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CA/CMA FINAL

**DIRECT TAX LAWS &
INTERNATIONAL TAXATION**

DT

Question Bank

With Solutions as per ICAI

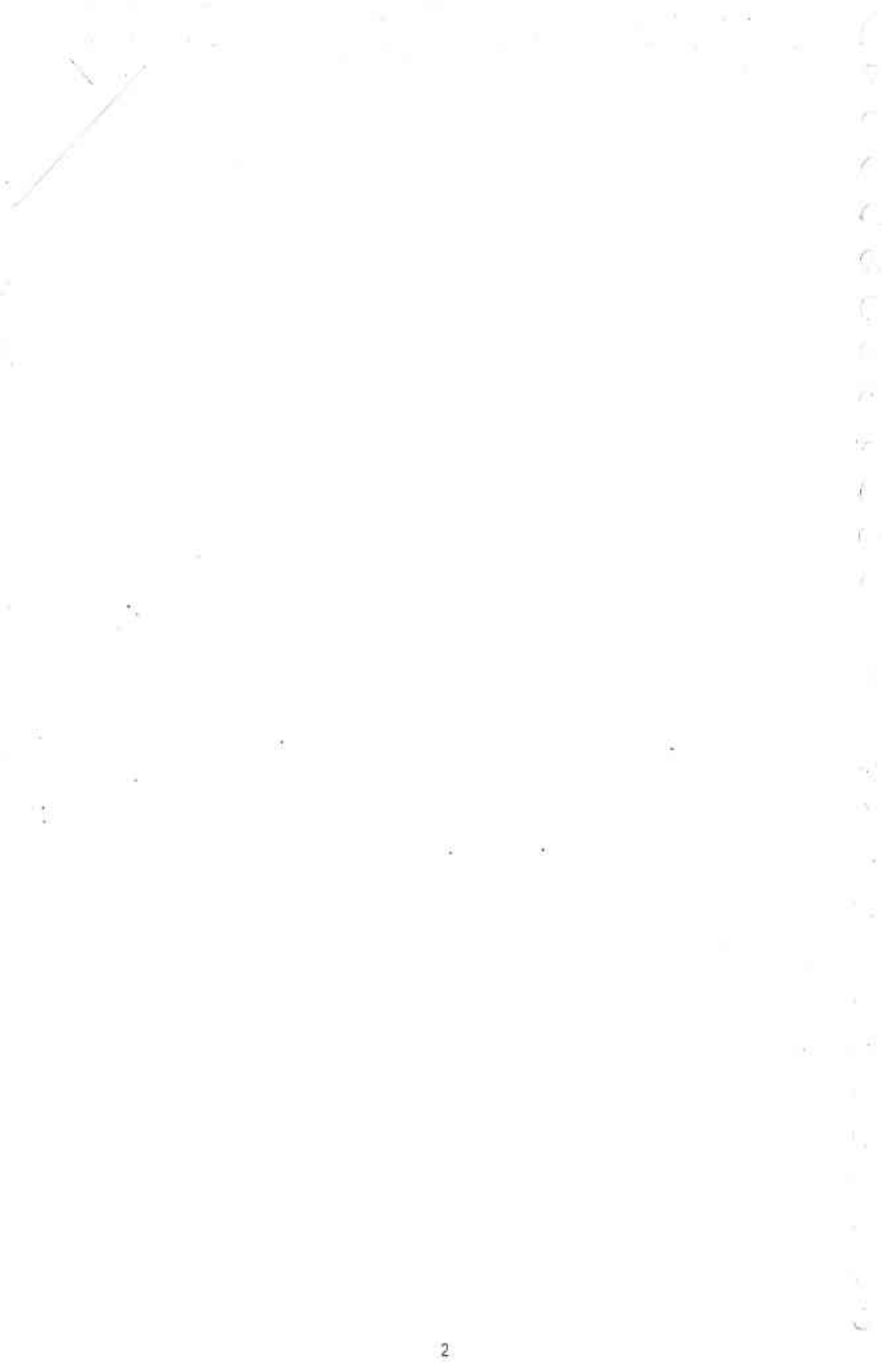
MAY & NOV 2025



**CA ATUL AGARWAL
(AIR 1)**

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DIRECT TAX LAWS AND INTERNATIONAL TAXATION

MAY & NOV 2025 EXAMS

Question Bank

As amended by the Finance Act, 2024
[Assessment Year 2025-26]



Coverage of All Questions with Solutions as per ICAI

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| <input checked="" type="checkbox"/> Study Material | <input checked="" type="checkbox"/> Revision Test Papers (RTP) |
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Direct Tax Laws and International Taxation

Edition: 2025

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DIRECT TAX LAWS AND INTERNATIONAL TAXATION

About the Question Bank

नमस्कार दोस्तों, राधे राधे !!

This Question Bank is prepared by CA Atul Agarwal (AIR 1). He is also a **Gold Medalist** in Direct Tax. This Question Bank contains **550+ Questions** which are **bifurcated topic wise** in each chapter. This Question Bank is fully amended as per Finance Act, 2024 [Assessment Year 2025-26].

Key words and **Key adjustments** as per ICAI are **Highlighted** in the answers of all chapters. **Source** for each question has been **provided** in detail after Index of the Question Bank.


All questions of this Question Bank has been **solved in the lectures** in detail. It is recommended to practice all questions of this Question Bank after referring the concept book and revision videos. This will help you to develop a strong grasp over the subject and be well-prepared for the exams.


Best wishes


CA Atul Agarwal


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CHAPTER - 1

Basic Concepts, Tax Rates and Exempt Income

Basic Concepts

Question 1

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

Answer

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

Question 2

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

Answer

This issue came up for consideration before the Allahabad High Court in *Jit & Pal X-Rays (P.) Ltd. v. CIT* (2004) 267 ITR 370 (All). The Allahabad High Court observed that the overriding charge which had been created in favour of the wife of the sole-proprietor was an integral part of the sale deed by which the going concern was transferred to the assessee. The obligation, therefore, was attached to the very source of income i.e. the going concern transferred to the assessee by the sale deed. The sale deed also specifically mentioned that the amount in question was charged on the net profits of the assessee-company and the assessee-company had **accepted that obligation** as a condition of purchase of the going concern. Hence, it is clearly a **case of diversion of income** by an overriding charge and not a mere application of income.

Question 3

MKG Agency is a partnership firm consisting of father and three major sons. The partnership deed

provided that after the death of father, the business shall be continued by the sons, subject to the condition that the firm shall pay 20% of the profits to the mother. Father died in March, 2024. In the previous year 2024-25, the reconstituted firm paid ₹ 1 lakh (equivalent to 20% of the profits) to the mother and claimed the amount as deduction from its income. Examine the correctness of the claim of the firm.

Answer

The issue raised in the problem is based on the concept of **diversion of income** by overriding title, which is well recognised in the income-tax law. In the instant case, the amount of ₹ 1 lakh, being 20% of profits of the firm, paid to the mother gets diverted at source by the charge created in her favour **as per the terms of the partnership deed**. Such income does not reach the assessee-firm.

Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. The firm might have received the said amount but it so received for and on behalf of the mother, who possesses the overriding title. Therefore, the amount paid to the mother **should be excluded from the income of the firm**. This view has been confirmed in CIT vs. Nariman B. Bharucha & Sons (1981) 130 ITR 863 (Bom).

Tax Rates

Question 4

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

- (a) 52 years
- (b) 64 years
- (c) 83 years

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

Answer

(a) Computation of Tax liability of Mr. Arjun (aged 52 years)

First ₹ 2,50,000	- Nil		
Next ₹ 2,50,001 – ₹ 5,00,000	- @5% of ₹ 2,50,000	=	₹ 12,500
Next ₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	=	₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000	- @30% of ₹ 6,00,000	=	₹ 1,80,000
		=	₹ 2,92,500
Add: Health and Education cess @4%		=	₹ 11,700
Tax liability		=	₹ 3,04,200

(b) Computation of Tax liability of Mr. Arjun (aged 64 years)

First ₹ 3,00,000	- Nil		
Next ₹ 3,00,001 – ₹ 5,00,000	- @5% of ₹ 2,00,000	=	₹ 10,000
Next ₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	=	₹ 1,00,000

Basic Concepts, Tax Rates and Exempt Income

Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000 - @30% of ₹ 6,00,000	=	₹ 1,80,000
	=	₹ 2,90,000
Add: Health and Education cess @4%	=	₹ 11,600
Tax liability	=	₹ 3,01,600

(c) **Computation of Tax liability of Mr. Arjun (aged 83 years)**

First ₹ 5,00,000	- Nil	
Next ₹ 5,00,001 - ₹ 10,00,000	- @20% of ₹ 5,00,000	= ₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000 - @30% of ₹ 6,00,000	=	₹ 1,80,000
	=	₹ 2,80,000
Add: Health and Education cess @4%	=	₹ 11,200
Tax liability	=	₹ 2,91,200

Question 5

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

Answer

Computation of tax liability of Mr. Manish

Particulars	₹
Tax on total income of ₹ 4,15,000	
Tax @5% of ₹ 1,65,000	8,250
Less: Rebate u/s 87A (Lower of tax payable or ₹ 12,500)	<u>8,250</u>
Tax Liability	Nil

Question 6

Mr. X has a total income of ₹ 16,00,000, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 under the default tax regime under section 115BAC.

Answer

Computation of Tax liability of Mr. X

First ₹ 3,00,000	- Nil	
Next ₹ 3,00,001 - ₹ 7,00,000	- @5% of ₹ 4,00,000	= ₹ 20,000
Next ₹ 7,00,001 - ₹ 10,00,000	- @10% of ₹ 3,00,000	= ₹ 30,000
Next ₹ 10,00,001 - ₹ 12,00,000	- @15% of ₹ 2,00,000	= ₹ 30,000
Next ₹ 12,00,001 - ₹ 15,00,000	- @20% of ₹ 3,00,000	= ₹ 60,000

Basic Concepts, Tax Rates and Exempt Income

Balance i.e., ₹ 16,00,000 minus ₹ 15,00,000	- @30% of ₹ 1,00,000	=	₹ 30,000
		=	₹ 1,70,000
Add: Health and Education cess @4%		=	₹ 6,800
Tax liability		=	₹ 1,76,800

Question 7

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

Answer

Computation of tax liability of Mr. Mahesh

Particulars	₹
Tax on total income of ₹ 6,50,000	
Tax @5% of ₹ 3,50,000	17,500
Less: Rebate u/s 87A (Lower of tax payable or ₹ 20,000)	<u>17,500</u>
Tax Liability	Nil

Question 8

Mr. Nitin aged 35 years and a resident in India, has a total income of ₹ 7,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.

Answer

Computation of tax liability of Mr. Nitin

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

Question 9

Compute the marginal relief available to X Ltd., a domestic company, assuming that the total income

of X Ltd. is ₹ 1,01,00,000 for A.Y.2025-26 and the total income does not include any income in the nature of capital gains. Assume that the company has not exercised option under section 115BAA or 115BAB.

[Note - The gross receipts of X Ltd. for the P.Y.2022-23 is ₹ 402 crore]

Answer

The tax payable on total income of ₹ 1,01,00,000 of X Ltd. computed @32.1% (including surcharge @7%) is ₹ 32,42,100.

However, the tax cannot exceed ₹ 31,00,000 (i.e., the tax of ₹ 30,00,000 payable on total income of ₹ 1 crore plus ₹ 1,00,000, being the amount of total income exceeding ₹ 1 crore).

Therefore, the tax payable on ₹ 1,01,00,000 would be ₹ 31,00,000.

The marginal relief is ₹ 1,42,100 (i.e., ₹ 32,42,100 - ₹ 31,00,000).

Question 10

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

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

Answer

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

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

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

The marginal relief is ₹ 14,33,600 (i.e., ₹ 3,36,33,600 - ₹ 3,22,00,000).

Exempt Income

Question 11

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

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

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

- (a) 40 years
(b) 75 years

Answer

Computation of total income of Mr. X

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

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

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

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

His tax liability is computed in the following manner:

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

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

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

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

His tax liability is computed in the following manner:

Step 1:	₹ 7,80,000 + ₹ 2,90,000	= ₹ 10,70,000
	Tax on ₹ 10,70,000	= ₹ 1,31,000
	(i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 70,000)	
Step 2:	₹ 2,90,000 + ₹ 3,00,000	= ₹ 5,90,000
	Tax on ₹ 5,90,000	= ₹ 28,000

	(i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 90,000)	
Step 3:	₹ 1,31,000 – ₹ 28,000	= ₹ 1,03,000
Step 4 & 5:	Total tax payable	= ₹ 1,03,000 + 4% cess = ₹ 1,07,120

Question 12

Ankur, the owner of a land situated in Kerala used for growing thereon different types of fruits, paddy, vegetables and flowers, received from Yahoo Movies Ltd., Chennai, ₹ 5 lacs as rent towards the use of this land for shooting of a film. The amount so received was accounted by him in the books as revenue derived from land and claimed to be exempt under section 10(1). He now wants to confirm from you whether the amount has been correctly treated by him as agricultural income.

Answer

The income received by Mr. Ankur from a filmmaker for allowing them to shoot a film in the agricultural land owned by him is not in the nature of agricultural income because it was neither received by him against the sale of agricultural produce obtained nor for carrying out the normal agricultural operations on the land. The amount paid was only for the purpose of shooting of a film on such land.

To claim exemption in respect of agricultural income under section 10(1), the conditions contained in section 2(1A)(a) to (c) have to be first complied with/fulfilled by the assessee. The Madras High Court in case of *B. Nagi Reddi v. CIT* (2002) 258 ITR 719, following judgment of Apex Court in case of *CIT v Raja Benoy Kumar Sahas Roy* (1957) 32 ITR 466, has held, on identical facts, that **Income derived for allowing a shooting of film in agricultural land cannot be treated as agricultural income**, as it has no nexus with the land, except that it was carried out on agricultural land.

Question 13

Examine with reasons, based on the provisions of the Act, as to chargeability of the following receipts to tax:

- (i) Rent of ₹ 60,000 charged from tenants occupying houses constructed on the land situated in India and used for agricultural purposes. The tenants, working in the nearby industrial area, occupy these houses for their own residential purposes.
- (ii) Income of ₹ 75,000 derived by Anand Nursery from the sale of seedlings grown without carrying out all the basic operations on land.
- (iii) Mr. Gaitonde, born and brought up in the State of Sikkim, had a net profit of ₹ 2,25,000 from the business located in Sikkim and interest of ₹ 55,000 on the securities/bonds issued by the Government of Rajasthan.

Answer

- (i) As per section 10(1), agricultural income is exempt from tax. The meaning and scope of agricultural income is defined in section 2(1A). According to Explanation 2 to section 2(1A),

any income derived from any building from the use of such building for any purpose (including letting for residential purposes or for the purpose of any business or profession) other than agriculture shall not be agricultural income. Therefore, the **rent of ₹ 60,000 from letting out of houses constructed on agricultural land for residential purposes of industrial workers shall not be treated as agricultural income** by virtue of Explanation 2 to section 2(1A). Hence, such income would be chargeable to tax.

- (ii) Explanation 3 to section 2(1A) provides that **the income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income**, whether or not the basic operations were carried out on land. Accordingly, **the income of ₹ 75,000 derived by Anand Nursery from the sale of seedlings grown without carrying out all the basic operations on land shall be treated as agricultural income and exempt from tax** under section 10(1).
- (iii) Section 10(26AAA) exempts the income which accrues or arises to a **Sikkimese individual from any source in the State of Sikkim and the income by way of dividend or interest on securities**. Therefore, the income of Mr. Gaitonde from a business located in Sikkim and interest income on the securities/bonds of Government of Rajasthan shall not be subject to tax.

Question 14

An amount of ₹ 5 lacs was paid to the parents of Amit by the Government of Chattisgarh as compensation to the aggrieved family, whose only son Amit lost his life in Maoist local bus bomb blast in Dantewada. Examine with reasons, whether the amount of compensation received is chargeable to tax?

Answer

As per section 10(10BC), the meaning of "disaster" shall be derived from Disaster Management Act, 2005 which defines disaster to mean a catastrophe, mishap, calamity or grave occurrence in any area, arising from **natural or manmade causes, or by accident or negligence**. It should have the effect of causing substantial loss of life or human suffering or damage to, and destruction of property, or damage to, or degradation of environment. It should be of such a nature or magnitude to be beyond the coping capacity of the community of the affected area.

If, for this reason, any compensation is paid by the Central Government or by a State Government or by a local authority, then, the same will be exempt from tax. Accordingly, **the amount of ₹ 5 lacs received by the parents of deceased Amit from the Government of Chattisgarh for the disaster because of Dantewada bus bomb blast is exempt** under section 10(10BC).

CHAPTER - 2

Capital Gains

Transactions not regarded as Transfer

Question 1

M held 2000 shares in a company ABC Ltd. This company amalgamated with another company during the previous year ending 31.3.2025. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by ₹ 50,000 than the value of holding in ABC Ltd.

The Assessing Officer proposes to treat the transaction as an exchange and to tax ₹ 50,000 as capital gain. Is he justified?

Answer

In the above question, assuming that the amalgamated company is an Indian company, the transaction is squarely covered by the exemption explained above and the **proposal of the Assessing Officer** to treat the transaction as an exchange is **not justified**.

Question 2

In which of the following situations capital gains tax liability does not arise?

- (i) Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2024-25, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day gift was made was ₹ 1,00,000.
- (ii) A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2024-25 at the time of partition of the family. FMV on the day of partition was ₹ 12,00,000.
- (iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted in to 500 shares worth ₹ 85,000 in November 2024 by the company.

Answer

We know that capital gains arise only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), transfer of a capital asset by an individual under a gift is **not regarded as transfer** for the purpose of capital gains. Therefore, **capital gains tax liability does not arise** in the given situation.
- (ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is **not regarded as transfer** for the purpose of capital gains. Therefore, **capital gains tax liability does not arise** in the given situation.
- (iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is **not regarded as transfer** for the purpose of capital gains. Therefore, **capital gains tax liability does not arise** in the given situation.

Question 3

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

Answer

Section 47(xvi) provides that any transfer of a capital asset in a **transaction of reverse mortgage** under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, **no capital gain will be charged** on such transaction.

Further, section 10(43) provides that the **amount received by the senior citizen** as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be **exempt** from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

However, capital gains tax liability would be attracted at the stage of alienation of the mortgaged property by the bank for the purposes of recovering the loan.

Computation of Capital Gains - Basics

Question 4

Mr. C purchases a house property for ₹ 1,06,000 on May 15, 1975. The following expenses are incurred by him for making addition/alternation to the house property:

	Particulars	₹
a.	Cost of construction of first floor in 1982-83	3,10,000
b.	Cost of construction of the second floor in 2002-03	7,35,000
c.	Reconstruction of the property in 2012-13	5,50,000

Fair market value of property on April 1, 2001 is ₹ 8,50,000 and stamp duty value on the said date was ₹ 8,10,000. The house property is sold by Mr. C on **July 10, 2024** for ₹ 78,00,000 (expenses incurred on transfer: ₹ 50,000). Compute the capital gain for the assessment year 2025-26.

Cost Inflation Index: F.Y. 2001-02: 100, F.Y. 2002-03: 105, F.Y. 2012-13: 200, F.Y. 2024-25: 363

Answer

Computation of capital gain of Mr. C

Particulars	₹	₹
Gross sale consideration		78,00,000
Less: Expenses on transfer		50,000
Net sale consideration		77,50,000
Less: Indexed cost of acquisition (Note 1)	29,40,300	.

Capital Gains

Less: Indexed cost of improvement (Note 2)	35,39,250	64,79,550
Long-term capital gain		12,70,450

Notes:

Indexed cost of acquisition (since transfer took place before 23.07.2024): ₹ 8,10,000 × 363/100 = ₹ 29,40,300

Fair market value on April 1, 2001 (actual cost of acquisition is ignored as it is lower than market value on April 1, 2001) however, it should not exceed ₹ 8,10,000, being the stamp duty value on 1.4.2001.

Indexed cost of improvement is determined as under:

Particulars	₹
Construction of first floor in 1982-83 (expenses incurred prior to April 1, 2001 are not considered)	Nil
Construction of second floor in 2002-03 (i.e., ₹ 7,35,000 × 363/105)	25,41,000
Alternation/reconstruction in 2012-13 (i.e., ₹ 5,50,000 × 363/200)	9,98,250
Indexed cost of improvement	35,39,250

Question 5

X & sons, HUF, purchased a land for ₹ 1,20,000 in the P.Y. 2002-03. In the P.Y. 2006-07, a partition takes place when Mr. A, a coparcener, is allotted this plot valued at ₹ 1,50,000. In P.Y. 2007-08, he had incurred expenses of ₹ 2,35,000 towards fencing of the plot. Mr. A sells this plot of land for ₹ 15,00,000 in **June 2024** after incurring expenses to the extent of ₹ 20,000. You are required to compute the capital gain for the A.Y.2025-26.

Financial year	Cost Inflation Index
2002-03	105
2006-07	122
2007-08	129
2024-25	363

Answer

Computation of taxable capital gains

Particulars	₹	₹
Sale consideration		15,00,000
Less: Expenses incurred for transfer		20,000
		14,80,000
Less: (i) Indexed cost of acquisition (₹ 1,20,000 × 363/122)	3,57,049	
(ii) Indexed cost of improvement (₹ 2,35,000 × 363/129)	6,61,279	10,18,328
Long term capital gains		4,61,672

Note - As per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2002-03.

Question 6

Xavier had taken a loan under registered mortgage deed against the house, which was purchased by him on 26.05.2002 for ₹ 5 lacs. The said property was inherited by his son Abraham in financial year 2009-10 as per Will.

For obtaining a clear title thereof, Abraham paid the outstanding amount of loan on 12.02.2010 of ₹ 15 lacs. The said house property was sold by Abraham on 16.04.2024 for ₹ 55 lacs. Examine with reasons the amount chargeable to capital gains for A.Y. 2025-26

(Cost Inflation Index 2002-03: 105, 2009-10: 148 and 2024-25: 363).

Answer

The cost of inherited property to Mr. Abraham shall be the cost to previous owner as per provisions of section 49(1)(iii) and therefore, ₹ 5 lacs, being the cost to his father (amount paid by his father on 26.5.2002 for acquiring property) shall be the cost to Mr. Abraham, who is the new owner. Payment of outstanding loan of the predecessor by the successor for obtaining a clear title of the property by release of Mortgage Deed shall be the cost of acquisition of the successor under section 48 read with section 55(2) of the Act as held by Apex Court in case of RM. Arunachalam v. CIT [1997] 227 ITR 222.

Computation of Taxable Capital Gain

Particulars		₹
Sale consideration of house property		55,00,000
Less: Indexed cost of acquisition (See Note below)		
(i) Cost to previous owner (₹ 5,00,000 × 363/148)	12,26,351	
(ii) Loan amount paid by Mr. Abraham (Benefit of CII is available since the loan amount was paid in the financial year 2009-10) (₹ 15,00,000 × 363/148)	36,79,054	49,05,405
Long term capital gains		5,94,595

Note: Since the property was acquired by Mr. Abraham through inheritance, the cost of acquisition will be cost to the previous owner.

As per the definition of indexation cost of acquisition under clause (iii) of Explanation below section 48, indexation benefit will be available only from the previous year in which Abraham first held the asset i.e. P.Y. 2009-10.

However, as per the view expressed by Bombay High Court, in the case of CIT v. Manjula J. Shah (2013) 355 ITR 474, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner.

Question 7

Ms. Usha purchases 1,000 equity shares in X (P) Ltd., an unlisted company, at a cost of ₹ 30 per share (brokerage 1%) in January 1996. She gets 100 bonus shares in August 2000. She again gets 1,100 bonus shares by virtue of her holding on February 2006. Fair market value of shares on April 1, 2001 is ₹ 80. On **1st January 2025**, she transfers all her shares @ ₹ 200 per share (brokerage 2%).

Compute the capital gains taxable in the hands of Ms. Usha for the A.Y. 2025-26

Cost Inflation Index for F.Y. 2001-02: 100, F.Y.2005-06: 117 & F.Y.2024-25: 363.

Answer

Computation of capital gains

Particulars	₹
1000 Original shares	
Sale proceeds (1000 × ₹ 200)	2,00,000
Less: Brokerage paid (2% of ₹ 2,00,000)	4,000
Net sale consideration	1,96,000
Less: Cost of acquisition [₹ 80 × 1000]	80,000
Long term capital gains (A)	1,16,000
100 Bonus shares	
Sale proceeds (100 × ₹ 200)	20,000
Less: Brokerage paid (2% of ₹ 20,000)	400
Net sale consideration	19,600
Less: Cost of acquisition [₹ 80 × 100] [See Note below]	8,000
Long term capital gains (B)	11,600
1100 Bonus shares	
Sale proceeds (1100 × ₹ 200)	2,20,000
Less: Brokerage paid (2% of ₹ 2,20,000)	4,400
Net sale consideration	2,15,600
Less: Cost of acquisition	NIL
Long term capital gains (C)	2,15,600
Long term capital gains (A+B+C)	3,43,200

Note: Cost of acquisition of bonus shares acquired before 1.4.2001 is the FMV as on 1.4.2001.

Question 8

Mr. R holds 1,000 shares in Star Minus Ltd., an unlisted company, acquired in the year 2001-02 at a cost of ₹ 75,000. He has been offered right shares by the company in the month of August, 2024 at ₹ 160 per share, in the ratio of 2 for every 5 held. He retains 50% of the rights and renounces the balance right shares in favour of Mr. Q for ₹ 30 per share in September 2024. All the shares are sold by Mr. R for ₹ 300 per share in **January 2025** and Mr. Q sells his shares in **December 2024** at ₹ 280 per share. What are the capital gains taxable in the hands of Mr. R and Mr. Q?

Financial year	Cost Inflation Index
2001-02	100
2024-25	363

Answer

Computation of capital gains in the hands of Mr. R

Particulars	₹
1000 Original shares	
Sale proceeds (1000 × ₹ 300)	3,00,000
Less: Cost of acquisition (No Index, since transfer took place on or after 23.7.2024)	75,000
Long-term capital gain (A)	2,25,000
200 Right shares	
Sale proceeds (200 × ₹ 300)	60,000
Less: Cost of acquisition [₹ 160 × 200] [Note 1]	32,000
Short-term capital gain (B)	28,000
Sale of Right Entitlement	
Sale proceeds (200 × ₹ 30)	6,000
Less: Cost of acquisition [Note 2]	NIL
Short-term capital gain (C)	6,000
Capital Gains (A+B+C)	2,59,000

Note 1: Since the holding period of these shares is less than 24 months, they are short term capital assets and hence cost of acquisition will not be indexed.

Note 2: The cost of the rights renounced in favour of another person for a consideration is taken to be nil. The consideration so received is taxed as short-term capital gains in full. The period of holding is taken from the date of the rights offer to the date of the renouncement.

Computation of capital gains in the hands of Mr. Q

Particulars	₹
Sale proceeds (200 shares × ₹ 280)	56,000
Less: Cost of acquisition [200 shares × (₹ 30 + ₹ 160)] [See Note below]	38,000
Short-term capital gain	18,000

Note: The cost of the rights is the amount paid to Mr. R as well as the amount paid to the company. Since the holding period of these shares is less than 24 months, they are short term capital assets.

Question 9

Neerja was carrying on the textile business under a proprietorship concern, Neerja Textiles. On 30.12.2024 the business of Neerja Textiles was succeeded by New Look Textile Private Limited and all the assets and liabilities of Neerja Textiles on that date became the assets and liabilities of New Look Textile Private Limited and Neerja was given 52% share in the share capital of the company. No other consideration was given to Neerja on account of this succession.

The assets and liabilities of Neerja Textiles transferred to the company include an urban land which was acquired by Neerja on 19.7.2013 for ₹ 9,80,000. The company sold the same on 30.03.2025 for ₹ 16,00,000.

Examine the tax implication of the above-mentioned transaction and compute the income chargeable to tax in such case(s).

Cost Inflation Index: F.Y. 2013-14: 220; F.Y. 2024-25: 363

Answer

Taxability in case of succession of Neerja Textiles by New Look Textile Private Limited

As per provisions of section 47(xiv), in case a proprietorship concern is succeeded by a company in the business carried by it and as a result of which any capital asset is transferred to the company, then the same shall not be treated as transfer and will not be chargeable to capital gain tax in case the following conditions are satisfied:

- (1) **all the assets and liabilities** of sole proprietary concern becomes the assets and liabilities of the company.
- (2) the shareholding of sole proprietor in company is **not less than 50% of total voting power** of company and continues to remain as such for a period of 5 years from the date of succession.
- (3) the sole proprietor **does not receive any consideration** or benefit in any form from the company other than by way of allotment of shares in the company.

In the present case, all the conditions mentioned above are satisfied therefore, the transfer of capital asset by Neerja Textiles to New Look Textiles Private Limited shall not attract capital gain tax provided Neerja continues to hold 50% or more of voting power of New Look Textiles Private Limited for a minimum period of 5 years.

Taxability in case of transfer of land by New Look Textiles Private Limited

As per the provisions of section 49(1) and Explanation 1 to section 2(42A), in case a capital asset is transferred in the circumstances mentioned in section 47(xiv), the cost of the asset in the hands of the company shall be the cost of the asset in the hands of the sole proprietor. Consequently, for the determining the period of holding of the asset, the period for which the asset is held by the sole proprietor shall also be considered.

Therefore, in the present case, the urban land shall be a long-term capital asset since it is held for more than 24 months by New Look Textile Private Limited and Neerja Textiles taken together. Cost of acquisition of land in the hands of the company shall be ₹ 9,80,000 i.e., the purchase cost of the land in the hands of Neerja.

Computation of capital gain chargeable to tax in the hands of New Look Textile Private Ltd.

Particulars	₹
Net Sale Consideration	16,00,000
Less: Cost of acquisition	9,80,000
Long-term capital gain	6,20,000

Note: Indexation benefit would not be available to New Look Textile Private Ltd. since transfer took place on or after 23.7.2024.

Question 10

SS(P) Ltd., an Indian company having two undertakings engaged in manufacture of cement and steel, decided to hive off cement division to RV(P) Ltd., an Indian company, by way of demerger. The net worth of SS(P) Ltd. immediately before demerger was ₹ 40 crores. The net book value of assets transferred to RV(P) Ltd. was ₹ 10 crores. The demerger was made in January 2025. In the scheme of demerger, it was fixed that for each equity share of ₹ 10 each (fully paid up) of SS(P) Ltd., two equity shares of ₹ 10 each (fully paid up) were to be issued.

One Mr. N.K. held 25,000 equity shares in SS(P) Ltd. which were acquired in financial year 2004-05 for ₹ 6,00,000. Mr. N.K. received 50,000 equity shares from RV(P) Ltd. consequent to demerger in January 2025. He sold all the shares of RV(P) Ltd. for ₹ 8,00,000 in **March, 2025**. In this background you are requested to answer the following:

- (i) Does the transaction of demerger attract any income tax liability in the hands of SS(P) Ltd. and RV(P) Ltd.?
- (ii) Compute the capital gain that could arise in hands of Mr. N.K. on receipt of shares of RV(P) Ltd.
- (iii) Compute the capital gain that could arise in the hands of Mr. N.K. on sale of shares of RV(P) Ltd.
- (iv) Will the sale of shares by Mr. N.K. affect tax benefits availed by SS(P) Ltd. and/or RV(P) Ltd.?
- (v) Is Mr. N.K. eligible to avail any tax exemption under any of the provisions of the Income-tax Act, 1961 on the sale of shares of RV(P) Ltd.? If so, mention in brief.

Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2024-25: 363

Answer

- (i) No, the transaction of demerger would not attract any income-tax liability in the hands of SS(P) or RV(P) Ltd.

As per section 47(vib), any transfer in a demerger, of a capital asset, by the demerged company to the resulting company **would not be regarded as "transfer"** for levy of capital gains tax if the resulting company is an Indian company.

Hence, **capital gains tax liability would not be attracted in the hands of SS(P) Ltd.**, the demerged company, in this case, since RV(P) Ltd. is an Indian company

- (ii) There would be **no capital gains liability in the hands of Mr. N.K. on receipt of shares of RVP Ltd.**, since as per section 47(vid), any issue of shares by resulting company in a scheme of demerger to the shareholders of the demerged company **will not be regarded as "transfer"** for levy of capital gains tax, if issue is made in consideration of demerger of the undertaking.

- (iii) Yes, capital gains would arise in the hands of Mr. N.K. on sale of shares of RV(P) Ltd.

Particulars	₹
Sale consideration	8,00,000
Less: Cost of acquisition of shares of RV(P) Ltd. (See Note)	1,50,000
Long-term capital gain (since period of holding of shares in demerged company is also to be considered)	6,50,000

Note:

Cost of acquisition of shares of RV(P) Ltd. as per section 49(2C):

Cost of acquisition of shares of SS(P) Ltd. \times $\frac{\text{Net book value of assets transferred in a demerger}}{\text{Net worth of the demerged company immediately before demerger}}$

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

- (iv) No, sale of shares by Mr. N.K. would not affect the tax benefits availed by SS(P) Ltd. or RV(P) Ltd. There is no stipulation that they continue to remain shareholders for any period of time thereafter.
- (v) Since the resultant capital gain on sale of shares of RV(P) Ltd. is a long-term capital gain (on account of the period of holding of shares in demerged company being considered by virtue of section 2(42A)(g), Mr. N.K. can avail exemption under section 54F by investing the entire net consideration in purchase (within one year before and two years after the date of transfer) or construction (within three years after the date of transfer) of one residential house in India. If part of the net consideration is invested, only proportionate exemption would be available.

Question 11

Rajawat & Co., a sole proprietorship own six machines, put in use for business in March, 2023. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for P.Y. 2023-24 was ₹ 8,50,000. Three of the old machines were sold on 10th August, 2024 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2024. You are required to:

- determine the claim of depreciation for Assessment Year 2025-26.
- compute the capital gains liable to tax for Assessment Year 2025-26.
- If Rajawat & Co. had sold the three machines in August, 2024 for ₹ 21,00,000, will there be any difference in your above workings? Examine.

Answer

(i) Computation of depreciation for A.Y.2025-26

Particulars	₹
W.D.V. of the block as on 1.4.2024	8,50,000
Add: Purchase of second hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2025	6,00,000

Since the value of the block as on 31.3.2025 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 45,000, being 7½% of ₹ 6,00,000.

- The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- (a) When one or some of the assets in the block are sold for consideration more than the value of the block.
- (b) When all the assets are transferred for a consideration more than the value of the block.
- (c) When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value exceeds the sale consideration, the resultant figure would be a short-term capital loss.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

- (iii) If the three machines are sold in August, 2024 for ₹ 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	₹	₹
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2024 [i.e., W.D.V. as on 31.3.2024 after providing depreciation for P.Y. 2023-24]	8,50,000	
Purchase of second-hand plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

Capital Asset Destroyed and Amount received from Insurance Company

Question 12

The assessee was a company carrying on business of manufacture and sale of art-silk cloth. It purchased machinery worth ₹ 4 lacs on 1.5.2020 and insured it with United India Assurance Ltd against fire, flood, earthquake etc. The written down value of the asset as on 01.04.2024 was ₹ 1,87,850. The insurance policy contained a reinstatement clause requiring the insurance company to pay the value of the machinery, as on the date of fire etc., in case of destruction of loss. A fire broke out in **August, 2024** causing extensive damage to the machinery of the assessee rendering them totally useless. The assessee company received a sum of ₹ 4 lacs from the insurance company on 15th March, 2025. Discuss the issues arising on account on the transactions and their tax treatment.

(Cost inflation index for financial year 2020-21 and 2024-25 are 301 and 363 respectively)

Answer

As per section 45(1A), where any person receives any money or other assets under an insurance from an insurer on account of damage to or destruction of capital asset as a result of, inter alia, accidental fire then, any profits and gains arising from the receipt of such money or other assets, shall be chargeable to income tax under the head "Capital Gains" and shall be **deemed to be the income of such person of the previous year in which such money or asset was received.**

For the purpose of section 48, the money received or the market value of the asset shall be deemed to be the full value of the consideration accruing as a result of the transfer of such capital asset. Since the asset was destroyed and the money from the insurance company was received in the previous year, there will be a liability to capital gains in respect of insurance moneys received by the assessee.

Under section 45(1A) any profits and gains arising from receipt of insurance moneys is chargeable under the head "Capital gains". For the purpose of section 48, the **moneys received shall be deemed to be the full value of the consideration** accruing or arising. Under section 50 the capital gains in respect of depreciable assets had to be computed in the following manner (**assuming it was the only asset in the block**).

The computation of capital gain and tax implication is given below:

Full value of the consideration	₹ 4,00,000
Less: Written down value as on April 1 st , 2024	₹ <u>1,87,850</u>
Short term capital gains	₹ <u>2,12,150</u>

Conversion of Capital Asset into Stock in Trade

Question 13

ABC Ltd. converts its capital asset acquired for an amount of ₹ 50,000 in June, 2004 into stock-in-trade in the month of **November, 2023**. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2024. What will be the tax treatment?

Financial year	Cost Inflation Index
2004-05	113
2023-24	348
2024-25	363

Answer

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2023-24) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2024-25). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2024-25).

The long-term capital gains and business income for the A.Y.2025-26 are calculated as under:

Particulars	₹	₹
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (₹ 50,000 x 348/113)	1,53,982	2,96,018

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

Since the transfer (conversion into stock-in-trade) took place in the P.Y. 2023-24, the benefit of indexation would be available. The date of sale of stock-in-trade is not relevant for determining whether benefit of indexation would be available.

Question 14

Tani purchased a land at a cost of ₹ 35 lakhs in the financial year 2004-05 and held the same as her capital asset till 31st May, 2023. Tani started her real estate business on **1st June, 2023** and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in January, 2025. She sold 10 flats at ₹ 30 lakhs per flat between January, 2025 and March, 2025. The remaining 5 flats were held in stock as on 31st March, 2025.

She invested ₹ 50 lakhs in bonds issued by National Highway Authority of India on 31st March, 2025 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2025.

Compute the amount of chargeable capital gain and business income in the hands of Tani arising from the above transactions for Assessment Year 2025-26 indicating clearly the reasons for treatment for each item.

Cost Inflation Index: FY 2004-05: 113; FY 2023-24: 348; FY 2024-25: 363.

Answer

Computation of capital gains and business income of Tani

Particulars	₹
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [$₹ 35,00,000 \times 348/113$]	1,07,78,761
	1,02,21,239
Proportionate capital gains arising during A.Y.2025-26 [$₹ 1,02,21,239 \times 2/3$]	68,14,159
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2025-26	18,14,159
Business Income	
Sale price of flats [10 × ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [$₹ 210 \text{ lacs} \times 2/3$]	1,40,00,000
Cost of construction of flats [10 × ₹ 10 lakhs]	1,00,00,000
Business income chargeable to tax for A.Y.2025-26	60,00,000

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade.
- (2) However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset to stock-in-trade and not up to the year of sale of stock-in-trade.
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.
In this case, since only 2/3rd of stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2024-25, only proportionate capital gains (i.e., 2/3rd) would be chargeable in the A.Y.2025-26.
- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be computed after deducting the fair market value on the date of conversion of the capital asset into stock-in-trade and cost of construction of flats from the price at which the stock-in-trade is sold.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y.2024-25 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y.2025-26, both within the stipulated six month period, the maximum deduction allowable for A.Y.2025-26, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y.2024-25, is only ₹ 50 lakhs.

Compulsory Acquisition of Capital Asset

Question 15

The Government compulsorily acquired land of Mr. Shivam in **April 2021** and paid compensation of ₹ 20 lakhs in June 2024. The land was acquired by Mr. Shivam in June 2004 for ₹ 12 lakhs. He had filed for additional compensation through Court and was awarded ₹ 18 Lakhs in February 2025 but this amount was received only during May 2025. Compute the taxable capital gain from the above transaction indicating the relevant assessment year. Expenses in connection with compulsory acquisition were ₹ 30,000 and for obtaining enhancement of compensation was ₹ 1 lakh.

Cost inflation index: FY 2004-05 :113; FY 2021-22: 317; FY 2024-25: 363

Answer

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

Particulars	₹
Full value of consideration (Compensation received) [Taxable in the year of receipt i.e., P.Y.2024-25]	20,00,000
Less: Expenses in connection with compulsory acquisition	30,000
	19,70,000
Less: Indexed cost of acquisition [$\text{₹ } 12,00,000 \times 317/113$]	33,66,372
Long-term capital loss (since land was held for > 24 months)	(13,96,372)
Note – Since the year of compulsory acquisition i.e., F.Y.2021-22 is the year of transfer of land, CII for F.Y.2021-22 has to be considered for computing indexed cost of acquisition.	

Computation of capital gains of Mr. Shivam for the A.Y.2026-27

Particulars	₹
Full value of consideration (Enhanced Compensation received is taxable in the year of receipt i.e., P.Y.2025-26)	18,00,000
Expenses for obtaining enhanced compensation (allowable as deduction)	1,00,000
	17,00,000
Less: Set-off of b/f long-term capital loss from A.Y.2025-26	13,96,372
Long-term capital gains	3,03,628
Note – No deduction in respect of cost of acquisition is allowable from enhanced compensation.	

Question 16

Mr. Kumar has an agricultural land costing ₹ 6 lakh in Lucknow on 1.4.2003 and has been using it for agricultural purposes till 1.8.2012 when the Government took over compulsory acquisition of this land. A compensation of ₹ 12 lakh was settled. The compensation was received by Mr. Kumar on 1.7.2024.

Cost Inflation Index: 2003-04: 109, 2012-13: 200, 2024-25: 363

- Compute the amount of capital gains taxable in the hands of Mr. Kumar.
- Will your answer be any different if Mr. Kumar had by his own will sold this land to his friend Mr. Sharma? Examine.
- Will your answer be different if Mr. Kumar had not used this land for agricultural activities? Examine and compute the amount of capital gains taxable in the hands of Mr. Kumar, if any.
- Will your answer be different if the land belonged to ABC Ltd. and not Mr. Kumar and compensation on compulsory acquisition was received by the company? Examine.

Answer

- (i) In the given problem, compulsory acquisition of an urban agricultural land has taken place and the compensation is received after 1.4.2004. This land had also been used for at least 2 years by the assessee himself for agricultural purposes. Thus, as per section 10(37), **entire capital gains arising on such compulsory acquisition will be fully exempt** and nothing is taxable in the hands of Mr. Kumar in the year of receipt of compensation i.e. A.Y.2025-26.
- (ii) As per section 10(37), exemption is available if compulsory acquisition of urban agricultural land takes place. Since the sale is out of own will and desire, the provisions of this section are not attracted and **capital gains arising on such sale will be taxable in hands of Mr. Kumar.**
- (iii) As per section 10(37), exemption is available only when such land has been used for agricultural purposes during the preceding two years by such individual or a parent of his or by such HUF. **Since the assessee has not used it for agricultural activities**, the provisions of this section are not attracted and **capital gains arising on such compulsory acquisition will be taxable in the hands of Mr. Kumar** in the year of receipt of compensation i.e., A.Y.2025-26.

Computation of capital gains

Particulars	Amount (₹)
Sales consideration	12,00,000
Less: Indexed cost of acquisition (₹ 6,00,000 x 200/109)	11,00,917
Long term capital Gains	99,083

- (iv) Section 10(37) exempts capital gains arising to an individual or a HUF from transfer of agricultural land by way of compulsory acquisition. **If the land belongs to ABC Ltd., a company**, the provisions of this section are not attracted and the **capital gains arising on such compulsory acquisition will be taxable in the hands of ABC Ltd.**

Liquidation of Company

Question 17

Aries Tubes Private Ltd. went into liquidation on 01.12.2024. The company was seized and possessed of the following funds prior to the distribution of assets to the shareholders:

	₹
Share Capital (issued on 01.04.2013)	5,00,000
Reserves prior to 1.12.2024	3,00,000
Excess realization in the course of liquidation	5,00,000
Total	13,00,000

There are 5 shareholders, each of whom received ₹ 2,60,000 from the liquidator in full settlement. The shareholders desire to invest the resultant element of capital gain in long term specified assets as defined in section 54EC. You are required to examine the various issues and advice the shareholders about their liability to income tax.

Answer

Under section 46(1), where assets of a company are distributed to its shareholders on its liquidation,

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such distribution shall not be regarded as transfer in hands of the company for purpose of section 45. However, under section 46(2), where the shareholder, on liquidation of a company, receives any money or other assets from the company, he shall be chargeable to income-tax under the head "capital gains", in respect of the money so received or the market value of the other assets on the date of distribution as reduced by the amount of dividend deemed under section 2(22)(c) and the sum so arrived at shall be deemed to be the full value of the consideration for the purposes of section 48.

As per section 2(22)(c), dividend includes any distribution made to the shareholders of a company on its liquidation, to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation, whether capitalized or not.

In this case, the accumulated profits immediately before liquidation is ₹ 3,00,000. The share of each shareholder is ₹ 60,000 (being one-fifth of ₹ 3,00,000). An amount of ₹ 60,000 is the deemed dividend under section 2(22)(c). The same is taxable in the hands of the shareholder under the head "Income from other sources".

Therefore, ₹ 2,00,000 [i.e. ₹ 2,60,000 minus ₹ 60,000, being deemed dividend u/s 2(22)(c)] is the full value of consideration in the hands of each shareholder as per section 46(2). Against this, investment of ₹ 1,00,000 by each shareholder is to be deducted to arrive at the capital gains of ₹ 1,00,000 of each shareholder. Since the shares are held for more than 24 months, hence long-term capital asset. The benefit of indexation is not available to shareholders (since transfer took place on or after 23.7.2024). Since the equity shares are not listed, it would not be liable for securities transaction tax and hence, capital gain (long term) would be taxable under section 112. Hence, such long term capital gain would be taxable @12.5% without indexation benefit, since transfer took place on or after 23.7.2024.

Exemption under section 54EC is available only where there is an actual transfer of capital assets and not in case of deemed capital gain as per decision rendered in case of CIT v. Ruby Trading Co (P) Ltd (2003) 259 ITR 54 (Raj). Therefore, exemption under section 54EC will not be available in this case since it is deemed transfer and not actual transfer. Furthermore, exemption under section 54EC is available only on transfer of long-term capital asset, being land or building or both.

Slump Sale

Question 18

M/s Sriram Enterprises, a proprietorship having 2 units. Unit 1 is transferred on 1.4.2024 by way of slump sale for a total consideration of ₹ 14 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 38,000. Balance Sheet as on 31.3.2024 is as under:

Liabilities	Total (₹)	Assets	Unit 1 (₹)	Unit 2 (₹)	Total (₹)
Own Capital	17,00,000	Building	13,00,000	3,00,000	16,00,000
Revaluation Reserve (for building of unit 1)	5,00,000	Machinery	4,00,000	2,00,000	6,00,000
Bank loan (70% for unit 1)	4,00,000	Debtors	2,00,000	1,40,000	3,40,000
Trade creditors (25% for unit 1)	3,50,000	Patents	2,50,000	1,60,000	4,10,000
Total	29,50,000	Total	21,50,000	8,00,000	29,50,000

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Other information:

- (i) Revaluation reserve is created by revising upward the value of the building of Unit 1. The stamp duty value on 1.4.2024 is ₹ 10 lakhs.
- (ii) No individual value of any asset is considered in the transfer deed.
- (iii) Patents were acquired on 1.7.2022 on which no depreciation has been charged.
- (iv) The value of machinery represents the written down value as per the Income-tax Act, 1961.

Compute the capital gain for the assessment year 2025-26.

Answer

Computation of capital gains on slump sale of Unit 1

Particulars	₹
Full value of consideration [Fair market value on 1.4.2024]	14,82,500
Less: Expenses on sale	38,000
Net sale consideration	14,44,500
Less: Net worth (See Note 1 below)	11,73,125
Long-term capital gain	2,71,375

Notes:

1. Computation of Full value of consideration

Particulars	₹
Fair market value of the capital assets transferred by way of slump sale	
Building, being an immovable property [stamp duty value on 1.4.2024, being the date of slump sale] [A]	10,00,000
Machinery [Book value as appearing in the books of accounts] [B]	4,00,000
Debtors [Book value as appearing in the books of accounts] [C]	2,00,000
Patents [Book value as appearing in the books of accounts] [D]	2,50,000
	18,50,000
Less: Liabilities of Unit 1 [₹ 29,50,000 - ₹ 1,20,000 - ₹ 2,62,500] [L] 25,67,500	
Excluding	
(i) Own Capital 17,00,000	
(ii) Revaluation reserve 5,00,000 22,00,000	3,67,500
Fair market value of the capital assets transferred by way of slump sale [A+B+C+D- L] [FMV1]	14,82,500
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]	14,00,000
Full value of consideration [Higher of FMV1 or FMV2]	14,82,500

2. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	₹	₹
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Building (excluding ₹ 5 lakhs on account of revaluation)		8,00,000
Machinery		4,00,000
Debtors		2,00,000
Patents (See Note 2 below)		1,40,625
Total assets		15,40,625
Less: Creditors [₹ 3,50,000 x 25%]	87,500	
Bank Loan [₹ 4,00,000 x 70%]	2,80,000	3,67,500
Net worth		11,73,125

3. Written down value of patents as on 1.4.2024

Value of patents	₹
Cost as on 1.7.2022	2,50,000
Less: Depreciation @ 25% for Financial Year 2022-23	62,500
WDV as on 1.4.2023	1,87,500
Less: Depreciation for Financial Year 2023-24	46,875
WDV as on 1.4.2024	1,40,625

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of ₹ 4 lakh and ₹ 8 lakh (₹ 13 lakh - ₹ 5 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

4. Indexation benefit is not available in case of slump sale.

Question 19

PQR Limited has two units - one engaged in manufacture of computer hardware and the other involved in developing software. As a restructuring drive, the company has decided to sell its software unit as a going concern by way of slump sale for ₹ 385 lacs to a new company called S Limited, in which it holds 74% equity shares.

The balance sheet of PQR limited as on 31st March 2025, being the date on which software unit has been transferred, is given hereunder -

Balance Sheet as on 31.3.2025

Liabilities	₹ (in lacs)	Assets	₹ (in lacs)
Paid up Share Capital	300	<u>Fixed Assets</u>	
General Reserve	150	Hardware unit	170
Share Premium	50	Software unit	200
Revaluation Reserve	120	<u>Debtors</u>	
<u>Current Liabilities</u> (Ascertained liabilities)		Hardware unit	140
Hardware unit	40	Software unit	110
Software unit	90	<u>Inventories</u>	

	Hardware unit	95
	Software unit	35
	750	750

Following additional information are furnished by the management:

- The Software unit is in existence since May, 2015.
 - Fixed assets of Software unit includes land which was purchased at ₹ 40 lacs in the year 2016 and revalued at ₹ 60 lacs as on March 31, 2025. The stamp duty value on 31.3.2025 is ₹ 55 lakhs.
 - Fixed assets of Software unit mirrored at ₹ 140 lacs (₹ 200 lacs minus land value ₹ 60 lacs) is written down value of depreciable assets (Furniture and Plant & machinery) as per books of account. However, the written down value of these assets under section 43(6) of the Income-tax Act, 1961 is ₹ 90 lacs.
- Ascertain the tax liability, which would arise from slump sale to PQR Limited, assuming it does not opt for section 115BAA.
 - What would be your advice as a tax-consultant to make the restructuring plan of the company more tax-savvy, without changing the amount of sale consideration?

Answer

- As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Ascertainment of tax liability of PQR Limited from slump sale of Software unit

Particulars	₹ (in lacs)
Full value of consideration for slump sale of Software Unit	385
Less: Cost of acquisition, being the net worth of Software Unit	185
Long term capital gains arising on slump sale	200
(The capital gains is long-term as the Software Unit is held for more than 24 months)	
Tax liability on LTCG	
Under section 112 @ 12.5% on ₹ 200 lacs	25.00
Add: Surcharge @ 7%	1.75
	26.75
Add: Health and Education cess @ 4%	1.07
	27.82

Working Note:

Computation of Full value of consideration

	₹ (in lacs)
Fair market value of the capital assets transferred by way of slump sale	
Land, being an immovable property [stamp duty value on 31.3.2025, being the date of slump sale] [A]	55
Other Fixed assets (Furniture and Plant & machinery) [Book value as appearing in the books of accounts] [₹ 200 lakhs - ₹ 60 lakhs] [B]	140
Debtors [Book value as appearing in the books of accounts] [C]	110
Inventories [Book value as appearing in the books of accounts] [D]	35
Less: Liabilities of Software Unit [₹ 750 - ₹ 40] [L]	710
Excluding	
(i) Paid up share capital	300
(ii) General Reserve	150
(iii) Share Premium	50
(iv) Revaluation reserve	120
	620
Fair market value of the capital assets transferred by way of slump sale [A+B+C+D- L] [FMV1]	250
Fair market value of consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]	385
Full value of consideration [Higher of FMV1 or FMV2]	385

Computation of net worth of Software Unit

	₹ (in lacs)
(1) Book value of non-depreciable assets	
(i) Land (Revaluation not to be considered)	40
(ii) Debtors	110
(iii) Inventories	35
(2) Written down value of depreciable assets under section 43(6) (See Note below)	90
Aggregate value of total assets	275
Less: Current liabilities of Software unit	90
Net worth of software unit	185

Note: For computing net worth, the aggregate value of total assets in the case of depreciable assets shall be the written down value of the block of assets as per section 43(6).

(b) Tax advice

- (i) Transfer of any capital asset by a holding company to its 100% Indian subsidiary company is exempt from capital gains under section 47(iv). Hence, **PQR Limited should try to acquire the remaining 26% equity shares in S Limited then make the slump sale** in the above said manner, in which case the slump sale shall be exempt from tax. For this exemption, PQR Limited will have to keep such 100% holding in S Limited for a

period of 8 years from the date of slump sale, otherwise the amount exempt would be deemed to be income chargeable under the head "Capital Gains" of the previous year in which such transfer took place.

- (ii) Alternatively, if acquisition of 26% share is not feasible, PQR Limited may think about **demerger plan** of Software unit to get benefit of section 47(vib) of Income-tax Act, 1961.

Reconstitution/Dissolution of Firm [Section 45(4) & 9B]

Question 20

Mr. Prem is a partner in two firms X & Co., Mumbai and Y & Co., Delhi. X & Co. has four partners, including Prem, who share profits and losses equally. Mr. Prem resigned from X & Co. on **31.1.2025**. On the said date, 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; valuer also valued self-generated goodwill at ₹ 70 lakhs. The firm has following capital assets, whose details are as follows.

	Particulars of Assets	Date of purchase	Cost of acquisition (book value)	Value as on 31.1.2025 as per Valuation Report (Rule 11U)
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-generated goodwill			₹ 70 lakhs

In March, 2025, X & Co. gave Land at Nagpur and ₹ 15 lakh money to Mr. Prem to settle his capital balance.

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

	Particulars of Assets	Date of purchase	Cost of acquisition	Value as per Valuation Report as on 1.3.2025
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, 2025.

Cost Inflation Index is as follows: F.Y.2010-11- 167; F.Y.2011-12 - 184; F.Y.2012-13 - 200; F.Y.2013-14 - 220; F.Y.2014-15 - 240; F.Y.2015-16 - 254 and F.Y.2024-25 - 363

From the above information answer the following questions.

- (i) Discuss the tax treatment in the hands of X & Co. under section 9B and section 45(4) from above transactions.
- (ii) Suppose X & Co. sold self-generated goodwill for ₹ 80 lakhs in the P.Y.2025-26, Compute the capital gains on such sale for the A.Y.2026-27.

- (iii) Discuss the tax treatment in the hands of Y & Co. under section 9B and section 45(4) from above transactions.

Answer

- (i) **Tax treatment in the hands of X & Co. under section 9B and section 45(4)**

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 Gains u/s 9B for A.Y. 2025-26

Particulars	₹
Full value of consideration (FMV on the date of transfer)	45,00,000
Less: Cost of Acquisition (No Index, since transfer took place on or after 23.7.2024)	25,40,000
Long-term Capital Gain as per section 9B	19,60,000

Calculation of Tax Liability on above LTCCG

Particulars	₹
Tax @ 12.5% on LTCCG u/s 112 (19,60,000 x 12.5%)	2,45,000
Add: Health and Education cess @4%	9,800
Net Tax payable	2,54,800

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 books of account is ₹ 17,05,200 (₹ 19,60,000 minus ₹ 2,54,800)

Mr. Prem share in profit (₹ 17,05,200/4) = ₹ 4,26,300

Mr. Prem capital after adjusting profit [₹ 32,00,000 + ₹ 4,26,300] = ₹ 36,26,300

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

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

Computation of Capital Gains u/s 45(4) for A.Y. 2025-26

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 A/c balance of Prem (after accounting treatment of section 9B)	36,26,300
Capital Gain as per section 45(4)	23,73,700

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

Assets	Cost (Book Value) ₹	Revalue (FMV) ₹	Increase ₹	Attribution ₹
Land at Pune	15,00,000	50,00,000	35,00,000	3,11,159 (23,73,700 x 35L/267L)
Land at Mumbai	88,00,000	2,50,00,000	1,62,00,000	14,40,223 (23,73,700 x 162L/267L)
Self-Generated Goodwill	Nil	70,00,000	70,00,000	6,22,318 (23,73,700 x 70L/267L)
Total			2,67,00,000	23,73,700

- Capital gain of ₹ 17,51,382 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 ₹ 6,22,318 attributed towards self-generated goodwill is treated as STCG.

(ii) Capital Gains in the hands of X & Co. on sale of self-generated goodwill in P.Y. 2025-26

Computation of Capital Gains for A.Y. 2026-27

Particulars	₹
Full value of consideration	80,00,000
Less: Attribution of capital gain towards self-generated goodwill	6,22,318
	73,77,682
Less: Cost of Acquisition	Nil
Short-term Capital Gains	73,77,682

(iii) Tax treatment in the hands of Y & Co. under section 9B and section 45(4)

As per section 9B in case of dissolution of Firm, if any capital asset or stock in trade is transfer to partner then capital gain or PGBP or both applicable in hands of Firm.

In case of dissolution of Firm, section 45(4) is not applicable.

Computation of Capital Gain u/s 9B for A.Y. 2025-26

Particulars	Land at Chandigarh (₹)	Land at Mohali (₹)	Land at Gurgaon (₹)
Sale consideration (FMV on date of transfer)	62,00,000	59,00,000	70,00,000
Less: Cost of Acquisition (No Index, since transfer took place on or after 23.7.2024)			
Chandigarh Land	18,40,000		
Mohali Land		15,24,000	
Gurgaon Land			16,70,000
Long-term Capital Gain as per section 9B	43,60,000	43,76,000	53,30,000
Total LTCG	1,40,66,000		

Question 21

L, M and N are three partners of M/s. L & G Associates, a partnership firm established on 01.04.1995. L retires from firm on **January 27,2025** and after his retirement, business of firm will be operated by M and N. Capital account balance of L as on January 27,2025 is ₹ 20 Lakhs, (there is no revaluation of assets in books of the firm at any time after 2003-04 when L joined the firm as a partner).

The firm gives to L the following to settle his account:

- (i) Cash payment of ₹ 1,00,000
- (ii) Stock in trade (Fair market value on January 27,2025 is ₹ 2,00,000).
This stock was purchased on December 15,2024 for ₹ 1,20,000.

- (iii) Plot of Land at Kota (Fair market value of plot as on January 27,2025 is ₹ 17,00,000)

Book value of plot is ₹ 17,00,000. It was acquired during 1998-99 for ₹ 60,000. Fair market value of the plot as on April 1, 2001 is ₹ 1,10,000.

You are required to calculate the Taxable Income as per the provisions of Income-tax Act, 1961 for L & G Associates for A.Y. 2025-26.

Answer

Computation of taxable income for M/s. L & G Associates

Particulars	₹	₹
Profits and gains of business or profession		
Deemed transfer on receipt of stock in trade by Mr. L from L & G associates Receipt of stock in trade by Mr. L from L & G associates in connection with reconstitution of L & G associates would be deemed to be transfer of stock in trade by L & G associates to Mr. L and would be taxable u/s 9B	-	
FMV of stock in trade [FMV as on 27.1.2025, being the date on which stock in trade is received by Mr. L]	2,00,000	
Less: Purchase cost	<u>1,20,000</u>	
Profits and gains from business		80,000
Capital Gains		
Deemed transfer on receipt of plot of Land by Mr. L from L & G associates		
Receipt of plot of land by Mr. L from L & G associates in connection with reconstitution of L & G associates would be deemed to be transfer of plot of land by L & G associates to Mr. L and would be taxable u/s 9B		
Full value of consideration of plot of land [FMV as on 27.1.2025, being the date on which capital asset is received by Mr. L]	17,00,000	
Less: Cost of acquisition [Higher of cost of acquisition (₹ 60,000) and FMV as on 1.4.2001 (₹ 1,10,000)]	-	
(No Index, since transfer took place on or after 23.7.2024)	1,10,000	
Capital Gains		15,90,000

Deemed income on receipt of cash and plot of land by Mr. L from L & G associates		
Profits and gains arising on receipt of cash and plot of land by Mr. L from L & G associates in connection with reconstitution of L & G associates would be deemed to be the income of L & G associates and would be taxable under section 45(4)		
Cash payment	1,00,000	
FMV of plot of land as on 27.1.2025	<u>17,00,000</u>	
	18,00,000	
Less: Amount of balance in capital account [See Working Note below]	<u>19,49,447</u>	
Since, income chargeable is negative, it would be deemed to be zero	(1,49,447)	
Taxable Income		16,70,000
Working Note		
Amount of balance in capital account for section 45(4) = Capital balance as on date 27.1.2025 as increased/reduced by share in book profit/loss arising on account of deemed transfer		
Book profit after income-tax on account of deemed transfer u/s 9B		
Book profit on transfer on land = Nil (₹ 17,00,000 - ₹ 17,00,000)		
Book profit on transfer on stock in trade = 80,000 (₹ 2,00,000 - ₹ 1,20,000)		
Tax on capital gains on transfer of land as per section 9B = ₹ 15,90,000 x 13% (12.5% plus 4% cess) = ₹ 2,06,700		
Tax on business income on transfer of stock in trade under section 9B = ₹ 80,000 x 31.2% = ₹ 24,960		
Profit as per books as reduced by Income-tax on transfer u/s 9B		
₹ 80,000 - ₹ 2,06,700 - ₹ 24,960 = (₹ 1,51,660)		
Share of loss of Mr. L = ₹ 1,51,660/3 = ₹ 50,553		
Capital account balance before adjustment	20,00,000	
Less: Share of loss	(50,553)	
Amount of balance in capital account on 27.1.2025	<u>19,49,447</u>	

Advance Money Forfeit

Question 22

Mr. X purchases a house property in December 1993 for ₹ 5,25,000 and an amount of ₹ 1,75,000 was spent on the improvement and repairs of the property in March, 1997. The property was proposed to be sold to Mr. Z in the month of May, 2007 and an advance of ₹ 40,000 was taken from him. As the entire money was not paid in time, Mr. X forfeited the advance and subsequently sold the property to Mr. Y in the month of March, 2025 for ₹ 52,00,000. The fair value of the property on April 1, 2001 was ₹ 11,90,000 and Stamp duty value on the said date was ₹ 10,20,000. What is the capital gain chargeable in the hands of Mr. X for the A.Y. 2025-26?

