt distributed till date – Issue Price – Amt Taxed earlier = (2.8 cr. x 90% x 10%) – 20,00,000 = 5,20,000</p>	
	Total Income	32,20,000

**COMPUTATION OF TAX PAYABLE**

Particulars	₹	₹
Upto ₹ 3,00,000	Nil	
₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%]	20,000	
₹ 7,00,000 – ₹ 10,00,000 [₹ 3,00,000 @ 10%]	30,000	
₹ 10,00,000 – ₹ 12,00,000 [₹ 2,00,000 @ 15%]	30,000	
₹ 12,00,000 – ₹ 15,00,000 [₹ 3,00,000 @ 20%]	60,000	
₹ 15,00,000 – ₹ 32,20,000 [₹ 17,20,000 @30%]	5,16,000	6,56,000
<u>Add:</u> Health and education cess @ 4%		+ 26,240
Tax liability		6,82,240
<u>Less:</u> Tax deducted at source		
- u/s 194LBA @ 10% by Shipra Ltd. in respect of interest income from SPV		- 2,70,000
Tax payable		4,12,240

Situation 2:**COMPUTATION OF TOTAL INCOME (U/H – Rajesh)**

	Particulars	₹
(i)	Dividend income from GPL Ltd. (SPV)	—
(ii)	Interest income from GPL Ltd. (SPV)	27,00,000
(iii)	STCG on sale of developmental properties	—
(iv)	Other Receipts	25,20,000
	<b>Taxable u/s 56(2)(xii)</b> for the unit holder as Income from Other Sources	
	Taxable amount = Amt distributed till date [50 L] – Issue Price [20 L] – Amt Taxed earlier [4.8 L] = ₹25,20,000	
	Total Income	52,20,000

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# INVESTMENT FUND

## **QUESTION 1:**

Income of Investment Fund:

|                         | ₹           |
|-------------------------|-------------|
| Short term capital loss | (65,00,000) |
| Business Loss           | (89,00,000) |
| LTCG                    | 45,00,000   |
| Interest Income         | 84,00,000   |

Discuss the tax treatment of above incomes/losses in the hands of Investment Fund and its Unit holders.

## **ANSWER:**

### TAX TREATMENT

|                               | Investment Fund |                  | Unit Holders     |
|-------------------------------|-----------------|------------------|------------------|
| LTCG                          | 45,00,000 Ex.*  |                  |                  |
| <u>Less:</u> STCL set-off     | (65,00,000)     | —                | (20,00,000)      |
|                               |                 |                  | <b>To be C/f</b> |
| IFOS (Interest Income)        | 84,00,000 Ex.*  |                  |                  |
| <u>Less:</u> Bus.. Loss S/off | (89,00,000)     | (5,00,000)       | —                |
|                               |                 | <b>To be C/f</b> |                  |

\* Normally, losses cannot be set off against exempt incomes.

However, here STCL and business loss of ₹ 65L and ₹ 89L can be set-off against Exempt LTCG and Exempt Interest income respectively because the true nature of LTCG and interest income is taxable but its taxability is passed on to the unit holders.

**Carry forward** of Net STCL **after setting off** LTCG is **passed to the U/H** [i.e. ₹ 20,00,000].

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# CHARITABLE TRUST

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## **QUESTION 1:**

Tulsi Foundation, a public charitable trust, registered under section 12AB, runs a hospital. It furnishes you the following information for the year ended 31st March, 2025:

