CA Final Super 18 Q's, Important Case Laws & Priority Q's from Compiler by CA BB for MAY-24

Question 1 **[Topic: PGBP, Total Income]**

Statement of Profit and Loss account of BB Industries Ltd. is a closely held company engaged in production and marketing of diversified products, shows a net profit (before tax) of ₹72,00,000 for the financial year ended 31st March, 2024 after charge of the following items:

A: Items debited to the Statement of Profit and Loss:

(i) Depreciation as per Companies Act, 2013: ₹24,00,000

(ii) Interest amounting to ₹60,000 for short payment of advance tax paid as per section 234B relating to the assessment year 2022-23.

(iii) Interest and borrowing costs amounting to ₹9,50,000 and ₹7,00,000 though not meeting the criteria for recognition as a component of cost, included in cost of opening and closing inventory, respectively.

(iv) Expenditure of ₹41,000 paid in cash comprising of ₹22,000 directly paid to producer of dairy farming products and ₹19,000 paid towards printing and stationery items to a trader.

(v) ₹3,50,000 paid to a contractor for carrying out repair work at factory premises. Tax was not deducted at source on this payment.

(vi) ₹35,000 towards expenditure for earning income from transfer of carbon credits.

(vii) Contribution to electoral trust: ₹3,00,000 paid by way of cheque.

(viii) Expenditure towards advertising charges in a brochure of a political party registered u/s 29A of Representation of People Act, 1951: ₹40,000 paid by way of cheque.

(ix) Interest on term loans obtained from Cooperative Bank is ₹ 2,60,000. Interest ₹ 1,60,000 not paid before the due date of filing of return of income (due date being 30.10.2024) & on 12.12.23 it issued debentures to Co. op bank in lieu of the outstanding interest of 1,00,000 and deducted the said interest while computing profits and gains of business of A.Y.2024-25.

(x) Raw material of ₹ 5,00,000 purchased on 17th March, 2024 from Mr. Kuku (a small enterprise as per MSME Act), payment made to Kuku on 15th April, 2024. There is no written agreement between parties related to payments.

(xi) Actual contribution to the pension scheme of employees: ₹1,50,000

(xii) The amount of employee benefits includes a sum of ₹4,41,000 in respect of bonus payable to employees. In the previous year 2023-24, the company and its employee's union had a dispute over payment of bonus. In order to avoid late payment of bonus, the company formed a trust and transferred the amount of bonus payable to employees to the said trust. The dispute was settled in the month of November, 2024 and the trust paid the amount of bonus to the employees on 30th December, 2024

(xiii) Other expenses include ₹1,45,000 as expenditure incurred on CSR.

(xiv) During the previous year 2023-24, the assessee entered into an agreement with Bat Ltd. As per the agreement, Bat Ltd. has agreed to not to engage in the business of printing. The assessee paid ₹11 lakhs without deduction of tax at source on 1-6-2023 as non- compete fee.

(xv) In order to expand its overseas business, the company planned online advertisement campaign for which it engaged Fastex Inc., a London based company not having any PE in India, and paid ₹ 5 lakhs for services availed. No Tax/Tds was deducted by the company.

(xvi) The company has made provision for Gratuity based on actuarial valuation of ₹ 5 lacs. Actual gratuity paid amounting to ₹ 1,20,000 during financial year 2023-24 was debited to provision of Gratuity Account.

(xvii) The company has debited to Profit and Loss account one time Franchise fees of ₹ 20 lakh paid to M/s. Robert Inc., a foreign company, for obtaining franchise on 16th August, 2023. The relevant amount of TDS has been deducted and deposited by the company in time.

(xviii) The company lost cash of ₹ 12,00,000 due to theft when it was withdrawn from the bank and taken to administrative office. It is not insured and hence, fully charged as revenue expenditure.

(xix) Employer's contribution to EPF of ₹2 lakhs for the month of March, 2024 were remitted on 8th June 2024.

(xx) The company had provided an amount of ₹25 lakhs being sum estimated as payable to workers based on agreement to be entered with the workers union towards periodical wage revision once in 3 years. The provision is based on a fair estimation on wage and reasonable certainty of revision once in 3 years.

(xxi) Expense of ₹10 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a brewery project to be set up. The negotiation did not succeed and the project was abandoned.

(xxii) ₹6 lakhs paid to H Ltd. towards feasibility study conducted for examining proposals for technological advancement relating to existing business; however, the project was abandoned without creating a new asset.

(xxiii) It incurred ₹ 3 lakhs as expenditure for public issue of shares. The public issue could not materialize due to non-clearance by SEBI & ₹ 2 lakhs as expenditure for issue of Bonus shares to existing shareholders.

B: Items credited to the Statement of Profit and Loss:

(i) Unrealised rent of ₹3,80,000 pertaining to financial year 2020-21 & 2021-22 recovered during the year in respect of a commercial property owned by the company, which was sold by the company on 23.03.2023.

(ii) Dividends from a foreign company including [the expenditure of ₹20,000 (collection charges)] incurred on earning such dividends: ₹1,60,000

(iii) Profit of ₹3,00,000 received from hedging contract entered into for meeting out loss in foreign currency payments towards an imported printing machinery valued at ₹95 lakhs used in printing business, installed on 15th December, 2023 and put to use from that date.

(iv) Interest from banks on fixed deposits net of TDS at 10% : ₹1,35,000

(v) Gross revenue includes ₹5,00,000 in respect of a service contract for marketing of some products of Nitup Ltd. for the period from 1st March, 2024 to 30th April, 2024. The expenses incurred on the project till 31-3-2024 amounts to ₹1,27,000 which is included in other expenses and debited to P&L A/c.

(vi) Industrial power tariff concession of ₹ 5.40 lakhs, received from Government was credited to Statement of Profit and Loss.

(vii) The company had made a sale of for ₹ 20 Lakhs to M/s A. Co Engineers a sole proprietary concern, on 10-10-2022. On 01-02-2023 ₹ 10 lakhs were written off in the books as bad debts. Due to the demise of the sole proprietor, the company could collect only ₹ 7 Lakhs towards the final settlement on 01-03-2024. The amount recovered was shown as Bad debts recovered and credited to Statement of Profit and Loss.

(viii) Trade creditors ₹5,00,000 were outstanding for more than 5 years and there is no business relationship with them. The amount was unilaterally transferred to credit of statement of profit and loss.

Additional Information:

(1) Depreciation as per Income-tax Rules: ₹28,00,000 exclusive of depreciation on the imported printing machine referred to in item B (iii)

(2) Expenditure pertaining to previous financial year allowed on due basis, but paid in current financial year in cash on 18.01.2024: ₹35,000

(3) Audit fee for the previous year 2022-23: ₹75,000. TDS deducted but not paid in the relevant previous year. However, TDS was paid on 31.12.2023.

(4) Income from transfer of Carbon Credits amounting to ₹4,00,000 included in Net Profit (before tax).

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

(6) In respect of ongoing marketing 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 2020. In the previous year 2023-24, the court gave its judgement in favour of the company. The company has received ₹2,00,000 till 31-03-2024. Gross receipt in the profit and loss account includes ₹2,00,000 in respect of such claims.

(7) The company has obtained a loan of ₹ 5 lakhs from Manu Textiles Private Limited in which it holds 16% voting rights. The accumulated profits of Manu Textiles Private Limited on the date of receipt of loan was ₹ 2 lacs.

(8) The assessee executed one contract of the value of ₹15 lakhs and completed in current year. 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.

(9) Grant received from State Government for acquisition of generator ₹10 lakhs. The generator was acquired and put to use for printing business on 01.06.2023 for ₹35 lakhs. A sum of ₹5 lakhs was paid as advance by cash to the supplier of generator.

Further following expenses related to acquisition of asset –

(a) Transportation charges paid of transporter ₹ 25,000 in cash

(b) Installation charges paid to Mr. Ali ₹ 35,000 through BHIM UPI

This adjustment is not recorded in books of account.

(10) During the year, 1,00,000 equity shares of ₹10 each was 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.

(11) An asset was purchased for ₹ 6,00,000 on 17-11-22 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 05-09-2023 for a consideration of ₹ 8,00,000.

(12) Employees contribution to EPF of ₹ 2 lakhs recovered from their salaries for the month of March 2024 and shown in the Balance Sheet under the head Sundry Creditors was remitted on 31st May, 2024.

Compute the total income of BB Industries Ltd., for assessment year 2024-25. Give brief reasons for the treatment given to each of the items taken into consideration in computation of income of the company. Ignore the provisions of section 115BAA & MAT.

Answer

Computation of Total Income of BB Industries Ltd. for the A.Y. 2024-25

	Particulars	Amount (₹)		
I	**Income from house property**			
	Unrealised rent [Taxable u/s 25A, even if BB Industries Ltd. is no longer the owner of commercial property]		3,80,000	
	Less: 30% of above		1,14,000	**2,66,000**
II	**Profits and gains of business and profession**			
	Net profit as per the statement of profit and loss		72,00,000	
	***Add:* Items debited but to be considered separately or to be disallowed**			

	Particulars	Amount (₹)		
	(i) Depreciation as per Companies Act, 2013	24,00,000		
	(ii) **Interest u/s 234B for short payment of advance tax** [Any interest payable for default committed by assessee for discharging his statutory obligations under Income-tax Act, 1961 which is calculated with reference to the tax on income is not allow- able as deduction u/s 40(a)(ii). Since the same has been debited to statement of profit and loss, it has to be added back]	60,000		
	(iii) **Interest and borrowing cost included in Opening and Closing inventory** [As per ICDS II, Interest and borrowing cost which does not meet the criteria for recognition as a component of the cost, cannot be included in the cost of inventory. Since the same have been included in the opening and closing inventory, the difference between ₹9,50,000, being interest included in opening inventory – ₹7,00,000, being interest included in closing inventory, has to be added back]	2,50,000		
	(iv) **Cash payment in excess of ₹10,000** [Disallowance u/s 40A(3) is attracted in respect of expenditure, for which payment exceeding ₹10,000 in a day has been made in cash. Since expenditure of ₹19,000 towards printing and stationery items is debited to the statement of profit and loss, the same has to be added back. However, payment of ₹22,000 to producer for dairy farming products is not disallowed since it is covered under the exceptions specified in Rule 6DD]	19,000		
	(v) **Repair work paid to contractor without deduction of tax at source** [Disallowance of 30% of the amount of ₹3,50,000 paid for carrying out repair work to a contractor without deduction of tax at source would be attracted u/s 40(a)(ia)]	1,05,000		
	(vi) **Expenditure for transfer of carbon credits** [Income by way of transfer of Carbon Credits is chargeable to tax u/s 115BBG at a flat rate. No deduction is allowed under any provision of the Act in respect of any expenditure or allowance in relation thereto. Since such expenditure is debited to the statement of profit and loss, the same has to be added back]	35,000		
	(vii) **Contribution to electoral trust** [Contribution to electoral trust is not allowable as deduction while computing business profits of the company. Since the contribution has been debited to statement of profit and loss, the same has to be added back while computing business income]	3,00,000		

	Particulars	Amount (₹)		
	(viii) **Advertisement in brochure of a political party** [Advertisement charges paid in respect of brochure published by a political party is not allowable as deduction from business profits of the company as per section 37(2B). Since the expenditure has been debited to statement of profit and loss, the same has to be added back while computing business income]	40,000		
	(ix) **Interest to co-operative bank not paid before 31.10.2024 & Interest converted into debentures** [Disallowance u/s 43B would be attracted for A.Y.2024-25, since the interest was not paid on or before the due date of filing of return] [1,60,000 + 1,00,000] Explanation 3C to section 43B clarifies that if any sum payable by the assessee as interest on any such loan is converted into a loan or borrowing or advance or debenture on any other instrument by which the liability to pay is deferred to a future date, the interest so converted and not actually paid shall not be deemed as actual payment, and hence, would not be allowed as deduction.	2,60,000		
	(x) **Payment made to Mr. Kuku** [Disallowance u/s 43B(h) would be attracted for A.Y.2024-25, since the amount was not paid to small enterprise within time limit of section 15 of MSMED Act, 2006] [As per section 15 of MSMED Act, 2006 Where any person purchases goods/services, from a micro/small enterprise, the payment shall be made before the date agreed upon between him and supplier in writing. In no case the period agreed upon between the supplier and the buyer in writing shall more than 45 days. If, however, there is no such agreement, the payment shall be made within 15 days of acceptance or deemed acceptance of goods/services. Since payment made after 15 days so amount disallowed in PY 23-24]	5,00,000		
	(xi) **Contribution towards pension scheme of employees** [Contribution towards pension scheme, referred to in section 80CCD, of employees is allowed only to the extent of 10% of salary of the employee in the P.Y. i.e., ₹1,00,000 being 10% of ₹10,00,000. Therefore, the excess contribution of ₹50,000 [i.e., ₹1,50,000 – ₹1,00,000] is disallowed u/s 36(1)(iva).	50,000		
	(xii) **Bonus transferred to the trust for making payment to the employees after settlement of the dispute** [The bonus would be allowable as deduction u/s 36(1)(ii), even though the amount of bonus payable was initially remitted to the trust created for the purpose of avoiding late payment of bonus, provided actual payment of bonus is made to the employees on or before	4,41,000		

	Particulars	Amount (₹)		
	the due date. However, since in the present case, actual payment of bonus to employees is made on 30th December 2024, after due date of filing return of income i.e., after 31st October 2024, deduction u/s 36(1)(ii) would not be allowable merely because the amount was remitted to the trust before the stipulated due date. Since the same has been debited to the profit and loss account, it has to be added back]			
	(xiii) **Expenditure incurred on CSR** [U/s 37(1), only expenditure not covered u/ss 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing taxable business income. Any expenditure incurred by	1,45,000		
	an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction u/s 37. As the same has been debited to the profit and loss account, it has to be added back]			
	(xiv) **Non-compete fees to Bat Ltd.** [On account of the payment of non-compete fee, the company does not acquire any business, the profit making apparatus remains the same and there is no new business or new source of income and therefore, the expenditure has to be treated as revenue in nature. Since company has not deducted tax at source u/s 194J on such non-compete fees during the previous year 2023-24, 30% of expenditure i.e., ₹3,30,000 would be disallowed] **Note** - The above treatment is based on the Madras High Court ruling in M/s. Asianet Communications Ltd Alternate treatment is possible based on the Gujarat High Court ruling in Ferromatic Milacron India Pvt, Ltd, as briefed hereunder: Rights acquired under a non-compete agreement gives enduring benefit and protects the assessee's business against competition. The expression "or any other business or commercial rights of similar nature" used in Explanation 3 to sub-section 32(1)(ii) is wide enough to include non-compete rights. Hence, such expenditure would be capital expenditure and it would be treated as intangible asset and be eligible for depreciation @25%. In such case, the expenditure which is debited to the profit and loss account, i.e., ₹ 11,00,000, has to be added back and depreciation of ₹ 2,75,000 i.e., 25% would be allowed as deduction. Further, disallowance of 30% of expenditure on account of non-deduction of tax at source would also not be attracted.	3,30,000		