Financial year	Cost Inflation Index
2001-02	100
2007-08	129
2024-25	363

Answer

Capital gains in the hands of Mr. X is computed as under

Particulars	₹
Sale proceeds	52,00,000
Less: Cost of acquisition [Note 1]	9,80,000
Cost of improvement [Note 2]	-
Long term capital gains	42,20,000

Note 1: Computation of cost of acquisition

Cost of acquisition (higher of fair market value as on April 1, 2001 and the actual cost of acquisition. Fair market value, however, should not exceed ₹ 10,20,000, being the stamp duty value on 1.4.2001))	10,20,000
Less: Advance taken and forfeited before 1.4.2014	40,000
Cost of acquisition	9,80,000

Note 2: Any improvement cost incurred prior to 1.4.2001 is to be ignored.

Question 23

Mr. Kay purchases a house property on April 10, 1992 for ₹ 65,000. The fair market value of the house property on April 1, 2001 was ₹ 2,70,000 and Stamp duty value was ₹ 2,20,000. On August 31, 2004, Mr. Kay enters into an agreement with Mr. Jay for sale of such property for ₹ 3,70,000 and received an amount of ₹ 60,000 as advance. However, as Mr. Jay did not pay the balance amount, Mr. Kay forfeited the advance. In May 2008, Mr. Kay constructed the first floor by incurring a cost of ₹ 2,35,000. Subsequently, in January 2009, Mr. Kay gifted the house to his brother Mr. Dee. On **February 10, 2025**, Mr. Dee sold the house for ₹ 12,00,000.

CII for F.Y.2001-02: 100; 2004-05: 113; 2008-09: 137; 2024-25: 363.

Compute the capital gains in the hands of Mr. Dee for A.Y.2025-26.

Answer**Computation of taxable capital gains of Mr. Dee**

Particulars	₹	₹
Sale consideration		12,00,000
Less: Cost of acquisition (See Note below)	2,20,000	
Cost of improvement	2,35,000	4,55,000
Long-term capital gain		7,45,000

Note: Since house property was acquired before 1st April, 2001, higher of fair market value on 1.4.2001 or actual cost of acquisition can be considered as cost of acquisition. However, fair market value cannot exceed stamp duty value on 1.4.2001.

Amount forfeited by previous owner, Mr. Kay, shall not be deducted from cost of acquisition.

Question 24

Hari has acquired a residential house property in Delhi on 15th April, 2002 for ₹ 9,00,000 and decided to sell the same on 3rd May, 2005 to Ms. Pari and an advance of ₹ 25,000 was taken from her. The balance money was not paid by Ms. Pari and Hari has forfeited the entire advance sum. On 3rd June, 2024, he has sold this house to Mr. Suri for ₹ 43,00,000. On 4th April, 2024, he had purchased a residential house in Delhi for ₹ 7,00,000, where he was staying with his family on rent for the last 5 years and paid the full amount as per the purchase agreement. However, Hari does not possess any legal title till 31st March, 2025, as such transfer was not registered with the registration authority.

Hari has purchased another old house in Chennai on 14th October, 2024 from Mr. X, an Indian resident, by paying ₹ 5,00,000 and the purchase was registered with the appropriate authority.

Determine taxable capital gain arising from above transactions in the hands of Hari for A.Y. 2025-26.

[Cost Inflation Index - 2002-03: 105; 2005-06: 117; 2024-25: 363]

Answer

Computation of taxable capital gain of Mr. Hari

Particulars	₹
Sale proceeds	43,00,000
Less: Indexed cost of acquisition [Since transfer took place before 23.7.2024] [See Note (i)]	30,25,000
Long Term Capital Gain	12,75,000
Less: Exemption u/s 54 in respect of investment in house at Delhi [See Note (ii)]	7,00,000
Exemption u/s 54 in respect of investment in house at Chennai [See Note (iii)]	5,00,000
Taxable long-term capital gain	75,000

Notes:

(i) **Computation of indexed cost of acquisition**

Particulars	₹
Cost of acquisition	9,00,000
Less: Advance taken and forfeited	25,000
Cost for the purpose of Indexation	8,75,000
Indexed cost of acquisition (₹ 8,75,000 x 363/105)	30,25,000

Note: Advance received and forfeited on or after 01.04.2014 is taxable under section 56(2)(ix). Such amount would not be reduced to compute indexed cost of acquisition while determining capital gains on sale of such property.

However, in this case, since advance was received and forfeited in year 2005, such advance has to be reduced for calculating indexed cost of acquisition for purpose of arriving at capital gains.

- (ii) In order to avail exemption of capital gains under section 54, residential house should be purchased within 1 year before or 2 years after the date of transfer or constructed within a period of 3 years after the date of transfer. In this case, Hari has purchased the residential house in Delhi within one year before the date of transfer and paid the full amount as per the purchase agreement, though he does not possess any legal title till 31.3.2025 since the transfer was not registered with the registration authority. However, for the purpose of claiming exemption under section 54, holding of legal title is not necessary. If the taxpayer pays the full consideration in terms of the purchase agreement within the stipulated period, the exemption under section 54 would be available. It was so held in *Balraj v. CIT* (2002) 254 ITR 22 (Del.) and *CIT v. Shahzada Begum* (1988) 173 ITR 397 (A.P.).
- (iii) As per section 54, since the amount of capital gain does not exceed ₹ 2 crore, Mr. Hari can claim exemption thereunder in respect of investment made in two residential houses situated in India. However, if Mr. Hari exercises the option to claim exemption in respect of two residential houses in Delhi and Chennai in P.Y. 2024-25, he shall not be subsequently entitled to exercise the option for the same or any other assessment year.

Exemptions from Capital Gains

Question 25

Mr. Ganesh sold his residential house in Mumbai and earned long term capital gain of 2.5 crores. He purchased two residential flats adjacent to each other on the same day vide two separate registered sale deeds from two different persons. The builder had certified that he had effected necessary modification to make it one residential apartment. Mr. Ganesh sought exemption under section 54 in respect of the investment made in purchase of the two residential flats. The Assessing Officer, however, gave exemption under section 54 to the extent of purchase of one residential flat only contending that since the long term capital gain exceeds ₹ 2 crore, sub-section (1) of section 54 clearly restricts the benefit of exemption to purchase one residential house only and the two flats cannot be treated as one residential unit since -

- (i) the flats were purchased through different sale deeds; and
- (ii) it was found by the Inspector that, before its sale to the assessee, the residential flats were in occupation of two different tenants.

Examine the correctness of the contention of the Assessing Officer.

Answer

This issue came up before the Karnataka High Court in *CIT v. D. Ananda Basappa* (2009) 309 ITR 329. The Court observed that the assessee had shown that the flats were situated side by side and the builder had also certified that he had effected modification of the flats to make them one unit by opening the door between the apartments. Therefore, it was immaterial that the flats were occupied by two different tenants prior to sale or that it was purchased through different sale deeds. The Court observed that these were not the grounds to hold that the assessee did not have the intention to

purchase the two flats as one unit. The Court held that the assessee was entitled to exemption under section 54 in respect of purchase of both the flats to form one residential house.

Applying the ratio of the above decision to the case on hand, **Mr. Ganesh is entitled to exemption under section 54 in respect of purchase of two flats to form one residential house.** Therefore, the contention of the Assessing Officer is not correct.

Question 26

PQR Ltd., purchased a land for industrial undertaking in May 2004, at a cost of ₹ 3,50,000. The above property was compulsorily acquired by State Government at a compensation of ₹ 13,00,000 in **January, 2025**. The compensation was received in February, 2025. The company purchased another land for its industrial undertaking at a cost of ₹ 2,00,000 in the month of March, 2025. What is the amount of the capital gains chargeable to tax in the hands of the company for the A.Y. 2025-26?

Financial year	Cost Inflation Index
2004-05	113
2024-25	363

Answer

Computation of capital gains in the hands of PQR Ltd.

Particulars	₹
Sale proceeds (Compensation received)	13,00,000
Less: Cost of acquisition	3,50,000
	9,50,000
Less: Exemption under section 54D (Cost of acquisition of land for its undertaking)	2,00,000
Taxable long term capital gain	7,50,000

Question 27

From the following particulars, compute the taxable capital gains of Mr. D for A.Y.2025-26 -

Particulars	Amount (₹)
Cost of jewellery [Purchased in F.Y.2005-06]	4,52,000
Sale price of jewellery sold in January 2025	14,50,000
Expenses on transfer	7,000
Residential house purchased in March 2025	5,00,000

The cost inflation Index are as follows:

Financial Year	Cost Inflation Index
2005-06	117
2024-25	363

Answer

Computation of taxable capital gains

Particulars	₹
Gross consideration	14,50,000
Less: Expenses on transfer	7,000
Net consideration	14,43,000
Less: Cost of acquisition	4,52,000
	9,91,000
Less: Exemption under section 54F ($\text{₹ } 9,91,000 \times \text{₹ } 5,00,000 / \text{₹ } 14,43,000$)	3,43,382
Taxable long term capital gain	6,47,618

Question 28

Mrs. Seema Aggarwal, aged 56 years, a resident individual acquired a residential house at Ayodhya on 01.04.1993 for ₹ 45,00,000. The Fair market value of the property as on 01.04.2001 was ₹ 1,20,00,000 and the stamp duty value as on 01.04.2001 was ₹ 1,02,00,000.

Mrs. Seema Aggarwal sold her residential house located at Ayodhya to Mr. Shiv Kumar on 15.01.2025 for ₹ 15,50,00,000. The value determined by the Stamp Duty Authority on 15.01.2025 was ₹ 17,00,00,000. Mr. Shiv Kumar was handed over the possession of the property on 15.01.2025 and the registration process was completed on the same date. He paid the sale proceeds in full on the date of registration.

After recovering the sale proceeds from Shiv Kumar, Mrs. Seema Aggarwal purchased one residential plot at Amritsar for ₹ 8 crores on 18.02.2025. She also deposited ₹ 3 crores in a Saving account opened with State Bank of India, Amritsar under Capital gain account scheme on 31.03.2025 for the construction of the residential house on above plot.

You are required to calculate the taxable capital gain in the hands of Mrs. Seema Aggarwal for the A.Y. 2025-26. Cost Inflation Index for F.Y. 2001-02: 100 and 2024-25: 363.

Answer

Computation of taxable Capital gain in the hands of Mrs. Seema Aggarwal

Particulars	₹
Full value of consideration	15,50,00,000
As per section 50C, the full value of consideration would be actual sales consideration since the stamp duty value as on 15.01.2025 of ₹ 17,00,00,000 does not exceed 110% of actual consideration of ₹ 15,50,00,000.	
Less: Cost of acquisition	1,02,00,000
(higher of actual cost of ₹ 45,00,000 and Fair market value as on 1.4.2001 of ₹ 1,20,00,000, but restricted to stamp duty value as on 1.4.2001 of ₹ 1,02,00,000)	
	14,48,00,000
Less: Exemption under section 54	10,00,00,000
[Purchase of one residential plot of ₹ 8 crores on 18.02.2025 and deposit of ₹ 3 crores in Capital Gain Account Scheme on 31.3.2025 (before the date of filing of	

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return of income) provided that the construction thereon is completed within the stipulated time of three years, but restricted to maximum of ₹ 10 crores]	
Taxable long term capital gains	4,48,00,000

Note: It may be noted that since Mrs. Seema Aggarwal has transferred residential house on or after 23.7.2024 which was acquired before the said date, she can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to her.

Question 29

Following are the details of income provided by Mr. Singh, for financial year ended 31st March, 2025:

- (i) Rental income from property at Bangalore - ₹ 3 lakhs, Standard Rent - ₹ 2,50,000, Fair Rent - ₹ 2,80,000.
- (ii) Municipal and water tax paid during the year: Current year ₹ 35,000, Arrears - ₹ 1,50,000.
- (iii) Interest on loan borrowed towards major repairs to the property: ₹ 1,50,000.
- (iv) Arrears of rent of ₹ 30,000 received during year, which was not charged to tax in earlier years.

Further, assessee furnished following additional information regarding sale of property at Chennai:

- (i) Mr. Singh's father acquired a residential house in April 2006 for ₹ 1,25,000 and thereafter gifted this property to the assessee, Mr. Singh on 1st March, 2007.
- (ii) The property, so gifted, was sold by Mr. Singh on **10th August 2024**. The consideration received was ₹ 25,00,000.
- (iii) Stamp duty charges paid by the purchaser at the time of registration @ 13% (as per statutory guidelines) was ₹ 3,90,000.
- (iv) Out of the sale consideration received:
 - (a) On 02.01.2025, the assessee had purchased two adjacent flats, in the same building, and made suitable modification to make it as one unit. The investment was made by separate sale deeds, amount being ₹ 8,00,000 and ₹ 7,00,000, respectively.
 - (b) On 10.10.2024, ₹ 10 lakhs was invested in bonds issued by National Highways Authority of India, but the allotment of the bonds was made on 1.2.2025.

Compute Mr. Singh's taxable income for A.Y. 2025-26 assuming that he has exercised the option to shift out of the default tax regime under section 115BAC.

Cost Inflation Index: F.Y. 2006-07: 122; F.Y. 2024-25: 363

Answer

Computation of taxable income of Mr. Singh

Particulars	₹	₹
Income from house property		
Gross Annual Value [Higher of Expected Rent & Actual Rent]		3,00,000
Expected Rent [lower of Fair Rent and Standard Rent]	2,50,000	
Actual Rent	3,00,000	

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Capital Gains

Less: Municipal taxes paid by Mr. Singh during the year (including arrears) [₹ 35,000 + ₹ 1,50,000]		1,85,000
Net Annual Value (NAV)		1,15,000
Less: Deductions under section 24		
(a) 30% of NAV	34,500	
(b) Interest on loan borrowed for major repairs	1,50,000	1,84,500
		(69,500)
Arrears of rent taxable under section 25A	30,000	
Less: Deduction@30%	9,000	21,000
		(48,500)
Capital Gains		
Full value of consideration		30,00,000
As per section 50C, the full value of consideration would be higher of -		
Actual Consideration	25,00,000	
Stamp Duty Value [₹ 3,90,000/13%]	30,00,000	
Since stamp duty value > 110% of actual consideration		
Less: Cost of acquisition		
As per section 49(1), cost of acquisition of the residential house gifted by Mr. Singh's father to Mr. Singh would be the cost for which Mr. Singh's father acquired the asset		1,25,000
		28,75,000
Less: Exemption under section 54 (₹ 8,00,000 + ₹ 7,00,000)		
Purchase of residential house within stipulated time (within one year before or two years after the date of sale) [Where the flats are situated side by side & builder had effected necessary modification to make it as one house, assessee would be entitled to exemption under section 54 in respect of investment in both the flats, despite the fact that they were purchased by separate sale deeds] [CIT v. Ananda Basappa (2009) 331 ITR 211 (Kar.)]	15,00,000	
Note: Since two adjacent flats are treated as one residential house, Mr. Singh can defer availing exemption under section 54 in respect of two residential houses (where capital gains does not exceed ₹ 2 crores) to a later assessment year.		
Exemption under section 54EC		
Investment in bonds of NHAI within six months from the date of transfer. Where the payment for bonds has been made within six month period, exemption under section 54EC would be available even if allotment of bonds was made after expiry of six months [Hindustan Unilever Ltd. v. DCIT (2010) 325 ITR 102 (Bom.)]	10,00,000	25,00,000
Long-term capital gains		3,75,000
Total Income (3,75,000 - 48,500)		3,26,500

Note: It may be noted that since Mr. Singh has transferred residential house property on or after 23.7.2024 which was acquired before the said date, he can opt to pay tax @20% on LTCG (computed with Indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him.

Question 30

Mr. Sanjay is a resident in India aged 55 years. He had an impressive investment portfolio in various mutual funds. He redeemed his entire mutual fund investment portfolio and bought a villa in Lonavala for ₹ 2.00 crores to spend rest of his life there. The details of mutual funds are as under:

S.N.	Type of mutual fund	Date of investment	Date of redemption	Amount invested (in ₹ lakhs)	Amount redeemed (in ₹ lakhs)
1	BLR growth fund	03.04.2021	05.01.2025	120	140
2	ABC Strategic fund	04.05.2023	02.02.2025	46	50
3	ABD Midcap fund	20.03.2024	10.02.2025	115	118
4	SBA Growth fund	08.11.2022	12.03.2025	110	120

The funds stated at 1 and 2 have invested 30% of their proceeds in equity shares of domestic companies and funds stated at 3 and 4 have invested 70% of their proceeds in equity shares of domestic companies. The investment pattern of funds remained unchanged over all the years. STT is paid at the time of acquisition and redemption of mutual fund, wherever applicable.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Sanjay for A.Y. 2025-26. CII: 2021-22: 317; 2022-23: 331; 2023-24: 348; 2024-25: 363

Answer

Computation of capital gains of Mr. Sanjay

Particulars	₹	₹
Redemption of BLR growth fund		
Full value of consideration [Redemption value]	1,40,00,000	
Less: Cost of acquisition (No Index, since transfer took place on or after 23.7.2024)	<u>1,20,00,000</u>	
Long term capital gains [Since it is debt fund (as not more than 65% of the proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for more than 24 months immediately preceding the date of its transfer]		20,00,000
Redemption of ABC Strategic fund		
Full value of consideration [Redemption value]	50,00,000	
Less: Cost of acquisition	<u>46,00,000</u>	
Short term capital gains [Since it is a specified mutual fund (as not more than 35% of its proceeds are invested in equity shares of domestic companies) which is acquired on or after 1.4.2023 , this fund would be considered as short-term capital asset as per section 50AA irrespective of the period of holding]		4,00,000

Redemption of ABD Midcap fund		
Full value of consideration [Redemption value]	1,18,00,000	
Less: Cost of acquisition	<u>1,15,00,000</u>	
Short term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for not more than 12 months immediately preceding the date of its transfer]		3,00,000
Redemption of SBA Growth fund		
Full value of consideration [Redemption value]	1,20,00,000	
Less: Cost of acquisition [Indexation benefit would not be available in case of income taxable under section 112A]	<u>1,10,00,000</u>	
Long term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for more than 12 months immediately preceding the date of its transfer]		10,00,000
		<u>37,00,000</u>
Less: Exemption under section 54F		
Capital gain arising on transfer of a long-term capital asset other than a residential house shall not be chargeable to tax to the extent such capital gain is invested in purchase of one residential house in India within one year before or two years after date of transfer of original asset.		
Therefore, in the present case, the exemption would be available only in respect of long-term capital gains from redemption of BLR growth fund and SBA Growth fund.		
Exemption from long term capital gains from redemption of BLR short term fund [20,00,000 × 1,40,00,000/1,40,00,000]		20,00,000
Exemption from long term capital gains from redemption of SBA Growth fund [10,00,000 × 60,00,000 (2 crores - 1.40 crores)/1,20,00,000]		5,00,000
Capital gains chargeable to tax		<u>12,00,000</u>

Question 31

Gama Ltd, located within the corporation limits decided in **December, 2024** decided to shift its industrial undertaking to non-urban area. The company sold some of the assets and acquired new assets in the process of shifting. The relevant details are as follows:

(₹ in lacs)					
	Particulars	Land	Building	Plant & Machinery	Furniture
(i)	Sale proceeds (sale effected in March, 2025)	8	18	16	3
(ii)	Cost of acquisition	4	10	12	2
(iii)	WDV in terms of section 50	--	4	5	2

(iv)	Cost of new assets purchased in July, 2025 for the purpose of business in the new place	4	7	17	2
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Compute the capital gains of Gama Ltd for the assessment year 2025-26.

Answer

Section 54G deals with deduction in respect of any capital gain that may arise from the transfer of an industrial undertaking situated in an urban area in the course of or in consequence of shifting to a non-urban area.

If the assessee purchases new machinery or plant or acquires a building or land or constructs a new building or shifts the original asset and transfers the establishment to the new area, within 1 year before or 3 years after the date on which the transfer takes place, then, instead of the capital gain being charged to tax, it shall be dealt with as under:

1. If the capital gain is greater than the cost of the new asset, the difference between the capital gain and the cost of the new asset shall be chargeable as income 'under section 45'.
2. If the capital gain is equal to or less than the cost of the new asset, section 45 is not to be applied.

The capital assets referred to in section 54G are machinery or plant or land or building or any rights in building or land. Capital gain arising on transfer of furniture does not qualify for exemption under section 54G. No exemption is therefore available under section 54G in respect of investment of ₹ 2 lacs in acquiring furniture.

The first step therefore is to determine the capital gain arising out of the transfer and thereafter apply the provisions of section 54G.

	Particulars	₹
(a)	Land - Sale proceeds (Non-depreciable asset)	8,00,000
	Less: Cost of acquisition	4,00,000
	Long term capital gain	4,00,000
	Less: Cost of new assets purchased within three year after the date of transfer (under section 54G) (See Note below)	3,00,000
	Taxable Long term capital gain	1,00,000
(b)	Building - sale proceeds (depreciable assets)	18,00,000
	Less: W.D.V. is deemed as cost of acquisition under section 50	4,00,000
	Short term capital gain	14,00,000
(c)	Plant & machinery- sale proceeds (depreciable asset)	16,00,000
	Less: WDV is deemed cost under section 50	5,00,000
	Short term capital gain	11,00,000
(d)	Furniture - sale proceeds (depreciable asset)	3,00,000
	Less: WDV is deemed cost under section 50	2,00,000
	Short term capital gain (A)	1,00,000
Summary		₹
	Short term capital gain: Building	14,00,000
	Short term capital gain: Plant & machinery	11,00,000

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Less: Section 54G [New assets purchased] (See Note below)	25,00,000
Net short term capital gain (B)	25,00,000
Total short term capital gain (A)+(B) = ₹ 1 lac	Nil

Note – Total exemption available under section 54G is ₹ 28 lacs (₹ 4 lacs + ₹ 7 lacs + ₹ 17 lacs). The exemption should first be exhausted against short term capital gain as the incidence of tax in case of short-term capital gain is more than in case of long term capital gain. Therefore, ₹ 25 lacs is exhausted against short term capital gain and the balance of ₹ 3 lacs against long term capital gain.

The taxable capital gains would be:

Long term capital gains	₹ 1,00,000 (taxable @12.5% under section 112)
Short term capital gains (furniture)	<u>₹ 1,00,000</u> (taxable at applicable tax rates)
	<u>₹ 2,00,000</u>

Tax on Capital Gain (Section 112A & 112)

Question 32

Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y.2025-26 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2024-25 in respect of these assessees:

- (i) Mr. Prasun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.8.2024 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows:

Particulars	Amount in ₹
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

- (ii) Mr. Raj purchased 200 units each of equity oriented funds, Fund A and Fund B on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 and units of Fund B were listed on 1.2.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.8.2024 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	Fund A	Fund B
	Amount in ₹	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)	800 (on 1.2.2018)
Average Trading Price	700 (on 31.1.2018)	750 (on 1.2.2018)
Lowest Trading Price	650 (on 31.1.2018)	700 (on 1.2.2018)
Net Asset Value on 31.1.2018	800	950

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Answer

- (i) For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of
- (a) cost of acquisition of such asset, i.e., actual cost; and
 - (b) lower of
 - (i) the fair market value of such asset as on 31.1.2018; and
 - (ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.

The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Prasan would be determined as follows:

The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. **Thus, the long-term capital gain would be ₹ 1,50,000 i.e., (₹ 1,200 - ₹ 700) x 300 shares.** The long-term capital gain of ₹ 25,000 (i.e., the amount in excess of ₹ 1,25,000) would be subject to tax@12.5% under section 112A (plus cess@4%), without benefit of indexation.

- (ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if shares are listed on that date), else, it would be the net asset value as on 31.1.2018 (where shares are unlisted on that date).

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date) and the FMV of units of Fund B as on 31.1.2018 would be ₹ 950 (being the net asset value as on 31.1.2018, since the units of Fund B are unlisted on that date).

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). **Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 (₹ 900 - ₹ 750) x 200 units.**

The cost of acquisition of a unit of Fund B would be ₹ 900, being higher of actual cost i.e., ₹ 550 and ₹ 900 (being the lower of FMV of ₹ 950 as on 31.1.2018 (net asset value) and actual sale consideration of ₹ 900). **Thus, the long-term capital gains on sale of units of Fund B would be Nil (₹ 900 - ₹ 900) x 200 units.**

Since the long-term capital gains on sale of units is ₹ 30,000, which is less than ₹ 1,25,000, the said sum is not chargeable to tax under section 112A.

Question 33

Mr. Shyam purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shyam entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shyam forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shyam forfeited the advance. In August, 2015, Mr. Shyam constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2024, Mr. Shyam entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shyam transferred the house to Mr. Manish on **February 20, 2025**. Mr. Shyam has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2024 was ₹ 39,00,000 and on 20th February, 2025 was ₹ 41,00,000.

Compute capital gains in the hands of Mr. Shyam for A.Y.2025-26. Also, compute tax liability under section 112, assuming that basic exemption limit has been fully exhausted against other income.

CI for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2024-25: 363

Answer**Computation of Capital gains in the hands of Mr. Shyam for A.Y. 2025-26**

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement (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 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 such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)	39,00,000	
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000

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Capital Gains

Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		30,500
Net sale consideration		38,69,500
Less: Cost of acquisition (Note 1)	9,59,000	
Less: Cost of improvement	3,90,000	13,49,000
Long term capital gain		25,20,500

Computation of tax liability u/s 112

Particulars	Amount (₹)
On LTCG of ₹ 25,20,500 x 12.5%	3,15,063
Add: Health and Education cess @4%	12,603
	<u>3,27,666</u>
On LTCG with indexation benefit	
Net Sale consideration	38,69,500
Less: Indexed cost of acquisition [₹ 9,59,000 x 363/100]	34,81,170
Less: Indexed cost of Improvement [₹ 3,90,000 x 363/254]	5,57,362
Long-term capital loss	<u>(1,69,032)</u>
<p>Since the computation results in a long term capital loss, if indexation benefit is given, the tax u/s 112 would be Nil. However, this computation is only for determining tax liability, the said loss can neither be set off nor carried forward.</p>	

Notes:

(1) Computation of cost of acquisition

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition,		10,70,000
Being the higher of		
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition		9,59,000

- (2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Accordingly, cost of acquisition after reducing the advance money forfeited would be ₹ 9,59,000 [i.e. ₹ 10,70,000 - ₹ 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head "Income from other sources" in the hands of Mr. Shyam in A.Y.2016-17.

CHAPTER - 3

Profits & Gains of Business or Profession (PGBP)

Depreciation

Question 1

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2024-25 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2025-26. Assume that all the assets were purchased by way of account payee cheque.

S. N.	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer including computer software	27 Sept., 24	1 Oct., 24	35,000
2.	Computer UPS	2 Oct., 24	8 Oct., 24	8,500
3.	Computer printer	1 Oct., 24	1 Oct., 24	12,500
4.	Books (of which books being annual publications are of ₹ 12,000)	1 Apr., 24	1 Apr., 24	13,000
5.	Office furniture (Acquired from a practising CA)	1 Apr., 24	1 Apr., 24	3,00,000
6.	Laptop	26 Sep., 24	8 Oct., 24	43,000

Answer

Computation of depreciation allowable

Asset	Rate	Depreciation
Block 1: Furniture [See working note below]	10%	30,000
Block 2: Plant (Computer including computer software, computer UPS, laptop, computer printer & books)	40%	34,500
Total depreciation allowable		64,500

Working Notes:

Computation of depreciation

Block of Assets	₹
Block 1: Furniture - [Rate of depreciation - 10%]	
Put to use for more than 180 days [₹ 3,00,000 @ 10%]	30,000
Block 2: Plant [Rate of depreciation - 40%]	
(a) Computer including computer software (put to use for more than 180 days) [₹ 35,000 @ 40%]	14,000
(b) Computer UPS (put to use for less than 180 days) [₹ 8,500 @ 20%] [See note below]	1,700
(c) Computer Printer (put to use for more than 180 days) [₹ 12,500 @ 40%]	5,000
(d) Laptop (put to use for less than 180 days) [₹ 43,000 @ 20%] [See note below]	8,600

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(e) Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [₹ 13,000 @ 40%]	5,200
	34,500

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2024-25 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

Question 2

Lights and Power Ltd. engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y. 2024-25. Compute the depreciation allowable under section 32 for A.Y. 2025-26 and the written down value of the block of assets as on 01.04.2025, while computing his income under the head "Profits and gains of business or profession". The company has opted for the depreciation allowance on the basis of written down value. Assume that all the assets were purchased by way of account payee cheque. Assume company does not opt for the provisions of section 115BAA or section 115BAB.

	Particulars	(₹)
1.	Opening Written down value of Plant and Machinery (15% block) as on 01.04.2024 (Purchase value ₹ 8,00,000)	5,78,000
2.	Purchase of second hand machinery (15% block) on 29.12.2024 for business purpose	2,00,000
3.	Machinery Y (15% block) purchased and installed on 12.07.2024 for the purpose of power generation	8,00,000
4.	Acquired and installed for use a new air pollution control equipment on 31.7.2024	2,50,000
5.	New air conditioner purchased and installed in office premises on 8.9.2024	3,00,000
6.	New machinery Z (15% block) acquired and installed on 23.11.2024 for the purpose of generation of power	3,25,000
7.	Sale value of an old machinery X, sold during the year (Purchase value ₹ 4,80,000, WDV as on 01.04.2024 ₹ 3,46,800)	3,10,000

Answer

Computation of depreciation allowance under section 32

Particulars	(₹)	Plant and Machinery (15%) (₹)	Plant and Machinery (40%) (₹)
Opening WDV as on 01.04.2024		5,78,000	-

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Add: Plant and Machinery acquired during the year			
- Second hand machinery	2,00,000		
- Machinery Y	8,00,000		
- Air conditioner for office	3,00,000		
- Machinery Z	3,25,000	16,25,000	-
- Air pollution control equipment		-	2,50,000
		22,03,000	2,50,000
Less: Asset sold during the year		3,10,000	Nil
Written down value as on 31.3.2025 before charging depreciation		18,93,000	2,50,000
Normal depreciation			
40% on air pollution control equipment (₹ 2,50,000 x 40%)		-	1,00,000
Depreciation on plant and machinery put to use for less than 180 days@ 7.5% (i.e., 50% of 15%)			
- Second hand machinery (₹ 2,00,000 × 7.5%)	15,000		
- Machinery Z (₹ 3,25,000 × 7.5%)	24,375	39,375	
15% on the balance WDV being put to use for more than 180 days (₹ 13,68,000 × 15%)		2,05,200	
Additional depreciation			
- Machinery Y (₹ 8,00,000 × 20%)	1,60,000		
- Machinery Z (₹ 3,25,000 × 10%, being 50% of 20%)	32,500	1,92,500	-
- Air pollution control equipment (₹ 2,50,000 × 20%)		-	50,000
Total depreciation		4,37,075	1,50,000
WDV as on 1.4.2025		14,55,925	1,00,000

Notes:

- (i) Power generation equipments qualify for claiming additional depreciation in respect of new plant and machinery.
- (ii) Additional depreciation is not allowed in respect of second hand machinery and air conditioner installed in office premises.
- (iii) The balance 50% additional depreciation in respect of Machinery Z of ₹ 32,500 (10% × ₹ 3,25,000) can be claimed as deduction in subsequent financial year i.e., F.Y. 2025-26.