- (i) Income from property held under trust ₹ 80 Lakhs and income from incidental business ₹ 10 lakhs.
- (ii) Voluntary contributions received from public amounted to ₹ 40 lakhs. It includes corpus donation of ₹ 5 lakhs and anonymous donation ₹ 10 lakhs.
- (iii) ₹ 44 lakhs was applied for charitable purpose [including ₹ 4 lakhs paid to a contractor in cash for the maintenance of the hospital]. Amount applied includes purchase of new computers and software for ₹ 15 lakhs for the hospital out of loan taken from Saraswat Bank.
- (vi) The trust gave donation of ₹ 12 lakhs to Balaji trust, registered u/s 12AB.  
This includes 2 lakhs as corpus donation.
- (v) Income of 2,00,000 could not be applied for charitable purpose as the same was received on the last day of the PY.
- (vi) Income of 5,00,000 was accumulated for future charitable purpose to be utilised within 4 years. The said amount is invested in modes specified u/s 11(5).
- (vii) Income of 4,00,000 accrued in PY 2021-22 and received in PY 2023-24 is not yet applied.
- (viii) Income of 6,00,000 which was accumulated in PY 2022-23 for construction of school within 3 years is misutilised during PY 2024-25.

Compute the total income and tax liability of the trust for the A.Y. 2025-26.

**ANSWER:****COMPUTATION OF TOTAL INCOME OF TULSI FOUNDATION**

|                                                                                          | ₹<br>(lakhs) |
|------------------------------------------------------------------------------------------|--------------|
| Income from property held under trust                                                    | 80           |
| Income from incidental business                                                          | 10           |
| Donations                                                                                |              |
| → Normal donations [₹40L–5L Corpus– 10L Anony..]                                         | 25           |
| → Corpus donation [Exempt - assuming invested]                                           | Nil          |
| → Anonymous donation to the extent of 5% of total donations or ₹1L [whichever is higher] | 2            |
|                                                                                          | 117          |
| <u>Less:</u> 15% Exempt                                                                  | (17.55)      |
|                                                                                          | 99.45        |
| <u>Less:</u> Applied [₹44L – 4L in cash – 15L out of loan]                               | (25)         |
| <u>Less:</u> Donation to other trust                                                     | (8.50)       |
| 85% of [₹12L – 2L Given as Corpus donation]                                              |              |
| <u>Less:</u> Not applied [b'coz received on last day]                                    | (2)          |
| <u>Less:</u> Accumulated for future charitable purpose                                   | (5)          |
|                                                                                          | 58.95        |
| <u>Add:</u> Exemption withdrawn                                                          |              |
| - Deemed Appln of PY 21-22                                                               | + 4          |
| [Taxable u/s 115BBI]                                                                     |              |
| - Accumulated Income of PY 22-23 [misutilised]                                           | + 6          |
| [Taxable u/s 115BBI]                                                                     |              |
| <u>Add:</u> Excess Anonymous Donation [₹10L – 2L]                                        | + 8          |
| [Taxable u/s 115BBC]                                                                     |              |
| <b>TAXABLE INCOME</b>                                                                    | <b>76.95</b> |

**COMPUTATION OF TAX**

|                     | Income Specified u/s 115BBI | Anonymous Donation u/s 115BBC | Balance Income            |
|---------------------|-----------------------------|-------------------------------|---------------------------|
| Taxable Income      | 10,00,000                   | 8,00,000                      | 58,95,000                 |
| Tax on above        | 3,00,000<br>[30%]           | 2,40,000<br>[30%]             | 15,81,000<br>[Slab Rates] |
| <u>Add: SC @10%</u> |                             | 21,21,000<br>+ 2,12,100       |                           |
| <u>Add: HEC @4%</u> |                             | 23,33,100<br>+ 93,324         |                           |
| Tax Payable         |                             | 23,74,944                     |                           |

**QUESTION 2:**

Samaj Seva Public Charitable Trust runs a hospital cum Rehabilitation Centre to treat patients suffering from leprosy. The trust is registered u/s 12AB and following cash system of accounting, furnishes the following information: –