	Particulars	Amount (₹)		
	(xv) **Payment for online advertisement services** [Since the payment for online advertisement services is made to a non-resident not having PE in India, equalization levy@6% has to be deducted. Since the same has not been deducted, disallowance@100% of the payment would be attracted u/s 40(a)(ib)]	5,00,000		
	(xvi) **Provision for gratuity** [Provision of ₹ 5 lakhs for gratuity based on the actuarial valuation is not allowed as deduction as per section 40A(7). However, actual gratuity of ₹ 1,20,000 paid is allowable as deduction. Hence, the difference has to be added back to income (₹ 5,00,000 – ₹ 1,20,000)]	3,80,000		
	(xvii) **One time Franchise Fees** [Franchise is an intangible asset eligible for depreciation as per section 32. Since one time franchise fees of ₹ 20 lakhs paid for obtaining franchise has been debited to profit and loss account, the same has to be added back while computing business income] Less: Franchise [Depreciation @ 25% on ₹ 20 lakhs, since it has been used for more than 180 days during the year] [20 lakhs – 5 lakhs]	15,00,000		
	(xviii) **Loss of cash in transit from bank to office on account of theft** [Any loss from theft, dacoity, embezzlement, etc., is deductible if it is incidental to the carrying on of the business. Since the loss is due to theft which took place when cash was withdrawn from bank and taken to administrative office, it is incidental to business and thus, allowable as revenue expenditure. Since the same has already been charged as revenue expenditure, no further adjustment is required]	-		
	(xix) **Employers' contribution to EPF** [As per section 43B, employers' contribution to EPF is allowable as deduction since the same has been deposited on or before the 'due date' of filing of return u/s 139(1). Since the same has been debited to profit and loss account, no further adjustment is necessary]	-		
	(xx) **Provision for wages payable to workers** [The provision is based on fair estimate of wages and reasonable certainty of revision, the provision is allowable as deduction, since ICDS X requires 'reasonable certainty for recognition of a provision, which is present in this case. As the provision has been debited to profit and loss account, no adjustment is required while computing business income]	-		
	(xxi) **Expenses on foreign travel of two directors for a collaboration agreement which failed to materialize** [Where expenditure is incurred for a project not related the existing business and the project was abandoned	10,00,000		

	Particulars	Amount (₹)		
	without creating a new asset, the expenses are capital in nature as per *Mc Gaw-Ravindra Laboratories (India) Ltd.* (1994) (Guj.). Brewery project is not related to the existing business of assessee]			
	(xxii) **Payment to H Ltd. for feasibility study** [Payment towards feasibility study conducted for examining proposals for technological advancement relating to the existing business, where the project was abandoned without creating a new asset, is allowable as revenue expenditure (as per the Delhi High Court ruling	-		
	in *Priya Village Roadshows Ltd.* (2011)). Therefore, ₹6 lakhs paid towards feasibility study would be an allowable expenditure. Since such expenditure has already been debited to profit and loss account, no further adjustment is required].			
	(xxiii) **Expenditure on public issue of shares and Bonus shares** [Share issue expenses incurred by the company constitutes capital expenditure, even though it could not go in for the public issue on account of non-clearance by that the expenditure incurred was only for the purpose of expansion of the capital base. The capital nature of the expenditure would not be lost on account of the abortive efforts. Since the share issue expenses have been debited to statement of profit and loss of this year, the same is required to added back while computing business income. Expenditures for issue of bonus shares are treated as revenue expenses and allowed as deduction]	3,00,000	86,15,000	
			1,58,15,000	
	***Add:* Amount taxable but not credited to statement of profit and loss**			
	Expenditure pertaining to previous financial year		35,000	
	[Cash payment in excess of ₹10,000 made in the current year in respect of expenditure allowed on mercantile basis in the previous year, would be deemed as income in the current year as per section 40A(3A).]			
	Claim for Escalation price in respect of ongoing marketing contracts [As per section 145B, claim for escalation of a price of ₹ 8,50,000 would be deemed to be income of P.Y. 2023-24 i.e., the previous year in which reasonable certainty of its realization is received, being the year in which the judgment in the favour of the company was given. Since only the sum of ₹2,00,000 received by the company till 31.3.2024 is included in the profit and loss account, balance ₹6,50,000 has to be included in business income]		6,50,000	

	Particulars	Amount (₹)		
	Retention money [ICDS III & as per section 43CB requires recognition of contract revenue, including retention money, on percentage of completion method. In this case, since the question mentions that the assessee executed the contract of the value of ₹15 lakhs. Therefore, the retention money of ₹3 lakhs has to be recognized in the P.Y.2023-24, since the contract has been fully completed].		3,00,000	
	Employees' contribution to EPF [Since employees' contribution to EPF has not been deposited on or before the due date under the PF Act, the same has to be added for computing business income]		2,00,000	
	Sale of Scientific Research Asset [Sale proceeds of asset acquired for conducting scientific research taxable as business income under section 41(3) in the year of sale to the extent of lower of ₹ 6,00,000 (being the deduction allowed u/s 35) and ₹ 8,00,000 being the excess of sale proceeds and deduction allowed u/s 35 i.e., (₹ 8,00,000 + ₹ 6,00,000) over the capital expenditure incurred of ₹ 6,00,000]		6,00,000	
			1,76,00,000	
	Less: **Items credited to statement of profit and loss, but not includible in business income/ permissible expenditure and allowances**			
	(i) Unrealised rent [Unrealised rent in respect of commercial property is taxable under the head "Income for house property". Since the said rent has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	3,80,000		
	(ii) Dividend received from foreign company [Dividend received from foreign company is taxable under the head "Income from other sources". Since the said dividend has been credited to the statement of profit and loss, the same has to be deducted while computing business income] ***Note:*** *Since the question does not list the expenditure of ₹20,000 incurred on earning dividend income under "A. Items debited to the Statement of Profit and Loss", such expenditure has not been added back.*	1,60,000		
	(iii) Profit from hedging contract [Hedging contract is entered into for safeguarding against any loss that may arise due to currency fluctuation. The profit from such contract entered into for meeting loss in foreign currency payments towards imported printing machinery has to be adjusted against the cost of machinery. Since the said profit has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	3,00,000		

	Particulars	Amount (₹)		
	(iv) Interest from bank fixed deposit [Interest on fixed deposit is tax- able under "Income from Other Sources". Since the said interest has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	1,35,000		
	(v) Audit fees of P.Y. 2022-23 [30% of ₹75,000, being the audit fees disallowed in the P.Y. for non-remittance of TDS on or before due date of filing for P.Y. 2022-23 would be allowed in the year of payment of TDS i.e., P.Y. 2023-24]	22,500		
	(vi) Transfer of Carbon Credits chargeable to tax u/s 115BBG [Income by way of transfer of Carbon Credits chargeable u/s 115BBG can be treated as business income or income from other sources, depending upon the facts of the case. In this case, since the question mentions that BB Industries Ltd. is engaged in production and marketing of diversified products, it is logical to assume that the same is in the nature of business income. Since the amount of ₹4 lakh has already been credited to statement of profit and loss, no further adjustment is necessary]	-		
	(vii) Revenue from service contract of Nitup Ltd. [Since the service contract for maintenance of office building is for a period of 61 days i.e., from 1st March 2024 to 30th April 2024 (less than 90 days), the revenue from such contract would be determined on the basis of project completion method. Consequently, the income from contract and the expenditure would also be chargeable/allowable in the P.Y. 2024-25. Since the revenue of ₹ 5,00,000 is credited and expenditure of ₹ 1,27,000 has been debited to statement of profit and loss, the net amount of ₹ 3,73,000 (₹5,00,000 – ₹1,27,000) has to be deducted while computing business income of the P.Y. 2023-24]	3,73,000		
	(viii) Industrial power tariff concession received from Govt. [Any assistance in the form of, inter alia, concession received from the Central or State Government would be treated as income. Since the same has been credited to statement of profit and loss, no adjustment is required]	-		
	(ix) Bad debt recovered [Since the deduction of bad debt allowed u/s 36 was ₹ 10 lakhs out of the total debt of ₹ 20 lakhs; and the amount recovered in respect of such debt is only ₹ 7 lakhs which is not more than the amount of ₹ 10 lakhs not written off, no amount is chargeable to tax as business income. Since the amount of ₹ 7 lakhs recovered has been credited to the statement of profit and loss, it has to be reduced while computing business income.	7,00,000		

	Particulars	Amount (₹)		
	(x) Bad debts [The company had written off ₹ 10 lakh earlier, and out of the balance ₹ 10 lakhs, only ₹ 7 lakhs could be collected towards final settlement. Therefore, the balance ₹ 3 lakhs will be allowable as deduction, provided it is written off in the books of account]	3,00,000		
	(xi) Cessation of a trading liability [Remission or cessation of a trading liability, allowed as deduction in an earlier previous year, would be deemed as income in the year of remission or cessation, as per section 41(1)(a). Since the amount of ₹5 lakhs has already been credited to statement of profit and loss, no further adjustment is required]	-	23,70,500	
			1,52,29,500	
	Less: **Depreciation u/s 32 as per Income tax Rules**			
	Depreciation on Imported P&M	28,00,000		
	Add: Depreciation @7.5% on ₹92 lakhs [₹95 lakhs, being imported printing machinery - ₹3 lakhs, being profit from hedging contract] since, machinery is put to use for less than 180 days].	6,90,000		
	Add: Additional depreciation@10% on ₹92 lakhs, since, machinery is put to use for less than 180 days assuming the conditions for claim of additional depreciation are satisfied.	9,20,000	44,10,000	
	Depreciation on Generator Normal Depreciation [₹ 20,35,000 x 15%] Additional Deprecation [₹ 20,35,000 x 20%] [As per explanation to section 43(1), any amount paid in single day to single person more than ₹ 10,000 otherwise by account payee cheque or DD or ECS then it should not be part of actual cost, so advance paid to supplier and transportation charges not part of actual cost. As per explanation 10 of sec 43(1), Govt. grant related to acquisition of asset shall be reduced while calculation actual cost] **Imp. BB's Note** – limit of cash payment ₹ 35,000 to transporter is only for the purpose of revenue expenses u/s 40A(3) and not for capital expenditure.	 3,05,250 4,07,000	7,12,250	
	Profits and gains from business or profession			**101,07,250**
III	**Capital Gain** Sale of asset acquired for conducting scientific research Full Value of Consideration Less: cost of acquisition Short Term Capital Gain	 8,00,000 6,00,000		 **2,00,000**
IV	**Income from Other Sources**			
	Dividend from foreign company		1,60,000	
	[No deduction is allowable in respect of expenditure incurred on earning dividends except Interest]			

	Particulars	Amount (₹)		
	Deemed dividend u/s 2(22)(e) [Loan of ₹ 5 lakhs by Manu Textiles Pvt. Ltd., a company in which the public are not substantially interested, to Dinkar Synthetics Ltd. who is holding 16% i.e., 10% or more of the voting power of the company would be deemed to be dividend to the extent of ₹ 2 lakhs being the accumulated profits		2,00,000	
	Interest from banks on fixed deposits (Gross) [Interest on banks on fixed deposits is taxable as "Income from other sources"] [₹1,35,000 x 100/90]		1,50,000	
	Consideration received in excess of FMV of equity shares [(₹25 (-) ₹17) x 1,00,000 equity shares] [A closely held company has issued equity shares at a premium, then, the difference between consideration and the FMV of shares is taxable as "Income from Other Sources" as per section 56(2)(viib)].		8,00,000	**13,10,000**
	Gross Total Income			**1,18,83,250**
	***Less:* Deduction under Chapter VI-A**			
	U/s 80GGB [Contribution by a company to an electoral trust and registered political party is allowable as deduction, since payment is made otherwise than by cash. Expenditure incurred by an Indian company on advertisement in brochure published by political party tantamount to contribution to such political party] [₹3,00,000 + ₹40,000]			3,40,000
	Total income			**1,15,43,250**

Question 2 **[Sec 115BAA]**

Suppose in question-1 company opted sec. 115BAA, compute Total Income & tax liability of company.

Answer

Computation of Total Income of BB Industries Ltd. for the A.Y. 2024-25

	Particulars	Amount (₹)		
I	**Income from house property (computed above)**			**2,66,000**
II	**Profit and Gain from Business or Profession (computed above)** **Add:** Additional depreciation not allowed when assessee opted sec. 115BAA (9,20,0000 + 4,07,000)	**101,07,250** **13,27,000**		**1,14,34,350**
III	**Capital Gain (computed above)**			**2,00,000**
IV	**Income from Other Sources (computed above)**			**13,10,000**
	Gross Total Income			**1,32,10,350**
	Deduction u/s 80GGB			**N/A**
	Total income			**1,32,10,350**
I	Tax on Sale of Carbon Credit	4,00,000	Tax @ 10%	40,000
II	Tax on Balance Income	1,28,10,350	Tax @ 22%	28,18,277
				28,58,277

	Particulars	Amount (₹)		
	Add: Surcharge@ 10%			2,85,827
				31,44,105
	Add: Health & education cess @4%			1,25,764
	Net Tax			**32,69,869**

Question 3 **[PGBP & Sec. 115BAB]**

Devam Ltd., a manufacturing company, is engaged in the manufacturing of leather products since 01-11-2022 in the State of Tamil Nadu. As per Statement of Profit and Loss for the year ended 31st March, 2024, the company showed profit of ₹ 1,20,00,000 after debiting or crediting the following items:

(i) 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%.

(ii) Devam Ltd. paid ₹ 10 Lakhs in foreign currency as sales commission 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.

(iii) ₹ 45,000 paid in cash to Mr. Raj employee of the company at the time of his retirement.

(iv) Profit on sale of 2000 shares of M/s. VKL LTD, a listed company ₹ 3,50,000. These shares were sold on 7-10-2023 for ₹ 250 per share. The highest price of VKL LTD. quoted on the stock exchange as on 31-01-2018 was ₹ 175 per share. The said shares were received as gift from 100% holding company & such company acquired for ₹ 75 per share on 10.06.2016. STT paid both at the time of purchase and sale of shares.

(v) STCG derived from transfer of a Capital asset on which no depreciation is allowable under the Act ₹ 75,000.

(vi) Profit of ₹ 6 lakhs on sale of plot of land on 24-07-2023 to XYZ LTD, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by Devam Ltd. on 30-09-2022.