Question 3

Compute the quantum of depreciation available under section 32 of the Income-tax Act, 1961 in respect of the following items of Plant and Machinery purchased by PQR Textile Ltd., by paying through account payee cheque, which is engaged in the manufacture of textile fabrics, for the year ended 31.3.2025. Assume company does not opt for the provisions of section 115BAA or section 115BAB:

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	(₹ In crores)
New machinery installed on 1.5.2024	84
New Windmill purchased and installed on 18.6.2024.	22
Lorries for transporting goods to sales depots (purchased and put to use in July, 2024)	3
Items purchased after 30th November 2024:	
Fork-lift-trucks, used inside factory	4
Computers installed in office premises	1
Computers installed in factory	2
New imported machinery	12

The new imported machinery arrived at Chennai port on 30.03.2025 and was installed on 3.4.2025. All other items were installed during the year ended 31.3.2025.

The company was newly started during the year.

Also, compute the WDV of the various blocks of assets as on 1.4.2025 after charging depreciation for P.Y. 2024-25.

Answer

Computation of depreciation allowance under section 32

Particulars	Normal Depreciation	Additional Depreciation
	(₹ in crores)	
(A) Plant and Machinery (15% block) (Put to use for 180 days or more)		
- New machinery installed	84.00	84.00
- Lorries for transporting goods to depots	3.00	—
	<u>87.00</u>	<u>84.00</u>
Normal Depreciation @15% & additional depreciation @ 20%	13.05	16.80
(B) Plant and Machinery (15% block) (Put to use for less than 180 days - hence, depreciation is restricted to 7.5%, being 50% of 15%)		
- Fork-lift trucks, used inside a factory	4.00	4.00
Normal Depreciation @ 7.5% & additional depreciation @ 10%	0.30	0.40
(C) Plant and Machinery (40% block) (Put to use for less than 180 days, hence depreciation restricted to 20%, i.e., 50% of 40%)		
- Computers installed in office premises	1.00	-
- Computers installed in factory	2.00	2.00
	3.00	2.00

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Normal depreciation @20% & additional depreciation @ 10%	0.60	0.20
(D) Plant and Machinery (40% block) (Put to use for 180 days or more) (See Note 1)		
- New windmill purchased and installed	22.00	22.00
Normal Depreciation @ 40% & additional depreciation @ 20%	8.80	4.40
Total depreciation and additional depreciation		
- Plant and Machinery (15% block) (A +B)	13.35	17.20
- Plant and Machinery (40% block) (C + D)	9.40	4.60
Depreciation available under section 32 = ₹ 44.55 crores		

Computation of Written Down Value (WDV) as on 01.04.2025

Particulars	Plant & Machinery	
	15%	40%
	(₹ in crores)	
WDV as on 01.04.2024 [The company was started during the year - as given in question]	Nil	Nil
Add: Plant and Machinery acquired during the year		
- New Machinery installed	84.00	
- Lorries for transporting goods to sales depots	3.00	
- Fork-lift trucks, used inside factory	4.00	
- New imported machinery	12.00	
- New Windmill purchased and installed	-	22.00
- Computers installed in office premises	-	1.00
- Computers installed in factory	-	2.00
	103.00	25.00
Less: Asset sold during the year	Nil	Nil
WDV as on 31.3.2025 (before charging depreciation)	103.00	25.00
Less: Depreciation for the P.Y.2024-25		
- Normal depreciation	13.35	9.40
- Additional depreciation	17.20	4.60
WDV as on 1.4.2025 (after charging depreciation)	72.45	11.00

Notes:

- (1) Windmills and any specially designed devices which run on windmills installed on or after 1.4.2014 would be eligible for depreciation @ 40%.
- (2) New imported machinery was not installed during the previous year 2024-25. Hence, it would not be eligible for additional depreciation for A.Y. 2025-26. It would also not be eligible for normal depreciation for A.Y. 2025-26, since it was not put to use in the P.Y. 2024-25 being the year of acquisition.

- (3) It may be noted that investment in the following plant and machinery would not be eligible for additional depreciation under section 32(1)(ii):
- (a) Lorries for transporting goods to sales depots, being vehicles/road transport vehicles; and
 - (b) Computers installed in office premises.
- (4) As per section 2(28) of the Motor Vehicles Act, 1988, the definition of a "vehicle" excludes, inter alia, a vehicle of special type adopted for use only in a factory or in any enclosed premises. Therefore, fork-lift trucks used inside the factory would not fall within the definition of "vehicle". Hence, it is eligible for additional depreciation under section 32(1)(ii).

Question 4

Sai Ltd. has a block of assets carrying 15% rate of depreciation, whose written down value on 01.04.2024 was ₹ 40 lacs. It purchased another asset (second-hand plant and machinery) of the same block on 01.11.2024 for ₹ 14.40 lacs and put to use on the same day. Sai Ltd. was amalgamated with Shirdi Ltd. with effect from 01.01.2025.

You are required to compute the depreciation allowable to Sai Ltd. & Shirdi Ltd. for the previous year ended on 31.03.2025 assuming that the assets were transferred to Shirdi Ltd. at ₹ 60 lacs. Also assume that the plant and machinery were purchased by way of account payee cheque.

Answer

Statement showing computation of depreciation allowable to Sai Ltd. & Shirdi Ltd.

Particulars	₹
Written down value (WDV) as on 1.4.2024	40,00,000
Addition during the year (used for less than 180 days)	14,40,000
Total	54,40,000
Depreciation on ₹ 40,00,000 @ 15%	6,00,000
Depreciation on ₹ 14,40,000 @ 7.5%	1,08,000
Total depreciation for the year	7,08,000
Apportionment between two companies:	
(a) Amalgamating company, Sai Ltd.	
₹ 6,00,000 × 275/365	4,52,055
₹ 1,08,000 × 61/151	43,629
	4,95,684
(b) Amalgamated company, Shirdi Ltd.	
₹ 6,00,000 × 90/365	1,47,945
₹ 1,08,000 × 90/151	64,371
	2,12,316

Notes:

- (i) The aggregate deduction, in respect of depreciation allowable to the amalgamating company and amalgamated company in the case of amalgamation shall not exceed in any case, the

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deduction calculated at the prescribed rates as if the amalgamation had not taken place. Such deduction shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them.

- (ii) The price at which the assets were transferred, i.e., ₹ 60 lacs, has no implication in computing eligible depreciation.

Income from Growing & Manufacturing Tea, Coffee and Rubber [Section 33AB]

Question 5

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31.3.2025:

S.N.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2025-26.

Answer

Computation of business income and agricultural income of Ms. Vivitha

S.N.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2)	80,000		Nil	80,000
	Total			5,40,000	5,90,000

Notes:

1. Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
2. Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

Question 6

The business profit of T Ltd., a tea growing and manufacturing company, is ₹ 120 lacs (before deduction under section 33AB) for the A.Y. 2025-26. It deposits ₹ 50 lacs with NABARD for claiming deduction under section 33AB. It wants to claim set-off of brought forward business loss of ₹ 40 lacs. Find out the taxable income of T Ltd. for the A.Y. 2025-26.

Answer

An assessee, engaged in growing and manufacturing tea in India, is entitled to a deduction u/s 33AB, in respect of amount deposited to an account maintained with NABARD as per scheme approved by Tea Board. The deduction is lower of the following two amounts –

- (i) Amount deposited to the account maintained with NABARD within 6 months from end of the previous year or before the "due date" for filing return of income, whichever is earlier;
- (ii) 40% of profits of such business computed under the head "Profits and Gains of Business or Profession" before making any deduction under this section.

The above deduction will be allowed before set off of brought forward business loss u/s 72.

Computation of taxable income of T Ltd.

Particulars	₹ (in lacs)	₹ (in lacs)
Profit before deduction under section 33AB		120.00
Less: Deduction under section 33AB for deposit to the account with NABARD being lower of the following amounts:		
Amount deposited with NABARD	50	
40% of business profit i.e., 40% of ₹ 120 lacs	48	<u>48.00</u>
		72.00
Less: 60% of ₹ 72 lacs, being agricultural income as per Rule 8		<u>43.20</u>
		28.80
Less: Set off brought forward loss under section 72		<u>28.80</u>
Taxable business income/Total Income		Nil

Note - The balance business loss of ₹ 11.20 lacs (i.e., ₹ 40 lacs - ₹ 28.80 lacs) can be carried forward to the next year for set off against business income.

Question 7

M/s. Gomati P Ltd., a closely held company, is in the business of growing and manufacturing rubber. The profit & loss account for the year ended 31.03.2025 of the company shows a net profit ₹ 37.65 crores after debiting depreciation of ₹ 30 crores.

The company has provided the following additional information:

- (i) The company has deposited ₹ 30 crores in a special account with NABARD on 29.04.2025.
- (ii) The company has brought forward losses of ₹ 6 crores pertaining to Assessment Year 2023-24. Mr. A who continuously held 60% of shares carrying voting power since incorporation of the company, had sold his entire holding to Mr. B on 01.08.2024.
- (iii) The company had an accumulated balance of ₹ 200 crores in the special account with NABARD as on 01.04.2024. It has withdrawn ₹ 40 crores and utilized the same for following purposes:
 - Purchase of a new sprinkling machine for use in its operation ₹ 10 crores,
 - Purchase of office appliances for corporate office at Chennai ₹ 10 crores.
 - Purchase of computers and accessories ₹ 5 crores.
 - Construction of a godown at a cost of ₹ 1 crore near the rubber estate to store raw rubber.
 - Repairs to machinery ₹ 35 lakhs.
- (iv) On 31.03.2025, the company has sold machinery which was purchased on 10.05.2021 for ₹ 10 crores. The purchase of the said machinery was in accordance with the scheme of deposit.
- (v) Depreciation allowable as per Tax Audit Report is ₹ 28 crores.

Compute Taxable and Exempt income of M/s. Gomati (P) Ltd.

Answer

Computation of Taxable and Exempt Income of M/s Gomati (P) Ltd. for the A.Y. 2025-26

Particulars	₹
Net profit as per Profit and Loss Account	37,65,00,000
Add: Excess depreciation as per books of account	₹
Depreciation as per books of account	30,00,00,000
Less: Depreciation allowable as per the Income-tax Act, 1961	<u>28,00,00,000</u>
Net profit before allowing deduction under section 33AB	39,65,00,000
Less: Deduction under section 33AB would be the lower of:	
- Amount deposited in Rubber Development Account on or before 30.9.2025 [i.e., ₹ 30,00,00,000]	
- 40% of profits of such business [40% of ₹ 39,65,00,000]	<u>15,86,00,000</u>
Net profit after allowing deduction under section 33AB	23,79,00,000
Add: Amount withdrawn from special account with NABARD, which is deemed as profits and gains of business or profession	
(i) Purchase of a new sprinkling machine for use in its operation for ₹ 10 crores, would <u>not</u> be deemed as profits and gains of business or profession, since the said amount is utilised as per the specified scheme.	Nil

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(ii) Purchase of office appliances for corporate office at Chennai for ₹ 10 crores , out of the amount withdrawn from the deposit account, would be deemed as profits and gains of business or profession, since the said utilisation is not permissible.	10,00,00,000
(iii) ₹ 5 crores utilised for purchase of computers and accessories is permissible . Thus, such amount would not be deemed as profits and gains of business or profession.	Nil
(iv) ₹ 1 crore utilised for construction of a godown near rubber estate to store raw rubber , would not be deemed as profits and gains of business or profession, since the said amount is utilised as per the specified scheme.	Nil
(v) ₹ 35 lakhs utilised for repairs to machinery would not be deemed as profits and gains of business or profession, since the said amount is utilised as per the specified scheme.	Nil
Note - However, no deduction would be allowed in respect of such expenditure mentioned in (i), (iii), (iv) and (v) during the year, since amount is spent out of the amount deposited in special account with NABARD, which has already been allowed as deduction in an earlier assessment year.	
(vi) The remaining amount of ₹ 13.65 crores (₹ 40 crores less ₹ 26.35 crores [utilised above in (i) to (v)]) , which is not utilised during the previous year in which such amount is withdrawn, would be deemed as profits and gains of business or profession.	13,65,00,000
Add: Sale of machinery acquired out of the amount withdrawn from special account in accordance with the scheme of deposit. The cost of such machinery would be deemed as profits and gains of business or profession, since such machinery is sold before the expiry of eight years from the end of the previous year of its acquisition.	<u>10,00,00,000</u>
Total Composite business profits	57,44,00,000
Less: 65% of ₹ 57,44,00,000, being agricultural income exempt	<u>37,33,60,000</u>
Business income	20,10,40,000
Less: Brought forward business loss of ₹ 6 crores pertaining to A.Y.2023-24 not allowed to be set-off against the business profits of the P.Y. 2024-25, since as on 31.3.2025, the shares of M/s Gomati P Ltd carrying 60% (i.e., not less than 51%) of the voting power is held by Mr. B and not by Mr. A, being the person who held such shares as on 31.03.2023, being the last day of previous year 2022-23, in which such loss was incurred.	-
Business income chargeable to tax	<u>20,10,40,000</u>

Question 8

G Ltd, a company in which public are substantially interest, is engaged in the business of growing and manufacturing tea in India. For previous year ended 31.03.2024, its composite business profits before allowing deduction u/s 33AB is ₹ 60,00,000. On 01.09.2024, it deposited a sum of ₹ 11,00,000 in Tea Development Account for claiming deduction under section 33AB for P.Y.2023-24. During the

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previous year 2022-23, G Ltd. had incurred a business loss of ₹ 14,00,000 which has been carried forward. On 25.01.2025, it withdrew ₹ 10 lakhs, from deposit account which is utilized as under:

₹ 6,00,000 for purchase on non-depreciable asset as per the scheme specified.

₹ 3,00,000 for purchase of machinery to be installed in the office premises.

₹ 1,00,000 was spent for the purpose of scheme on 5.4.2025.

(i) You are required to determine business income of G Ltd. and the tax consequences that may arise from the above transactions in the relevant assessment year.

(ii) What will be the consequence if the asset which was purchased for ₹ 6,00,000 is sold for ₹ 8,00,000 in April, 2025.

Answer

(i) Computation of Business Income of G Ltd. for the A.Y. 2025-26

Particulars	₹
₹ 10,00,000 being the amount withdrawn from Tea Development Account has to be utilized in the prescribed manner, otherwise, the withdrawn amount would be chargeable to tax as business income. In the given case, the taxability of withdrawal amount based on their utilization is as follows: - ₹ 6,00,000, out of the amount withdrawn from the deposit account, utilised for purchase of non-depreciable asset as per the specified scheme. [As per section 33AB(6), no deduction would be allowed under section 33AB since amount is spent out of ₹ 11 lakh deposited in Tea Development Account, which has already been allowed as deduction in A.Y.2024-25 (See Working Note below)].	Not taxable
- ₹ 3,00,000, being the amount utilized for purchase of machinery to be installed in the office premises is not a permissible utilization. Hence, the amount would be deemed as profits and gains of business of the previous year 2024-25 as per section 33AB(4).	3,00,000
- ₹ 1,00,000 was spent for the purpose of scheme on 05.04.2025. As per section 33AB(7), this amount would be taxable since the same is not utilized during the same previous year (i.e., P.Y. 2024-25) in which the amount is withdrawn from the deposit account.	1,00,000
When any part of withdrawal amount becomes taxable, the agricultural and non-agricultural portions of income must be segregated. Accordingly, ₹ 1,60,000, being 40% of ₹ 4,00,000 (₹ 3,00,000 + ₹ 1,00,000) would be chargeable to tax as business income and the balance ₹ 2,40,000, being 60% of ₹ 4,00,000 would be agricultural income exempt from tax.	

Working Note:

Computation of Business Income of G Ltd. for the A.Y. 2024-25

Particulars	₹
Composite business profits before allowing deduction under section 33AB	60,00,000

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Less: Deduction under section 33AB(1) would be the lower of:	
- Amount deposited in Tea Development Account on or before 30.9.2024 [i.e., ₹ 11,00,000]	11,00,000
- 40% of profits of such business [i.e., ₹ 24,00,000, being 40% of ₹ 60,00,000]	49,00,000
Less: 60% of ₹ 49,00,000, being agricultural income [as per Rule 8]	29,40,000
Business Income	19,60,000
Less: Brought forward business loss set-off as per section 72	14,00,000
Business income chargeable to tax	5,60,000

(ii) Consequences, if asset purchased out of deposit account is sold during the P.Y. 2025-26

As per section 33AB(B), if the asset is sold before the expiry of eight years from the end of the previous year in which it was acquired, then, the cost of such asset shall be deemed to be the profits and gains from business or profession of the previous year in which asset is sold.

Therefore, ₹ 6,00,000 would be deemed to be the business income (composite) for the A.Y.2026-27. However, since the full cost of the asset was deducted in the assessment year 2024-25 (being part of ₹ 11 lakh deposited in Tea Development Account) before segregation of agricultural income and non-agricultural income, the agricultural and non-agricultural portions of income should be segregated in the year in which such amount becomes taxable on account of sale of asset before the expiry of eight years. Therefore, ₹ 3,60,000, being 60% of ₹ 6,00,000 would represent agricultural income. The balance ₹ 2,40,000 being 40% of ₹ 6,00,000 would be chargeable to tax as business income.

Moreover, the difference between the sale consideration and purchase price of the asset would be chargeable to tax as "Short term capital gains", which is computed as follows:

Sales consideration	8,00,000
Less: Cost of acquisition	6,00,000
Short term capital gain	2,00,000

Scientific Research [Section 35]

Question 9

A Ltd., engaged in the business of manufacturing, furnishes the following particulars for P.Y.2024-25. Compute the deduction allowable under section 35, while computing its income under the head "Profits and gains of business or profession". Assume company does not opt for the provisions of section 115BAA or section 115BAB.

	Particulars	₹
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000

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3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by prescribed authority	4,00,000
4.	Expenditure incurred on in-house research and development facility as approved by the prescribed authority	
	(a) Revenue expenditure on scientific research	3,00,000
	(b) Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research	7,50,000

Answer

Computation of deduction under section 35

Particulars	₹	Section	% of deduction	Deduction (₹)
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(iia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(2AB)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(2AB)	100%	2,50,000
Deduction allowable under section 35				13,00,000

Telecom Licence [Section 35ABB]

Question 10

"Easy Call Ltd.", to provide telecom services in Mumbai, obtained a licence on 1.4.2022 for a period of 10 years ending on 31.3.2032 against a fee of ₹ 27 lacs to be paid in 3 installments of ₹ 9 lacs each by April, 2022, April, 2023 and April, 2024, respectively. The company has commenced business on 1.4.2023.

Explain, how the payment made for licence fee shall be dealt with under the Income-tax Act, 1961 and the amount, if any, deductible for A.Y. 2025-26.

Answer

The payment made for acquiring the licence to operate telecom services in Mumbai shall be subject to deduction as per the scheme in section 35ABB. As per section 35ABB, any amount actually paid for obtaining licence to operate telecommunication services shall be allowed as deduction in equal instalments during the number of years for which the license is in force.

If the payment is made before the commencement of business: The deduction shall be allowed beginning with the year of commencement of business.

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In any other case: It will be allowed commencing from the year of payment. Deduction shall be allowed up to the year in which the license shall cease to be in force.

The amount of deduction available for A.Y. 2025-26 is worked out below:

(1)	(2)	(3)	(4) = (3)/(2)
Previous year of payment	Unexpired period of license	Instalment paid (₹)	Deduction in respect of each instalment (₹)
2022-23	9 years	9,00,000	1,00,000
2023-24	9 years	9,00,000	1,00,000
2024-25	8 years	9,00,000	1,12,500
		27,00,000	3,12,500

The deduction under section 35ABB from assessment year 2025-26 shall be ₹ 3,12,500.

Specified Business [Section 35AD]

Question 11

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2024. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January to March, 2024 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2024. The cost of land included in the above figures are ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. Further, during the P.Y.2024-25, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses.

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2025-26 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2025-26 and the loss to be carried forward, assuming that Mr. A has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. - Deductions in respect of certain incomes". Assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Answer

Computation of profits and gains of business or profession

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	
10% of ₹ 30 lakh, being (₹ 50 lakh - ₹ 30 lakh + ₹ 10 lakh)	3
Income chargeable under "Profits and gains from business or profession"	28

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Computation of income/loss from specified business under section 35AD

	Particulars	Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD) Less: Deduction under section 35AD	16	14	30
(B)	Capital expenditure incurred prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh - ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh - ₹ 40 lakh)	30	20	50
(C)	Capital expenditure incurred during the P.Y.2024-25	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD 100% of capital expenditure (food grains/sugar) Total deduction u/s 35AD	50	35	85
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or 01.04.2009, respectively.
- (ii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- (iii) Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days.
- (iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of same or any other specified business.

Question 12

XYZ Ltd. commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2024. The company incurred capital expenditure of ₹ 50 lakh during the period January to March, 2024 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2024. Further, during the P.Y. 2024-25, it incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the A.Y. 2025-26, assuming that XYZ Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. - Deductions in respect of certain incomes".

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y. 2025-26 is ₹ 25 lakhs. Assume that the company also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y. 2025-26. Also, assume that expenditure incurred were paid by account payee cheque or use of ECS through bank account.

Answer

Computation of profits and gains of business or profession

Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y.2024-25 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh - ₹ 150 lakh	50 lakh
Capital expenditure incurred prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in books of account as on 1.4.2024	50 lakh
Total deduction under section 35AD for A.Y.2025-26	100 lakh
Loss from the specified business of new hotel in Madurai	(75 lakh)
Profit from the existing business of running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45 lakh

Question 13

ABC Ltd. is a company having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil. Unit A commenced operations on 1.4.2023 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD. However, in February, 2025, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of ABC Ltd.

Answer

Since the capital asset, in respect of which deduction of ₹ 50 lacs was claimed under section 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2024-25, the deeming provision under section 35AD(7B) is attracted during the A.Y. 2025-26.

Particulars	₹
Deduction allowed under section 35AD	50,00,000
Less: Depreciation allowable u/s 32 for P.Y.2023-24 [10% of ₹ 50 lacs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

ABC Ltd., however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for A.Y. 2025-26. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for P.Y.2023-24 [10% of ₹ 50 lacs]	5,00,000
Actual cost in the hands of ABC Ltd. in respect of building in Unit B	45,00,000

Other Deductions [Section 36]

Question 14

X Ltd. contributes 20% of basic salary to account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of employees. Compute the amount of deduction allowable u/s 36(1)(iva), if basic salary of employees aggregate to ₹ 10 lakh. Would disallowance be attracted, and if so, to what extent?

Answer

Computation of deduction u/s 36(1)(iva) and disallowance

Particulars	₹
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of ₹ 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva) (14% of basic salary plus dearness pay = 14% of ₹ 14,00,000 = ₹ 1,96,000)	1,96,000
Excess contribution disallowed	4,000

Question 15

The following are the particulars in respect of a scheduled bank incorporated in India -

	Particulars	₹ in lakh
(i)	Provision for bad and doubtful debts under section 36(1)(vii) upto A.Y.2024-25	100
(ii)	Gross Total Income of A.Y.2025-26 [before deduction under section 36(1)(vii)]	800
(iii)	Aggregate average advances made by rural branches of the bank	300
(iv)	Bad debts written off (for the first time) in the books of account (in respect of urban advances only) during the previous year 2024-25	210

Compute the deduction allowable u/s 36(1)(vii) in respect of bad debts written off for A.Y. 2025-26.

Answer

Computation of deduction allowable under section 36(1)(vii)

Particulars	₹ in lakh	
Bad debts written off (for the first time) in the books of account		210
Less: Credit balance in "Provision for bad and doubtful debts" under section 36(1)(vii) as on 31.3.2025		
(i) Provision for bad and doubtful debts u/s 36(1)(vii) upto A.Y.2024-25	100	
(ii) ³ Current year provision for bad and doubtful debts u/s 36(1)(vii) [8.5% of ₹ 800 lakhs + 10% of ₹ 300 lakhs]	98	198
Deduction under section 36(1)(vii) in respect of bad debts written off for A.Y.2025-26		12

TDS not Deducted [Section 40(a)]

Question 16

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2025 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2024-25, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount (₹)
(1)	Salary to its employees (credited and paid in March, 2025)	12,00,000
(2)	Directors' remuneration (credited in March, 2025 and paid in April, 2025)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2025 at the time of payment and remitted the same in July, 2025?

Answer

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance under section 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible under section 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194], would attract disallowance@30% under section 40(a)(ia). Whereas in case of salary, tax has to be deducted under section 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y.2024-25, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed under section 40(a)(ia) while computing business income for A.Y.2025-26 is as follows -

	Particulars	Amount paid in ₹	Disallowance u/s 40(a)(ia) @ 30% (₹)
(1)	Salary [tax is deductible under section 192]	12,00,000	3,60,000
(2)	Directors' remuneration [tax is deductible under section 194] without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)			3,68,400

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2025-26 at the time of payment and remitted to the Government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of A.Y.2026-27.

Question 17

During the financial year 2024-25, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31.3.2024 was ₹ 99 lacs):

- (i) Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- (ii) ₹ 10,00,000 was paid as salary to a resident individual without deduction of tax at source;
- (iii) Commission of ₹ 16,000 was paid to Mr. Vidyasagar on 2.7.2024 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) of the Income-tax Act, 1961 assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

Answer

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

- (i) The obligation to deduct tax at source from interest paid to a resident arises under **section 194A** in the case of an individual, whose total turnover in the immediately preceding previous year exceeds ₹ 100 lakhs. Thus, in present case, since the turnover of the assessee is less than ₹

100 lakhs, he is not liable to deduct tax at source. Hence, **disallowance under section 40(a)(ia) is not attracted in this case.**

- (ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII -B. The obligation to deduct tax at source under **section 192** arises, in the hands all assessee-employer even if turnover amount does not exceed ₹100 lacs in immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only **30% of the amount of salary paid without deduction of tax at source would be disallowed** i.e. ₹ 3,00,000 (₹ 10 lakhs x 30%).

- (iii) The obligation to deduct tax at source under section 194H from commission paid in excess of ₹ 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year exceeds ₹ 100 lakhs. Thus, in present case, since the turnover of the assessee is less than ₹ 100 lakhs, he is not liable to deduct tax at source. Mr. Raja is **not required to deduct tax at source u/s 194M** also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the year. Therefore, **disallowance under section 40(a)(ia) is not attracted in this case.**

Deduction for Partnership Firm [Section 40(b)]

Question 18

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 10,00,000 before deduction of the following items:

- (1) Salary of ₹ 30,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.
- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest ₹ 5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary as per section 40(b).

Answer

- (i) As per Explanation 3 to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		10,00,000
Less: Depreciation under section 32	1,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 5,00,000 × 12%)	60,000	2,10,000
Book Profit		7,90,000

(ii) Salary actually paid to working partners = ₹ 30,000 × 2 × 12 = ₹ 7,20,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits –

On the first ₹ 6,00,000 of book profit or in case of loss	₹ 3,00,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary in this case would be:

Particulars	₹
On the first ₹ 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 6,00,000) whichever is more]	5,40,000
On the balance of book profit [60% of (₹ 7,90,000 - ₹ 6,00,000)]	1,14,000
Maximum allowable partners' salary	6,54,000

Hence, **allowable** working partners' salary as per provisions of section 40(b)(v) is ₹ 6,54,000.

Section 43B

Question 19

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

		₹
(i)	Andhra Pradesh State Financial Corporation	15,00,000
(ii)	Indian Bank	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2024-25, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During year ended 31.3.2025, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Discuss whether his claim is valid and if not what is the amount of interest, if any, allowable.

Answer

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during financial year. Accordingly, amount of interest eligible for deduction for A.Y.2025-26 shall be calculated as follows:

	Interest outstanding (₹)	Number of Instalments	Amount per instalment (₹)	Instalments paid	Interest allowable (₹)
APSFC	15 lakh	60	25,000	5	1,25,000
Indian Bank	30 lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

Question 20

On 31.3.2025, A Ltd. has an outstanding interest liability of ₹ 3.50 crores towards loan payable to IFCI Ltd., a public financial institution. On the same date, it issued debentures to IFCI Ltd. in lieu of the outstanding interest and deducted the said interest while computing profits and gains of business of A.Y.2025-26. The Assessing Officer, however, rejected the deduction of interest on loan claimed by A Ltd. Discuss the validity of the action of the Assessing Officer.

Answer

As per section 43B, interest payable by the assessee on interest on loan from a public financial institution is **allowable as deduction only in the year in which such interest is actually paid** by the assessee. The proviso to section 43B permits deduction **if such sum is paid on or before the due date of filing of return** under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred.

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.**

In this case, since A Ltd. has converted the interest of ₹ 3.50 crores payable to IFCI Ltd. on loan borrowed from it, the interest so converted into debentures and not actually paid shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits

and gains of business for A.Y.2025-26. Accordingly, the **action of the Assessing Officer** in rejecting the deduction of interest on loan claimed by A Ltd. while computing its profits and gains of business, is correct.

Income of Association [Section 44A]

Question 21

Boat Club is an association governed by the provisions of Section 44A of the Income-tax Act, 1961. The subscription received from members for the year ended 31st March, 2025 was ₹ 2,00,000. The expenditures in the normal course of its activities were ₹ 3,85,000. Its other income taxable under the Act works out to ₹ 2,75,000. You are consulted as to how Boat Club's income would be determined for assessment year 2025-26?

Answer

As per section 44A, the deficiency arising on account of income from members by way of, inter alia, subscriptions, falling short of the expenditure incurred solely for the protection or advancement of the interest of its members, shall first be set off against the association's income under the head "Profits and gains of Business or Profession". If there is no such income under this head, the deficiency shall be set off against income under any other head.

Particulars	₹
Income from subscription	2,00,000
Less: Expenses incurred in the course of its activities	3,85,000
Deficiency	(-)1,85,000
Other income	2,75,000
Less: Deficiency ₹1,85,000 but limited to 50% of other income	1,37,500
Income of the Association	1,37,500

There is a ceiling on deduction admissible by way of deficiency being that it shall not exceed one-half of total income of association computed before making any allowance under this section. This ceiling has been exceeded above and deficiency hence is limited to ₹ 1,37,500 being one-half of ₹2,75,000.