- (i) Gross Receipts from Hospital ₹ 200 Lakhs
- (ii) Gross Receipts from Rehabilitation ₹ 36 lakhs
- (iii) Fees not realized from patients as at 31/3/25 ₹ 135 Lakhs
- (iv) Grant received from State Govt. ₹ 7.50 lakhs
- (v) Voluntary contributions ₹ 28 Lakhs (including Corpus Donations ₹ 10 lakhs and Anonymous donations received ₹ 8 Lakhs).
- (vi) Administration Expenses paid for hospital ₹ 160 Lakhs. This includes payment of ₹ 12 lakhs to resident doctors & contractors on which TDS has not been deducted.
- (vii) Administration Exps paid for Rehab. Centre ₹ 18 Lakhs. This includes ₹ 2 lakhs applied for the benefit of trustee.
- (viii) Acquired a Bldg. for ₹ 105 lakhs on 1/5/2024 for Rehab. Centre out of borrowings of ₹ 100 lakhs.

- (ix) Amount donated to Jan Kalyan Trust registered u/s 12AB running similar hospital in Bihar ₹ 11 Lakhs (includes Corpus donation of ₹ 5 Lakhs from hospital receipts).
- (x) Repayment of loan taken for construction of Rehab. Centre - ₹ 2 Lakhs.
- (xi) The trust set apart ₹ 25 lakhs for acquiring equipment for Operation Theatre. Form 10 was filed and the A.O. was duly informed. Investment made in prescribed modes u/s 11(5) amounted to ₹ 15 lakhs upto 31/03/2025.
- (xii) Excess expenditure over income in the PY 2023-24 ₹ 13 lakhs.

Compute the Total Income of the trust and its Income Tax Liability for the A.Y. 2025-26.

**ANSWER:**

**STATEMENT OF TOTAL INCOME**

| Particulars                                                                                                         | ₹             |
|---------------------------------------------------------------------------------------------------------------------|---------------|
| Gross Receipts from Hospital                                                                                        | 2,00,00,000   |
| Gross Receipts from Rehabilitation                                                                                  | 36,00,000     |
| Fees not realized from patients<br>[not considered as trust follows cash system]                                    | Nil           |
| Grant Received from State Government                                                                                | 7,50,000      |
| Corpus Donation<br>[Exempt assuming invested in prescribed mode]                                                    | Nil           |
| Anonymous Donations to the extent of:<br>(↑ 5% of Total donations i.e. 5% of ₹28L* )<br>( ₹ 1,00,000 )              | 1,40,000      |
| * Total donations excluding Govt Grant<br>Alternatively, 5% can be taken on<br>Total donations including Govt Grant |               |
| Other Donations (₹28L–10L Corpus–8L Anony..)                                                                        | 10,00,000     |
|                                                                                                                     | 2,54,90,000   |
| (-) 15% Exempt                                                                                                      | (38,23,500)   |
|                                                                                                                     | 2,16,66,500   |
| (-) Admin Expenses for Hospital<br>(160L – 3.6L i.e. 30% of 12L applied w/o TDS)                                    | (1,56,40,000) |

|                                                                        |                  |
|------------------------------------------------------------------------|------------------|
| (-) Admin Expenses for Rehab<br>(18L – 2L for benefit of trustee)      | (16,00,000)      |
| (-) Purchased Buildg. for Rehab<br>(105L – 100L from loan money)       | (5,00,000)       |
| (-) Amount donated to other trust<br>85% of (11L – 5L Given as corpus) | (5,10,000)       |
| (-) Repay.. of loan taken for rehab centre                             | (2,00,000)       |
| (-) Income accumulated (25L – 10L not as per I.T.Act)                  | (15,00,000)      |
| (-) Excess application of past [not allowed]                           | Nil              |
|                                                                        | 17,16,500        |
| (+) Excess Anonymous donation (₹8 L – 1.40 L)                          | + 6,60,000       |
| <b>Taxable Income</b>                                                  | <b>23,76,500</b> |

Out of above total income:

- ⇒ Income of ₹ 2L applied for the benefit of trustee and income of ₹ 10L accumulated not in accordance with I.T. Act shall be taxable @30% u/s 115BBI.
- ⇒ Excess anonymous donation will be taxable @30% u/s 115BBC.