(vii) Credits to statement of Profit and Loss Account include dividend of ₹ 50,000 received on September 6, 2023 from a domestic company.

(viii) ₹ 20,000 paid for expenses in connection with the inauguration of a new branch opened for expanding the business.

(ix) ₹ 20,000 paid as penalty to Government for company's failure in performance of a contract within stipulated time. There was delay of 4 months and according to the agreement, the company had to pay a penalty of ₹ 5,000 per month to the Government.

(x) An amount of ₹ 5 lakhs was paid to the manager of the company under Voluntary Retirement Scheme.

(xi) Interest of ₹ 75,000 paid by bank remittance, on deposits made by non-resident buyers of goods manufactured by the company. The said payments were made outside India without deduction of tax.

(xii) Marked to market loss amounting to ₹ 6,00,000 in respect of an unsettled derivative contract. The contract was settled in May, 2024 with a gain of ₹ 1,00,000.

(xiii) Contribution of ₹ 2,50,000 to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.

(xiv) 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 ₹ 8,000. The same has been debited to statement of profit and loss.

(xv) Depreciation on tangible fixed assets as per books of account ₹ 2,20,000.

Additional information:

(1) Depreciation on tangible fixed assets as per Income-tax Rules ₹ 2,60,000.

(2) Company has acquired on 15.11.2023, new machinery for ₹ 20,00,000 and put the same to use on the same date. Depreciation on such machinery is not included in point (1) above.

(3) During the year F.Y. 2023-24, the company has employed 56 additional employees. All these employees contribute to a recognized provident fund. 39 out of 56 employees joined on 1-6-2023 on a salary of ₹ 15,000 per month, 14 joined on 1-7-2022 on a salary of ₹ 45,700 per month, and 3 joined on 1-11-2023 on a salary of ₹ 22,000 per month. The salaries of 9 employees who joined on 1-6-2023 are being settled by bearer cheques every month. Audit under section 44AB has been done before the due date.

(4) The company has paid through bank ₹ 1,20,000 to National Fund for Rural Development.

(5) The Company opted for concessional rate of tax and exemption from MAT u/s 115BAB for Assessment year 2024-25.

Compute the total income and tax payable for the Assessment Year 2024-25 clearly stating the reasons for treatment of each item.

Answer

Computation of Total Income of Devam Ltd. for the A.Y. 2024-25 under section 115BAB

	Particulars	Amount (in ₹)	
I	**Income from house property** Rental income [₹ 60,000 x 12] [No deduction is allowable in respect of such income, since the company has opted for concessional regime under section 115BAB. Hence, deduction for municipal taxes paid and deduction@30% of net annual value is not allowable]		**7,20,000**
II	**Profits and gains of business and profession**		
	Net profit as per Statement of profit and loss		1,20,00,000
	Add: Overvaluation of opening stock [₹ 55,00,000 x 10/110]	5,00,000	
	Undervaluation of closing stock [₹ 54,00,000 x 10/90]	6,00,000	
	Add: **Items debited but to be considered separately or to be disallowed**		
	(1) Sales commission to Mr. John, a non-resident, for procuring orders from outside India [The commission paid to Mr. John, non-resident agent, for services rendered outside India is not chargeable to tax in India. His commission is paid in foreign currency directly to him and is, therefore, not received by him or on his behalf in India. Since commission income for procuring orders by non- resident who remains outside India is not subject to tax in India, disallowance under section 40(a)(i) is not attracted in respect of payment of commission to such non-resident outside India even though tax has not been deducted at source.]	**Nil**	
	(2) Payment to Mr. Raj, an employee, on his retirement [Section 40A(3) provides for disallowance@100% of the expenditure incurred exceeding ₹ 10,000 otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed. However, no disallowance under section 40A(3) is to be made as the amount paid to Mr. Raj is on his retirement since such sum payable does not exceed ₹ 50,000. This exception is provided in Rule 6DD]	**Nil**	

	Particulars	Amount (in ₹)	
	(3) Expenses in connection with inauguration of a new branch for expanding business [Expenses in connection with inauguration of a new branch for expanding business is allowable as revenue expenditure since it is incurred wholly or exclusively for business purpose. Since the same is already debited in statement of profit and loss, no further adjustment is required]	**Nil**	
	(4) Penalty to Government for failure in performance of a contract [The penalty of ₹ 20,000 paid for non-fulfilment of a contract within stipulated time is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense. Since it is already debited in statement of profit and loss, no further adjustment is required]	**Nil**	
	(5) Voluntary Retirement Scheme expenditure [Only 1/5th of expenditure on voluntary retirement scheme is allowable over a period of five years u/s 35DDA. Since whole amount of expenditure is debited to statement of profit and loss, 4/5th has to be added back [₹ 5,00,000 x 4/5].	4,00,000	
	(6) Interest paid to non-resident buyers of goods, on deposits made by them [Interest paid to non-resident buyer of goods, on deposits made by them is deemed to accrue or arise in India since such interest is paid by the company, a resident, which used such deposit for the purpose of business carried on by it in India. Thus, such interest is chargeable to tax in India and Devam Ltd. is required to deduct tax at source on such interest. Disallowance@100% of interest paid is attracted under section 40(a)(i), since tax has not been deducted at source therefrom.]	75,000	
	(7) Salary paid to employees through bearer cheques [Salary paid through bearer cheques (9 employees x ₹ 15,000 x 10 months) will attract disallowance u/s 40A(3) and hence, the same has to be added back] **[See Note at the end of the solution]**	13,50,000	
	(8) Marked to market losses [As per ICDS I, marked to market losses cannot be recognized unless the recognition of such loss is in accordance with the provisions of any other ICDS. Since such losses have been debited to the statement of profit and loss, they have to be added back for computing business income]	6,00,000	
	(9) Contribution to National Laboratory [As per section 35(2AA) donation to National Laboratory eligible for 100% deduction but when assessee opted section 115BAB then this deduction not allowed]	2,50,000	
	(10) **Municipal Taxes paid** [Not allowed in PGBP] **(11) Depreciation on tangible fixed assets** [The amount of ₹ 2.20 lakh, being depreciation as per books of account, debited to statement of profit and loss has to be added back]	8,000 2,20,000	
	Less: Depreciation u/s 32		

	Particulars		Amount (in ₹)	
	Tangible fixed assets Plant & Machinery	2,60,000		
	- Normal Depreciation (₹ 20,00,000 x 7.5%, since put to use for less than 180 days during the P.Y. 2023-24)	1,50,000	(4,10,000)	35,93,000
	- Additional depreciation [not allowable since company is opting for section 115BAB]	-	3,50,000	**1,55,93,000**
	***Less:* Items credited but chargeable to tax under another head/expenses allowed but not debited** **1. Profit on sale of shares of M/s VKL Ltd.** [Capital Gain arising on sale of shares of VKL Ltd. is taxable under the head "Capital Gains". Since the profit on sale of shares has been credited to the statement of profit and loss, the same has to be deducted while computing business income]			
	2. Short term capital gain on sale of capital asset on which no depreciation is allowable		75,000	
	[Short term capital gain arising on sale of capital asset is taxable under the head "Capital Gains".			
	Since such STCG has been credited to the statement of profit and loss, the same has to be deducted while computing business income]			
	3. Profit on sale of plot of land to 100% subsidiary [Taxability or otherwise to be considered under the head "Capital Gains". Since such profit has been credited to the statement of profit and loss, the same has to be deducted while computing business income]		6,00,000	
	4. Dividend received from domestic company [Dividend income from domestic foreign company is taxable under the head "Income from other sources". Since the said dividend has been credited to the statement of profit and loss, the same has to be deducted while computing business income]		50,000	
	5. Contribution to National Fund for Rural Development [In respect of payment to a National Fund for Rural Development, deduction is allowable under section 35CCA while computing business income. This deduction is permissible in case of an assessee opting for section 115BAB also]		1,20,000	
	6. Rental income from letting out of office premises (Rental income from letting out a part of the office premises is taxable under "Income from house property". Therefore, it has to be deducted while calculating business income, since the income has been credited to statement of profit and loss)		7,20,000	19,15,000
	Profit & Gains from Business or Profession			**1,36,78,000**

	Particulars	Amount (in ₹)	
II	**Capital Gains**		
	1. Long term capital gain on sale of shares of M/s. VKL Ltd.		
	[Since shares were held for more than 12 months]		
	[Full value of consideration (2,000 x ₹ 250)] 5,00,000		
	Less: Cost of acquisition - Higher of (i) and (ii) 3,50,000		
	(i) Actual cost of acquisition (2,000 x ₹ 75) ₹ 1,50,000	1,50,000	
	(ii) ₹ 3,50,000, being lower of fair market value as on 31.1.2018 (i.e., ₹ 3,50,000, being 2,000 x 175) and sale consideration (i.e., ₹ 5,00,000)		
	2. Short term capital gain on sale of capital asset on which no depreciation is allowable	75,000	**2,25,000**
	3. Profit on sale of plot of land to 100% subsidiary		
	[Short-term capital gains arise on sale of plot of land held for less than 24 months. However, in this case, since the transfer is to a 100% subsidiary company and the subsidiary company is an Indian company, the same would not constitute a transfer for levy of capital gains tax due to section 47]	Nil	
III	**Income from Other Sources**		
	Dividend income from domestic company [50,000/90 x 100]		**55,555**
	Gross Total Income		**1,46,78,555**
	Deduction u/s 80JJAA [See Working Note below]		14,49,000
	Total Income		1,32,29,555
	Total Income (Rounded Off)		**1,32,29,560**

Computation of tax payable by Devam Ltd. for the A.Y. 2024-25 under section 115BAB

Particulars	₹	₹
Tax on long-term capital gains in excess of ₹ 1 lakh @10% u/s 112A [₹ 50,000 x 10%]		5,000
Tax on short term capital gain of ₹ 75,000 derived from transfer of a capital asset on which no depreciation is allowable @22%		16,500
Tax on House Property income of ₹ 7,20,000 @22%		1,58,400
Tax on dividend income of ₹ 55,555 @22%		12,222
Tax on business income@15% of ₹ 1,22,29,000 (i.e. 1,36,78,000 – 14,49,000)		18,34,350
		20,26,472
Add: Surcharge@10%		2,02,647
		22,29,119
Add: Health and education cess@4%		89,164
Tax liability		23,18,283
Less: TDS on dividend income		5,555
Tax payable		23,12,728
Tax payable (Rounded Off)		**23,12,730**

Working Note - Computation of deduction u/s 80JJAA

No of eligible additional employees [56 (-) 14 = 42] [14 employees who joined on 1.7.2022 do not qualify as "additional employees" since their monthly emoluments exceed ₹ 25,000. However, 3 employees who joined on 1.11.2022 qualify as additional employees, since they have been employed for more than 150 days during the P.Y.2022-23.]	33
Additional employee cost means the total emoluments paid or payable to additional employees employed during the P.Y.2022-23. However, the additional employee cost in respect of 9 employees who joined on 1.6.2022, whose salary is paid by bearer cheques would be Nil.	
Additional employee cost [₹ 15,000 x 30 employees (39 - 9) x 10 months] + [₹ 22,000 x 3 employees x 5 months] = ₹ 45,00,000 + ₹ 3,30,000	₹ 48,30,000
Eligible deduction = 30% of ₹ 48,30,000	₹ 14,49,000

***Note** – Since it is logical to assume that remuneration paid to employees has been debited to statement of profit and loss, consequently, disallowance would be attracted in respect of remuneration paid to 9 employees by bearer cheque every month. Accordingly, ₹ 13,50,000, being salary paid to 9 employees during the P.Y.2022-23 has been added back while computing profits and gains of business or profession.*

If a view is taken that the details of remuneration paid to employees, given by way of "Additional Information", are only for the purpose of computation of deduction under section 80JJAA, then, the computation of income under the head "Profits and gains of business and profession" would be without providing for disallowance under section 40A(3) in respect of payment to employees by bearer cheque.

Question 4 [115BAD/80JJAA/80P –Similar RTP MAY. 23]

ABC Co-operative society is derived following income during PY 23-24 from following activities:—

(i) Income from house property (Computed) ₹7,50,000
(ii) Income from marketing of agricultural produce grown by its members ₹ 4,00,000
(iii) Income from collective disposal of labour of its members ₹ 15,00,000
(iv) Income from processing with the aid of power ₹35,00,000
(v) Income from other business activity ₹ 25,00,000
(vi) Interest from another co-operative society ₹ 10,00,000
(vii) Income by way of dividend from another co-operative society: ₹ 5,00,000.
(viii) Income by way of interest on fixed deposits with banks: ₹ 42,00,000

It has employed ten new employees with salary of ₹ 20,000 p.m. on 1.5.2023. Salary is paid by account payee cheque. It gets its books of accounts audited under section 44AB.

Compute its total income and tax liability for A.Y.2024-25 and advise whether it should opt for the special provisions under section 115BAD.

Answer

Computation of total income & tax liability of ABC Co-operative Society for A.Y.2024-25 (under the regular provisions of the Act)

Particulars	₹	₹
Income from House Property (Computed)		7,50,000
Profits and gains of business or profession		
Income from marketing of agricultural produce	4,00,000	
Income from collective disposal of labour	15,00,000	
Income from processing with the aid of power	35,00,000	
Income from other business activity	25,00,000	79,00,000

Particulars	₹	₹
Income from other sources		
Interest and Dividend from another Co.Op. Society	15,00,000	
Interest on bank fixed deposits	42,00,000	57,00,000
Gross Total Income		**1,43,50,000**
Less: **Deductions under Chapter VI-A**		
Deduction u/s 80JJAA [30% of ₹ 20,000 x 10 employees x 11 months]	6,60,000	
Deduction u/s 80P [ABC Co-operative society is entitled for deduction under section 80P, on the whole of the amount of profits and gains of the activity of marketing of agricultural produce grown by its members, Collective disposal of labour & interest/dividend from another co.op. society & also eligible for 50,000 general deduction for other activities income]	34,50,000	41,10,000
Total Income		**1,02,40,000**
Tax liability:		
Upto ₹ 10,000 – 10%	1,000	
₹ 10,000 – ₹ 20,000 – 20%	2,000	
₹ 20,000 – ₹ 1,02,40,000 – 30%	30,66,000	
		30,69,000
Add: Surcharge @ 7% as total income more than 1 crore		2,14,830
Marginal Relief – ₹ 46,830		32,83,830
Above amount restricted to Tax on 1 crore + (NTI – 1 Crore)		32,37,000
₹ 29,97,000 + ₹ 2,40,000		32,37,000
Add: Health and education cess@4%		1,29,480
Tax liability		**33,66,480**
Alternate Minimum Tax		
Total Income		1,02,40,000
Add: Deduction under section 80JJAA		6,60,000
Adjusted Total Income		**1,09,00,000**
Alternate Minimum Tax@15% of ₹ 1,09,00,000		16,35,000
Add: Surcharge @ 7%		1,14,450
		17,49,450
Add: Health and education cess@4%		69,978
Alternate Minimum Tax		**18,19,428**
Since AMT is lower than the tax payable under the regular provisions of the Act, the tax liability of the co-operative society would be ₹ 33,66,480.		