In case the association did not have other taxable income, then the total income shall have been Nil. The deficiency of ₹ 1,85,000 would have no tax treatment and would have not be carried forward.

Maintenance of Books [Section 44AA]

Question 22

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

	₹
--	---

Financial year 2021-22	1,15,000
Financial year 2022-23	1,80,000
Financial year 2023-24	2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2025-26 under section 44AA of Income-tax Act, 1961?

Answer

Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts, only if:

- (i) his gross receipts in all the three years immediately preceding the relevant previous year has exceeded ₹ 1,50,000; or
- (ii) it is a new profession which is setup in the relevant previous year, it is likely to exceed ₹ 1,50,000 in that previous year.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in financial year 2021-22, the requirement under section 44AA to compulsorily maintain the prescribed books of account is **not applicable to him** for A.Y. 2025-26.

Mr. Vinod, however, **required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.**

Presumptive Taxation

Question 23

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2024-25. Amount received in cash during the P.Y. 2024-25 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st October 2025. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2024-25 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- (i) Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2025-26?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iv) What is the due date for filing his return of income under both the options?

Answer

- (i) Yes. Since his cash receipts during the P.Y. does not exceed 5% of the total turnover $(14,00,000/2,98,50,000 \times 100)$ and his total turnover for the year is below ₹ 300 lakhs, he is **eligible for presumptive taxation** scheme under section 44AD in respect of his retail trade business.
- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be **₹ 18,19,000** (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).
- (iii) Mr. Praveen had declared profit for P.Y. 2023-24 in accordance with presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2025-26 to A.Y. 2029-30, he would **not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to assessment year relevant to previous year in which the profit has not been declared in accordance presumptive provisions** i.e., if he declares profits lower than the presumptive income in say P.Y. 2024-25, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2026-27 to A.Y. 2030-31.
- (iv) In case he declares presumptive income under section 44AD, the due date would be **31st July, 2025**,

Consequently, Mr. Praveen is **required to maintain the books of accounts and get them audited under section 44AB**, since his income exceeds the basic exemption limit.

In case he **declares profits as per books of account which is lower than the presumptive income**, he is **required to get his books of account audited**, in which case the due date for filing of return of income would be **31st October, 2025**.

Question 24

Mr. X commenced the business of operating goods vehicles on 1.4.2024. He purchased the following vehicles during the P.Y.2024-25. Compute his income under section 44AE for A.Y.2025-26.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2024
(2)	6,500	1	15.03.2025
(3)	10,000	3	16.07.2024
(4)	11,000	1	02.01.2025
(5)	15,000	2	29.08.2024
(6)	15,000	1	23.02.2025

Would your answer change if the two goods vehicles purchased in April, 2024 were put to use only in July, 2024?

Answer

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2024-25, he is

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eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
Heavy goods vehicle			
2	29.08.2024	8	16
1	23.02.2025	2	2
			18
Goods vehicle other than heavy goods vehicle			
2	10.4.2024	12	24
1	15.3.2025	1	1
3	16.7.2024	9	27
1	2.1.2025	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2025-26 would be - ₹ 6,82,500, i.e., $55 \times ₹ 7,500$, being for other than heavy goods vehicle + $18 \times ₹ 1,000 \times 15$ ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2024 were put to use only in July, 2024, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Computation of Total Income and Tax Liability

Individual

Question 25

Ms. Janani reports to you that her gross receipt from interior decoration profession carried on by her during the year ended 31.03.2025 is ₹ 47,80,000. Her net income as per income and expenditure account is ₹ 25,00,000 before adjustment of depreciation of ₹ 1,50,000. She did not pay any amount by way of advance tax during the financial year 2024-25. She has two residential house properties, of which one is self-occupied and another is let out for monthly rent of ₹ 15,000 during the year.

Is Janani eligible to opt for presumptive tax provisions under the Income-tax Act? If so, is it beneficial for her to opt for such provisions? Advise, assuming that she approached you for consulting on this matter in April, 2025 and she has exercised the option to shift out of the default tax regime.

Answer

Since gross receipts of ₹ 47,80,000 of Ms. Janani from interior decoration profession carried on by her is less than ₹ 50,00,000, she can opt for presumptive tax provisions under section 44ADA.

In such a case, her income from interior decoration profession would be ₹ 23,90,000, being 50% of ₹ 47,80,000. Since all deductions allowable under sections 30 to 38 are deemed to have been given full effect to, no deduction in respect of depreciation would be allowable from the income computed on presumptive basis under section 44ADA.

L. Where Ms. Janani declares income from profession on presumptive basis u/s 44ADA

Computation of total income of Ms. Janani		
Particulars	₹	₹
Income from house property		
Self-occupied property	Nil	
Let-out Property:		
Annual Value [₹ 15,000 x 12]	1,80,000	
Less: Deduction u/s 24 [30% of ₹ 1,80,000]	<u>54,000</u>	1,26,000
Profits and gains from business or profession		
Income from interior decoration profession [50% of ₹ 47,80,000]		23,90,000
Total Income		25,16,000
Computation of tax liability of Ms. Janani		
Particulars		₹
Tax on total income = [30% of ₹ 15,16,000 (₹ 25,16,000 - ₹10,00,000) + ₹ 1,12,500]		5,67,300
Add: Health and education cess@4%		22,692
Total tax liability		5,89,992
Add: Interest under section 234B [1% of ₹ 5,89,900]		5,899
Interest under section 234C [1% of ₹ 5,89,900, since the advance tax liability has to be paid in one instalment on or before 15.3.2025]		<u>5,899</u>
Total tax and interest liability		6,01,790

Ms. Janani can, however, declare lower profits than the presumptive profits of ₹ 23,90,000, if she maintains books of accounts under section 44AA and gets the same audited under section 44AB. In such case, she can file return on or before 31.10.2025.

II. Where Ms. Janani declares income from profession as per books of account

Computation of total income of Ms. Janani		
Particulars	₹	₹
Income from house property		
Self-occupied property	Nil	
Let-out property:		
Annual Value [₹ 15,000 x 12]	1,80,000	
Less: Deduction u/s 24 [30% of ₹ 1,80,000]	<u>54,000</u>	1,26,000
Profits and gains from business or profession		
Income from interior decoration profession [₹25,00,000 - ₹1,50,000]		<u>23,50,000</u>
Total Income		<u>24,76,000</u>
Computation of tax liability of Ms. Janani		
Tax on total income = [30% of ₹ 14,76,000 (₹ 24,76,000 - ₹ 10,00,000) + ₹ 1,12,500]		5,55,300
Add: Health and education cess@4%		<u>22,212</u>
Total tax liability		5,77,512
Add: Interest under section 234B [1% of ₹ 5,77,500]		5,775
Interest under section 234C [See Working Note below]		<u>29,164</u>
Total tax and interest liability		<u>6,12,451</u>
Total tax and interest liability (rounded off)		6,12,450

Although the income from profession computed as per books of account is lower than the income from profession computed on presumptive basis under section 44ADA, however, the cumulative tax and interest liability would be higher by ₹ 10,660 (i.e., ₹ 6,12,450 - ₹ 6,01,790) in case of former. Therefore, Ms. Janani should opt to declare income on presumptive basis under section 44ADA, in which case, she has to file her return of income on or before 31st July, 2025.

Working Note: Computation of interest under section 234C

Date	Advance tax payable till date	Short-fall (₹)	Rate of interest [1% per month]	Interest (₹)
15.06.2024	15%	86,625	3% [1% x 3]	2,599
15.09.2024	45%	2,59,875	3% [1% x 3]	7,796
15.12.2024	75%	4,33,125	3% [1% x 3]	12,994
15.03.2025	100%	5,77,500	1%	5,775
				<u>29,164</u>

Note - The above solution has been worked out by considering that Ms. Janani pays the advance tax required to be paid in April, 2025 itself, after consulting the tax advisor in the month of April, 2025.

Partnership Firm

Question 26

XYZ & Co., a partnership firm consisting of three working partners A, B and C and one non-working partner D, engaged in the business of manufacturing and selling electric kettles.

Following information is furnished for receipts and payments of the previous year 2024-25:

(i)	Total turnover	2,80,00,000
(ii)	Consideration for transfer of plot at New Delhi on 30.03.2025 [profits on sale is credited to P&L A/c]	57,00,000
(iii)	Cash receipts [out of turnover in (i) above]	10,50,000
(iv)	Receipts by way of cheque other than A/c payee cheque [out of turnover in (i) above]	2,00,000
(v)	Amount of sales consideration for plot received in cash [out of (ii) above]	16,80,000
(vi)	Total Payments	1,95,00,000
(vii)	Cash payments [out of (vi) above] [each payment does not exceed ₹ 10,000 except salary of ₹ 12,000 p.m. made to a clerk which is debited to P & L A/c]	4,50,000

Net profit as per the Profit and Loss A/c is ₹ 8,65,000 after debiting or crediting the following:

- Interest @ 15% is provided to partner B on his capital of ₹ 10 lakh as authorized by the partnership deed.
- ₹ 60,000 p.m. paid as remuneration to each partner as authorised by partnership deed.

Additional information

- The firm had brought forward business loss of ₹ 75,000 of A.Y. 2021-22. Till A.Y. 2024-25, the firm gets its books of accounts audited every year.
- The firm acquired plot on 30.4.2020 for ₹ 12,00,000.

- (i) This year firm do not want to get its books of accounts audited. Advise the firm on this and compute the total income of the firm for the A.Y. 2025-26.
- (ii) Compute the total income of the firm for the A.Y. 2025-26 assuming that instead of ₹ 2,00,000, firm received ₹ 4,00,000 by cheque other than A/c payee cheque.

Answer

- (i) As per section 44AD, a resident individual, HUF or Partnership firm (but not LLP) engaged in eligible business and who has not claimed deduction under section 10AA or Chapter VIA under "C - deductions in respect of certain incomes" is an eligible assessee. Eligible business means whose total turnover/gross receipts in the P.Y. \leq ₹ 200 lakhs or $>$ ₹ 200 lakhs but \leq ₹ 300 lakhs, if its cash receipts do not exceed 5% of total turnover/gross receipts. Such eligible assessee can declare 8%/6%, as the case may be, of total turnover/sales/gross receipts or a sum higher than the aforesaid sum claimed to have been earned by the assessee, as its business income. In this case, XYZ & Co., a partnership firm, can declare profits as per the presumptive provisions of section 44AD, since the percentage of receipts in cash of ₹ 12.50 lakhs to the total turnover/gross receipts of ₹ 280 lakhs is 4.46%. In such a case, it is not required to get its books of account audited under section 44AB.

Computation of total income of XYZ & Co. for the A.Y. 2025-26

Particulars	₹	₹
Profits and Gains of business or profession		
Presumptive income under section 44AD [₹ 16,05,000, being 6% of ₹ 2,67,50,000 (excluding cash receipts and amount received by cheque other than A/c payee cheque and ₹ 1,00,000, being 8% of ₹ 12,50,000)] [See Note 1]	17,05,000	
Less: Brought forward business loss u/s 72 [See Note 2]	75,000	16,30,000
Long-term Capital Gains		
Sale consideration	57,00,000	
Less: Cost of acquisition	12,00,000	45,00,000
Gross Total Income/Total Income		61,30,000

Notes:

- (1) Interest on capital and working partner salary are not deductible while computing the presumptive income of a partnership firm under section 44AD.
 - (2) Brought forward business loss of assessment year 2021-22 can be set-off against current year business income as per section 72.
- (ii) In case, XYZ & Co. received ₹ 4,00,000 instead of ₹ 2,00,000 by cheque other than A/c payee cheque it cannot declare profits as per the presumptive provisions of section 44AD, since the percentage of cash receipts of ₹ 14.50 lakhs to the total turnover/gross receipts of ₹ 280 lakhs is 5.17%.

Computation of total income of XYZ & Co. for the A.Y. 2025-26

Particulars	₹	₹
Net profit as per profit & loss account	8,65,000	
Add: Interest paid to partner B allowable to the extent of 12%. Excess interest of ₹ 30,000 [3% of ₹ 10 lakhs] is disallowed.	30,000	
Salary to partners considered separately (₹ 60,000 x 12 x 4).	28,80,000	
Salary to clerk would be disallowed as per section 40A(3), since payment exceeding ₹ 10,000 made in cash [₹ 12,000 x 12]	1,44,000	
	39,19,000	
Less: Profit on sale of land [Taxable under head "Capital Gains"]	45,00,000	
Book Profits/loss	(5,81,000)	
Less: Salary to working partners:		
(i) As per section 40(b) in case of loss, limit is	3,00,000	
(ii) Salary actually paid only to working partners	21,60,000	
Deduction allowed being (i) or (ii), whichever is less	(3,00,000)	
Business Loss (It can be set-off against long-term capital gains	(8,81,000)	
Brought forward business loss relating to A.Y. 2021-22 of ₹ 75,000 will be carried forward to the subsequent year		

Profits & Gains of Business or Profession

Long-term Capital Gains		
Sale consideration	57,00,000	
Less: Cost of acquisition	<u>12,00,000</u>	45,00,000
Less: Current year business loss		(8,81,000)
Gross Total Income/Total Income		36,19,000

Question 27

X, Y and HUF of Z (represented by Z) are partners with equal shares in profits and losses of a firm, M/s Popular Cine Vision, which is engaged in the production of TV serials and telefilms.

The earlier partnership deed did not authorise payment of remuneration or interest to partners. The partnership deed was revised by the partners on 1st June, 2024 to authorise payment of remuneration of ₹ 1 lac per month to each working partner and simple interest at 15% per annum on partners' capital. X, Y and Z are actively associated with the affairs of the firm.

The Profit & Loss Account of the firm for the year ended 31st March, 2025 shows a net profit of ₹ 10 lacs after debiting/crediting the following:

- (a) Interest amounting to ₹ 5 lacs each was paid to partners on the balances standing to their capital accounts from 1st June, 2024 to 31st March, 2025.
- (b) Remuneration to the partners including partner in representative capacity ₹ 30 lacs.
- (c) Interest amounting to ₹ 2 lacs paid to Z on loan provided by him in his individual capacity at 16% interest.
- (d) Royalty of ₹ 5 lacs paid to partner X, who is a professional script writer, for use of his scripts as per agreement between the firm and X. The same is authorized by partnership deed.
- (e) Two separate payments of ₹ 18,000 and ₹ 15,000 made in cash on 1st February, 2025 to Altaf, a hairdresser, against his bill for services rendered in January, 2025 and two payments of ₹ 19,000 and ₹ 10,000 made in cash on 1st February and 2nd February, 2025, respectively, to Priyam, an assistant cameraman, against her bill for services provided in January, 2025.
- (f) Amount of ₹ 5 lacs provided in the books on 31st March 2025 as liability for remuneration to Shreya, a film artist and a non-resident. Tax deducted at source under section 195 from the amount so credited was paid on 3rd June, 2025.
- (g) Amount of ₹ 6 lacs provided as gratuity for the year on the basis of actuarial valuation. Gratuity actually paid to one retired employee during the year is ₹ 1.50 lacs.
- (h) Interest of ₹ 1.20 lacs received on income-tax refund u/s 244(1A).

Compute the total income of the firm for A.Y. 2025-26 stating the reasons for treatment of each item.

Answer

Computation of Total Income of M/s. Popular Cine Vision for the A.Y.2025-26

Particulars	₹	₹
Profits and Gains from Business or Profession		
Net Profit as per Profit & Loss A/c		10,00,000

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Add: Expenses disallowed or considered separately:			
Interest to partners in excess of 12% (Note 1)		3,00,000	
Disallowance under section 40A(3) for aggregate cash payment exceeding ₹ 10,000 in a single day (Note 5)		52,000	
Provision for gratuity (Note 7)		4,50,000	
Partners' Remuneration		30,00,000	
Royalty paid to Partner X (Note 4)		5,00,000	43,02,000
			53,02,000
Less: Interest on income-tax refund (Note 8)			1,20,000
Book Profit			51,82,000
Less: Partners' remuneration allowable under section 40(b)(v)			
(i) As per limit prescribed in section 40(b)			
On first ₹ 6,00,000	90%	5,40,000	
On the balance ₹ 45,82,000	60%	27,49,200	
		32,89,200	
(ii) Remuneration actually paid or payable (₹ 1,00,000 × 10 months × 3 partner) + (Royalty ₹ 5 Lacs)		35,00,000	
(i) or (ii) whichever is less, is deductible			32,89,200
			18,92,800
Income from other sources			
Interest on income-tax refund			1,20,000
Gross Total Income			20,12,800
Deductions under Chapter VI-A			Nil
Total Income			20,12,800

Notes:

- As per section 40(b), simple interest at 12% p.a. to partners relating to the period after the date of partnership deed is allowable. Excess interest @ 3% paid from 1st June, 2024 to 31st March, 2025 is to be disallowed. Excess interest of 3% being ₹ 15,00,000 x 3/15 = ₹ 3,00,000.
- Even though Z is a partner in a representative capacity, he is still a partner. Therefore, remuneration to Z should also be subject to the limits prescribed in section 40(b). This view finds support from the decision of the Supreme Court in the case of Rashik Lal & Co. vs CIT (1998) 229 ITR 458 (SC).
- As per Explanation 1 to section 40(b), where an individual is a partner in a firm in representative capacity, the provisions of section 40(b) shall not apply to any interest payable by the firm to such individual in his personal capacity. Z represents his HUF in the firm. However, Z gave the loan in his individual capacity. Hence, assuming that the provisions of section 40A(2) do not get attracted in this case, such interest shall be allowed as deduction in full even though the interest rate is more than 12% p.a.
- It may be noted that the limits specified under section 40(b)(v) are applicable in case of payment of salary, bonus, commission, or remuneration, by whatever name called, to a working partner.

From a plain reading of the section, it is clear that any remuneration, by whatever name called, paid to a working partner, is subject to the limits laid down in section 40(b)(v). Therefore, the royalty of ₹ 5 Lacs paid to partner X would also be subject to the limits laid down in section 40(b)(v). Hence, the same has to be added back for computing book profits.

5. Section 40A(3) provides for disallowance of any expenditure in respect of which actual payment exceeding ₹ 10,000 is made otherwise than by an account payee cheque, account payee bank draft or use of ECS through bank account or through such other electronic mode in a single day to a person. Hence, payments of ₹ 18,000 and ₹ 15,000 in cash to Altaf, a hairdresser, shall be disallowed, since the aggregate payment of ₹ 33,000 exceeds the limit of ₹ 10,000.

The payment of bill of the assistant cameraman of ₹ 19,000 is also liable for disallowance under section 40A(3) since the aggregate payment in cash on a single day has exceeded ₹ 10,000.

6. As per section 40(a)(i), any sum payable to a non-resident shall not be allowed as deduction, if tax has not been deducted at source or after deduction, has not been paid on or before the due date specified under section 139(1). Tax deducted from the amount of remuneration credited to payee's account on 31st March 2025 has to be deposited latest by 31st July 2025/31st October, 2025 (as the case may be). The firm has paid the tax on 3rd June, 2025 and hence, the remuneration shall be allowed. Since the same is already debited to profit and loss account, no further adjustment is made.
7. As per section 40A(7), any provision made for payment of gratuity to employees on their retirement or on termination of employment for any reason is disallowed. However, gratuity of ₹ 1.50 lacs paid to retired employees is allowable as deduction. Hence, the balance provision of ₹ 4.50 lacs (i.e., ₹ 6 lacs - ₹ 1.50 lacs) is to be disallowed.
8. Interest on income-tax refund is assessable under the head "Income from other sources".

Question 28

M/s. HIG, a firm, consisting of three partners namely, H, I and G, carried on the business of purchase and sale of television sets in wholesale and manufacture and sale of pens under a deed of partnership executed on 1.4.2014. H, I and G were partners in their individual capacity.

The deed of partnership provided for payment of salary amounting to ₹ 1,25,000 each to H and G, who were the working partners. A new deed of partnership was executed on 1.10.2024 which, apart from providing for payment of salary to the two working partners as mentioned in the deed of partnership executed on 1.4.2014, for the first time provided for payment of simple interest @ 12% per annum on the balances standing to the credit of the Capital accounts of partners from 1.4.2024.

The firm was dissolved on 31.3.2025 and the capital assets of the firm were distributed among the partners on 20.4.2025. The net profit of the firm for year ended 31.3.2025 after payment of salary to working partners and debit/credit of following items to the Profit and Loss Account was ₹ 3,50,000:

- (i) Interest amounting to ₹ 1,00,000 paid to the partners on the balances standing to the credit of their capital accounts from 1.4.2024 to 31.3.2025.
- (ii) Interest amounting to ₹ 50,000 paid to the partners on the balances standing to the credit of their Current accounts from 1.4.2024 to 31.3.2025.
- (iii) Interest amounting to ₹ 20,000 paid to Hindu undivided family of partner H @ 18% per annum.

- (iv) Payment of ₹ 25,000 towards purchase of television sets (stock in trade) made by crossed cheque on 1.11.2024.
- (v) ₹ 30,000 being the value of gold jewellery received as gift from a manufacturer for achieving sales target.
- (vi) Depreciation amounting to ₹ 15,000 on motor car bought and used exclusively for business purposes, but registered in the name of partner 'H'.
- (vii) Normal depreciation under section 32(1)(ii) amounting to ₹ 37,500 of new machinery bought and installed for manufacture of pens on 1.11.2024 at a cost of ₹ 5,00,000.
- (viii) Interest income of ₹ 25,000 from bank on fixed deposits made out of surplus funds.

The firm furnishes the following information relating to it:

- (a) Closing stock-in-trade was valued at ₹ 60,000 as per the method of lower of cost or net realizable value consistently followed by it. The net realizable value of the closing stock-in-trade was ₹ 65,000.
- (b) Brought forward business loss relating to the assessment year 2024-25 was ₹ 50,000.
- (c) The fair market value of the capital assets as on 20.04.2025 was ₹ 20,00,000 and the cost of their acquisition was ₹ 15,00,000.

Compute the total income of M/s. HIG for A.Y. 2025-26 stating the reasons for treatment of each item.

Answer

Computation of total income of M/s. HIG for the A.Y. 2025-26

Particulars	₹	₹
Net profit as per profit & loss account		3,50,000
Add: Interest to partners on capital accounts for the period from 1.4.2024 to 30.9.2024 disallowed (total interest ₹ 1,00,000 but deduction limited to 6 months only hence 50% thereof is deductible and the balance is added) [Note (i)]	50,000	
Interest to partners on current accounts from 1.4.2024 to 31.3.2025 - not authorize by deed, hence disallowed [Note (ii)].	50,000	
100% of ₹ 25,000 paid towards purchase of television sets 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 (being stock in trade, hence disallowed) [Note (iv)].	25,000	
Difference on account of valuation of closing stock- in-trade at market value (₹ 65,000 less ₹ 60,000) [Note (ix)]	5,000	
Salary paid to working partners considered separately.	2,50,000	3,80,000
		7,30,000
Less: Additional depreciation on new machinery (₹ 5,00,000 x 20%) = ₹ 1,00,000. Only 50% is allowable as deduction. [Note (vii)]		50,000
		6,80,000

Profits & Gains of Business or Profession

Less: Interest from bank on fixed deposits considered separately		25,000
		6,55,000
Less: Salary to working partners -		
(i) As per limit in section 40(b)		
On first ₹ 6,00,000 @ 90% and on balance ₹ 55,000 @ 60%	5,73,000	
(ii) Salary actually paid	2,50,000	
Deduction allowed being (i) or (ii) whichever is less		2,50,000
		4,05,000
Less: Business loss relating to assessment year 2024-25 set off		50,000
Income from business		3,55,000
Income from other sources		
Interest income from bank on fixed deposits [Note (viii)].		25,000
Total Income		3,80,000

Notes:

- (i) Interest to partners authorised by the partnership deed will be allowed as deduction only for the period beginning with the date of the partnership deed and not for any earlier period as per section 40(b)(iv). Therefore, interest paid to the partners on balances standing to credit of their capital accounts from 1.10.2024 alone is eligible for deduction, since the partnership deed was executed only on 1.10.2024. Interest for the period prior to 1.10.2024 is not allowed.
- (ii) The partnership deed of 1.10.2024 provides for payment of interest on balances in capital accounts of partners only. As such, the interest paid on the balances standing to the credit of the current accounts of partners is not allowable under section 40(b). The Kerala High Court has, in *Novel Distributing Enterprises v. DCIT* (2001) 251 ITR 704 (Ker), on identical facts, held that interest paid to the partners on their current account balances is not allowable.
- (iii) Since H is a partner in his individual capacity, interest paid to the Hindu Undivided Family of partner H does not attract disallowance under section 40(b)(iv).
- (iv) Section 40A(3) provides for disallowances @ 100% of the expenditure incurred 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. Since the firm has made payment of ₹ 25,000 towards purchase of television sets by a crossed cheque and not by an account payee cheque, 100% of such expenditure would be disallowed.
- (v) Gold jewellery valued at ₹ 30,000 received as gift from a manufacturer for achieving sales target is taxable under section 28(iv), being a benefit arising from business. Since it has already been credited to profit and loss account, no further adjustment is required.
- (vi) Depreciation on motor car bought and used exclusively for the purposes of business is allowable though not registered in the name of the firm in view of the ratio of the decision of the Supreme Court in *Mysore Minerals Ltd. v. CIT* (1999) 239 ITR 775.
- (vii) The firm is entitled to additional depreciation @ 20% under section 32(1)(iia) in respect of the new machinery installed for manufacture of pens. Since the new machinery is put to use for less than 180 days during the relevant previous year, the additional depreciation is restricted

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- to 50% of the prescribed rate of 20% i.e. it is restricted to 10%. The balance additional depreciation can be claimed in the immediately succeeding financial year.
- (viii) Interest income from bank on fixed deposits made out of surplus funds is assessable under the head 'Income from other sources'. Hence, it is not taken for computing book-profit.
- (ix) As per para 24 of ICDS II: Valuation of Inventories, closing stock has to be valued at net realizable value in the case of a dissolved firm. As such, the closing stock-in-trade of the firm has to be valued at the net realizable value of ₹ 65,000. Since it has been valued at ₹ 60,000, being the cost, the balance ₹ 5,000 has to be added.
- (x) Net profit shown in the profit and loss account computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to all the partners constitutes book profit as per Explanation 3 to section 40(b). Carry forward and set off of business loss is covered under Chapter VI. Hence, brought forward business loss is not considered for calculation of book-profit.
- (xi) Section 9B would be attracted in the hands of M/s HIG in the A.Y. 2026-27, since capital assets are received by the partner on 20.4.2025, i.e., P.Y. 2025-26.

Company (Normal Provisions)

Question 29

Isac limited is a company engaged in the business of biotechnology. The net profit of the company for the financial year ended 31.03.2025 is ₹ 35,25,890 after debiting the following items:-

S.N.	Particulars	₹
1.	Purchase price of raw material used for the purpose of in-house research and development (including GST of ₹ 1,80,000 on which ITC is not admissible)	11,80,000
2.	Purchase price of asset used for in-house research and development	
	(a) Land	5,00,000
	(b) Building	3,00,000
3.	Expenditure incurred on notified agricultural extension project	25,50,000
4.	Expenditure on notified skill development project:	
	(a) Purchase of land	40,00,000
	(b) Expenditure on training for skill development	32,50,000
5.	Expenditure incurred on advertisement in souvenir published by political party	75,000
6.	Expenditure incurred on issue of right shares	80,000
7.	Expenditure incurred on issue of debentures	50,000
8.	Penalty paid under GST Act	35,000
9.	Penalty paid for breach of contract with a customer	40,000
10.	Interest paid on loan taken from bank for payment of advance income-tax	60,000
11.	Provision for loss of subsidiary	85,000

Compute the income under the head "Profits and gains of business or profession" for the A.Y. 2025-26 of Isac Ltd. assuming that the company does not opt for the provisions of section 115BAA.

Answer

Computation of income under the head "Profits and gains of business or profession"

Particulars	₹	₹
Net profit as per profit and loss account		35,25,890
Add: Items debited to profit and loss account, but to be disallowed		
Purchase price of Land used in in-house research and development - being capital expenditure not allowable as deduction under section 35	5,00,000	
Purchase price of building used in in-house research and development - being capital expenditure, 100% of which is allowable as deduction u/s 35(1)(iv) read with section 35(2)	-	
Purchase price of raw material used for in-house research and development - qualifies for 100% deduction u/s 35(2AB)	-	
Expenditure incurred on notified agricultural extension project - 100% deduction is allowed under section 35CCC	-	
Expenditure incurred on notified skill development project - Purchase of land - being capital expenditure not qualifying for deduction under section 35CCD	40,00,000	
Expenditure incurred on notified skill development project - Expenditure on training for skill development - 100% deduction is allowed under section 35CCD	-	
Expenditure incurred on advertisement in souvenir published by a political party not allowed as deduction as per section 37(2B)	75,000	
Expenditure incurred on issue of right shares not allowed as deduction since expenses is of capital nature	80,000	
Expenditure incurred on issue of debentures [allowable]	-	
Penalty paid under GST Law not allowed as deduction	35,000	
Penalty paid for breach of contract with a customer (allowable)	-	
Interest paid on loan taken from bank for payment of advance income-tax not allowed as deduction since the same is not for the purpose of business or profession	60,000	
Provision for loss of subsidiary not allowed as deduction	85,000	48,35,000
Profit and gains from business		83,60,890

Notes:

- (i) GST on which ITC is not admissible is an expense and can be claimed as an expense u/s 37.
- (ii) The expenditure incurred on advertisement in the souvenir published by a political party is disallowed as per section 37(2B) while computing income under the head "Profit and Gains of Business or Profession" but the same would be allowed as deduction under section 80GGB from the gross total income of the company.

Question 30

Alpha Ltd., a manufacturing company, has disclosed a net profit of ₹ 12.50 lacs for the year ended 31st March, 2025. You are required to compute the taxable income (Ignore the provisions of section 115BAA) of the company for the Assessment year 2025-26, after considering the following information, duly explaining the reasons for each item of adjustment:

- (i) Advertisement expenditure debited to profit and loss account includes the sum of ₹ 60,000 paid in cash to the sister concern of a director, the market value of which is ₹ 52,000.
- (ii) Repairs of plant and machinery debited to profit and loss account includes ₹ 1.80 lacs towards replacement of worn out parts of machineries. Such expenditure does not increase the future benefit from the asset beyond its previously assessed standard of performance.
- (iii) A sum of ₹ 6,000 on account of liability foregone by a creditor has been taken to general reserve. The original purchases was debited to the Profit & Loss Account in the A.Y.2021-22.
- (iv) Sale proceeds of import entitlements amounting to ₹ 1 lac has been credited to Profit & Loss Account, which the company claims as capital receipt not chargeable to income-tax.
- (v) Being also engaged in the biotechnology business, the company incurred the following expenditure on in-house research and development as approved by the prescribed authority:
 - (a) Research equipments purchased ₹ 1,50,000.
 - (b) Remuneration paid to scientists ₹ 50,000.

The total amount of ₹ 2,00,000 is debited to the profit and loss account.