### COMPUTATION OF TAX

|                     | Income specified<br>u/s 115BBI | Excess<br>Anonymous<br>Donation u/s<br>115BBC | Balance<br>Income      |
|---------------------|--------------------------------|-----------------------------------------------|------------------------|
| Taxable Income      | 12,00,000                      | 6,60,000                                      | 5,16,500               |
| Tax on above        | 3,60,000<br>[30%]              | 1,98,000<br>[30%]                             | 15,800<br>[Slab Rates] |
| <u>Add: SC</u>      |                                | 5,73,800<br>+ Nil                             |                        |
| <u>Add: HEC @4%</u> |                                | 5,73,800<br>+ 22,952                          |                        |
| <b>Tax Payable</b>  |                                | <b>5,96,752</b>                               |                        |

**QUESTION 3:**

Seva Niketan, a charitable trust registered under section 12AB runs an educational institution, which is engaged solely in education and a hospital for treatment of persons suffering from mental disorder solely for philanthropic purposes.

The trust furnished the following information:

- (i) The total receipts of the trust for the P.Y. 2024-25 for educational institution is ₹ 3.10 crores and for the hospital it is ₹ 3.40 crores.
- (ii) Voluntary contributions [included in (i) above] received for the P.Y. 2024-25 from the public amounted to ₹ 105 lakhs. It includes corpus donations of ₹ 55 lakhs (for purchase of building for the trust) and anonymous donations of ₹ 20 lakhs.
- (iii) During the P.Y. 2024-25, computers purchased for ₹ 80 lakhs out of:
  - Corpus fund mentioned in (ii) above ₹ 30 lakhs.
  - Loan – ₹ 25 lakhs
  - Voluntary contributions - ₹ 25 lakhs
- (iv) Corpus donations received during the current year are invested in –
  - Post Office Savings Accounts ₹ 10 lakhs
  - Canara Bank as Fixed deposits ₹ 5 lakhs
  - Non-banking Financial Corporation (NBFC) ₹ 10 lakhs
- (v) Repaid loan of ₹ 10 lakhs which was utilized for purchase of furniture during P.Y. 2020-21.
- (vi) Corpus fund of ₹ 10 lakhs and ₹ 5 lakhs utilised for purchase of building during the P.Y. 2021-22 and P.Y. 2022-23, respectively – Deposited back in post office savings account during PY 2024-25.
- (vii) Payment of ₹ 4 lakhs to contractor during P.Y. 2023-24. TDS on the same has been deducted and deposited in December 2024.
- (viii) Payment of professional fees of ₹ 2 lakhs by crossed cheque.
- (ix) Income of ₹ 12 lakhs could not be applied during the P.Y. 2024-25 due to genuine reason. The trust has furnished Form No. 9A in this regard on 31<sup>st</sup> October, 2025.

- (x) Income of 7 lakhs was applied for the benefit of trustee's son.
- (xi) Operating Expenses of the trust during the P.Y. 2024-25 amounted to ₹ 240 lakhs out which ₹ 8 lakhs was outstanding.
- (xii) Acquired a building for ₹ 80 lakhs on 1.6.2024 for expansion of hospital (cost of land included therein ₹ 50 lakhs). Stamp duty value of the land and building ₹ 210 lakhs.
- (xiii) Excess of expenditure over income in the P.Y. 2023-24 ₹ 2 lakhs.
- (xiv) Amount paid to another trust registered u/s 12AB by way of donation of ₹ 10 lakhs. Out of the said amount ₹ 2 lakhs was given as corpus donations.
- (xv) ₹ 6 lakhs, being the amount set apart in the P.Y.2023-24 by the trust for charitable purposes u/s 11(2) utilized in the P.Y. 2024-25 for making donation to another charitable trust, whose object is also education.
- (xvi) ₹ 90 lakhs – accumulated for future charitable purpose. Statement in Form No. 10 was furnished on 24<sup>th</sup> Oct., 2025.
- Compute the total income of the trust for A.Y. 2025-26.