Computation of total income & tax liability of ABC Co-operative Society under section 115BAD for A.Y.2024-25

Particulars	₹	₹
Gross Total Income		**1,43,50,000**
Less: **Deductions under Chapter VI-A**		
Deduction u/s 80JJAA [30% of ₹ 20,000 x 10 employees x 11 months]	6,60,000	
Deduction u/s 80P [Not allowable where the cooperative society opts for section 115BAD]	-	6,60,000

Particulars	₹	₹
Total Income		**1,36,90,000**
Tax liability		
22% of ₹ 1,36,90,000		30,11,800
Add: Surcharge@10%		3,01,180
		33,12,980
Add: Health and education cess@4%		1,32,192
Tax liability		**34,45,499**
Tax liability (rounded off)		34,45,500

Since the tax liability under section 115BAD is higher than the tax liability under the regular provisions of the Act, ABC Co-operative Society should not opt for section 115BAD.

Question 5 [Capital Gain with 54 Amendment]

Mr. Rajkumar bought a residential house for ₹ 5 crores in March 2016. He entered into an agreement for sale of the said residential house with Ms. Nikita (not a relative) in July 2023 for ₹ 17 crores. The sale proceeds were to be paid in the following manner:

(i) 10% through account payee bank draft on the date of agreement.
(ii) 80% on the date of the possession of the property.
(iii) Balance after the completion of the registration of the title of the property.

Ms. Nikita was handed over the possession of the property on 10.11.2023 and the registration process was completed on 05.02.2024. She paid the sale proceeds as per the sale agreement. Value of property for stamp duty in July 2023 was ₹ 19 crores. Subsequently, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 20 crores on 05.02.2024. Mr. Rajkumar paid 1% as brokerage on sale consideration received.

Subsequent to sale, he purchased another residential house for ₹ 13 crores in Mumbai in March 2024.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Rajkumar for A.Y. 2024-25. What would be the capital gain, if any, in A.Y. 2025-26 if Mr. Rajkumar transfers the new residential house in December 2024 for ₹ 15 crores?

CII: 2015-16: 254; 2023-24: 348

Answer

Computation of capital gains of Mr. Rajkumar for A.Y. 2024-25

Particulars	₹ (in crores)
Actual sale consideration ₹ 17 crores Value adopted by Stamp Valuation Authority ₹ 19 crores [Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement. In this case, since advance of ₹ 1.7 crores is received by account payee bank draft, stamp duty value on the date of agreement can be adopted as the full value of consideration.	19

Particulars	₹ (in crores)
Gross Sale consideration (Stamp duty value on the date of agreement, since it exceeds 110% of the actual consideration)	
Less: Brokerage @1% of sale consideration (1% of ₹ 17 crores)	0.17
Net Sale consideration	18.83
Less: Indexed cost of acquisition	6.85
[₹ 5 crores x 348/254]	
Long term capital gains	11.98
[Since the residential house property was held by Mr. Rajkumar for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]	10
***Less:* Exemption under section 54**	
Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. However, if the cost of new residential house exceeds ₹ 10 crores, the amount exceeding ₹ 10 crore would not be taken into account for exemption.	**1.98**
Therefore, in the present case, the exemption would be available in respect of the residential house acquired in Mumbai and to the extent of ₹ 10 crores only.	
Long term capital gains chargeable to tax	

Computation of capital gains of Mr. Rajkumar for A.Y. 2025-26

Particulars	₹ (in crores)
Sale consideration	15
Less: Cost of acquisition (-) capital gains exempt in A.Y. 2024-25 (₹ 13 – ₹ 10)	3
Short term capital gains chargeable to tax	12
Since the residential house property was held by Mr. Rajkumar for not more than 24 months immediately preceding the date of its transfer]	

Question 6 **[Sec 115BAC + Taxability of LIP]**

Mr. Akash (aged 47 years) is a CEO of BAC Enterprises (P) Ltd. During the P.Y.2023-24, he has earned the following income -

- Salary of ₹ 45 lakhs
- long-term capital gain on sale of listed equity shares (STT paid) amounting to ₹ 6,54,000
- dividend of ₹ 12,00,000 from shares of Indian companies
- interest on saving bank account with SBI of ₹ 16,000
- interest on fixed deposits with BOB of ₹ 45,000

Mr. Akash has made the following payments towards medical insurance premium for health policies taken for his family members:

- Medical premium for his spouse aged 43 years: ₹ 13,500 (by cheque)
- Medical premium for his mother aged 65 years: ₹ 26,670 (by cheque)
- Preventive health check-up of ₹ 5,500 each for his wife and mother in cash.

Mr. Akash also incurred medical expenses, by credit card, of ₹ 17,000 for the treatment of his mother and of ₹ 27,000 for his father who is 67 years old.

He has multiple life insurance policies. The details of such policies are given hereunder:

Particulars	X	Y	Z	A	B (Term insurance policy)
Date of issue	1.4.2017	1.4.2023	1.4.2025	1.4.2024	1.3.2023
Annual premium (excluding GST)	₹ 40,000	₹ 3,00,000	₹ 2,00,000	₹ 2,50,000	₹ 80,000
GST@18%	₹ 7,200	₹ 54,000	₹ 36,000	₹ 45,000	14,400
Total premium	₹ 47,200	₹ 3,54,000	₹ 2,36,000	₹ 2,95,000	₹ 94,400
Date of maturity	31.3.2026	31.3.2032	31.3.2034	31.3.2033	28.3.2056
Consideration received on maturity (including bonus)	₹ 7,00,000	₹ 36,00,000	₹ 28,00,000	₹ 30,00,000	-
Sum assured	₹ 5,00,000	₹ 33,00,000	₹ 25,00,000	₹ 27,00,000	₹ 2,00,00,000

On the basis of the facts given above, choose the most appropriate answer to Q.I to Q.V below, based on the provisions of the Income-tax Act, 1961 -

(i) Which are the life insurance policies in respect of which Mr. Akash would be eligible for exemption under section 10(10D) in respect of maturity proceeds? Choose the option most beneficial to Mr. Akash.
   (a) X, Y and Z
   (b) X and Y
   (c) X, Z and A
   (d) Y and Z

(ii) What would be your answer to MCQ 1, if Mr. Akash surrendered LIC A in A.Y. 2026-27 and claimed exemption under section 10(10D) in respect of such LIC? This information is only for the purpose of this MCQ.
   (a) X, Y and Z
   (b) X and Y
   (c) X, Z and A
   (d) Y and Z

(iii) What would be the amount of deduction available to Mr. Akash under Chapter VI-A for the A.Y. 2024-25 if he has exercised the option to shift out of the default tax regime?
   (a) ₹ 82,170
   (b) ₹ 78,500
   (c) ₹ 2,28,500
   (d) ₹ 2,32,170

(iv) What is Mr. Akash's tax liability for A.Y.2024-25 under the default tax regime under section 115BAC?
   (a) ₹ 16,97,350
   (b) ₹ 16,80,190
   (c) ₹ 18,41,270
   (d) ₹ 18,84,170

(v) What is Mr. Akash's tax liability for A.Y.2024-25 if he has exercised the option to shift out of the default tax regime?
   (a) ₹ 17,30,470
   (b) ₹ 18,93,720
   (c) ₹ 17,29,210
   (d) ₹ 17,27,500

Answer

Question No.	Answer
I	(a)
II	(c)
III	(c)
IV	(b)
V	(a)

Question 7 [SEZ, AMT]

PQR LLP, a limited liability partnership set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfils all the conditions of section 10AA of the Income- tax Act, 1961. During the financial year 2022-23, it has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfils all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹75 Lakhs (including cost of land ₹10 lakhs). The warehouse became operational with effect from 1st April, 2023 and the expenditure of ₹75 Lakhs was capitalized in the book on that date.

Relevant details for the financial year 2023-24 are as follows:

Particulars	₹
Profit of unit located in SEZ (It includes profit on sale of import entitlement licence is ₹ 4,00,000 and Duty drawback of ₹ 3,00,000)	47,00,000
Export sales of above unit (Out of export sales ₹ 80 lakhs repatriated in India in foreign currency within 6 months from end of PY is ₹ 72 lakhs)	80,00,000
Domestic sales of above unit	20,00,000
Profit from operating of warehousing facility (before considering deduction u/s 35AD).	1,05,00,000

Compute income tax (including AMT u/s 115JC) payable by PQR LLP for Assessment Year 2024-25.

Answer

Computation of total income and tax liability of PQR LLP for A.Y. 2024-25 (under the regular provisions of the Income-tax Act, 1961)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD **[See (2) below]** Business income of warehousing facility chargeable to tax	65,00,000	40,00,000
Profit from unit in SEZ		47,00,000
Gross Total Income		87,00,000
Less: Deduction u/s 10AA **[See note (1) below]**		28,80,000
Total Income		**58,20,000**
Computation of tax liability (under the normal/ regular provisions)		
Tax@30% on ₹58,20,000		17,46,000
Add: HEC@4%		69,840
Total tax liability		**18,15,840**

Computation of adjusted total income PQR LLP for levy of Alternate Minimum Tax

Particulars	₹	₹
Total Income (as computed above)		**58,20,000**
Add: Deduction u/s 10AA		28,80,000
		87,00,000
Add: Deduction u/s 35AD	65,00,000	
Less: Depreciation u/s 32 on building @ 10% of ₹65 lakhs	6,50,000	**58,50,000**
Adjusted Total Income		**1,45,50,000**
Alternate Minimum Tax @ 18.5%		26,91,750
Add: Surcharge cess @12% (since adjusted income total income>₹1 crore)		3,23,010
		30,14,760
Add: HEC@ 4%		1,20,590
Tax liability u/s 115JC		**31,35,350**

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@12% and HEC@4%. Therefore, the tax liability is ₹31,35,350.

AMT Credit to be carried forward u/s 115JEE	₹
Tax liability u/s 115JC	31,35,350
Less: Tax liability under the regular provisions of the Income- tax Act, 1961	18,15,840
	13,19,510

Notes:

1. **Deduction u/s 10AA in respect of Unit in SEZ =**

$$= \text{Profits of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}}$$

$$\mathbf{40,00,000 \times \frac{72,00,000}{1,00,00,000} = 28,80,000}$$

   (i) Items of business income which are in the nature of ancillary profits and hence, do not constitute profit 'derived from' business for the purpose of deduction u/s 10AA so as per the case low of Liberty India Ltd. profit on sale of Import entitlement licence & duty drawback are not included in profit for the purpose of deduction u/s 10AA.

   (ii) Amount of export sales not repatriated in India within time allowed by RBI is not included in Export sales.

2. Deduction@100% of the capital expenditure is available u/s 35AD for A.Y. 2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2012.

Further, the expenditure incurred, wholly and exclusively, for the purpose of such specified business, shall be allowed as deduction during the previous year in which he commences operations of this specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction u/s 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹65 lakhs (i.e., ₹75 lakhs – ₹10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y. 2022-23 and capitalized in the books of account, ₹65,00,000, being 100% of ₹65 lakhs would quality for deduction u/s 35AD.

Question 8 [MAT]

Alpha and Beta Tyres Limited, an Indian Company engaged in the manufacture of Tyres in Andhra Pradesh, has adopted Ind AS from 1-4-2019. The following particulars are provided for the year ended 31.3.2024 :

1. 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 charged for delay in remittance of tax deducted at source ₹20 lakhs.

(iii) Amount debited to the Statement of Profit and Loss towards interest to a public financial institution is ₹12 lakhs. Out of this, ₹4 lakhs were paid on 12-12-2024.

(iv) The company committed breach of building norms while extending the factory building. The City Corporation initiated proceedings against the company and the company settled the issue by paying com-pounding fee of ₹ 50 lakhs. This amount forms part of general expenses, which has been debited to the Statement Profit and Loss.

Items Credited:

(i) Share Income from Association of Persons in which the company is a member ₹*50 lakhs. (The AOP is charged to tax at Maximum Marginal Rate)*

(ii) Amount of ₹6 crores withdrawn from revaluation reserves on account of revaluation of assets.

(iii) Dividend from Indian companies (listed) ₹ 1 crore.

(iv) Profit on unit established in SEZ ₹ 2 crores

Other Information:

1. The application of a financial creditor for corporate insolvency resolution process has been admitted by the Hyderabad Bench of the National Company Law Tribunal under section 7 of the Insolvency and Bankruptcy Code, 2016.
2. Brought forward business loss and 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 and equipment ₹1 crore.
4. Items credited to other comprehensive income which will be reclassified to profit or loss:
   (i) Deferred gain on cash flow hedges 2 crores.
   (ii) Comprehensive income from discontinued operations 3 crores.
5. The transition amount as on convergence date 1-4-2019 stood at ₹5 crores including capital reserve of ₹50 lakhs (credit balance).
6. Tax payable under the regular provisions of the Income-tax Act, 1961 is ₹0.73 crores.
   (i) **Compute Minimum Alternate Tax payable by the company for the Assessment Year 2024-25.**
   (ii) Compute the amount of MAT credit eligible for carried forward.