Answer

Computation of taxable income of Alpha Ltd. for the A.Y.2025-26

Particulars	₹
Net profit as per profit and loss account	12,50,000
Add: Items debited to profit and loss but not deductible or income to be taxed	
1. Payment of advertisement expenditure of ₹60,000	
(i) ₹ 8,000, being the excess payment to a relative disallowed u/s 40A(2)	8,000
(ii) As the payment is made in cash and since the remaining amount of ₹ 52,000 exceeds ₹ 10,000, 100% shall be disallowed under section 40A(3)	52,000
2. Under section 31, expenditure relatable to current repairs regarding plant, machinery or furniture is allowed as deduction.	-
The test to determine whether replacement of parts of machinery amounts to repair or renewal is whether the replacement is one which is in substance replacement of defective parts or replacement of the entire machinery or substantial part of the entire machinery. Here expenditure on repairs does not bring in any new asset into existence. Such replacement can only be considered as current repairs. Hence, no adjustment is required.	
Further, as per ICDS V on Tangible Fixed Assets, only an expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance has to be added to the actual cost.	

3. Liability foregone by creditor chargeable as business income but not credited to profit and loss account [taxable under section 41(1)]	6,000
4. Sale proceeds of import entitlements. The sale of the rights gives rise to profits or gains taxable under section 28(iia). As the amount has already been credited to profit and loss account, no further adjustment is necessary.	-
Less: Amount not debited to profit and loss account but allowable as deduction	
5. Expenditure on in-house research and development is entitled to a deduction of 100% of the expenditure (both capital and revenue) so incurred under section 35(2AB)(1) = ₹ 2 lacs x 100% = ₹ 2 lacs. Expenditure of ₹ 2,00,000 has already been debited to Profit & Loss Account, therefore no adjustment is required.	-
Taxable Income	13,16,000

Question 31

ILT Limited is engaged in manufacturing of pipes and tubes. The profit and loss account of the company for the year ended 31st March, 2025 shows a net profit of ₹ 405 lacs. The following information and particulars are furnished to you. You are required to compute total income (ignore the provisions of section 115BAA) of the company for Assessment Year 2025-26.

- (i) A group free air ticket was provided by a supplier for reaching a certain volume of purchase during the current financial year. The same is encashed by the company for ₹ 10 lacs and credited to General Reserve Account.
- (ii) A regular supplier of raw materials agreed for settlement of ₹ 8 lacs instead of ₹ 10 lacs for poor quality of material supplied during the previous year which was not given effect in the running account of the supplier.
- (iii) Andhra Bank sanctioned and disbursed a term loan for a sum of ₹ 50 lacs. Interest of ₹ 8 lacs was in arrears. The bank has converted the arrear interest into a new loan repayable in 10 equal instalments. During the year, company has paid 2 instalments and the amount so paid has been reduced from Funded Interest in the Balance Sheet.
- (iv) The company remitted ₹ 5 lacs as interest to a company incorporated in USA on a loan taken 2 years ago. Tax deducted under section 195 from such interest has been deposited by the company on 15th July, 2025. The said interest was debited to profit and loss account.
- (v) Sandeep, a sales executive stationed at HO at Delhi, was on official tour in Bangalore from 31st May, 2024 to 18th June, 2024 and 28th September, 2024 to 15th October, 2024 for the business development. The company has paid Sandeep's salary in cash, from its local office at Bangalore for the month of May, 2024 (payable on 1st June) and September 2024 (payable on 1st October), amounting to ₹ 45,000 and ₹ 47,000 respectively (net of TDS and other deduction), as Sandeep has no bank account at Bangalore. These were included in the amount of "salary" debited to Profit and Loss Account.
- (vi) The company has contributed ₹ 50,000 by account payee cheque to an electoral trust and the same stands included under the head "General Expenses".

Answer

Computation of total income of ILT Ltd. for the A.Y.2025-26

Particulars	₹
Profits and gains from business or profession	
Net profit as per profit and loss account	4,05,00,000
Add: Items debited to profit and loss account, but to be disallowed and items not considered in accounts but to be taxed	
Value of group free air ticket provided by a supplier is taxable as business income under section 28(iv), as the value of any benefit, whether convertible into money or not, arising from business is taxable as business income.	10,00,000
Amount waived by the supplier of raw materials is a deemed income under section 41(1), as expenditure was allowed as deduction in the last year and there is a benefit by way of remission or cessation of a trading liability. The fact that effect was not given in running account of supplier is not relevant.	2,00,000
Interest payable outside India to a foreign company is allowable (See Note 1)	-
Contribution to electoral trust is not an allowable expenditure while computing business income. Hence, the same has to be added back, since it is included in general expenses.	50,000
Salary paid to employee Sandeep is eligible for deduction. Disallowance under section 40A(3) will not apply [See Note 2]	-
	12,50,000
	4,17,50,000
Less: Amount of deduction allowable	
Under section 43B, interest on loan due to any scheduled bank, etc. is allowed as deduction, if such interest is actually paid irrespective of the method of accounting followed by assessee. Conversion of arrear interest into a fresh loan cannot be considered as actual payment of interest. However, the amount of funded interest (i.e., converted loan) actually paid is allowable as deduction. Hence, ₹ 1,60,000, being two instalments of ₹ 80,000 each, actually paid is deductible.	1,60,000
Business Income	4,15,90,000
Gross total income	4,15,90,000
Less: Deduction under Chapter VI-A	
Deduction under section 80GGB in respect of contribution by the assessee company to an electoral trust.	50,000
Total Income	4,15,40,000

Notes:

- Since tax has been deducted on interest payable outside India to a foreign company during the previous year 2024-25 and the same has been deposited before the due date of filing return of income under section 139(1), disallowance under section 40(a)(i) is not attracted.

2. In respect of payment of salary to sales executive in cash, no disallowance under section 40A(3) is to be made as the payments fall within the scope of Rule 6DD(i). Salary paid to him in cash is allowable as the executive was temporarily posted for a continuous period of more than 15 days in Bangalore which is not the place of his normal duty. No disallowance under section 40A(3) is attracted in respect of such salary.

Question 32

The trading and profit and loss account of Pingu Trading Pvt. Ltd. having business of agricultural produce, consumer items and other products for the year ended 31.03.2025 is as under:

Trading Account

Particulars	₹	Particulars	₹
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,26,000		
Gross profit	29,24,000		
	1,60,00,000		1,60,00,000

Profit and Loss Account

Particulars	₹	Particulars	₹
Bonus to staff	47,500	Gross profit	29,24,000
Rent of premises	53,500	Income-tax refund	20,000
Advertisement	5,000	Warehousing charges	15,00,000
Bad Debts	75,000		
Interest on loans	1,67,500		
Depreciation	71,500		
GST demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	33,90,000		
	44,44,000		44,44,000

On scrutiny of records, the following further information and details were extracted/gathered:

- (i) There was a survey under section 133A on the business premises on 31.3.2025 in which it was revealed that the value of closing stocks of 31.3.2024 was ₹ 8,75,000 and a sale of ₹ 75,000 made on 13.3.2025 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2025 worked out at ₹ 12,50,000, which was accepted to be correct and not disputed.
- (ii) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- (iii) Bonus to staff includes an amount of ₹ 7,500 paid in the month of December 2024, which was provided in the books on 31.03.2024.
- (iv) Rent of premises includes an amount of ₹ 5,500 incurred on repairs. The assessee was under no obligation to incur such expenses as per rent agreement.

- (v) Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (vi) Miscellaneous expenses include:
 amount of ₹ 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 amount of ₹ 1,00,000 paid to the wife of a director, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only ₹ 25,000 for the same opinion,
 amount of ₹ 1,00,000 paid to an Electoral Trust by cheque.
- (vii) Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.
- (viii) The company had made an investment of ₹ 25 lacs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2024 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- (ix) Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000.
- (x) Interest on loans includes an amount of ₹ 80,000 paid to Mr. X, a resident, on which tax was not deducted.

Compute the income chargeable to tax for assessment year 2025-26 of Pingu Trading Pvt. Ltd, ignoring MAT and provisions of section 115BAA. Support your answer with working notes.

Answer

Computation of Income of Pingu Trading Pvt. Ltd. chargeable to tax for the A.Y. 2025-26

Particulars	₹
Net profit as per profit and loss account	33,90,000
Add: Difference in the value of stocks detected on survey under section 133A chargeable as income (See Note 1)	3,75,000
	37,65,000
Less: Income-tax refund credited in profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000
	37,45,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 30(a)(f). However, if such expenses are required for carrying on business efficiently, same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, the same are allowable under section 37.	-
Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 3)	2,500

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Profits & Gains of Business or Profession

Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed (See Note 5)		75,000
Payment made to electoral trust by cheque (See Note 6)		1,00,000
Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 7)		5,300
Depreciation as per books		71,500
30% of interest paid on loan paid to Mr. X, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)		24,000
		40,23,300
Less: Depreciation allowable as per Income-tax Act, 1961		65,000
		39,58,300
Less: Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately (See Note 8)		15,00,000
Income from business (other than specified business)		24,58,300
Computation of income/loss from specified business (See Note 8)		
Income from specified business	₹ 15,00,000	
Less: Deduction under section 35AD @ 100% of ₹25 lakhs	₹ 25,00,000	
Loss from specified business to be carried forward as per section 73A	₹ (10,00,000)	
Income from Other Sources:		
Interest on income-tax refund		4,570
Gross Total Income		24,62,870
Less: Deduction under section 80GGB		
Contribution to political party (See Note 3)	₹ 2,500	
Contribution to an Electoral trust (See Note 3)	₹ 1,00,000	1,02,500
Total Income		23,60,370

Notes:

- (1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2025.

Revised Trading Account

Particular	₹	Particular	₹
Opening Stock	8,75,000	Sales (₹ 1,55,50,000 + ₹ 75,000)	1,56,25,000
Purchases	1,25,75,000	Closing Stock	12,50,000
Freight and Cartage	1,26,000		
Gross Profit	32,99,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of ₹ 32,99,000 - ₹ 29,24,000 = ₹ 3,75,000 is to be added as income of the business for the year.

- (2) Bonus for the previous year 2023-24 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2023-24. However, when the same has been paid in December 2024, it should be allowed as deduction in the P.Y.2024-25 (A.Y.2025-26). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- (3) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to "contribute" under section 293A of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.
- (4) The penalty of ₹ 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- (5) It has been assumed that ₹ 25,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only ₹ 25,000 for the same opinion and therefore, the balance ₹ 75,000 has been disallowed.
- (6) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (7) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (8) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce. It is presumed that ₹ 25 lacs does not include expenditure on acquisition of any land.

The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business.

In view of the provisions of section 73A(1), the loss of ₹ 10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.

Question 33

Lambda Ltd. is engaged in the manufacture of fabrics since 01.04.2015. Its Statement of Profit and Loss for the previous year ended 31st March, 2025 shows a profit of ₹ 750 lakhs after debiting or crediting the following items:

- (a) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 52 Lakhs.
- (b) Industrial power tariff concession of ₹ 4.80 Lakhs, received from Maharashtra State Government was credited to Statement of profit and loss.
- (c) The company had provided ₹ 18 Lakhs being sum fairly estimated as payable with reasonable certainty, to workers on agreement to be entered with the workers union towards periodical wage revision once in every three years.
- (d) Dividend received from a US company ₹ 12 Lakhs.
- (e) Loss ₹ 17 Lakhs, due to destruction of a machine worth ₹ 24 Lakhs by fire due to short circuit and ₹ 3 Lakh received as scrap value. The insurance company did not admit the claim of the company on charge of gross negligence.
- (f) Provision for gratuity based on actuarial valuation was ₹ 320 Lakhs. Actual gratuity paid debited to gratuity provision account was ₹ 160 lakhs.
- (g) Advertisement charges ₹ 2.30 Lakhs, paid by cheque for advertisement published in the souvenir of a political party registered with the Election Commission of India.
- (h) Long term capital gain ₹ 3 Lakhs on sale of equity shares on which Securities Transaction Tax (STT) was paid at the time of acquisition and sale.

Additional Information:

- (i) Normal depreciation computed as per Income-tax Rules is ₹ 71 Lakhs.
- (ii) GST ₹ 8 lakhs collected from its customers was paid by the company on the due dates. On an appeal, the High Court directed the GST department to refund ₹ 3 lakhs to the company. The company in turn refunded ₹ 2 lakhs to the customers from whom it was collected and the balance ₹ 1 lakh is still lying under the head "Current Liabilities".

Compute the total income of Lambda Ltd, for the A.Y. 2025-26 by analyzing and applying the relevant provisions of income-tax law. Briefly explain reasons for treatment of each item. Ignore provisions relating to Minimum Alternate Tax. Assume that the company has not opted for section 115BAA.

Answer

Computation of Total Income of Lambda Ltd. for the A.Y. 2025-26

Particulars	Amount (₹)	
Profits and gains of business and profession		
Net profit as per the statement of profit and loss		7,50,00,000
Add: Items debited but to be considered separately or items of expenditure to be disallowed		
Depreciation as per Companies Act	52,00,000	
Provision for wages payable to workers		
[Since the provision is based on a fair estimate of wages payable with reasonable certainty, the provision is allowable as deduction. ICDS X requires a reliable estimate of the amount of obligation and 'reasonable certainty' for recognition of a provision, which is present in this case.		

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<p>As the provision of ₹ 18 lakhs has been debited to statement of profit and loss, no adjustment is required while computing business income]</p>		
<p>Loss due to destruction of machinery by fire [Loss of ₹ 17 lakhs due to destruction of machinery caused by fire is not deductible since it is capital in nature. Since the loss has been debited to statement of profit and loss, the same is required to added back while computing business income]</p>	17,00,000	
<p>Provision for gratuity [Provision of ₹ 320 lakhs for gratuity based on actuarial valuation is not allowable as deduction. However, actual gratuity of ₹ 160 lakhs paid is allowable as deduction. Hence, the difference has to be added back to income [₹ 320 lakhs (-) ₹ 160 lakhs]</p>	1,60,00,000	
<p>Advertisement in souvenir of a political party [Advertisement charges paid in respect of souvenir published by a political party is not allowable as deduction from business profits of the company. Since, the expenditure has been debited to statement of profit and loss, the same has to be added back while computing business income]</p>	2,30,000	2,31,00,000
		9,81,30,000
<p>Add: Income taxable but not credited to statement of profit and loss</p> <p>Sales tax not refunded to customers out of sales tax refund [The amount of sales tax refunded to the company by the Government is a revenue receipt chargeable to tax. Out of the refunded amount of ₹ 3 lakhs, the amount of ₹ 2 lakh stands refunded to customers would not be chargeable to tax. The balance amount of ₹ 1,00,000 lying with the company would be chargeable to tax]</p>		1,00,000
		9,82,30,000
<p>Less: Items credited to statement of profit and loss, but not includible in business income/permissible expenditure and allowances</p> <p>Industrial power tariff concession received from State Government [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]</p>		

Profits & Gains of Business or Profession

Dividend received from US company [Dividend received from foreign company is taxable under "Income from other sources". Since the said same has been credited to the statement of profit and loss, it has to be deducted while computing business income]	12,00,000	
Scrap value of machinery [Scrap value of machinery, being capital in nature, has to be reduced from WDV of machinery. Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income]	3,00,000	
Long term capital gains of sale of equity shares [The taxability or otherwise of long term capital gain on sale of equity shares has to be considered while computing income under the head "Capital Gains". Since such capital gains has been credited to statement of profit and loss, the same has to be reduced to arrive at the business income.]	3,00,000	
Depreciation as per Income-tax Rules, 1961	71,00,000	89,00,000
Profits and gains from business and profession		8,93,30,000
Income from Other Sources		
Dividend received from foreign company [Dividend received from a foreign company is chargeable to tax under the head "Income from other sources"]		12,00,000
Capital Gains		
Long term capital gain on sale of equity shares [Long term capital gains in excess of ₹ 1.25 lakh (i.e., ₹ 1.75 lakh, being ₹ 3 lakh - ₹ 1.25 lakh) on sale of equity shares on which STT is paid at the time of acquisition and sale would be taxable @ 12.5% u/s 112A.]		3,00,000
Gross Total Income		9,08,30,000
Less: Deduction under Chapter VI-A Under section 80GGB [Contribution by a company to a registered political party is allowable as deduction, since payment is made otherwise than by cash. Expenditure incurred by an Indian company on advertisement in souvenir published by such political party tantamount to contribution to such political party.]		<u>2,30,000</u>
Total Income		9,06,00,000

Question 34

Parik Hospitality Limited is engaged in the business of running hotels of 3-star category. The company's Statement of Profit and Loss for the previous year ended 31st March, 2025 shows a profit of ₹ 152 lakhs after debiting or crediting the following items:

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- (a) Payment of ₹ 0.25 lakh and ₹ 0.30 lakh in cash on 3rd December, 2024 and 10th December, 2024, respectively, for purchase of crab, lobster and squid to Mr. Raja, a fisherman, and Mr. Khalid, a middleman for these products, respectively.
- (b) Contribution towards employees' pension scheme notified by the Central Government under section 80CCD for a sum of ₹ 4 lakhs calculated at 16% of basic salary and Dearness Allowance payable to the employees.
- (c) Payment of ₹ 6.50 lakhs towards transportation of various materials procured by one of its hotels to M/s. Bansal Transport, a partnership firm, without deduction of tax at source. The firm opts for presumptive taxation under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.
- (d) Profit of ₹ 12 lakhs on sale of a plot of land to Avimunya Limited, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by Parik Hospitality Limited on 1st June, 2023.
- (e) Contribution of ₹ 2.50 lakhs to Indian Institute of Technology with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
- (f) 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.
- (g) Fees of ₹ 1 lakh paid to independent directors for attending Board meeting without deduction of tax at source under section 194J.
- (h) Depreciation charged ₹ 10 lakhs.
- (i) ₹ 10 lakhs, being the additional compensation received from the State Government pursuant to an interim order of Court in respect of land acquired by the State Government.
- (j) Dividend received from a foreign company ₹ 5 lakhs.

Additional information:

- (i) As a corporate debt restructuring, the bank has converted unpaid interest of ₹ 10 lakhs upto 31st March, 2024 into a new loan account repayable in five equal annual installments. The first installment of ₹ 2 lakhs was paid in March, 2025 by debiting new loan account.
- (ii) Depreciation as per Income-tax Act, 1961 ₹ 15 lakhs.
- (iii) The company received a bill for ₹ 2 lakhs on 31st March 2025 from a supplier of vegetables for supply made in March, 2025. The bill was omitted to be recorded in the books in March, 2025. The bill was paid in April, 2025 and the necessary entry was made in the books then.
- (iv) Dividend of ₹ 7 lakhs is distributed on 25.09.2025 to its shareholders.

Compute total income of Parik Hospitality Limited for the Assessment Year 2025-26 indicating the reason for treatment of each item assuming that the company is not eligible for deduction u/s 35AD. Ignore the provisions relating to minimum alternate tax and the provisions of section 115BAA.

Answer

Computation of Total Income of Parik Hospitality Ltd. for the A.Y.2025-26

Particulars	Amount (₹)
-------------	------------

Profit as per Statement of profit and loss		1,52,00,000
Add: Items debited but to be considered separately or disallowed		
Payment to middleman for purchase of crab etc. in an amount exceeding ₹ 10,000	30,000	
[Under section 40A(3), disallowance is attracted in respect of expenditure for which cash payment exceeding ₹ 10,000 is made on a day to a person. Payment of ₹ 25,000 to fishermen for purchase of crab etc. is covered by exception under Rule 6DD. However, payment of ₹ 30,000 to middlemen for purchase of crab etc. is not covered under the exception.]		
Contribution towards employees' pension scheme in excess of 14% of salary disallowed u/s 40A(9) [4,00,000 x 2/16]	50,000	
[Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction under section 36(1)(iva). In this case, it is presumed that dearness allowance forms part of pay for retirement benefits]		
Payment to contractor without deduction of tax at source		
[Since the contractor opts for presumptive taxation under section 44AE and furnished a declaration to this effect, tax is not required to be deducted at source under section 194C in respect of payment to transport contractor].		
Expenses on foreign travel of two directors for a collaboration agreement which failed to materialize	10,00,000	
[Where expenditure is incurred for a project not related to the existing business and project was abandoned without creating a new asset, the expenses are capital in nature. Brewery project is not related to the existing business of running three star hotels]		
Fees paid to directors without deducting TDS [30% of ₹ 1 lac]	30,000	11,10,000
[Disallowance @ 30% would be attracted under section 40(a)(ia) for non-deduction of tax at source from director's remuneration on which tax is deductible under section 194]		
		1,63,10,000
Less: Items credited but to be considered separately/ Expenditure to be allowed		
Profit on sale of plot of land to 100% subsidiary	12,00,000	
[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 as per section 47(iv). Since this amount has been credited to the statement of profit and loss, the same has to be deducted for computing business income].		

<p>Contribution to IIT for scientific research [Contribution to IIT for scientific research programme approved by prescribed authority qualifies for deduction @ 100% u/s 35(2AA). Since 100% of contribution has already been debited to the statement of profit and loss, no adjustment is required.]</p>	-	
<p>Depreciation [Depreciation allowable under the Income-tax Act, 1961 is ₹ 15 lakhs whereas the depreciation as per books of account debited to the statement of profit and loss is ₹ 10 lakhs. Hence, the additional amount of ₹ 5 lakhs has to be deducted while computing business income]</p>	5,00,000	
<p>Additional compensation received from State Government [Since the additional compensation has been received pursuant to an interim order of the Court, the same would be deemed as income chargeable to tax under the head "Capital Gains" in the year of final order as per section 45(5). Since the compensation has been credited to the statement of profit and loss, the same has to be deducted while computing business income]</p>	10,00,000	
<p>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]</p>	5,00,000	
<p>Interest paid during the year [Conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose section 43B. The amount of unpaid interest converted into a new loan will be allowable as deduction only in the year in which such converted loan is actually paid. Since ₹ 2 lakhs has been paid in the P.Y. 2024-25, the same is allowable as deduction]</p>	2,00,000	
<p>Purchases omitted to be recorded in the books [Since the purchase is made in March, 2025 (i.e., P.Y. 2024-25), in respect of which bill of ₹ 2 lakhs received on 31.3.2025 has been omitted to be recorded in the books in that year, it has to be deducted to compute the business income. It is logical to assume that the company is following mercantile system of accounting.]</p>	2,00,000	36,00,000
<p>Income under head "Profits and Gains of Business or Profession"</p>		1,27,10,000
<p>Income from Other Sources Dividend received from foreign company [Dividend received from a foreign company is chargeable to tax under the head "Income from other sources".]</p>		5,00,000
<p>Gross Total Income</p>		1,32,10,000

Less: Deduction under Chapter VI-A	5,00,000
Deduction u/s 80M in respect of inter-corporate dividends [to the extent of dividend distributed by it one month prior to the due date for filing return of income u/s 139(1)]	
Total Income	1,27,10,000

Question 35

Sankar Ltd, engaged in the manufacture of footwear and leather products, for the past 15 years, reported a net profit of ₹ 272 lakhs as per the statement of profit and loss for the year ended 31st March, 2025. The company was subject to tax audit under section 44AB of the Income-tax Act, 1961. The net profit is arrived at after debiting or crediting the following amounts:

- (i) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 47 lakhs.
- (ii) A sundry creditor whose amount of ₹ 32 lakhs was outstanding since long time, has been settled for ₹ 26 lakhs based on compromise settlement. The amount waived has been credited to the statement of profit and loss.
- (iii) Employers' contribution to EPF of ₹ 3 lakhs for the month of March, 2025 was deposited on 29th July, 2025.
- (iv) Interest payments debited ₹ 30 lakhs [Includes interest on term loan of ₹ 25 lakhs availed on 1.4.2024 at interest rate of 12% p.a towards purchase of machinery during the year].
- (v) Payment of ₹ 30 lakhs to A & Co., a subcontractor, for processing raw leather without deduction of tax is debited to statement of profit & loss. This amount includes ₹ 20 lakhs for purchase of chemicals and ₹ 10 lakhs towards labour charges which is separately shown in bills submitted.

Additional Information:

- (1) The company has not made provision of ₹ 12 lakhs being a fair estimate of the amount as payable to workers towards periodical wage revision once in 3 years in respect of existing employees. The provision is estimated on a reasonable certainty of the revision once in 3 years.
- (2) The written down values of assets before allowing depreciation as per Income-tax Rules are as under:

Factory Buildings:	₹ 180 lakhs;
Plant & Machinery	₹ 170 lakhs (inclusive of ₹ 30 lakhs of machinery acquired on 1.11.2024 and put to use)
Computers:	₹ 15 lakhs

It may be noted that the above values have been duly recognised while providing depreciation in the books of accounts.

- (3) During the year, the company has employed 22 additional employees (qualified as "workman" under the Industrial Disputes Act, 1947). All these employees contribute to a recognized provident fund. 10 out of 22 employees joined on 1.6.2024 on a salary of ₹ 23,000 per month, 4 joined on 1.7.2024 on a salary of ₹ 26,000 per month, and 8 joined on 1.11.2024 on a salary of ₹ 20,000 per month.

- (4) Employees contribution to EPF of ₹ 3 lakhs recovered from their salaries for March 2025 and shown in the Balance Sheet under the head Sundry Creditors was remitted on 31st May, 2025.

Compute the total income and tax payable of Sankar Ltd. for the Assessment Year 2025-26. The turnover of the company for the year ended 31.3.2023 was ₹ 252 crores. Ignore the provisions of MAT. Assume that the company has not opted for section 115BAA.

Answer

Computation of Total Income of Sankar Ltd. for the A.Y. 2025-26

Particulars	Amount (₹)
Net profit as per the statement of profit and loss	2,72,00,000
Add: Items debited but to be considered separately or disallowed	
Depreciation charged as per Companies Act, 2013	47,00,000
Employer's 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 under section 139(1) i.e., 31.10.2025. Since the same has been debited to statement of profit and loss, no further adjustment is necessary]	Nil
Interest on term loan for purchase of plant and machinery [₹ 25 lakhs x 12% x 7/12] [As per the proviso to section 36(1)(iii), interest paid in respect of capital borrowed for acquisition of an asset for the period from the date of borrowing till the date on which such asset is first put to use shall not be allowed as deduction. Since the same has been debited to statement of profit and loss, it has to be added back while computing business income]	1,75,000
Payment of labour charges to A & Co., a sub-contractor, without deduction of tax [30% of ₹ 10 lakh] [Under section 40(a)(ia), 30% of any sum paid to any resident on which tax is deductible is disallowed if tax is not deducted at source. In this case, TDS provisions under section 194C are attracted on labour charges which are shown separately in the bills. Since tax has not been deducted on labour charges, 30% of the expenditure shall be disallowed]	<u>3,00,000</u>
	<u>51,75,000</u>
	3,23,75,000
Add: Amount taxable but not credited to profit and loss account	
Employee's contribution to EPF [Any sum received by the assessee from his employees as contribution to any provident fund is treated as income of the assessee. Since employees contribution to EPF has not been deposited on or before the due date under the PF Act, the same is not allowable as deduction as per section 36(1)(va).]	3,00,000
	<u>3,00,000</u>

Profits & Gains of Business or Profession

		3,26,75,000
Less: Items credited to profit and loss, but not includible in business income/permissible expenditure and allowances		
Waiver of sundry creditor's outstanding amount	Nil	
[Waiver of ₹ 6,00,000 from the sundry creditors is a benefit in respect of a trading-liability by way of remission or cessation thereof and is, hence, taxable under section 41(1). Since the amount is already credited to statement of profit & loss, no adjustment is necessary]		
Provision for wages payable to workers		
[The provision based on fair estimate of wages and reasonable certainty of revision 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 not been debited to statement to profit and loss, the same has to be reduced while computing business income]	<u>12,00,000</u>	<u>12,00,000</u>
		3,14,75,000
Less: Depreciation as per Income-tax Rules, 1962		
Depreciation under section 32		
Depreciation on factory building [10% of ₹180 lakh]	18,00,000	
Depreciation on plant and machinery		
- Depreciation@7.5% on ₹ 31.75 lakhs [₹ 30 lakh, being machinery cost + ₹ 1.75 lakh, being interest from 1.4.24 to 31.10.24] since machinery is put to use for less than 180 days].	2,38,125	
- Depreciation@15% on ₹ 140 lakh [₹ 170 lakh - ₹ 30 lakh]	21,00,000	
- Depreciation on computers [40% of ₹ 15 lakh]	<u>6,00,000</u>	
	47,38,125	
Add: Additional depreciation @10% on ₹ 31.75 lakh, since machinery is put to use for less than 180 days	<u>3,17,500</u>	50,55,625
Profits and gains from business or profession		2,64,19,375
Gross Total Income		2,64,19,375
Less: Deduction under Chapter VI-A		
Under section 80JAA [See Working Note below]		9,30,000
Total Income		2,54,89,375
Total Income (Rounded off)		2,54,89,380

Computation of tax payable by Sankar Ltd.

	₹
Tax payable on ₹ 2,54,89,380@25%, since the turnover of the company for the P.Y. 2022-23 does not exceed ₹ 400 crores	63,72,345
Add: Surcharge@7% (since the total income of the company exceeds ₹ 1 crore but does not exceed ₹ 10 crore)	4,46,064

	68,18,409
Add: Health and education cess@4%	2,72,736
Tax liability	70,91,145
Tax liability (Rounded off)	70,91,150

Working Note:

Computation of deduction under section 80JJAA

Sankar Ltd. is eligible for deduction under section 80JJAA since the company is subject to tax audit under section 44AB and has employed "additional employees" during P.Y.2024-25.	
Number of additional employees	
Total number of employees employed during the year	22
Less: Employees employed on 1.7.2024, since their total monthly emoluments exceed ₹ 25,000	4
Number of additional employees [10 employees employed on 1.6.2024 and 8 employed on 1.11.2024]	18
Additional employee cost	₹
₹ 23 lakh, being ₹ 23,000 × 10 × 10 + ₹ 8 lakh, being ₹ 20,000 × 5 × 8	31,00,000
Deduction under section 80JJAA [30% of ₹ 31 lakh]	9,30,000

Question 36

Dinkar Synthetics Ltd. engaged in the business of manufacturing of textile goods of suiting and shirting and operating since 2015 shows Net Profit of ₹ 75 lacs as per Profit and Loss Account for the year ended 31.03.2025. Net profit has been calculated after debiting/crediting the following items:

- (1) The company used to include interest cost while valuing its stock of finished goods up to the financial year 2023-24. During the financial year 2024-25, the company changed its accounting policy to adopt AS-2 (Accounting standard on valuation of Inventories) as issued by the ICAI and thereby excluded interest costing while valuation of finished goods. This has resulted in a decrease in the year's profit by ₹ 13.50 lacs. This policy will continue in future also.
- (2) The company has made provision for Gratuity based on actuarial valuation of ₹ 5 lacs. Actual gratuity paid amounting to ₹ 1,20,000 was debited to provision of Gratuity Account.
- (3) 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, 2024. The relevant amount of TDS has been deducted and deposited by the company in time.
- (4) The company lost cash of ₹ 12,00,000 due to theft when it was withdrawn from bank and taken to administrative office. It is not insured and hence, fully charged as revenue expenditure.
- (5) On December 1, 2024, the company paid Royalty of ₹ 3,00,000 to Mr. Rozer (a non-resident individual) after deducting tax@10% under section 195. The tax so deducted by the company is not deposited till November 30, 2025. However, Mr. Rozer submits his return of income on July 31, 2025 after including ₹ 3,00,000 in his income and claiming of refund of ₹ 20,000.