**ANSWER:**

**STATEMENT OF TOTAL INCOME**

| Particulars                                        | ₹           |
|----------------------------------------------------|-------------|
| <b>Incomes eligible for exemption:</b>             |             |
| Receipts other than donations [3.1+ 3.4 – 1.05cr.] | 5,45,00,000 |
| Donations:                                         |             |
| → Corpus donation                                  | —           |
| [₹15L invested in prescribed mode i.e. P.O./Bank]  |             |
| → Anonymous Donation to the extent of:             | 5,25,000    |
| (↑ 5% of Total donations i.e. 5% of ₹105L)         |             |
| ( ₹ 1,00,000 )                                     |             |
| → Other Donations                                  | 30,00,000   |
| (105L – 55L Corpus – 20L Anonymous)                |             |
|                                                    | 5,80,25,000 |
| <b>Less: 15% Exempt</b>                            | (87,03,750) |
|                                                    | 4,93,21,250 |

|                                                             |                   |
|-------------------------------------------------------------|-------------------|
| <b>Less: Applied:</b>                                       |                   |
| Purchase of computers out of Corpus donation                | —                 |
| Purchase of computers out of Loan                           | —                 |
| Purchase of computers out of donations                      | - 25,00,000       |
| Corpus utilised in P.Y. 21-22 deposited back in P.O.        | - 10,00,000       |
| Corpus utilised in P.Y. 22-23 deposited back in P.O.        | - 5,00,000        |
| Repayment of loan used in P.Y. 20-21                        | — <b>(Note 1)</b> |
| Paid to contractor – disallowed in P.Y. 23-24 (30%)         | - 1,20,000        |
| Payment of professional fees by crossed cheque              | —                 |
| Applied for the benefit of trustee's son                    | —                 |
| Operating expenses paid [240 L – 8 L]                       | - 2,32,00,000     |
| Acquired building at low price [sec 56(2)(x) – N.A.]        | - 80,00,000       |
| Donation to other trust [10 L – 2 L] x 85%                  | - 6,80,000        |
| Excess application of P.Y.2022-23                           | —                 |
|                                                             | 1,33,21,250       |
| <b>Less: Not Applied</b> because <b>not received</b>        | —                 |
| <b>Less: Not Applied (other reason) (Note 2)</b>            | - 12,00,000       |
| <b>Less: Accumulated</b> for future purpose <b>(Note 2)</b> | - 90,00,000       |
|                                                             | 31,21,250         |
| <b>Add: Incomes not eligible for exemption:</b>             |                   |
| Corpus donation not invested [30L + 10L]                    | + 40,00,000       |
| Accumulated in PY 2023-24 misused                           | + 6,00,000        |
| Excess Anonymous donation (₹20 L – 5.25 L)                  | + 14,75,000       |
| <b>Taxable Income</b>                                       | <b>91,96,250</b>  |

**Note 1:**

**Before 1/4/2021**, loan and corpus fund used for charitable purpose was treated as application. Hence, repayment of such loan and redeposit of such corpus cannot be claimed as application again.

**Note 2:**

Statement of Accumulation in Form No.10 and Statement of Deemed application in Form No. 9A should be furnished **at least 2 months prior to the due date** of filing return. However, as per CBDT circular, exemption for deemed application and accumulation cannot be denied if the Form 10/9A is furnished **up to the due date** of filing return.