Answer

(i) Computation of MAT payable by Alpha and Beta Tyres Limited under section 115JB for A.Y. 24-25

Particulars	₹	₹
Net profit as per statement of profit and loss		20,00,00,000
Add: **Net profit to be increased by the following amounts as per *Explanation 1* to section 115JB(2):**		
- Depreciation	18,00,00,000	
- Interest charged for delay in remittance of TDS	20,00,000	
[As per *Explanation 2* to section 115JB, income- tax shall include, *inter alia*, any interest charged under the Act. Therefore, interest on delay in remittance of TDS has to be added back]		
		18,20,00,000
		38,20,00,000
Less: **Net profit to be decreased by the following amounts as per *Explanation 1* to section 115JB(2):**		
- Depreciation other than depreciation on revaluation of assets [₹18 crore – ₹3 crore]	15,00,00,000	
- Share income from Association of Persons	50,00,000	
[Share income of company in AOP has to be reduced while computing the book profit, since no income-tax is payable by the company on share income in AOP, as the AOP is chargeable to tax at Maximum Marginal Rate]		
- Amount withdrawn from revaluation reserve [₹6 crore] to the extent it does not does not exceed depreciation on revaluation of assets [₹3 crore]	3,00,00,000	
- Brought forward business loss of ₹8 crore [₹3 crore + ₹5 crore] and unabsorbed depreciation of ₹3 crore [₹1 crore + ₹2 crore]	11,00,00,000	
[Since Alpha and Beta Tyres Limited is a company against which an application for corporate insolvency resolution process has been admitted by NCLT under section 7 of the Insolvency and Bankruptcy Code, 2016, the amount of total loss brought forward (including unabsorbed depreciation) is allowed to be reduced from the book profit for the purposes of levy of MAT under section 115JB].		29,50,00,000
		8,70,00,000
Book profit computed in accordance with *Explanation 1* to section 115JB(2)		
Add: **Items credited to OCI that will not be reclassified to profit or loss:**		
Re-measurement of defined employee benefit plan	50,00,000	
Revaluation surplus of property, plant and equipment ₹1 crore [Book profit not to be increased by revaluation surplus for assets]	Nil	50,00,000
		9,20,00,000

Particulars	₹	₹
Add: **One-fifth of Transition amount [Credit Balance]**		
Transition amount	5,00,00,000	
Less: **Amounts to be excluded from transition amount**		
Capital Reserve	50,00,000	
	4,50,00,000	
One-fifth of ₹4,50,00,000		90,00,000
Book Profit for levy of MAT		**10,10,00,000**

Computation of MAT	₹
MAT on book profit under section 115JB = 15% of₹10,10,00,000	1,51,50,000
Add: Surcharge@12% (since book profit exceeds ₹10 crore)	18,18,000
	1,69,68,000
Add: Health and education cess@4%	6,78,720
MAT liability for A.Y.2024-25	**1,76,46,720**

(ii) *Computation of MAT credit to be carried forward*

Particulars	₹
MAT liability for A.Y.2024-25 (rounded off)	1,76,46,720
Income-tax computed as per the normal provisions of the Act for A.Y.2024-25	73,00,000
Since the income-tax liability computed as per the regular provisions of the Income-tax Act, 1961 is less than the MAT payable, the book profit of ₹10,10,00,000 would be deemed to be the total income and tax is leviable@15%: The total tax liability (rounded off) is ₹1,76,46,720.	
Computation of tax credit to be carried forward:	
Tax payable for A.Y.2024-25 on deemed total income	1,76,46,720
Less: Income-tax payable as per the normal provisions of the Act	73,00,000
Tax credit in respect of tax paid on deemed income	**1,03,46,720**

Question 9 **[Taxation of Trust & tax liability]**

Mani foundations, a charitable trust registered u/s 12AB of the Income-tax Act, 1961, run schools for primary and secondary education. The following particulars pertaining to the PY 2023-24 are furnished to you by the trust:

	Particulars	₹ (in lakhs)
(i)	Gross receipts from students towards tuition fees, development fees, laboratory fees etc.	600
(ii)	Voluntary contributions received from public (including anonymous donation ₹5 lakhs)	25
(iii)	Corpus Donation received by Trust (₹7 lakhs invested in FD of ICICI bank & ₹3 lakhs with FD of Bajaj Finance NBFC)	10
(iv)	Government grants	8
(v)	Donation given towards corpus to a Bharat Mata trust registered under section 10(23C)(iv)	2

	Particulars	₹ (in lakhs)
(vi)	The trust gave donation to Gandhiji Free Trust having objects of charitable nature registered u/s 12AB but not similar to the objects of the donor trust.	25
(vii)	Revenue expenses incurred for the purpose of schools [It includes 10 lakhs applied from corpus of Trust, out of the remaining revenue expenditure of ₹ 390 lakh, ₹ 350 lakh was paid during the P.Y.2023-24 itself. Out of the remaining ₹ 40 lakh, ₹ 25 lakh was paid in April, 2024 and ₹ 15 lakh was paid in January, 2025. During the P.Y.2023-24, the trust also paid ₹ 12 lakh towards revenue expenditure incurred during the P.Y.2021-22 and ₹ 10 lakh towards revenue expenditure incurred during the P.Y.2020-21.]	400
(viii)	Included in (vii) above, a sum of ₹ 5 lakhs, being the amount applied for the benefit of the founder of the trust.	
(ix)	The trust acquiring a building in current year for ₹ 200 lakhs out of borrowed money from ICICI Bank Ltd. Principal repayment made in current year is ₹ 55 lakhs	
(x)	The trust has accumulated ₹ 15 Lakh u/s 11(2) in the F.Y. 2018-19 for a period of five years for extension of one of its schools. The trust has spent ₹13.50 Lakhs for the said purpose till 31.03.2024.	
(xi)	Excess of expenditure over income in the PY 2022-23	25

Compute the total income & Tax Liability of the trust for the AY 2024-25 in order to avail maximum benefits within the four corners of law.

Answer

Computation of total income of Mani Foundations for the A.Y.2024-25

Particulars	₹	₹
Gross receipts from students towards tuition fees, development fees etc.		6,00,00,000
Government Grants (taxable, since only grant for the purpose of corpus of a trust established by the Central or State Government is excluded from the definition of income)		8,00,000
Voluntary contributions (other than anonymous donations) [₹25 lakh – ₹5 lakh]		20,00,000
		6,28,00,000
Add: Anonymous donations [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] **[See Note]**		1,65,000
		6,29,65,000
Less: 15% of income set apart		94,44,750
Less: Amount applied for charitable purposes		5,35,20,250
- Amount applied for the purpose of schools (excluding amount applied for the benefit of the founder, amount applied from Corpus of Trust & amount not paid during PY 23-24) = ₹400 lakh – ₹5 lakh - ₹10 lakhs – 40 lakhs	3,45,00,000	
- Expenditure of PY 21-22 paid in PY 23-24 (As amendment made by FA 2022 trust can claim application only on payment basis and this amendment applicable from AY 22-23, so ₹ 12 lakhs amount can be claim as application in PY 22-23 as it was not allowed in PY 21-22)	12,00,000	
- Repayment of loan taken for acquisition building As per amendment made by FA 21, Application from loans and borrowings shall not be considered as application. However, when such loan or borrowing is repaid from the income of a PY, such repayment shall be allowed as application in the PY in which it is repaid and to the extent it is repaid.	55,00,000	

Particulars	₹	₹
- Corpus donations to Bharat Mata trust registered under section 10(23C)		
[Deduction is not permissible in respect of corpus donations to a trust registered u/s 12AA/12AB or Institution u/s 10(23C)]	-	
- Donation to Gandhiji Free Trust registered u/s 12AB – 85% allowable since the same is out of current year income of the trust, even though the objects of the trust are different. Only corpus donations are not permissible to other trusts registered u/s 12AB. [25,00,000 x 85%]	21,25,000	
- Excess of expenditure over income in the P.Y.2021-22	Nil	4,33,25,000
		1,01,95,250
Add: Amount applied for the benefit of the founder of the trust chargeable to tax u/s 115BBI @ 30%		5,00,000
Add: Amount accumulated for extension of a hospital but not spent deemed to be income u/s 11(3)(₹15 Lakhs - ₹13.5 Lakhs) (Note 2)		1,50,000
Add: Corpus Donation not invested in safe mode u/s 11(5) taxable u/s 115BBI @30%		3,00,000
Add: Anonymous donation taxable @30% under section 115BBC		3,35,000
Total Income of the trust		**1,14,80,250**

Computation of Tax Liability of Trust	Tax Calculation	Tax Amt.
Income Taxable u/s 115BBI	9,50,000 x 30%	2,85,000
Income Taxable u/s 115BBC	3,35,000 x 30%	1,00,500
Balance Total Income taxable as per slab rate of 115BAC (default tax regime)	Upto 3,00,000 Nil > 3,00,000 to 6,00,000 5% 15,000 > 6,00,000 to 9,00,000 10% 30,000 > 9,00,000 to 12,00,000 15% 45,000 >12,00,000 to 15,00,000 20% 60,000 >15,00,000 to 1,01,95,250 30% 26,08,575	27,58,575
		31,44,075
Add: Surcharge @15%		4,71,611
		36,15,686
Add: Health & Education Cess @4%		1,44,627
Total Tax Liability		37,60,314 i.e. 37,60,310

Note - 1: As per section 115BBC, the anonymous donations in excess of the higher of the following would be subject to tax@30%; - ₹1.65 lakh, being 5% of the total donations received i.e., 5% of ₹33 lakh; or ₹1 lakh (As per ITR Govt. grant is also treated as donation so consider for calculating 5%.)

Therefore, anonymous donations of ₹3.35 lakh (₹5 lakh – ₹1.65 lakh) would be subject to tax@30% under section 115BBC. Such anonymous donations which are subject to tax@30% are not eligible for the benefit of exclusion from total income under sections 11 and 12.

Note – 2: Section 11(3) provides that if the income accumulated for certain purpose is not utilized for the said purpose within the period (not exceeding 5 years) for which it was accumulated, then the un-utilized amount is deemed to be the income of the charitable institution for the previous year in the expiry of the period of

accumulation. In the present question trust has applied ₹ 13.5 lakhs out of ₹ 15 lakhs so remaining ₹ 1.5 lakhs treated as specified income and taxable @ 30% u/s 115BBI.

Note – 3: As amendment made by Finance Act, 2021 Excess applied of earlier year is not allowed as applied in current year.

Question 10 [Exit Tax]

GVB Institution approved u/s 10(23C)(v) engaged in the activities of running a hospital and medical college for 10 years, has been merged with a Corporate hospital on 31st March, 2024. The said Corporate Hospital is not eligible for approval u/s 10(23C) of the Act. The position of assets and liabilities of the Institution as on the date of merger are furnished as under:

A: Properties and Assets:	₹
(a) Shares and securities held by Institution acquired out of agricultural income exempt u/s 10(1) of the Act:	25 lakhs
(b) Book value of Quoted shares and securities:	35 lakhs
Market value (Average of lowest and highest price of such shares as on date of merger quoted on recognised stock exchange)	40 lakhs
(c) Book value of Land and Buildings held by Institution:	60 lakhs
Value of Immovable Properties (Land & Buildings) as per valuation report from Registered Valuer:	40 lakhs
Stamp Duty value:	38 lakhs
The Institution was created on 1st January, 2013 and obtained registration u/s 10(23C)(v) on 31st March, 2013.	
(d) Advance Tax paid (Its part of Assets)	12 lakhs
(e) The Institution holds 40% of equity shares in an unlisted company and the financial position of said unlisted company as on date of merger is as under:	₹
Book value of assets (other than immovable property)	25 lakhs
Fair Market value of Immovable Property	45 lakhs
Reserves and Surplus	15 lakhs
Provision for taxation	5 lakhs
Total amount of Paid-up Equity Share Capital	25 lakhs
B: Liabilities:	
(a) Liability in respect of shares and securities (unlisted)	8 lakhs
(b) Bank Liability in respect of quoted shares and securities	15 lakhs

Compute the tax liability, if any, of Institution, arising out of above merger, giving explanation for treatment of each item in the context of relevant provisions contained in the Act. Assume that the Institution has no tax liability in respect of other activities undertaken during previous year 2023-24.

Answer

(a) Computation of exit tax payable by GVB Institution

As per section 115TD, the accreted income of "GVB Institution", registered u/s 10(23C)(v), would be chargeable to tax at maximum marginal rate@34.944% [30% *plus* surcharge@12% *plus* cess@4%] on its merger with another entity not registered u/s 10(23C).

Particulars	Amount (₹)
Aggregate FMV of total assets as on 31.3.2024, being the specified date (date of merger) **[See Working Note 1]**	1,08,00,000
Less: Total liability computed in accordance with the prescribed method of valuation **[See Working Note 2]**	23,00,000
Accreted Income	**85,00,000**

Particulars	Amount (₹)
Tax Liability@34.944% of ₹85,00,000	29,70,240
Working Note 1	
Aggregate fair market value of total assets on the specified date	
Share and securities held by the Institution, which are acquired out of agricultural income exempt u/s 10(1) shall be ignored by virtue of proviso to section 115TD(2).	Nil
Quoted shares and securities	40,00,000
[The fair market value of quoted shares would be average of the lowest and highest price of such shares quoted on the recognized stock exchange on the specified date i.e., 31.3.2024]	
Land and building, being immovable property	40,00,000
[The fair market value of land and building would be higher of ₹40,00,000 i.e., price that it would ordinarily fetch if sold in the open market as per registered valuer's certificate and₹38,00,000, being stamp duty value as on the specified date i.e., 31.3.2024]	
Equity shares in an unlisted company:	
Book value of assets (other than immovable property) 25,00,000	
Fair market value of immovable property 45,00,000	
70,00,000	
Less: Book value of liabilities in the balance sheet:	
[Provision for taxation not to be included in the liabilities; total amount of paid up share capital and reserves and surplus would also not be included in liabilities] Nil	
70,00,000	
Value of unlisted shares held by GVB Institution [70,00,000 x 40%]	28,00,000
	1,08,00,000

Working Note 2

Particulars	Amount (in ₹)
Total liability	
Liability in respect of unlisted shares and securities	8,00,000
Bank liability in respect of quoted shares and securities	15,00,000
Total liability of Institution	**23,00,000**

Question 11 **[Business Trust]**

Mr. Sam, a non-resident and Mr. Hari, a resident received following income from REIT during P.Y.2023-24. The components of income are as follows:

	Particulars	Mr. Sam ₹	Mr. Hari ₹
(i)	Rental Income from real estate property owned by REIT	2,01,000	3,05,000
(ii)	Interest Income of REIT from Gamma Ltd.	70,000	80,000
(iii)	Dividend Income of REIT from Gamma Ltd.	39,000	60,000
	Total Income	**3,10,000**	**4,45,000**

Gamma Ltd. is an Indian company in which the REIT holds controlling interest. The REIT holds 100% of shareholding of Gamma Ltd. Gamma Ltd. does not exercise option u/s 115BAA for A.Y. 2024-25.

Examine whether the above components of the income distributed by REIT would be chargeable to tax in the hands of Mr. Sam and Mr. Hari. Also, examine whether the REIT is required to deduct tax at source on such income distributed to Mr. Sam and Mr. Hari.

Would your answer change if Gamma Ltd. exercises option u/s 115BAA for A.Y.2024-25?

Answer

The REIT enjoys pass-through status in respect of rental income from real estate asset owned by it directly and interest income from special purpose vehicle, (i.e., Gamma Ltd., in this case, since it is an Indian company in which REIT holds controlling interest). Therefore, such income is taxable in the hands of the unit holders. In respect of dividend income from special purpose vehicle, REIT enjoys pass-through status. If the SPV is not opting for the provisions of section 115BAA, the dividend income component would be exempt in the hands of the unit holder. However, if the SPV is exercising the option u/s 115BAA, dividend income component would be taxable in the hands of unit holder.