On scrutiny of records, the following further information and details were extracted:

- (i) The Company has sold a plot of land to Libra Ltd., a domestic company, for ₹ 35 lacs. The same plot was purchased on 01.05.2023 for ₹ 26 lacs by Dinkar Synthetics Ltd. Dinkar Synthetics Ltd. held all the shares of Libra Ltd.
- (ii) 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.
- (iii) The company has purchased a new motor car during the year for the purpose of business, on 01.08.24 for ₹ 12,80,000 (including GST of ₹ 2,80,000). The depreciation on the above car has not been debited to the Profit and Loss Account.
- (iv) The company has the following number of workers employed in the factory (all are covered in Provident Fund)

Particulars of Employees	Number
No. of Employees as at 31.03.2024	480
Add: Additional Employees employed during the year	120
Less: Retrenchment of Employees during the year	70
No. of employees as on 31.03.2025	530

The new employees have been recruited on 01.07.2024 at a pay scale of ₹ 15,000 per month per person. Payment of salary is made through Account Payee Cheques only.

- (v) The Gross Turnover of the Company during the financial year 2022-23 is ₹ 450 crores and the company has not opted for Section 115BAA.

Compute the total income and tax payable of the company for Assessment Year 2025-26 as per the provisions of the Income-tax Act, 1961.

Answer

Computation of total income and tax payable of Dinkar Synthetics Ltd. for the A.Y. 2025-26

Particulars	Amount in ₹
Profits and gains of business and profession	
Net profit as per profit and loss account	75,00,000
Add: Items debited but to be considered separately or to be disallowed	
Decrease in profit due to non-inclusion of interest while valuing finished goods	
[As per ICDS 2, interest shall not be included in the cost of inventories, unless they meet the criteria for recognition of interest as a component of the cost as specified in ICDS 9 on borrowing costs. ICDS 9 requires capitalization of borrowing costs attributable to qualifying assets, which include only those inventories that require a period of twelve months or more to bring them to a saleable condition, which is not the case in textile industry. Hence, interest would not form part of cost for inventory valuation as per ICDS 2. Accordingly, no adjustment is required, since interest cost has already excluded while valuing finished goods]	

Provision for gratuity	3,80,000	
[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)]		
One time Franchise Fees	20,00,000	
[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]		
Loss of cash in transit from bank to administrative 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]		
Royalty on which tax is deducted but not deposited till 30.11.25	3,00,000	26,80,000
[100% of ₹ 3 lakhs, being royalty paid after deducting tax would be disallowed under section 40(a)(i), since tax is not paid before due date of filing return of income.]		
		1,01,80,000
Less: Depreciation as per Income-tax Rules, 1962		
Franchise [₹ 20 lakhs x 25%, since it has been used for more than 180 days during the year]	5,00,000	
Motor car [₹ 12.8 lakh x 15%, since car is put to use for more than 180 days in the P.Y. 2024-25]	1,92,000	6,92,000
		94,88,000
Capital Gain		
Capital gain on transfer of plot to Libra Ltd., a 100% subsidiary Indian company		Nil
[Any transfer of capital asset by a holding company to its 100% subsidiary Indian company would not be regarded as transfer u/s 47(iv)]		
Income from Other Sources		
Deemed dividend u/s 2(22)(e)		2,00,000
[Loan of ₹ 5 lakhs by Manu Textiles Pvt. Ltd. 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.]		
Gross Total Income		96,88,000
Less: Deduction under Chapter VI-A		

Deduction under section 80JAA [Since Dinkar Synthetics Ltd has employed additional employees during the year [30% of ₹ 67,50,000 (₹ 15,000 x 9 months x 50)]. 70 employees retrenched by company have to be deducted from figure of 120 to arrive at actual number of additional employees.	20,25,000
Total Income	76,63,000
Tax payable on ₹ 76,63,000@30% [Since the turnover of the company for the previous year 2022-23 exceeds ₹ 400 crore]	22,98,900
Add: Health and education cess@4%	91,956
Tax liability	23,90,856
Tax liability (rounded off)	23,90,860

Question 37

X Ltd. is engaged in the manufacture and sale of textiles goods. Its net profit for the year ending March 31, 2025 after debit/credit of the following items to profit and loss account was ₹ 1,25,00,000.

- (i) Advertisement expenditure includes a sum of ₹ 1.60 lakhs paid in cash to sister concern of a director of the company. The Fair market value of such expenditure in the market is ₹ 52,000.
- (ii) Repairs of plant and machinery include ₹ 1.80 lakhs towards replacement of worn out parts of machineries.
- (iii) The company used to include interest cost in valuation of its finished stock upto financial year 2023-24. During the financial year 2024-25, company changed its accounting policy to comply with requirements of accounting standard and excluded interest cost in valuation of finished stock. This has resulted in a decrease in the current year's profit by ₹ 10.70 lakhs.
- (iv) An executive Mr. Q, while on business trip abroad, died and the company voluntarily paid gratuity to his family amounting to ₹ 2.00 lakhs.
- (v) Capital Expenditure of ₹ 1.80 lakhs incurred for the purpose of promoting family planning amongst its employees debited in the Profit and Loss account.
- (vi) Retrenchment compensation paid to employees of one of the unit of the company which was closed down during the year amounted to ₹ 14 lakhs.
- (vii) ₹ 4 lakhs, being amounts waived by a co-operative bank out of principal and ₹ 1 lakh being amount waived by the bank on arrears of interest, respectively, in one-time settlement. The loan was obtained for meeting working capital requirement four years back.
- (viii) Contribution towards Employees' pension scheme notified by the Central Government u/s 80CCD for a sum of ₹ 4 lakhs calculated at 16% of basic salary and Dearness Allowance (forming part of retirement benefits) payable to the employees.
- (ix) Marked to market loss amounting to ₹ 6 lakhs in respect of an unsettled derivative contract. The contract was settled in May, 2025 with a gain of ₹ 1 lakh.
- (x) Provision for gratuity based on actuarial valuation was ₹ 4 lakhs. Actual gratuity paid debited to gratuity provision account was ₹ 2.75 lakhs. The gratuity paid to Mr. Q is debited separately and not included in Provision for gratuity or Actual gratuity paid mentioned here.

The company furnishes following additional information relating to it:

- (i) The company has obtained a loan of ₹ 4 lakhs from ABC Pvt. Ltd. in which it holds 16% voting rights. The accumulated profit of ABC Pvt. Ltd. on the date of receipt of loan was ₹ 1 lakh.
- (ii) The company has given 1 phone Mobile sets to 5 distributors as incentive costing ₹ 60,000 each on 28.10.2024 on Diwali. The accountant of the company debited the same amount to Business Promotion Expenses, being business expenditure and did not deduct any tax at source.
- (iii) The company during the year has contributed a sum of ₹ 3,50,000 to an approved Electoral trust by an RTGS directly to the account of the Trust.

You are required to compute the Total Income of X Ltd. for the A.Y. 2025-26 assuming that the company has not opted for Section 115BAA/115BAB under the Income-tax Act, 1961.

Answer

Computation of Total Income of X Ltd. for the A.Y. 2025-26	
Particulars	Amount (in ₹)
Profits and gains of business and profession	
Net profit as per profit and loss account	1,25,00,000
Add: Items debited but to be considered separately or to be disallowed	
Payment of advertisement expenditure of ₹ 1,60,000¹	1,60,000
[Sister concern of a director of X Ltd. falls under specified person u/s 40A(2). ₹ 1,08,000, being the excess payment to a specified person is disallowed u/s 40A(2). Since the payment is made in cash and since the remaining amount of ₹ 52,000 exceeds ₹ 10,000, the same would be disallowed u/s 40A(3). Since ₹ 1,60,000 has been debited to profit and loss account, the same has to be added back.]	
Note - Alternatively, entire ₹ 1,60,000 can be disallowed u/s 40A(3).	
Repair of plant and machinery	
[As per ICDS V on Tangible Fixed Assets, only an expenditure that increases the future benefits from existing asset beyond its previously assessed standard of performance has to be added to the actual cost. Since expenditure on replacement of worn out parts does not bring in any new asset into existence, such replacement is in the nature of current repairs, which is allowable as deduction. Since the same has been debited to profit and loss account, no adjustment is required.]	
Interest cost in valuation of finished stock	
[X Ltd. has excluded interest cost in valuation of finished stock as it has changed its accounting policy to comply with the requirements of accounting standard, which is a bona fide reason and would be followed consistently in future. The change in the method of valuation of stock, being a genuine reason, no further adjustment is required, as the said interest cost has been already excluded and consequently profit has been reduced.]	

Payment of gratuity to Mr. Q's family [Payment of gratuity ₹ 2.00 lakhs on death of an executive while on business trip is allowable as deduction. Since it has already been debited to profit and loss account, no further adjustment is required.]		
4/5th capital expenditure for promoting family planning [Capital expenditure incurred for promoting family planning amongst employees is deductible over a period of 5 years as per the first proviso to section 36(1)(ix). Hence, only ₹ 36,000 is deductible in the current year in respect of such expenditure incurred by the company. Since ₹ 1,80,000 has been debited to the profit and loss account, ₹ 1,44,000, being 4/5th capital expenditure has to be added back.]		1,44,000
Retrenchment compensation to employees on closure of unit [Retrenchment compensation paid to employees at the time of closure of one of the units of the company is allowable as deduction. Since the same has already been debited to the profit and loss account, no further adjustment is required.]		
Contribution towards NPS in excess of 14% of salary disallowed [Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction under section 36(1)(iva). In this case, 2%, which is in excess of 14% i.e., ₹ 4,00,000 x 2/16, would be disallowed.]		50,000
Marked to market losses [Marked to market loss or other expected loss as computed as per ICDS would be allowed as deduction u/s 36(1)(xviii). As per ICDS I, marked to market losses cannot be recognized unless recognition of such loss is in accordance with provisions of any other ICDS. Marked to market loss in respect of an unsettled derivative contract is not allowable as deduction. Since such losses have been debited to profit and loss A/c, they have to be added back for computing business income.]		6,00,000
Provision for gratuity [Provision of ₹ 4 lakhs for gratuity based on actuarial valuation is not allowable as deduction as per section 40A(7). However, actual gratuity of ₹ 2.75 lakhs paid is allowable as deduction. Hence, the difference has to be added back]		1,25,000
Incentive to distributor without deducting tax at source [30% x ₹ 60,000 x 5] [Mobile phone to distributors is a perquisite or benefit provided to the distributors and X Ltd. is liable to deduct TDS u/s 194R on such benefit or perquisite. Disallowance @30% would be attracted u/s 40(a)(ia) for non-deduction of tax at source on such benefit or perquisite]		90,000
		<u>11,69,000</u>
		1,36,69,000
Less: Items credited but not taxable or chargeable to tax under another head		

<p>Waiver of principal on bank loan [Waiver of principal amount of loan taken for trading activity is a benefit in respect of a trading-liability by way of remission or cessation thereof and is, hence, taxable u/s 41(1). Since the loan is for meeting working capital requirement, it is logical to assume that is taken for trading activity. Since loan waiver has already been credited to profit and loss account, no adjustment is required.]</p>		
<p>Waiver of interest on bank loan [As per section 43B, since interest is allowable only on actual payment, deduction in respect of interest due on loan would not have been allowed as deduction in any previous year. Therefore, waiver of such interest cannot be brought to tax by invoking section 41(1). Since such interest has now been credited to profit and loss account, the same has to be deducted while computing business income.]</p>	1,00,000	
		1,00,000
		1,35,69,000
<p>Income from Other Sources Deemed dividend under section 2(22)(e) [Loan of ₹ 4 lakhs by ABC Pvt. Ltd., being a company in which the public are not substantially interested, to X Ltd., being a shareholder who is holding 16% of voting rights of the ABC Pvt. Ltd. will be deemed to be dividend in the hands of X Ltd. to the extent of the accumulated profits i.e., ₹ 1 lakh.]</p>		1,00,000
<p>Gross Total Income</p>		1,36,69,000
<p>Less: Deduction under Chapter VI-A Under section 80GGB [Contribution by a company to an approved Electoral trust is allowable as deduction, since payment is made through RTGS.]</p>		3,50,000
<p>Total Income</p>		1,33,19,000

Question 38

M/s MPK Pharma Ltd, a company resident in India, in which public are not substantially interested, is engaged in manufacture of pharmaceutical products. The Statement of Profit & Loss for year ended 31st March, 2025 shows a net profit of ₹ 53,00,000 after debiting or crediting the following items:

- (i) One-time license fee of ₹ 12 lakhs paid for obtaining a franchise on 28th July, 2024.
- (ii) Convertible debentures were issued by the company on which expenditure of issue and collection of ₹ 3,15,000 was incurred.
- (iii) The company has paid ₹ 1,20,000 to commodity broker for transactions in relation to commodities at MCX. Tax was not deducted at source on such transactions.
- (iv) Contributed 20% of basic salary in National Pension Scheme in section 80CCD towards salary paid to an employee Mr. Gaurav whose basic salary was ₹ 5,00,000 p.a. and Dearness allowance of 40% of basic salary was considered. 50% of Dearness allowance formed part of the salary.

- (v) Expense of ₹ 7,00,000 has been incurred for providing freebies to medical practitioners.
- (vi) Expenditure of ₹ 5,20,000 incurred on feasibility study conducted for examining proposals for technological advancement for existing business. The project was abandoned without creating a new asset.
- (vii) Depreciation of ₹ 13,00,000 on the basis of useful life of assets has been charged.
- (viii) Employees Provident Fund (EPF) for the month of March, 2025 amounting to ₹ 5,20,000 was remitted on 17th May, 2025 which includes ₹ 2,60,000 of employer's contribution and ₹ 2,60,000 of employee's contribution.
- (ix) Donation to Swachh Bharat Kosh ₹ 2,00,000.
- (x) Industrial power tariff concession of ₹ 4,50,000 is received from Central Government.
- (xi) Interest and borrowing costs amounting to ₹ 6,85,000 and ₹ 5,65,000 though not meeting the criteria for recognition as a component of cost, is included in the cost of opening and closing inventory, respectively.
- (xii) The profit from setting of warehouse in rural area for storage of sugar (before claiming deduction under section 35AD) is ₹ 10,00,000. The warehouse commenced operations on 24th October, 2024.

The Company has furnished the following additional information:

- (i) The company has collected ₹ 14,00,000 as GST from its customers and remitted to the Government before due the dates. Consequent to an appeal filed, the Honourable High Court ordered the GST department to refund ₹ 5,00,000 to the Company. The Company in turn refunded ₹ 3,00,000 to its customers from whom GST was collected. Balance amount is shown under "current liabilities".
- (ii) The company has brought forward losses of ₹ 13,00,000 relating to assessment year 2022-23. Mr. X who continuously held 55% shares carrying voting power since incorporation of the company, had sold his entire shareholding to Mr. Y on 25.11.2024.
- (iii) Depreciation allowable as per Income-tax Rules ₹ 14,50,000.
- (iv) The company has invested ₹ 35 lakhs in construction of warehouse in a rural area for storage of sugar as an additional line of business. The investment includes land value of ₹ 20 lakhs.

You are required to compute the Total Income of M/s MPK Pharma Ltd. for the Assessment Year 2025-26. The company has not opted for tax u/s 115BAA of the Income-tax Act, 1961.

Answer

Computation of Total Income of M/s MPK Pharma Ltd. for the A.Y. 2025-26

Particulars	Amount (in ₹)	
Profits and gains of business and profession		
Net profit as per Statement of profit and loss		53,00,000
Add: Items debited but to be considered separately or disallowed		
One time license fee	12,00,000	
[Franchise is in the nature of an intangible asset eligible for depreciation @ 25%. Since one-time license fees of ₹ 12 lakh paid to a foreign		

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company for obtaining franchise has been debited to statement of profit and loss, the same has to be added back.]	
Expenditure of issue of convertible debenture	Nil
[The expenditure incurred on issue and collection of debentures would be treated as revenue expenditure even in case of convertible debentures, i.e., debentures which had to be converted into shares at a later date. Since said expenditure has been debited to statement of profit and loss, no further adjustment is required.]	
Payment to commodity broker without deducting tax at source	36,000
[Payment of ₹ 1,20,000 to commodity broker on which tax is deductible u/s 194H would attract disallowance@30% u/s 40(a)(ia), due to non-deduction of tax at source u/s 194H.]	
Contribution towards NPS in excess of 14% of salary disallowed	16,000
[Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction under section 36(1)(iva). In this case, ₹ 1,00,000 (20% of ₹ 5,00,000) - ₹ 84,000 [14% of (₹ 5,00,000 + 50% of 40% x ₹ 5,00,000)], would be disallowed]	
Expense on freebies to medical practitioners	7,00,000
[Any expense incurred in providing freebies to medical practitioners is an expense prohibited by the law. Any expenditure incurred by an assessee for any purpose which is prohibited by law is not deemed to have been incurred for the purpose of business or profession and hence, has to be disallowed from business income.]	
Expenditure on feasibility study	Nil
[If there is no creation of a new asset, then the expenditure incurred on feasibility study would be of revenue nature. In this case, since the feasibility study was conducted for the existing business and the project was abandoned without creating a new asset, expenses were of revenue nature. Since expenditure of ₹ 5,20,000 has already been debited to statement of profit and loss, no further adjustment is required.]	
Depreciation on the basis of useful life of asset	13,00,000
Employees' contribution to EPF	2,60,000
[Since employees' contribution to EPF has not been deposited on or before the due date under the PF Act, the same is not allowable as deduction as per Explanation 2 below to section 36(1)(va). Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income].	
Employer's contribution to EPF	Nil
[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 of income u/s 139(1). Since the same has been debited to statement of profit and loss, no further adjustment is necessary]	

Profits & Gains of Business or Profession

<p>Donation to Swachh Bharat Kosh [Donation to Swachh Bharat Kosh is not an allowable expenditure under section 37 since it is not laid out wholly or exclusively for the purposes of business or profession. Hence, the same has to be added back while computing business income.]</p>	2,00,000	
<p>Difference on account of interest and borrowing costs [As per ICDS II, Interest and borrowing costs not meeting the criteria for recognition as component of cost shall not be included in cost of opening and closing stock. ₹ 1,20,000 [₹ 6,85,000 – ₹ 5,65,000] being difference between closing and opening stock, has to be adjusted to remove the effect of interest and borrowing costs included in the value of stock.]</p>	<u>1,20,000</u>	
		<u>38,32,000</u>
		91,32,000
<p>Add: Income taxable but not credited to statement of profit and loss GST not refunded to customers out of GST refund received from Government [The amount of GST refunded to the company by the Government is a revenue receipt chargeable to tax. Out of the refunded amount of ₹ 5 lakhs, the amount of ₹ 3 lakh stands refunded to customers and hence, would not be chargeable to tax. The balance amount of ₹ 2,00,000 lying with the company would be chargeable to tax]</p>		<u>2,00,000</u>
		93,32,000
<p>Less: Items credited but chargeable to tax under another head/expenses allowed but not debited</p>		
<p>Industrial power tariff concession received from Central Government [Any assistance in the form of, inter alia, concession received from the Central or State Government would be treated as income as per section 2(24)(xviii). Since the same has been credited to Statement of Profit and Loss, no adjustment is required]</p>	Nil	
<p>Profits from setting of warehouse in rural area for storage of sugar [Since it is a specified business, its profit would be computed separately]</p>	10,00,000	
<p>Depreciation as per Income-tax Rules [As depreciation as per Income-tax Rules is stated as ₹ 14,50,000, it has been considered that it includes depreciation on Franchise.]</p>	<u>14,50,000</u>	
		<u>24,50,000</u>
		68,82,000
<p>Less: Brought forward business loss relating to A.Y. 2022-23 [Brought forward loss relating to A.Y. 2022-23 not allowed to be set off from the profits of A.Y. 2025-26 as 51% or more of the shares of MPK Pharma Ltd., which is a company in which public are not substantially interested, on 31.3.2025 are not held by the same persons who held not less than 51% shares on 31.3.2022]</p>		Nil
<p>Profits and gains from manufacture of pharmaceutical products</p>		<u>68,82,000</u>

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Profits and gains from setting of warehouse in rural area for storage of sugar		
Net profit before deduction under section 35AD	10,00,000	
Less: Deduction under section 35AD	15,00,000	
100% deduction u/s 35AD in respect of cost of warehouse [₹ 35 lakhs - ₹ 20 lakhs, being cost of land, not allowable]		
Loss from the specified business of setting up a warehousing facility to be carried forward as per section 73A for set-off against profits of any specified business in the subsequent year	(5,00,000)	
Gross Total Income		68,82,000
Less: Deduction under Chapter VI-A		
Deduction u/s 80G in respect of donation to Swachh Bharat Kosh, assuming that the donation is otherwise than by way of cash		2,00,000
Total Income		66,82,000

Question 39

M/s. Breeze Dental Care Pvt. Ltd., a Tooth brush manufacturing company, having its factory in Rajkot, Gujarat shows a net profit of ₹ 79,50,000 after debiting and crediting of the amounts in its Profit and Loss Account as mentioned below for the year ended March 31, 2025:

- (a) Depreciation as per Companies Act ₹ 85,00,000.
- (b) A gross loss of amount of ₹ 25,00,000, due to destruction of old machinery by fire in the factory. Though ₹ 7,80,000 was received as scrap value on this old machinery on 31.8.2024, the Insurance company did not admit the claim of the company on the charge of negligence.
- (c) Income Tax Assessment of A.Y. 2023-24 was completed in September 2024 with a tax demand of ₹ 5,70,000 which included surcharge of ₹ 60,500 and a cess of ₹ 24,200. The entire sum has been duly paid during the F.Y. 2024-25.
- (d) Power Subsidy received from Central Government amounting to ₹ 13 lakhs.
- (e) Interest received ₹ 7,50,000 on margin money deposited with bank for obtaining bank guarantee to carry on business is included as income in the Profit and Loss Account.
- (f) Purchase price of raw material used for the purpose of in-house research and development is ₹ 14,00,000. (including GST of ₹ 2,75,000 on which ITC is not admissible) is debited in Profit and Loss account.
- (g) Breeze Dental Care Pvt. Ltd. paid ₹ 12 lakhs to JAPA Inc. of China for online digital advertisement. JAPA Inc. has no PE in India. No tax was deducted at source nor was equalisation levy paid on the said amount.
- (h) Dividend of ₹ 2,50,750 was received from a foreign company, in which Breeze Dental Care Pvt. Ltd. holds 28% in nominal value of equity share capital of the company. An expense (other than Interest payment) of ₹ 15,000 spent on earning this income.
- (i) Interest of ₹ 20,00,000 which is settled by issuing 8% debentures of ₹ 100 each in March, 2025.

Additional Information:

- (1) Depreciation (other than items stated below) as per Income-tax Act, 1961 is ₹ 32,50,000.
- (2) A new Air Compressor machine, necessary for installing with main Plant to keep the Air compression as per guidelines, was purchased and put to use on 1.5.2024 - ₹ 74,00,000.
- (3) Another new specified Air Pollution Control Equipment was purchased for ₹ 23,45,000 on 18.6.2024.
- (4) Items purchased after 30th October, 2024:
 - (a) Lorries for transporting goods to sales depots - ₹ 95,00,000.
 - (b) Machine imported from Germany - ₹ 1,60,00,000. It arrived at Kandla port on 30.3.2025 and was installed on 10.4.2025.

All the other items were installed during the period ended March 31, 2025. The total turnover of the company for the Financial Year 2022-23 was ₹ 415 crores.

You are required to compute the Total Income and Tax payable of Breeze Dental Care Pvt. Ltd. for the Assessment Year 2025-26 with brief reasons for the treatment of each item given above. The company has not opted for section 115BAA/115BAB. Ignore provisions of MAT.

Answer

Computation of Total Income and Tax Payable by Breeze Dental Care Pvt. Ltd. for A.Y. 2025-26

Particulars	Amount (in ₹)	
Profits and gains of business and profession		
Net profit as per profit and loss account		79,50,000
Add: Items debited but to be considered separately or to be disallowed		
(a) Depreciation as per Companies Act	85,00,000	
(b) Loss due to destruction of machinery by fire Loss of ₹ 25 lakhs due to destruction of old machinery caused by fire is not deductible since it is capital in nature. Since the loss has been debited to profit and loss account, the same is required to be added back while computing business income	25,00,000	
(c) Tax paid (including surcharge and cess) Tax paid including surcharge and cess is not allowed while computing business income under section 40(a)(ii). Since the tax paid has been debited to profit and loss account, the same is required to added back while computing business income]	5,70,000	
(f) Purchase price of raw material for in-house research Purchase price of raw material used for the purpose of in-house research and development qualifies for 100% deduction u/s 35(2AB) or 35(1)(i). GST on which ITC is not admissible is an expense and can be claimed as deduction under section 37. As the amount has already been debited to profit and loss account, no further adjustment is necessary	Nil	

BY CA ATUL AGARWAL (AIR-1)
AIR1CA Career Institute (ACI)

Profits & Gains of Business or Profession

<p>(g) Payment to JAPA Inc. for online digital advertisement Disallowance @ 100% would be attracted under section 40(a)(ib) for non-deduction of equalization levy on payment for online digital advertisement to JAPA Inc. Since the payment has been debited to profit and loss account, the same is required to added back while computing business income</p>	12,00,000	
<p>(h) Expenses on earning dividend income The allowability or otherwise of expenses on dividend income has to be considered while computing income under the head "Income from other sources". Since the same has been debited to the profit and loss account, it has to be added back while computing business income]</p>	15,000	
<p>(i) Interest settled by issuing debentures As per section 43B, conversion of interest into a debenture shall not be deemed as actual payment, and not allowed as deduction. Since interest has been debited to profit and loss account, it has to be added back while computing business income]</p>	20,00,000	<u>1,47,85,000</u>
		2,27,35,000
Less: Items credited but not taxable or taxable under other head		
<p>(b) Scrap value of machinery Scrap value of machinery, being capital in nature, has to be reduced from WDV of machinery. Since the same has been credited to the profit and loss account, it has to be deducted while computing business income</p>	7,80,000	
<p>(d) Power Subsidy received from Central Government As per ICDS VII, Government grant (subsidy) which is receivable as compensation for expenses or losses incurred in a previous financial year shall be recognised as income of period in which it is received. Since subsidy is received in the P.Y. 2024-25, it would be taxable in P.Y. 2024-25. Since such subsidy has been credited to profit and loss account, no further adjustment is required.</p>	Nil	
<p>(e) Interest on margin money deposited with Bank Interest income received on funds kept as margin money for obtaining the bank guarantee would be taxable under "Profits and gains of business or profession". Since such interest has already been credited to profit and loss account, no further adjustment is required.</p>	Nil	
<p>(h) Dividend received from foreign company Dividend from foreign company is taxable under "Income from other sources". Since same has been credited to the profit and loss account, it has to be deducted while computing business income.</p>	<u>2,50,750</u>	<u>10,30,750</u>
		2,17,04,250

Profits & Gains of Business or Profession

Less: Depreciation as per Income-tax Act, 1961		
Normal depreciation [Refer Note below]		
- Depreciation on assets other than on air compressor, air pollution control equipment & lorries stated in A (2), (3) & (4)	32,50,000	
- On Air Compressor machine [74,00,000 x 15%]	11,10,000	
- On Air Pollution Control Equipment [23,45,000 x 40%]	9,38,000	
- On Lorries for transporting goods to sales depots [95,00,000 x 15% x 50%, since it is used for less than 180 days]	7,12,500	
- On Machine imported from Germany [Nil, since it is not installed in P.Y. 2024-25]	Nil	60,10,500
Additional depreciation		
- On Air Compressor machine [74,00,000 x 20%]	14,80,000	
- On Air Pollution Control Equipment [23,45,000 x 20%]	4,69,000	19,49,000
		1,37,44,750
Income from Other Sources		
Dividend received from foreign company		
[Dividend received from a foreign company is chargeable to tax under the head "Income from other sources".		
₹ 15,000, being an expense other than interest payment is not allowable as deduction from dividend income.]		
		2,50,750
Gross Total Income/Total Income		1,39,95,500
Computation of Tax payable		
Tax on ₹ 1,39,95,500 @30% (since the turnover exceed ₹ 400 crores in the P.Y. 2022-23)		41,98,650
Add: Surcharge @ 7% (since total income exceeds ₹ 1 crore but less than ₹ 10 crore)		2,93,906
		44,92,556
Add: Health and Education cess @ 4%		1,79,702
Tax Payable		46,72,258
Tax Payable (Rounded off)		46,72,260

Note - The above solution has been worked out on the assumption that scrap value of machine ₹ 7,80,000 has already been adjusted in computing the depreciation of ₹ 32,50,000.

Question 40

Orient Pharmaceuticals Private Limited is an Indian Company, engaged in the business of manufacturing and providing access to affordable and innovative medicines and healthcare solutions. The company is incorporated in the year 2009. The company shows a Net Profit of ₹ 95 lakhs as per the Statement of Profit and Loss for the year ended March 31, 2025.

Net Profit has been arrived at after debiting and crediting the following items:

- (1) Depreciation as per Companies Act claimed in the Statement of Profit and Loss - ₹ 11.90 lakh.
- (2) The amount of employee benefits includes a sum of ₹ 13,00,000 in respect of bonus payable to employees. In the previous year 2024-25, 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 August, 2025 and the trust paid the amount of bonus to the employees on 31st August, 2025.
- (3) An amount paid by the company as regularization fee for violating a law (as prescribed by Medical Council of India) of manufacturing medicines, ₹ 9.50 lakhs.
- (4) An amount of ₹ 45,000 was paid as late fees to Government for company's failure in performance of a contract within the stipulated time. There was a delay of 5 months and according to the agreement, the company had to pay a late fees of ₹ 9,000 per month to the Government.
- (5) The company earned a profit of ₹ 7.50 lakhs on sale of plot of land to Sudhakar Private Ltd., a domestic Company, the entire shares of which are held by the assessee company. The plot was acquired by Orient Pharmaceuticals Pvt. Ltd. on 20.12.2023. This profit is included in the income of the assessee company.
- (6) The company earned a profit of ₹ 4.50 lakhs on sale of 2500 shares of M/s Stadel Ltd., a listed Indian company. These shares were sold on 08.11.2024 for ₹ 280 per share. The highest trading price of Stadel Ltd. quoted on the stock exchange as on 31.01.2018 was ₹ 175 per share and the Lowest Trading price quoted on the stock exchange was ₹ 165 per share. The said shares were acquired for ₹ 100 per share on 11.07.2016. STT paid both at the time of purchase and sale of shares.
- (7) Bank guarantee was given by the company towards disputed tax liabilities - ₹ 11 lakhs.
- (8) Company debited an interest of ₹ 7.50 lakh which the company remitted as interest to a company incorporated in USA on a loan taken 3 years ago. Tax deducted under section 195 from such interest has been deducted in March 2025, but deposited by the company on 14th July, 2025.
- (9) The company has contributed ₹ 65,000 to an electoral trust by account payee cheque and the same is debited to Statement of Profit and Loss.