**QUESTION 4:**

The Balance Sheet of M/s Shanti Niketan Charitable Trust as on 31.1.25, and its other information is given hereunder:

| Particulars                                    | ₹ (lakhs) |
|------------------------------------------------|-----------|
| <b><u>Liabilities</u></b>                      |           |
| Corpus fund                                    | 800.00    |
| Sundry creditors                               | 335.00    |
| Total                                          | 1135.00   |
| <b><u>Assets</u></b>                           |           |
| Land (purchased in the year 2011)              | 100.00    |
| Land and buildings purchased in the year 2017  | 800.00    |
| 2000 quoted equity shares in X Ltd.            | 20.00     |
| 15,000 unquoted equity shares in Z Pvt. Ltd.   | 1.50      |
| Balance in fixed deposits with scheduled banks | 200.00    |
| Cash in hand                                   | 12.00     |
| Tax Deducted at Source                         | 1.50      |
| Total                                          | 1135.00   |

The application for registration was made on 15.4.2014 and registration was granted on 1.7.2014. However, the registration was cancelled on 31.1.2025. An appeal was preferred against the order of cancellation, which was dismissed by the Appellate authorities. The order confirming the cancellation was received on 31.3.2025.

**Additional Information:**

- (1) SDV of the land (purchased in 2011) as on 31.1.2025 was ₹ 120 lakhs but if sold in the open market, the property would fetch ₹ 250 lakhs as per a registered valuer's certificate.
- (2) Land and building (purchased in 2017), if sold in the open market will fetch ₹ 1000 lakhs as per a registered valuer's certificate. SDV as on 31.1.2025 was ₹ 1050 lakhs.
- (3) The highest and lowest value per share of X Ltd. traded on 31.1.2025 was ₹ 1099 and ₹ 1051 respectively.
- (4) Sundry Creditors include Rs. 30 lakhs provided on estimated basis to contractors for which no bills are received.

- (5) With respect to Z Pvt. Ltd, following additional information is available as on 31.1.2025:
- 1,00,000 equity shares of Rs. 10 each
  - Total book value of assets [other than bullion and jewellery] is Rs. 60 lakhs
  - Market value of bullion and jewellery is Rs. 30 lakhs
  - Liabilities amounting to Rs. 35 lakhs

Based on the above information, calculate the exit tax payable by the Charitable Trust and state the latest day on which the said tax must be paid. Give working notes wherever necessary.

**Answer:**

As per section 115TD, the accreted income of M/s Shanti Niketan Charitable Trust, registered under section 12AA would be chargeable to tax @ 34.944% [30% plus surcharge @ 12% plus cess @ 4%] for the reason of cancellation of registration.

**COMPUTATION OF EXIT TAX**

|                                                                                                                                |                    |
|--------------------------------------------------------------------------------------------------------------------------------|--------------------|
| <b>S</b> hares & securities [Quoted eq. shares of X Ltd.]<br>Avg of stock ex. price (2,000 shares x 1075)                      | 21,50,000          |
| <b>U</b> nquoted equity shares of Z Pvt Ltd.<br>( <b>S</b> + <b>U</b> + <b>J</b> 30 L + <b>I</b> + <b>O</b> 60 L – 35 L) x 15% | 8,25,000           |
| <b>B</b> usiness undertaking of trust                                                                                          | Nil                |
| <b>I</b> mmovable property                                                                                                     |                    |
| Land purchased in 2011 [before regn.]                                                                                          | Nil                |
| Land & Building purchased in 2017<br>(Higher of FMV 1,000 L & SDV 1,050 L)                                                     | 10,50,00,000       |
| <b>O</b> ther Assets (except Misc. exp. & Adv. tax/TDS)                                                                        |                    |
| FD with Scheduled Banks                                                                                                        | 2,00,00,000        |
| Cash in hand                                                                                                                   | 12,00,000          |
| <b>Less: Liabilities</b>                                                                                                       |                    |
| Sundry creditors (other than unascertained liab)                                                                               | - 3,05,00,000      |
|                                                                                                                                | <b>9,86,75,000</b> |
| Exit Tax @34.94% on above                                                                                                      | <b>3,44,77,045</b> |

The latest day on which such tax must be paid is 14<sup>th</sup> April, 2025, being 14 days from 31.3.2025, the date on which the order confirming the cancellation is received.

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