(1) **Rental income component of income distributed by REIT**: The distributed income or any part thereof, received by Sam and Hari from the REIT, which is in the nature of income by way of renting or leasing or letting out any real estate asset owned directly by such REIT is deemed income of the unit-holder as per section 115UA(3). Accordingly, ₹ 2,01,000 & ₹ 3,05,000 would be deemed income of Sam and Hari as per section 115UA(3) and it is taxable as per normal tax rates. The REIT has to deduct tax at source u/s 194LBA@31.2% (being the rate in force) in case of distribution to Sam, being a non-resident and 10% in case of Hari being resident.

(2) **Interest component of income distributed by REIT**: Interest component of income received from a special purpose vehicle, Gamma Ltd., in this case, and distributed to a unit holder is taxable in the hands of the unit holder. Accordingly, such interest component is taxable in the hands of Sam @ 5% and at normal tax rates in hands of Hari. The REIT has to deduct tax at source u/s 194LBA @5.2%, on ₹ 70,000, since Sam is a non-resident and 10%, on 80,000, since Hari is a resident.

(3) **Dividend component of income distributed by REIT**: By virtue of section 10(23FD), the dividend component of income distributed to Sam and Hari would be exempt in thier hands. Therefore, there is no liability on the REIT to deduct tax at source on the dividend component of income distributed by it to Mr. Sam and Hari.

However, if Gamma Ltd. has exercised option u/s 115BAA, then, the dividend income distributed by it would be subject to tax in the hands of the unitholders. Accordingly, ₹ 39,000 is taxable in the hands of Mr. Sam and ₹ 60,000 taxable in hands of Hari. The REIT has to deduct tax at source@10.4% on ₹ 39,000, since Sam is a non-resident and at 10% on 60,000, since Hari is a resident.

Question 12 [Investment Fund]

An Investment Fund incorporated in India in the form of a company has 20 resident unit- holders, each holding 5 units. Out of these, 16 unit holders are holding units for more than 12 months and 4 unit-holders are holding units for less than 12 months as on 31.03.2024.

The particulars of income of the Investment fund for the previous year 2023-24 are as follows:

(i) Business income - ₹ 20 lakhs.
(ii) Long-term capital losses - ₹ 30 lakhs.
(iii) Income from other sources - ₹ 40 lakhs.

Discuss the tax treatment with respect to the above income in the hands of investment fund as well as in the hands of unit-holders for the A.Y. 2024-25.

What would be the implication in the hands of unit-holders, if the Investment fund distributes only 80% of its income to the unit-holders during the year?

Answer

As per section 115UB(1), any income accruing or arising to, or received by, a person, being a unit holder of an investment fund, out of investments made in the investment fund shall be chargeable to income-tax in the same manner as if it were the income accruing or arising to, or received by, such person had the investments made by the investment fund, been made directly by him.

Section 10(23FBA) exempts any income, other than income chargeable under the head "Profits and gains of business or profession", in the hands of investment fund. Consequently, income of the same nature as income chargeable under the head "Profits and gains of business or profession" at investment fund level, shall be exempt in the hands of unit holders as per section 10(23FBB). This implies that all income from investment fund is taxable in the hands of unit holders except income under the head "Profits and gains of business or profession".

(i) Business income - ₹ 20 lakhs

Business income would be taxable in the hands of Investment Fund. Consequently, such income would not be includible in the hands of unit holders.

(ii) Long-term capital loss - ₹ 30 lakhs

Loss other than loss under the head "Profits and gains from business or profession" would not be allowed to be passed through to the investors if such loss has arisen in respect of a unit which has not been held by the unit holder for a period of at least 12 months. However, such loss can be passed through to the investors if such loss has arisen in respect of a unit which has been held by the unit holder for a period of at least 12 months

Accordingly, **long-term capital loss of ₹ 1.5 lakhs (₹ 30 lakhs/20 unitholders) each can be carried forward and set-off by 16 unitholders**, holding 5 units each for more than 12 months, against income from long-term capital gains arising in the subsequent years, since there is no long-term capital gain in the current year. It can be carried forward for a maximum of 8 assessment years.

However, **such loss of ₹ 1.50 lakhs each cannot be carried forward by the 4 unitholders**, holding 5 units each for less than 12 months.

(iii) Income from Other Sources - ₹ 40 lakhs

"Income from Other Sources" would be exempt in the hands of Investment fund.

₹ 2 lakhs (₹ 40 lakhs/ 20 unitholders) would be taxable as income from other sources in the hands of each unitholder.

If the income is not paid or credited to the unitholders during a previous year, it shall be deemed to have been credited to the account of the unitholder on the last day of the previous year in the same proportion in which such person would have been entitled to receive the income had it been paid in the previous year.

Thus, even if investment fund distributed only 80% of its income to the unit holders during the year, the remaining 20% of income would be deemed to be credited to the account of each unitholder on the last day of the previous year i.e., 31.03.2024. However, income which has been included in the total income of the unitholders in the previous year on accrual basis shall not once again be included in the previous year in which such income is actually paid to him by the investment fund.

Question 13 **[TCS & TDS]**

Kishore & Sons is a dealer of coal. Its turnover for the F.Y. 2022-23 was ₹ 12 crores. The State Government of Hyderabad granted a lease of coal mine to Kishore & Sons on 1.5.2023 and charged ₹ 11 crores for the lease. Kishore & Sons sold coal of ₹ 95 lakhs to M/s BAC Co. during the P.Y. 2023-24. M/s XYZ Ltd. purchased coal of ₹ 55 lakhs from Kishore & Sons for trading purpose in July 2023. Turnover of M/s XYZ Ltd. during the P.Y. 2022-23 was ₹ 12 crores. PAN is duly furnished by the buyer and seller to each other. Details of sale to and payments from M/s BAC Co. by Kishore & Sons are as follows:

S. No.	Date of sale	Date of receipt/ Payment	Amount (₹)
1	29.05.2023	10.05.2023	35,00,000
2	30.06.2023	10.07.2023	25,00,000
3	25.11.2023	25.10.2023	8,00,000
4	20.01.2024	22.01.2024	15,00,000
5	01.03.2024	15.02.2024	12,00,000

Turnover of M/s BAC Co. during the P.Y. 2022-23 was ₹ 11 crores. The above amounts were credited to Kishore & Sons account in the books of M/s BAC Co. on the date of sale. M/s BAC Co. furnishes a declaration to Kishore & Sons that coal is to be utilised for generation of power.

Based on the above facts, choose the **most appropriate answer** to Q. No. 1 to 5 –

I. Who is required to deduct/collect tax at source in respect of lease of coal mine by the State Government of Hyderabad to Kishore & Sons and at what rate?
   (a) State Government of Hyderabad is liable to collect tax at source @ 2% on ₹ 11 crores
   (b) State Government of Hyderabad is liable to collect tax at source @0.1% on ₹ 10.50 crores, being the amount exceeding ₹ 50 lakhs
   (c) Kishore & Sons is liable to deduct tax at source @0.1% on ₹ 10.50 crores, being the amount exceeding ₹ 50 lakhs
   (d) Neither State Government of Hyderabad is liable to collect tax at source nor Kishore & Sons is liable to deduct tax at source

II. Is Kishore & Sons required to collect tax at source in respect of the sale transactions with M/s BAC Co. If yes, when and what is the amount of tax to be collected?
   (a) Yes; ₹ 1,000 on 30.6.2023, ₹ 800 on 25.10.2023, ₹ 1,500 on 20.1.2024 and ₹ 1,200 on 15.2.2024
   (b) Yes; ₹ 35,000 on 10.5.2023, ₹ 25,000 on 30.6.2023, ₹ 8,000 on 25.10.2023, ₹ 15,000 on 20.1.2024
   and ₹ 12,000 on 15.2.2024
   (c) Yes; ₹ 1,000 on 10.7.2023, ₹ 800 on 25.10.2023, ₹ 1,500 on 22.1.2024 and ₹ 1,200 on 15.2.2024
   (d) No, Kishore & Sons is not liable to collect tax at source

III. Is Kishore & Sons required to collect tax at source in respect of the sale transaction with M/s XYZ Ltd. If yes, what is the amount of tax to be collected?
   (a) Yes; ₹ 55,000
   (b) Yes; ₹ 5,500
   (c) Yes; ₹ 500
   (d) No, Kishore & Sons is not liable to collect tax at source

IV. Is M/s BAC Co. required to deduct tax at source in respect of the purchase transactions with Kishore & Sons. If yes, when and what is the amount of tax to be deducted?
   (a) Yes; ₹ 1,000 on 30.6.2023, ₹ 800 on 25.10.2023, ₹ 1,500 on 20.1.2024 and ₹ 1,200 on 15.2.2024
   (b) Yes; ₹ 3,500 on 10.5.2023, ₹ 2,500 on 30.6.2023, ₹ 800 on 25.10.2023, ₹ 1,500 on 20.1.2024 and
   ₹ 1,200 on 15.2.2024
   (c) Yes; ₹ 1,000 on 10.7.2023, ₹ 800 on 25.10.2023, ₹ 1,500 on 22.1.2024 and ₹ 1,200 on 15.2.2024
   (d) No, M/s BAC Co. is not liable to deduct tax at source

V. Assume for the purpose of this MCQ, M/s BAC Co.'s turnover for the F.Y. 2022-23 was ₹ 9 crore, who will be required to deduct/ collect tax at source in respect of transactions between Kishore & Sons and M/s BAC Co. and at what rate?
   (a) Kishore & Sons is liable to collect tax at source @1% of ₹ 95 lakhs
   (b) Kishore & Sons is liable to collect tax at source @0.1% of ₹ 45 lakhs, being the sum exceeding ₹ 50 lakhs
   (c) M/s BAC Co. is liable to deduct tax at source @0.1% of ₹ 45 lakhs, being the sum exceeding ₹ 50 lakhs
   (d) Neither Kishore & Sons is liable to collect tax at source nor M/s BAC Co. is liable to deduct tax at source

Answer

Question No.	Answer
I	(a)
II	(d)
III	(a)
IV	(a)
V	(d)

Question 14 [Capital Gain Sec. 9B & 45(4)]

Mr. Prem is a partner in two firms X & Co., Mumbai and Y & Co., Delhi. X & Co. has four partners with equal PSR. Mr. Prem resigned from X & Co. on 1.4.2023. On that date, the capital balance of each of the partners stood at ₹ 32 lakhs. In order to settle the dues of Mr. Prem, the firm revalue 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.

	Assets	Date of purchase	COA (Book value)	FMV as on 1.4.2023
1.	Land at Pune	21.1.2013	₹ 15 lakhs	₹ 50 lakhs
2.	Land at Nagpur	18.4.2015	₹ 25.4 lakhs	₹ 45 lakhs
3.	Land at Mumbai	14.5.2013	₹ 88 lakhs	₹ 250 lakhs
4.	Self-gen. Goodwill			₹ 70 lakhs

In April, 2023, X & Co. gave Nagpur Land and ₹ 15 lakh to Mr. Prem to settle his capital balance.

The firm Y & Co. dissolved on 1.3.2024 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	COA (book value)	FMV as on 1.3.24
1.	Land at Chandigarh (given to Prem)	3.7.2011	₹ 18.4 lakhs	₹ 62 lakhs
2.	Land at Mohali (given to Akshay)	15.9.2015	₹ 15.24 lakhs	₹ 59 lakhs
3.	Land at Gurgaon (given to Aarav)	27.2.2011	₹ 16.7 lakhs	₹ 70 lakhs

In addition, Prem and Akshay were given money of ₹ 8 lakhs and ₹ 11 lakhs, respectively on 1st March, 2024.

From the above information answer the following questions.

1. Discuss the tax treatment in hands of X & Co. Mumbai from above transactions.
2. Would your answer change if X & Co. sells Land at Nagpur to an outsider at FMV of ₹ 45 lakhs and settled Mr. Prem's account by paying only money of ₹ 60 lakhs.
3. Suppose Mr. Prem transfer land of Nagpur (which was received from Firm) to Mr. Hari for ₹ 72 lakhs on 10.04.24, compute capital gain.
4. Suppose X & Co. Mumbai transfer land of Pune for ₹ 80 lakhs on 17.07.23, compute capital gain.
5. Discuss the tax treatment in hands of Y & Co. Delhi from above transactions.

<u>Part-1: X & Co. Mumbai</u>

As per section 9B, since capital asset (Land at Nagpur) given to Mr. Prem on reconstitution of Firm so it is treated as deemed to be transfer in hands of Firm and capital gain applicable in the year in which asset received by Mr. Prem.

Computation of Capital Gain as per 9B PY 23-24 AY 24-25

Particulars	₹
Full value of consideration (FMV on the date of transfer)	45,00,000
Less: Transfer Expenses	-
Net Consideration	45,00,000
Less: Index cost of Acquisition 25,40,000 x 348 (23-24) / 254 (15-16)	34,80,000
Long-term Capital Gain	10,20,000

Calculation of Tax Liability	₹
Tax @ 20% on LTCG u/s 112 (10,20,000 x 20)	: 2,04,000
Add: Health and Education cess @4%	: 8,160
Net Tax payable	2,12,160

- The CBDT guidelines also specify accounting treatments in the books of Firm on the transfer of assets to partner. As per accounts, profit before tax on transfer of capital asset shall be ₹ 19,60,000 i.e. (FMV of asset ₹ 45,00,000 minus Book Value ₹ 25,40,000)

Profit after tax as per account is ₹ 17,47,840 (₹ 19,60,000 minus ₹ 2,12,160)

Mr. Prem share in profit (₹ 17,47,840/4) = ₹ 4,36,960

Mr. Prem capital after adjusting profit [₹ 32,00,000 + ₹ 4,36,960] = ₹ 36,36,960

Applicability of section 45(4) in case of X & Co. Mumbai

Since in the present case Mr. Prem retired from Firm so it is treated as reconstitution of Firm so section 45(4) also applies in addition to section 9B.

Computation of Capital Gain PY 23-24 AY 24-25

Particulars	₹
Full value of consideration	
(i) Money	15,00,000
(ii) FMV of Capital asset (Nagpur Land)	45,00,000
	60,00,000
Less: Capital account balance of Mr. Prem (after giving accounting treatment of section 9B)	36,36,960
Capital Gain as per section 45(4)	23,63,040

Attribution of Capital Gain u/s 45(4) to remaining capital asset of Firm as per Rule 8AB

Assets	Cost (Book Value) ₹	Revalued (FMV) ₹	Increase ₹	Attribution ₹
Land at Pune	15,00,000	50,00,000	35,00,000	3,09,762 (23,63,040x35L/267L)
Land at Mumbai	88,00,000	2,50,00,000	1,62,00,000	14,33,755 (23,63,040x162L/267L)
Self-Generated Goodwill	Nil	70,00,000	70,00,000	6,19,523 (23,63,040x70L/267L)
		Total	2,67,00,000	23,63,040

- Capital gain of ₹ 17,43,517 attributed towards Land at Pune and Mumbai is treated as LTCG as such lands are long term capital asset at the time of taxation u/s 45(4).
- Capital gain of ₹ 6,19,523 attributed towards self-generated goodwill shall be treated as STCG.

Part-2

If land at Nagpur transfer to any outsider, then sec. 9B not applicable but normal CG provisions as per sec. 45(1) applicable. The net results of capital gain incidence will remain same as part-1.

Part-3

Capital Gain in Hands of Mr. Prem on transfer of Nagpur Land

Computation of Capital Gain PY 24-25 AY 25-26

Particulars	₹
Full value of consideration	72,00,000
Less: Transfer Expenses	-
Net Consideration	72,00,000
Less: Cost of Acquisition (FMV on the date of received)	45,00,000
Short-term Capital Gain	27,00,000

Part-4

Capital Gain in Hands of X & Co. on transfer of Pune Land

Computation of Capital Gain PY 23-24 AY 24-25

Particulars	₹
Full value of consideration	80,00,000
Less: Transfer Expenses	-
Net Consideration	80,00,000
Less: Index cost of Acquisition 15,00,000 x 348 (23-24) / 200 (12-13)	26,10,000
Less: Attribution of capital gain towards Pune land	3,09,762
Long-term Capital Gain	50,80,238

Part-5

Y & Co. Delhi

As per sec. 9B in case of dissolution, if any CA or SIT transfer to partner then capital gain or PGBP or both applicable in hands of Firm. In case of dissolution of Firm sec. 45(4) is not applicable.

Computation of Capital Gain PY 23-24 AY 24-25

Particulars	Land at Chandigarh ₹	Land at Mohali ₹	Land at Gurgaon ₹
Full value of consideration (FMV on the date of transfer)	62,00,000	59,00,000	70,00,000
Less: Transfer Expenses	-	-	-
Net Consideration	62,00,000	59,00,000	70,00,000
Less: Index cost of Acquisition Chandigarh Land 18,40,000 x 348(23-24) / 184 (11-12)	34,80,000		
Mohali Land 15,24,000 x 348(23-24) / 254 (15-16)		20,88,000	
Gurgaon Land 16,70,000 x 348(23-24) / 167 (10-11)			34,80,000
Long-term Capital Gain	27,20,000	38,12,000	35,20,000
Total LTCG	1,00,52,000		

Question 15 [Transfer Pricing]

Pen Inc., Paper Ltd. and Pencil Ltd.

Pen Inc., a U.S. Company holds 45% of equity shares in M/s. Paper ltd. (an Indian Company). M/s. Paper Ltd. is engaged in development and maintenance of software. During F.Y. 2023-24, M/s. Paper Ltd. has spent 24000 man hours for developing and maintenance of software for Pen Inc. M/s. Paper Ltd has charged Pen Inc. at the rate of ₹ 1100/- per man hour. Operating cost incurred by M/s. Paper Ltd. for development and maintenance of software for Pen Inc. amounts to ₹ 2,10,00,000/-.

Paper Ltd. had also undertaken similar development and maintenance of software for an unrelated enterprise Pencil Ltd. (an Indian Company). The persons working for Pencil Ltd. and Pen Inc. were the same. M/s. Paper Ltd. made a gross profit of 40% (on operating cost) for development and maintenance of software of Pencil Ltd. M/s. Paper Ltd.'s transactions with Pen Inc. are comparable to transactions with Pencil Ltd., except that Pen Inc. has provided technical knowhow support to M/s. Paper Ltd., which can be valued at 10% of the normal gross profit on operating cost. Pencil Ltd. does not provide any such support.

M/s. F Private Limited and M/s. K private Limited

M/s F private Limited and M/s. K private Limited (in which the Managing Director of M/s. Paper Ltd. is having substantial interest) amalgamated to form a new company M/s. D Private Limited. M/s. D Private Limited has entered into an Advance Pricing Agreement (APA) with CBDT.

M/s. Fine Limited

M/s. Fine Limited, an another Indian company (in which the Managing Director of M/s. Paper Ltd. is having substantial interest) has filed an application for advance pricing agreement (APA) and has furnished, the proof of payment of specified fee with the application. For one of the rollback years, M/s. Fine Limited filed its return of income within the "due date" specified u/s 139(1) of the Income Tax Act, however, after the expiry of due date specified u/s 139(1), a revised return of income for the said year was filed by the company, within the time limit prescribed u/s 139(5).

Answer

A. Compute the arm's length price of international transactions entered by M/s. Paper Ltd., assuming that the cost plus method is the most appropriate method and the internal comparable transaction mentioned in the case study is the most appropriate comparable. Also, compute the adjustment to total income, if any, required to be made on determination of arm's length price in case of M/s. Paper Ltd

B. M/s. F Private Limited and M/s. K Private Limited i.e. both the merged (amalgamating) companies contend that both of them are eligible for the rollback provisions covered in the APA entered between M/s. D Private Ltd. and CBDT. What is your opinion-explain with relevant provisions?

C. One of the conditions for application of Roll Back Provisions of the APA is that "the return of income for the relevant roll back year has been filed within the due date specified under section 139(1) of the income-tax Act". The management of M/s. Fine Limited, in the facts given in the case, needs your opinion, whether the company would be eligible for roll back provisions of APA in respect of the assessment year for which a revised return has been filed u/s 139(5) of the income-tax Act? Give your opinion.

A. Computation of arm's length price as per Cost plus method:

Particular		Rs
Normal Gross profit mark up in case of Pencil Ltd. (an unrelated party)	40%	
Less: Difference to be adjusted - Value of technical know-how (10% of 40%)	4%	
Arm's length normal gross profit mark up	36%	
Cost incurred by Paper Ltd. for executing Pen Inc.'s work		2,10,00,000
Add: Normal gross profit on cost incurred		75,60,000
Arm's length billed value		2,85,60,000
Less: Actual billing in case of Pen Inc. (Rs.110/- x 24000 man hours)		2,64,00,000
Total income of Paper Ltd. to be increased by		21,60,000

B. Eligibility for the rollback provisions

The APA agreement is between the Board and a specific person (applicant). The principle to be followed in case if merger is that the person who makes the APA application would only be entitled to enter into the agreement and be entitled for rollback provisions in respect of international transaction undertaken by it in the rollback years. The other person who has merged with this person would not be eligible for the rollback provision. Hence, in the present case F Private Limited and K Private Limited would not be eligible for rollback of international transaction covered under the APA entered between the applicant D Private Limited and the CBDT.

C. Eligibility for the rollback where revised return has been filed

Rule 10MA specifies that the rollback benefit would be subject to the condition that the return of income for the relevant rollback year has been furnished before the due date specified u/s 139(1). The return of income filed u/s 139(5) of the Income-tax Act, 1961 replaces the original return of income.

Hence, if there is a return which is filed under section 139(5) to revise the original return filed before the due date, the applicant would be entitled for rollback on this revised return of income.

In the present case, since Fine Limited has filed the original return within the due date, hence, it would be eligible for rollback irrespective of the fact that such return was later revised.

Question 16 [Transfer Pricing]

M/s BB India Ltd. (BB India)

M/s. BB India (an Indian Company) is rendering software development services solely for A Inc., USA (a company incorporated in USA). A Inc., USA is an associated enterprise of M/s. BB India. The services have been provided under cost plus arrangement under which M/s. BB India is reimbursed, 7% over the operating cost incurred by M/s. BB India during respective financial Year, During a financial year, the operating cost incurred by M/s. BB India for rendering software development services for a Inc USA was ₹ 500 crores.

At the time furnishing return of income for the relevant assessment year by M/s. BB India, the following data of comparable uncontrolled entities undertaking comparable transactions is found available:-

Sl. No.	Name of Entity	Y1	Y2	Y3 (Current Year)
1	Sunday Ltd.	OC=104 OP=13	OC=160 OP=14	OC=232 OP=38
2	Monday Ltd.	OC=250 OP=23	OC=222 OP=26	OC=260 OP=21
3	Tuesday Ltd.	Data Not Available	OC=226 OP=23	OC=110 OP=12
4	Wednesday Ltd.	Data Not Available	Data Not Available	OC=112 OP=(-)4
5	Thursday Ltd.	OC=166 OP=24	OC=132 OP=17	OC=148 OP=18
6	Friday Ltd.	OC= 156 OP=15	Data not available	OC=236 OP=22

The Profit Level Indicator (PLI) used in applying the most appropriate method is operating profit as compared to operating cost (OP/OC)

Select the correct alternative for the following (MCQs):

16.1 For the determination of arm's length price of international transactions undertaken by M/s. BB India, use of multiple year data of the comparable companies for the purpose of comparability analysis is permissible if, the most appropriate method selected is:

(A) TNMM only.
(B) CPM only.
(C) CPM or TNMM.
(D) CUP only.

16.2 For determination of arm's length price of international transactions undertaken by M/s. BB India under the TNMM, as the Most Appropriate Method, the range concept of determination of arm's length price under arm's length range shall be applicable, only when there are at least:
(A) 5 comparables.
(B) 6 comparables.
(C) 8 comparables.
(D) 2 comparables.

16.3 In case, after filing of the return of Income by M/s. BB India, the case is selected for scrutiny by issue of notice u/s 143(2), the Assessing Officer may refer determination of arm's length price of international transactions to the Transfer Pricing Officer:
(A) with previous approval of CCIT(International Taxation)
(B) with previous approval of the PCCIT
(C) with previous approval of the CBDT
(D) with previous approval of the CIT/PCIT

16.4 In the case of M/s. BB India, if the determination of arm''s length price of international transactions is referred to the Transfer Pricing Officer (TPO) by the Assessing Officer. The TPO is required to pass order determining the arm's length price:
(A) at any time before 60 days prior to the date on which the period of limitation referred to in section 153 of the Act expires.
(B) at any time before 90 days prior to the date on which the period of limitation referred to in section 153 of the Act expires.
(C) at any time before 30 days prior to the date on which the period of limitation referred to in section 153 of the Act expires.
(D) at any time before 180 days prior to the date on which the period of limitation referred to in section 153 of the Act expires.

Answer the following questions on the basis of facts given in the case study:

16.5. Construct the dataset on the basis of the information available at the time of furnishing return of income by M/s. BB India & Compute ALP.

Answer to MCQs

16.1 (C) CPM or TNMM.
16.2 (B) 6 comparables.
16.3 (D) with previous approval of the CIT/PCIT
16.4 (A) at any time before 60 days prior to the date on which the period of limitation referred to in section 153 of the Act expires.

Answer to Descriptive Questions

Answer 16.5

Construction of the data set

The weighted average and data set shall be computed as under:

Sl. No.	Name	Y1	Y2	Y3 (Current year)	Aggregation of OC and OP	Weighted Average
1	Sun.	OC=104 OP=13	OC=160 OP=14	OC=232 OP=38	OC=496 OP=65	OP/OC = 13.10%
2	Mon.	OC=250 OP=23	OC=222 OP=26	OC=260 OP=21	OC=732 OP=70	OP/OC = 9.56%
3	Tue.	Data not available	OC=226 OP=23	OC=110 OP=12	OC=336 OP=35	OP/OC = 10.42%

SI. No.	Name	Y1	Y2	Y3 (Current year)	Aggregation of OC and OP	Weighted Average
4	Wed.	Data not available	Data not available	OC=112 OP= (-)4	OC=112 OP= (-)4	OP/OC = (-)3.57%
5	Thu.	OC= 166 OP=24	OC=132 OP=17	OC=148 OP=18	OC=446 OP=59	OP/OC = 13.23%
6	Fri.	OC= 156 OP=15	Data not available	OC=236 OP=22	OC=392 OP=37	OP/OC = 9.44%

From the above, the data set shall be constructed as follows:

SI. No.	1	2		3		4		5	6
Values	(-)3.57%	9.44%		9.56%		10.42%		13.10%	13.23%

Computation of ALP

35th percentile of data set = 6x35/100= 2.1 (2.1 is not whole number), hence, value of next data point-3 = 9.56%

65th percentile of data set= 6 x 65/100= 3.9 (3.9 is not whole number), hence, value of next data point-4 = 10.42%

Arm's length Range

9.56% to 10.42%

Hence, the mark-up of 7% on the operating cost is not at arm's length price

Hence, arm's length margin, shall be median of data set –

6x50/100= 3 (3 is a whole number), hence, average of data point 3 and 4 = (9.56+10.42)/2 = 9.99%

Arm's length price for services provided = 109.99% of Rs 500 crores = Rs 549.95 crores

Less: Price actually charged = Rs 535.00 crores

Adjustment total income = Rs 14.95 crores.

Question 17 [Eq. Levy]

PQR Ltd., an Indian headquartered multinational company, has entered into a fixed fee agreement for ₹ 3 crores with X-Accounting Ltd., UK for the Financial Year 2023-24, which was approved by the Central Government. As part of the agreement, X-Accounting Ltd., UK maintains an online web-platform through which it provides IFRS advisory and consultancy services, which also includes providing response to queries raised by PQR Ltd. The technical staff of X-Accounting Ltd., UK provide their expert views virtually over the platform within 24-72 hours. Further, X- Accounting Ltd. also provides customised training through the embedded online video platform exclusively for the personnel working with PQR Ltd. X-Accounting Ltd. does not have any offices outside the UK. Examine the tax implications/TDS implications of such payment and receipt in the hands of X-Accounting Ltd., UK and PQR Ltd., India under Chapter VIII of the Finance Act, 2016 (as amended by the Finance Act, 2021) and the Income-tax Act, 1961.

Extract of Article 13 of India-UK DTAA

1. Royalties and fees for technical services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.
2. However, such royalties and fees for technical services may also be taxed in the Contracting State in which they arise and according to the law of that State; but if the beneficial owner of the royalties or fees for technical services is a resident of the other Contracting State, the tax so charged shall not exceed :
   (a) in the case of royalties within paragraph 3(a) of this Articles, and fees for technical services within paragraphs 4(a) and (c) of this Article,—
      (i) during the first five years for which this Convention has effect ;
         (aa) 15 per cent of the gross amount of such royalties or fees for technical services when

the payer of the royalties or fees for technical services is the Government of the first-mentioned Contracting State or a political sub-division of that State, and

(bb) 20 per cent of the gross amount of such royalties or fees for technical services in all other cases; and

(ii) during subsequent years, 15 per cent of the gross amount of such royalties or fees for technical services; and

(b) in the case of royalties within paragraph 3(b) of this Article and fees for technical services defined in paragraph 4(b) of this Article, 10 per cent of the gross amount of such royalties and fees for technical services.

3. For the purposes of paragraph 2 of this Article, and subject to paragraph 5, of this Article, the term "fees for technical services" means payments of any kind of any person in consideration for the rendering of any technical or consultancy services (including the provision of services of a technical or other personnel) which :
   (a) are ancillary and subsidiary to the application or enjoyment of the right, property or information for which a payment described in paragraph 3(a) of this article is received ; or
   (b) are ancillary and subsidiary to the enjoyment of the property for which a payment described in paragraph 3(b) of this Article is received ; or
   (c) make available technical knowledge, experience, skill know-how or processes, or consist of the development and transfer of a technical plan or technical design.
4. The definition of fees for technical services in paragraph 4 of this Article shall not include amounts paid:
   (a) for services that are ancillary and subsidiary, as well as inextricably and essentially linked, to the sale of property, other than property described in paragraph 3(a) of this Article;
   (b) for services that are ancillary and subsidiary to the rental of ships, aircraft, containers or other equipment used in connection with the operation of ships, or aircraft in international traffic
   (c) for teaching in or by educational institutions;
   (d) for services for the private use of the individual or individuals making the payment ; or
   (e) to an employee of the person making the payments or to any individual or partnership for professional services as defined in Article 15 (Independent personal services) of this Convention.

Answer

Section 165A of the Finance Act, 2016 provides for equalisation levy@2% on the amount of consideration received or receivable by an e-commerce operator from e-commerce supply or services made or provided or facilitated by it, *inter alia*, to a person resident in India and a person who buys such goods or services or both using internet protocol address located in India.

We need to determine whether X-Accounting Ltd., UK is an e-commerce operator E-Commerce Operator means a non-resident who owns, operates or manages digital or electronic facility or platform for online sale of goods or online provision of services or both.

In the given situation, X-Accounting Ltd., UK, a non-resident, maintains a digital platform for online provision of services. Therefore, X-Accounting Ltd. is an e-commerce operator defined in section 165A.

However, the consideration received or receivable for specified services and for e-commerce supply or services would not include the consideration, which are taxable as, *inter alia,* fees for technical services in India under the Income-tax Act, read with the DTAA notified by the Central Government under section 90 or section 90A.

As per the Income-tax Act, 1961 and India-UK DTAA, fee for advisory services and training services by X-Accounting Ltd., UK comes within the scope of "fees for technical services" defined thereunder.

Hence, the consideration received for such services, being in the nature of fee for technical services, would not be subject to equalization levy.

Now, we will consider the income-tax implications.

Any fees for technical services will be deemed to accrue or arise in India if they are payable by, *inter alia,* a person who is resident in India except where the fees is payable in respect of technical services utilised in a

business or profession carried on by such person outside India or for the purpose of making or earning any income from any source outside India.

Hence, ₹ 3 crores would be deemed to accrue or arise in India in the hands of X-Accounting Ltd., UK and would be chargeable to tax in India as per Income-tax Act, 1961.

Withholding tax provisions under section 195 would be attracted and PQR Ltd, India has to withhold taxes on the payment made to X-Accounting Ltd., UK at the rate of 20%, which is the rate as per India-UK DTAA. The rate as per section 115A is also 20% but will be further increased by surcharge @2% and HEC @4%. Hence, the effective rate of tax as per Income tax Act, 1961 would be 21.216%. Therefore, the rate as per DTAA i.e., 20% is more beneficial.

Question 18 **[Eq. Levy]**

The following are the particulars relating to two Indian companies, namely, Alpha Ltd. and Beta Ltd., which are subject to tax audit u/s 44AB, for A.Y.2024-25 –

Particulars	Alpha Ltd.	Beta Ltd.
Date of setting up/registration	1.4.2019	1.11.2023
Main object	Manufacture of steel	Manufacture of leather
Place	Vaishali, Bihar	Ranipet, Tamil Nadu
Turnover of P.Y. 2021-22	₹ 251 crores	-
Turnover of P.Y. 2022-23	₹ 401 crores	-
Turnover of P.Y. 2023-24	₹ 270 crores	₹ 120 crores
Value of new plant and machinery installed and put to use on 1.11.2023	₹ 8 crore	₹ 5 crore
Gross Total Income of P.Y.2023-24	₹ 5 crore	₹ 3 crore
No. of new employees employed on the date of setting up/registration the company	50	750
No. of new employees employed as on 1.4.2021	750	-
Monthly emoluments to 750 employees employed in the respective companies as mentioned above, by		
ECS through bank account:		
250 employees	₹ 20,000 per employee	₹ 21,000 per employee
250 employees	₹ 25,000 per employee	₹ 25,000 per employee
250 employees	₹ 28,000 per employee	₹ 27,000 per employee

From the above details –

(i) Compute the tax liability of Alpha Ltd. and Beta Ltd. for A.Y.2024-25, assuming that Alpha Ltd. has not opted for any concessional rates earlier and they both avail the beneficial tax rates under the special provisions of the Income-tax Act, 1961 in the P.Y. 2023-24 by fulfilling the conditions specified thereunder. Assume that the gross total income reflects the computation under the special provisions.

(ii) Would it be beneficial for Alpha Ltd. to opt for beneficial tax rates in P.Y. 2023-24 instead of paying tax under regular provisions of the Income-tax Act, 1961? Examine.

Answer

(i) Computation of tax liability of Alpha Ltd. and Beta Ltd. under the special provisions of the Income-tax Act, 1961

Particulars	Alpha Ltd. ₹	Beta Ltd. ₹
Gross Total Income	5,00,00,000	3,00,00,000
Less: Deduction u/s 80JJAA		
Alpha Ltd - [(₹ 20,000 x 12 x 250) + (₹ 25,000 x 12 x 250)] x 30%	4,05,00,000	
Beta Ltd – [(₹ 21,000 x 5 x 250) + (₹ 25,000 x 5 x 250)] x 30%		1,72,50,000
Total Income	95,00,000	1,27,50,000
Computation of tax liability		
Tax@22% on ₹ 95,00,000 [As per section 115BAA]	20,90,000	
Tax@15% on ₹ 1,27,50,000 [As 115BAB]		19,12,500
Add: Surcharge @10%	2,09,000	1,91,250
	22,99,000	21,03,750
Add: Health and Education cess@4%	91,960	84,150
Total tax liability	23,90,960	21,87,900

Notes -

1. Beta Ltd. is a manufacturing company set up on or after 1.10.2019 but before 31.3.2024, hence, it would be eligible to opt for section 115BAB, and avail benefit of concessional rate of tax@15% plus surcharge@10% and HEC@4%. Alpha Ltd. is eligible to opt for special provisions under section 115BAA, as per which the rate of tax would be 22% plus surcharge@10% and HEC@4%.
2. Both Alpha Ltd. and Beta Ltd. are eligible to claim deduction u/s 80JJAA, which is a permissible Chapter VI-A deduction while computing total income under section 115BAA and 115BAB.

   In case of Alpha Ltd, 30% of the additional employee cost of new employees employed in the P.Y. 2021-22, can be claimed as deduction u/s 80JJAA for P.Y.2023-24. Out of 750 employees, 250 employees whose emoluments are ₹ 20,000 p.m., 250 employees whose emoluments are ₹ 25,000 p.m. qualify as additional employees and 250 employees whose emoluments exceed ₹ 25,000 p.m. do not qualify as additional employees.

   In case of Beta Ltd, 750 new employees are employed on 1.11.2023, being the date of setting up, for which 30% of additional employee cost can be claimed as deduction. Beta Ltd. is engaged in manufacture of leather, and hence it would be entitled for deduction u/s 80JJAA in the P.Y. 2023-24, since the eligible employees have been employed for more than 150 days in that year. Thus, 30% of the additional employee cost of 250 employees whose emoluments are ₹ 21,000 p.m. and 250 employees whose emoluments are ₹ 25,000 p.m. qualify as additional employees, can be claimed as deduction u/s 80JJAA for P.Y.2023-24.

(ii) Computation of tax liability of Alpha Ltd. As per the regular provisions of th Act

Particulars	Alpha Ltd. ₹
Gross Total Income (computed under the special provisions)	5,00,00,000
Less: Additional Depreciation [10% of ₹ 8 crore, since the plant and machinery has been put to use for less than 180 days in the P.Y.2023-24]	80,00,000
Gross Total Income (computed under the regular provisions of the Act)	4,20,00,000
Less: Deduction u/s 80JJAA [(₹ 20,000 x 12 x 250) + (₹ 25,000 x 12 x 250)] x 30%	4,05,00,000
Total Income	15,00,000
Computation of tax liability	
Tax@25% on ₹ 15,00,000 [Since turnover of P.Y.2021-22 is less than ₹ 400 crore]	3,75,000
Add: Surcharge (Not applicable, since total income is less than ₹ 1 crore)	Nil
	3,75,000
Add: Health and Education cess@4%	15,000
Total tax liability	3,90,000

List of Important Case Laws for MAY- 2024 Exams		
S.No.	**Case Law Name**	**Topic In Compact**
1.	ICDS Ltd (2013) SC	PGBP
2.	National Co-operative Development Corp. (2020)(SC)	PGBP
3.	Dr. Ranjan Pai (2021)(Kar.)	IFOS
4.	Sree Rama Multi Tech Ltd. (2018) (SC)	Taxation of dividend
5.	Reliance Energy Ltd. (2022) (SC)	Deduction u/c VI-A
6.	Cognizant Technology Solutions of India Pvt. Ltd. [2023] (SC)	Deduction u/c VI-A & SEZ
7.	Venkatesh Premises Co-operative Society Ltd. (2018) (SC)	Some Remaining Case Laws
8.	Metal and Chromium Plater (P) Ltd. [2019] (Mad)	MAT
9.	Honda Siel Cars India Ltd [2017](SC)	Some Remaining Case Laws
10.	New Noble Educational Society (2022) (SC)	Trust Taxation
11.	Sun Outsourcing Solutions Private Limited (2018) (T&AP)	TDS & TCS
12.	Prasar Bharati [2018] (SC)	TDS & TCS
13.	Singapore Airlines Ltd/ KLM Royal Dutch Airlines [2022] (SC)	TDS & TCS
14.	Pioneer Overseas Corporation USA (India Branch) (2022) (SC)	TDS & TCS
15.	Regen Powertech Private Limited [2019] (Mad)	Assessment Procedure

S.No.	Case Law Name	Topic In Compact
16.	Genpact India Pvt. Ltd. (2019 (SC)	Appeals & Revisions
17.	Pepsi Foods Ltd (2021 (SC)	Appeals & Revisions
18.	SAP Labs India Pvt. Ltd. [2023] (SC)	Appeals & Revisions
19.	Maruti Suzuki India Ltd. (2019) (SC)	Misc. Provisions
20.	US Technologies International Pvt. Ltd. [2023] (SC)	Penalties
21.	Mahle Anand Filter Systems Pvt. Ltd. [2023] (SC)	New Case Law - Addendum of Compact given on bbvirtuals.com
22.	KBD Sugars and Distilleries Ltd. [2023](SC)	
23.	Secunderabad Club [2023](SC)	
24.	Air India Ltd. [2023](SC)	
25.	Industrial Development Bank of India Ltd. [2023](SC)	

Priority Questions from Compiler MAY - 24		
S.No.	**Topic Name**	**Question Number**
1.	Basics, Tax Rates AY 24-25 & Alternate Taxation Regime	3, 4, 7
2.	Income from Capital Gains	9, 11, 13, 14, 17, 25, 31
3.	Income from Other Sources	9, 11
4.	Taxation of Dividend & Deemed Dividend	1, 2
5.	Taxation in Case of Liquidation & Buy Back	1, 2
6.	Taxation in Case of Amalgamation and Demerger	1,2
7.	Profits & Gains of Business or Profession & ICDS	1, 4, 7, 11, 12, 14, 24, 26, 28, 29, 30, 31, 34, 38, 40, 44 + Master Q of PGBP
8.	Taxation of Political Parties & Electoral Trust	1
9.	Taxation in Case of Firm/LLP, AOP/BOI	4, 5, 6, 8,
10.	Business Trust, Investment Fund and Securitisation Trust	3, 4, 5
11.	Minimum Alternate Tax	4, 5, 7, 8
12.	AMT & Deduction u/s 10AA (SEZ)	2, 3, 4, 7
13.	Taxation of Trust & Institution	1, 3, 6, 19, 21, 23
14.	Advance Tax, TDS & TCS	1, 13, 14, 15, 18, 20, 24, 26, 27, 30, 35, 36, 37, 38, 43, 45
15.	Taxation of VDA	2, 3
16.	Assessment Procedure	12, 15, 18, 26, 27, 28, 29, 31, 32
17.	Appeals & Revisions	2, 3, 4, 8, 9, 12, 13
18.	Dispute Resolution	3
19.	Miscellaneous Provisions	1, 3, 6, 7, 8
20.	Penalties & Prosecutions	2, 8, 9
21.	Black Money Act, 2015	2, 4, 5
22.	Deduction U/C VI-A	7, 12, 13, 14, 15

S.No.	Topic Name	Question Number
23.	Clubbing of Income	4, 6, 8, 9
24.	Set-Off & C/F of Losses	2, 3, 10
25.	GAAR	2, 5, 8, 10
26.	Exempt Income	4, 6
27.	Tax Audit & Ethical Compliance	1, 2, 3, 5, 6, 7
28.	Tonnage Taxation	1
29.	Transfer Pricing	5, 7, 10, 11, 12, 13, 20, 23, 25
30.	Non-Resident & NRI Taxation	1, 2, 8, 10, 14, 22, 25, 26, 27, 30, 31 [as per 115A tax rate on Royalty/FTS – 20%] 33, 36, 39
31.	Double Taxation Relief (DTAA)	2, 8, 9, 10, 11, 13, 15, 17, 18
32.	Advance Ruling (BOAR)	4, 6, 7
33.	Equalisation Levy	1, 3, 4, 5
34.	Application & Interpretation of Tax Treaties	3, 5, 6, 7, 9, 10
35.	Model Tax Conventions (MTC)	2, 5, 7
36.	Base Erosion & Profit Shifting (BEPS)	1, 3, 4, 6, 7, 8
37.	Foreign Tax Credit & Foreign Currency Income	1
38.	Questions Based on Significant Select Cases	Just do all 10 Q's with above 25 Case Laws
Must Do MAY-24 RTP (as various questions on Amendments covered) & MTP for MAY-24.		

All the Best, Give Your Best, God will do the Rest
See You All as CA
CA Bhanwar Borana