Following Additional information is provided by the company for P.Y 2024-25:

- (1) Closing Stock includes 1200 pieces of imported spares at its landed cost as on the date of import at US\$ 25 per piece. Exchange rate on the date of import i.e. 15.09.2024 was 1 US\$ = ₹ 82.88 (rounded off). Exchange rate on 31.3.2025 was 1 US\$ = ₹ 83. The market value per pieces as on 31.3.2025 was US\$ 27 per piece.
- (2) The depreciation charged in the Statement of Profit and Loss of ₹ 11.90 lacs includes the depreciation calculated on following assets:
 - (i) It includes an amount of depreciation of ₹ 95,000 in respect of firefighting equipment^{tr} installed in the office premises and factories of the assessee. During the year, there was no incidence of fire and hence the equipments were no used.
 - (ii) A new machinery which was installed and put to use on 14.05.2024 valuing ₹ 75 lakhs.

(iii) A machinery which was sold to a domestic company in 2016 at its WDV for ₹ 35 lakhs was re-acquired on July 5, 2024 for ₹ 65 lakhs.

There is no other fixed asset included by the company's accountant for calculation of depreciation except above these three assets mentioned above.

You are required to compute total income of the company as per Income-tax Act, 1961 for the Assessment Year 2025-26 indicating reasons for treatment of each item, assuming that the company has not opted for special provisions under section 115BAA or 115BAB.

Answer

Computation of Total Income of Orient Pharmaceutical Pvt. Ltd. for the A.Y. 2025-26

Particulars	Amount (in ₹)	
Profits and gains of business or profession		
Net profit as per statement of profit and loss		95,00,000
Add: Items debited but to be considered separately or to be disallowed		
(1) Depreciation as per Companies Act	11,90,000	
(2) 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, since the actual payment of bonus made to the employees is 31 st August, 2025 i.e., on or before due date of filing return of income. Since same has been already debited to statement of profit and loss, no further adjustment is required]	Nil	
(3) Regularization fee for violating a law [Regularization fee paid for violating a law as prescribed by Medical Council of India is a payment to compound an offence. Such expenditure is considered to be the expenses prohibited by the law. Hence, it does not qualify for deduction u/s 37. As the same has been debited to the statement of profit and loss, it has to be added back]	9,50,000	
(4) Late fees to Government for failure in performance of a contract [Late fees of ₹ 45,000 paid for non-fulfilment of a contract within the 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	
(7) Bank guarantee towards disputed tax liabilities [As per section 43B any tax, duty, cess or fee is allowed as deduction if they are actually paid on or before the due date of	11,00,000	

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<p>filing return of income under section 139(1). Mere furnishing of bank guarantee by the assessee towards tax liabilities does not mean actual payment of taxes. Hence, it is not treated as payment to be eligible for deduction under section 43B. As the same has been debited to the statement of profit and loss, it has to be added back]</p>		
<p>(8) Payment of Interest to a company incorporated in USA [Since the tax has been deducted in March, 2025 and deposited by the company on 14.7.2025 i.e., on or before due date of filing return of income, no disallowance would be attracted under section 40(a)(i). Since the interest has been already debited to the statement of profit and loss, no further adjustment is required]</p>	Nil	
<p>(9) Contribution to electoral trust [Contribution to electoral trust is not allowable as deduction while computing business income of the company. Since the contribution has been debited to statement of profit and loss, same has to be added back while computing business income]</p>	65,000	
		33,05,000
		1,28,05,000
<p>Less: Items credited but not taxable or chargeable to tax under another head</p>		
<p>(5) Profit on sale of plot of land to 100% subsidiary [Capital Gain arising on sale of plot of land is taxable under the head "Capital Gains". Since the profit on sale of plot of land has been credited to the statement of profit and loss, the same has to be deducted while computing business income]</p>	7,50,000	
<p>(6) Profit on sale of shares of M/s Stadel Ltd. [Capital Gain arising on sale of shares of M/s Stadel 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, same has to be deducted while computing business income]</p>	4,50,000	
<p>AI(1) Cost of spares included in closing stock [Assuming that the use of spares are regular, so they will be dealt with as per ICDS II (Inventories). As per ICDS II, inventories shall be valued at \$25 per piece, being lower of cost of \$ 25 per piece or NRV of \$ 27 per piece. Since cost of spares is included in purchases as well as forms part of closing stock, no adjustment is required to be made.]</p>	Nil	<u>12,00,000</u>
		1,16,05,000
<p>Less: Depreciation as per Income-tax Act, 1961</p>		
<p>Normal depreciation</p>		

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- On fire-fighting equipment's [Eligible for depreciation even though such equipment's were not used during previous year]	95,000		
- On new machinery [₹ 75,00,000 x 15% since it is put to use for more than 180 days]	11,25,000		
- On machinery sold and reacquired [15% of actual cost of ₹35,00,000, being lower of WDV at the time of sale (i.e., ₹ 35 lakhs) or price paid for re- acquisition (i.e., ₹ 65 lakhs)]	5,25,000		
Additional depreciation			
- On new machinery [₹ 75,00,000 x 20%]	15,00,000		32,45,000
			83,60,000
Capital Gains			
Profit on sale of plot of land to 100% subsidiary		Nil	
[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 subsidiary company is an Indian company, the same would not constitute a transfer for levy of capital gains tax]			
Long term capital gain on sale of shares of M/s. Stadel Ltd. [Since shares were held for more than 12 months]			
[Full value of consideration (2,500 x ₹ 280)]	7,00,000		
Less: Cost of acquisition - Higher of (i) and (ii)	4,37,500	2,62,500	2,62,500
(i) Actual cost of acquisition (2,500 x ₹100) ₹ 2,50,000			
(ii) ₹ 4,37,500, being lower of fair market value as on 31.1.2018 (i.e., ₹ 4,37,500, being 2,500 x 175) and sale consideration (i.e., ₹ 7,00,000)			
Gross Total Income			86,22,500
Less: Deduction under Chapter VI-A			65,000
Under section 80GGB [Contribution by a company to an electoral trust is allowable as deduction, since payment is made otherwise than by cash]			
Total Income			85,57,500

Question 41

Anamika Builders and Constructions Ltd., a company resident in India is engaged in the business of construction and real estate. Net profit as per profit and loss account is ₹ 54,80,000 (prepared in accordance with ICDS) after debiting/crediting the following items:

- (i) Depreciation debited to books ₹ 8,47,000.
- (ii) Gross revenue includes ₹ 5,00,000 in respect of a service contract for maintenance of the office building for Nitup Ltd. for the period from 1st March, 2025 to 30th April, 2025. The expenses incurred on project till 31.3.2025 amounts to ₹ 1,27,000 which is included in other expenses.
- (iii) The amount of employee benefits include a sum of ₹ 4,41,000 in respect of bonus payable to

employees, In the previous year 2024-25, 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, 2025 and the trust paid the amount of bonus to the employees on 30th December, 2025;

- (iv) Gain on sale of listed equity shares of Yara Ltd ₹ 3,77,500. The company held 500 listed equity shares in Yara Ltd. The company sold all the shares in Yara Ltd. on 24.09.2024 for ₹ 2,050 per share. The company had acquired the original shares for ₹ 1295 per share on 23.06.2017. The fair market value of shares as at 31.01.2018 was ₹ 1,980 per share.
- (v) In respect of one of its on-going projects, the assessee had made some structural changes contrary to what was earlier approved by the municipal authorities. Assessee hence paid a sum of ₹ 98,000 as regularization fee in respect of such changes made in the construction plan.
- (vi) Other expenses include ₹ 1,45,000 as expenditure incurred on CSR.
- (vii) The assessee company decided to expand its business and open a retail petrol out let. Accordingly, a sum of ₹ 1,75,000 was deposited with the concerned authority. However, the assessee could not start this operation and the deposit with the authority was forfeited.
- (viii) Amount paid for advertisement in political parties' brochure ₹ 48,000.
- (ix) 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 real estate trading. The assessee paid ₹ 11 lakhs without deduction of tax at source as non-compete fee.

Additional Information:

- (i) Depreciation as per Income-tax Act, 1961 ₹ 5,14,000. This includes an amount of ₹ 78,000 in respect of fire-fighting equipments installed in various business premises/offices of the assessee. During the year, as there were no incidence of fire, these equipments were not used.
- (ii) On 26th October, out of 5 unsold office spaces in a mall, the assessee converted one such space into its own office. The fair market value of that space as on that date was ₹ 15,00,000. The cost incurred originally to construct such space was ₹ 10,00,000.
- (iii) In respect of ongoing construction contracts, there was a claim for escalation of prices, to the tune of ₹ 8,50,000. The company had filed a lawsuit in the year 2022. In the previous year 2024-25, the court gave its judgement in favour of the company. The company has received ₹ 2,00,000 till 31.03.2025. Gross receipt in the profit and loss account includes ₹ 2,00,000 in respect of such claims.

You are required to compute the total income chargeable to tax in the hands of Anamika Builders and Constructions Ltd., for Assessment Year 2025-26 giving a brief explanation to each item of additions or deletions. Ignore provisions of MAT. Assume that the company has not opted for section 115BAA.

Answer

Computation of Total Income of M/s Anamika Builders and Construction Ltd. for A.Y. 2025-26

Particulars	Amount in ₹
Profits and gains of business and profession	
Net profit as per profit and loss account	54,80,000

Add: Items debited but to be considered separately or to be disallowed	
Depreciation as per books of account	8,47,000
Bonus transferred to the trust for making payment to the employees after settlement of the dispute	4,41,000
[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 the due date. However, since in the present case, actual payment of bonus to employees is made on 30 th December 2025, after due date of filing return of income i.e., after 31 st October 2025, 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]	
Regularization fee paid to Municipal Authorities	98,000
[Regularization fee paid to Municipal authorities to regularize the deviation from the earlier approved construction plan in its on-going projects is in the nature of penalty as it is paid to compound an offence. Hence, it does not qualify for deduction u/s 37. As the same has been debited to the profit and loss account, it has to be added back]	
Expenditure incurred on CSR	1,45,000
[Under section 37(1), only expenditure not covered under sections 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 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 under section 37. As the same has been debited to the profit and loss account, it has to be added back]	
Expenditure on expansion of new business of retail petrol outlet	1,75,000
[Where expenditure is incurred on project not related to the existing business and the project was abandoned without creating a new asset, expenses are capital in nature. Retail petrol outlet is not related to the existing business of construction and real estate, the expenditure incurred on setting up such business would not be allowed as deduction. As the same has been debited to the statement of profit and loss, it has to be added back]	

<p>Amount paid for advertisement in political parties brochure [Section 37(2B) prohibits allowance of any expenditure incurred on advertisement in any souvenir, brochure, pamphlet or the like published by a political party. Since the same has been debited to the profit and loss account, it has to be added back]</p>	48,000	
<p>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 194] on such non-compete fees, 30% of expenditure i.e., ₹ 3,30,000 would be disallowed]</p>	3,30,000	<u>20,84,000</u>
		75,64,000
<p>Add: Amount taxable but not credited to profit and loss account</p>		
<p>Business income on conversion of stock-in trade into capital asset [Fair market value of inventory on the date of its conversion or treatment as capital asset, would be chargeable to tax as business income. Since cost of construction of one unsold office space in a mall i.e., ₹ 10,00,000 has already been debited to profit and loss account, the FMV of ₹ 15,00,000 would be chargeable to tax. Hence, such amount has to be included in business income]</p>		15,00,000
<p>Claim for Escalation price in respect of ongoing construction contracts [As per section 145B, claim for escalation of a price of ₹ 8,50,000 would be deemed to be income of P.Y. 2024-25 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 31.3.2025 is included in profit and loss account, balance ₹ 6,50,000 has to be included in business income]</p>		6,50,000
		97,14,000
<p>Less: Items credited to profit and loss account, but not includible in business income/permissible expenditure and allowance</p>		
<p>Revenue from service contract for maintenance of the office building of Nitup Ltd. [Since the service contract for maintenance of office building is for a period of 61 days i.e., from 1st March 2025 to 30th April 2025 (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. 2025-26. Since</p>	3,73,000	

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<p>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. 2024-25]</p> <p>Gain on sale of listed equity shares of Yara Ltd.</p> <p>[Gain on sale of listed equity shares of Yara Ltd. is chargeable to tax under the head "Capital Gains". As the same has been credited to the profit and loss account, it has to be reduced]</p> <p>Depreciation as per Income-tax Rules, 1962</p> <p>[One of the conditions for claim of depreciation is that the asset must be "used for business or profession". Courts have held that, in certain circumstances, such as in case of stand-by equipments, an asset can be said to be in use even when it is "kept ready for use". Since fire-fighting equipments, being stand by equipments, are kept ready for use, depreciation on these equipments would be allowable, even though they are not actually used. Since said amount is already included in figure of depreciation allowable under Income-tax Act, 1961, no separate adjustment is required]</p>	<p>3,77,500</p> <p>5,14,000</p>	<p><u>12,64,500</u></p>
<p>Business Income</p> <p>Capital Gain</p> <p>In respect of Listed Equity Shares of Yara Ltd.</p> <p>Sale Consideration [500 shares x ₹ 2,050] 10,25,000</p> <p>Less: Cost of acquisition, being higher of <u>9,90,000</u></p> <ul style="list-style-type: none"> • Actual cost [500 x ₹ 1295] 6,47,500 • Lower of <ul style="list-style-type: none"> • ₹ 9,90,000 (₹ 1,980 x 500), being fair market value as on 31.1.2018; and • ₹ 10,25,000, being full value of consideration on transfer. <p>Long-term capital gain under section 112A [Since shares held for more than 12 months, the gain is a LTCG.]</p>	<p>35,000</p>	<p>84,49,500</p>
<p>Gross Total Income</p> <p>Less: Deduction under Chapter VI-A u/s 80GGB</p> <p>[Advertisement in souvenir published by a political party is deemed to be a contribution of such amount to the political party and is, therefore, allowable as deduction in the hands of company assuming that payment is made otherwise than by way of cash]</p>		<p>84,84,500</p> <p>48,000</p>
<p>Total Income</p>		<p>84,36,500</p>

Company (Section 115BAA and 115BAB)

Question 42

ABC Ltd., a pharmaceutical company incorporated in year 2015-16, purchased a new plant and machinery for ₹ 10 lakhs on 01.04.2024. The total income of company for Assessment Year 2025-26 before allowing additional depreciation in respect of new plant and machinery is ₹ 20 lakhs. ABC Ltd. has not opted for the concessional tax regime under section 115BAA so far. Compute the tax liability of ABC Ltd. for A.Y. 2025-26 assuming its turnover for the previous year 2022-23 was ₹ 350 crores. Ignore the provisions of MAT. Suggest whether ABC Ltd. should opt 115BAA or not.

Answer

Computation of tax liability of ABC Ltd. under regular provisions of the Act

Particulars	₹
Total Income before allowing additional depreciation	20,00,000
Less: Additional Depreciation u/s section 32(1)(ia) [₹ 10 lakh x 20%]	2,00,000
Total Income	18,00,000
Applicable Tax Rate (since turnover of P.Y. 2022-23 < ₹ 400 crores)	25%
Tax payable	4,50,000
Add: Health & Education cess@4%	18,000
Tax Liability	4,68,000

Computation of tax liability of ABC Ltd. under section 115BAA

Particulars	₹
Total Income before allowing additional depreciation	20,00,000
Less: Additional Depreciation u/s section 32(1)(ia) [not allowable as deduction while computing income u/s 115BAA]	-
Total Income	20,00,000
Applicable Tax Rate	22%
Tax payable	4,40,000
Add: Surcharge@10%	44,000
	4,84,000
Add: Health & Education cess@4%	19,360
Tax Liability	5,03,360

Since tax payable as per the regular provisions of the Act is lower than the tax payable under the provisions of section 115BAA, it would be **beneficial for ABC Ltd. not to opt for section 115BAA.**

Question 43

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.2025-26:

Profits & Gains of Business or Profession

Particulars	Alpha Ltd.	Beta Ltd.
Date of setting up/registration	1.4.2019	1.3.2024
Main object	Manufacture of steel	Manufacture of leather
Place	Vaishali, Bihar	Ranipet, Tamil Nadu
Turnover of P.Y. 2022-23	₹ 251 crores	-
Turnover of P.Y. 2023-24	₹ 401 crores	-
Turnover of P.Y. 2024-25	₹ 270 crores	₹ 120 crores
Value of new plant and machinery installed and put to use on 1.11.2024	₹ 8 crore	₹ 5 crore
Gross Total Income of P.Y.2024-25 (computed under the special provisions)	₹ 5 crore	₹ 5 crore
No. of new employees employed on the date of setting up/registration of the company	50	750
No. of new employees employed as on 1.4.2022	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:

- Compute the tax liability of Alpha Ltd. and Beta Ltd. for A.Y. 2025-26. Alpha Ltd. has not opted for any concessional rates earlier and want to avail the beneficial tax rates under the special provisions of the Income-tax Act, 1961 in the P.Y. 2024-25. Beta Ltd. has already opted for the concessional tax rates under section 115BAB and wants to continue the same in P.Y. 2024-25.
- Would it be beneficial for Alpha Ltd. to opt for beneficial tax rates in P.Y. 2024-25 instead of paying tax under regular provisions of the Income-tax Act, 1961? Examine.

Answer

- 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	5,00,00,000
Less: Deduction u/s 80JAA		
Alpha Ltd - $[(₹ 20,000 \times 12 \times 250) + (₹ 25,000 \times 12 \times 250)] \times 30\%$	<u>4,05,00,000</u>	
Beta Ltd - $[(₹ 21,000 \times 12 \times 250) + (₹ 25,000 \times 12 \times 250)] \times 30\%$		<u>4,14,00,000</u>
Total Income	<u>95,00,000</u>	<u>86,00,000</u>

Computation of tax liability		
Tax@22% on ₹ 95,00,000 [As per section 115BAA]	20,90,000	
Tax@15% on ₹ 86,00,000 [As per section 115BAB]		12,90,000
Add: Surcharge@10%	<u>2,09,000</u>	<u>1,29,000</u>
	22,99,000	14,19,000
Add: Health and Education cess@4%	<u>91,960</u>	<u>56,760</u>
Total tax liability	<u>23,90,960</u>	<u>14,75,760</u>

Notes

- (1) 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. 2022-23, can be claimed as deduction u/s 80JJAA for P.Y.2024-25. 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.

Similarly, in case of Beta Ltd, 30% of the additional employee cost of new employees employed in the P.Y. 2023-24, can be claimed as deduction u/s 80JJAA for P.Y.2024-25. Out of 750 employees, 250 employees whose emoluments are ₹ 21,000 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.

(ii) Computation of tax liability of Alpha Ltd. as per the regular provisions of the 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.2024-25]	<u>80,00,000</u>
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%	<u>4,05,00,000</u>
Total Income	<u>15,00,000</u>
Computation of tax liability	
Tax@25% on ₹ 15,00,000 [Since turnover of P.Y.2022-23 is less than ₹ 400 cr.]	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%	<u>15,000</u>
Total tax liability	<u>3,90,000</u>

Since the tax liability under the regular provisions of the Act is ₹ 3,90,000 vis-à-vis tax liability of ₹ 23,90,960 computed under section 115BAA, it is not beneficial for Alpha Ltd. to opt for the special provisions under section 115BAA for A.Y.2025-26. Hence, **Alpha Ltd. should not opt for the special provisions under section 115BAA for A.Y.2025-26.**

Question 44

M/s Kaveri Ltd., a manufacturing company, having an annual turnover of ₹ 6,000 lakhs, shows a net profit of ₹ 850 lakhs after debit/credit of following amounts to its Statement of Profit and Loss for the year ended 31st March, 2025:

- (i) Depreciation as per Companies Act ₹ 65 lakhs.
- (ii) Employer's contribution to EPF of ₹ 18 lakhs together with similar amount of Employee's contribution for the month of March, 2025 was remitted on 20th May, 2025. (The due date for the remittance to the credit of employee's EPF account being 15th April, 2025.)
- (iii) GST paid includes an amount of ₹ 10,500 charged as penalty for delayed filing of returns and ₹ 15,400 towards interest for delay in deposit of tax.
- (iv) An amount of ₹ 10.50 lakhs was incurred on notified skill development project u/s. 35CCD.
- (v) Loss of ₹ 20 lakhs, on destruction of an old machinery by fire in the factory and ₹ 5 lakhs received as scrap value on this machinery. The insurance company did not admit the claim of the company on the charge of gross negligence.
- (vi) Dividend income of ₹ 15 lakhs from a foreign company in which the company holds 32% of the equity share capital of the company.
- (vii) Profit of ₹ 15 lakhs on sale of a building to X Ltd., a domestic company, entire shares of which are held by assessee company. The building was acquired by Kaveri Ltd on 1st December, 2023.

Additional information:

- (i) Normal depreciation computed as per Income-tax Rules, 1962 is ₹ 92 lakhs.
- (ii) During the previous year 2023-24, the company has purchased a new plant and machinery worth ₹ 20 lakhs on 10th January, 2024. Balance of Additional depreciation on this machine is not included in the depreciation computed for the previous year 2024-25.
- (iii) The company had credited in the account of a sub-contractor, an amount of ₹ 7 lakhs on 31st March, 2024 towards repairs of factory building. The tax deducted on such payment was remitted on 31st December, 2024.
- (iv) On 15th May, 2025, M/s Kaveri Ltd. declared and distributed dividend of ₹ 20 lakhs.

Compute the total income and tax payable by M/s Kaveri Ltd. for the A.Y. 2025-26 clearly stating the reasons for treatment of each item. **Assume that the company has opted for section 115BAA.**

Answer

Computation of Total Income of M/s Kaveri Ltd. for the A.Y. 2025-26 under section 115BAA

	Particulars	Amount (in ₹)
I.	Profits and gains of business and profession	

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AIRICA Career Institute (ACI)

Net profit as per Statement of profit and loss		8,50,00,000
Add: Items debited but to be considered separately or to be disallowed		
(a) Depreciation as per Companies Act	65,00,000	
(b) Employees' contribution to EPF	18,00,000	
[Since employees' contribution to EPF has not been deposited on or before the due date under the PF Act, the same is not allowable as deduction as per section 36(1)(va) read with Explanations 1 and 2 thereto. Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income].		
(c) Employer's contribution to EPF	Nil	
[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 under section 139(1). Since the same has been debited to Statement of profit and loss, no further adjustment is necessary]		
(d) Penalty for delayed filing of GST return	10,500	
[Penalty imposed for delay in filing GST return is not deductible since it is on account of infraction of the law requiring filing of the return within the specified period. Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income]		
(e) Interest for delay in deposit of GST	Nil	
[Interest paid for delay in deposit of GST is compensatory in nature and hence, allowable as deduction. Since the same has been debited to Statement of profit and loss, no further adjustment is necessary]		
(f) Expenditure on notified skill development project u/s 35CCD	10,50,000	
[Expenditure on notified skill development project u/s 35CCD is not allowable as deduction since the company has opted for section 115BAA]		
(g) Loss due to destruction of machinery by fire	20,00,000	
[Loss of ₹ 20 lakhs due to destruction of machinery caused by fire is not deductible since it is capital in nature. As the loss has been debited to statement of profit and loss, the same is required to be added back while computing business income.		
		1,13,60,500
		9,63,60,500
Less: Items credited but chargeable to tax under another head/expenses allowed but not debited		

Profits & Gains of Business or Profession

1. Scrap value of machinery	5,00,000	
[Scrap value of machinery, being capital in nature, has to be reduced from WDV of machinery. Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income]		
2. Dividend income from foreign company	15,00,000	
[Dividend income 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]		
3. Profit on sale of building to 100% subsidiary	15,00,000	
[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]		
4. Depreciation as per Income-tax Rules		
Normal depreciation	92,00,000	
Additional depreciation	Nil	
[Though the balance 10% additional depreciation of the earlier year is allowable as deduction in the current year, since the company is opting for section 115BAA, additional depreciation is not permissible in this case]		
5. Payment to a sub-contractor where tax deducted last year was remitted after the due date of filing of return	2,10,000	<u>1,29,10,000</u>
[30% of ₹ 7 lakhs, being payment to a sub-contractor, would have been disallowed u/s 40(a)(ia) while computing the business income of A.Y.2024-25, since tax deducted was remitted after the due date of filing of return. However, the same is allowable in A.Y.2025-26, since the remittance has been made on 31.12.2024]		
		8,34,50,500
II Capital Gains		
Profit on sale of building to 100% Indian subsidiary		Nil
[Short-term capital gains arise on sale of building 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 as per section 47(iv)]		
III Income from Other Sources		
Dividend income from foreign company		15,00,000
Gross Total Income		8,49,50,500

Profits & Gains of Business or Profession

Less: Deduction under Chapter VI-A	
Deduction u/s 80M in respect of inter-corporate dividends [being lower of ₹ 15 lakh, being dividend received from foreign company, and ₹ 20 lakh, being dividend distributed by M/s Kaveri Ltd.]	15,00,000
Total Income	8,34,50,500

Computation of tax payable by M/s Kaveri Ltd. under section 115BAA

Particulars	₹
Tax on business income @ 22% of ₹ 8,34,50,500	1,83,59,110
Add: Surcharge@10%	18,35,911
	2,01,95,021
Add: Health and education cess@4%	8,07,801
Tax liability	2,10,02,822
Tax payable (rounded off)	2,10,02,820

Question 45

The Statement of Profit and Loss of Manav Ltd., engaged in manufacturing activity for the year ended 31st March, 2025, exhibits a Net Profit of ₹ 180 lakhs after debiting/crediting the following items:

- Interest of ₹ 24 lakhs relating to F.Y.2024-25, which is settled by issuing 8% debentures of ₹ 100 each in August, 2025.
- Income-tax assessment of A.Y.2023-24 was completed in September, 2024 with a tax demand of ₹ 5,80,000 which included surcharge of ₹ 50,700 and cess of ₹ 22,308. The entire sum has been duly paid during the F.Y. 2024-25.
- Provision for gratuity based on actuarial valuation ₹ 180 lakhs.
- Expenditure incurred towards foreign travel of directors ₹ 6.5 lakhs to explore opening of a branch in a foreign country to market its products in the said foreign country.
- Paid ₹ 82,000 for purchase of material by making payment in cash to a supplier in a single day.
- Paid ₹ 11 lakhs to ST Inc. of Japan for online digital advertisement. ST Inc. has no PE in India. No tax was deducted at source nor was equalization levy paid on the said amount.
- Incurred ₹ 4.6 lakhs on activities related to Corporate Social Responsibility as required under section 135 of Companies Act, 2013.
- Sold a vacant land to its wholly owned subsidiary Petal (P) Ltd., Mumbai. The long-term capital gain of ₹ 18 lakhs is credited to the Statement of Profit and Loss.
- Paid ₹ 2.2 lakhs to a university as donation to be used for research in social science approved u/s 35(1)(iii). Out of this, ₹ 1.2 lakh was paid through net banking and balance by cash.
- Interim dividend distributed during the year of ₹ 65 lakhs.
- Contributed ₹ 160 lakhs towards employees' pension scheme notified by Central Government u/s 80CCD calculated at 16% of aggregate of salary and dearness allowance (forming part of retirement benefits) payable to employees as per the terms of employment.

- (l) Depreciation ₹ 36 lakhs.
- (m) ₹ 36 lakhs by way of dividend received from Knight Pte. of Singapore in which Manav Ltd. has 28% voting power.
- (n) Paid ₹ 6 lakhs as donation to a recognised political party by way of crossed cheque.

Additional Information:

- (i) Normal depreciation as per Income-tax Act, 1961 - ₹ 62 lakhs.
 - (ii) Additional depreciation as per Income-tax Act, 1961 - ₹ 24 lakhs
 - (iii) Brought forward unabsorbed depreciation (out of normal depreciation) of A.Y. 2024-25 ₹ 14 lakhs.
 - (iv) Actual gratuity paid during the year of ₹ 105 lakhs is debited to provision for gratuity account.
- You are required to compute the total income and tax liability of Manav Ltd. for A.Y. 2025-26. Manav Ltd. has opted to pay tax as per the provisions of section 115BAA.

Answer

Computation of Total Income of Manav Ltd. for the A.Y. 2025-26

Particulars	₹	₹
Income from Profits and gains of business or profession		
Profit as per Statement of Profit and Loss		1,80,00,000
Add: Items debited but to be considered separately or to be disallowed		
Term loan interest arrears settled by issuing 8% debentures	24,00,000	
As per Explanation 3C to section 43B, issue of debentures by which the interest liability is deferred to a future date shall not be deemed to have been actually paid. Since issue of debentures is not equivalent to discharge of interest on term loan, interest would be disallowed. Since ₹ 24 lakhs towards interest is debited to statement of profit and loss, the same has to be added back.		
Tax demand of ₹ 5,80,000 which includes surcharge and cess of ₹ 50,700 and ₹ 22,308, respectively	5,80,000	
As per Explanation 3 to section 40(a)(ii) the term 'tax' shall include any surcharge or cess, by whatever name called, on such tax. Therefore, both surcharge and cess partake the character of income-tax and hence, are liable for disallowance along with tax. Since tax of ₹ 5,80,000 including surcharge and cess is debited to Statement of Profit and Loss, the same has to be added back.		
Provision for gratuity	75,00,000	
Provision of ₹ 180 lakhs for gratuity based on actuarial valuation is not allowable as deduction as per section 40A(7). However, actual payment of gratuity of ₹ 105 lakhs is allowable as deduction. Hence, the difference has to be added back.		
Expenses on foreign travel of directors		

Expenses on foreign travel of directors for exploring opening of a branch in foreign country for marketing its products relates to the existing business of the company and is, therefore, eligible for deduction. Since the same has been debited to the Statement of Profit and Loss, no adjustment is required.		
Cash payment for purchase of material exceeding ₹ 10,000	82,000	
Under section 40A(3), disallowance is attracted in respect of expenditure for which cash payment exceeding ₹10,000 is made on a day to a person. Cash payment of ₹ 82,000 for purchase of material is, therefore, liable for disallowance.		
Expenses on online digital advertisement	11,00,000	
Expenses on online digital advertisement to a non-resident company, which has no PE in India, is liable for deduction of equalisation levy. Since equalization levy is not deducted and paid, 100% disallowance is attracted in respect of such payment under section 40(a)(ib). Since ₹ 11 lakhs has been debited to Statement of Profit and Loss, the same has to be added back.		
Expenditure on CSR Activities:	4,60,000	
As per Explanation 2 to section 37(1), expenditure incurred on CSR activities is not deductible. Assuming that such ¹ expenditure is not deductible under sections 30 to 36, the entire amount is liable for disallowance. Since ₹ 4.6 lakhs has been debited to Statement of Profit and Loss, the same has to be added back.		
Contribution to University for research in social science	2,20,000	
As per section 35(1)(iii), contribution to university for research in social science is eligible for 100% deduction. However, since Manav Ltd. has opted for concessional tax regime u/s 115BAA, deduction under section 35(1)(iii) is not allowable. Since ₹ 2.2 lakhs has been debited to Statement of Profit and Loss, same has to be added back.		
Interim dividend distributed	65,00,000	
Interim dividend distributed is not allowable as deduction. Since the same has been debited to Statement of Profit and Loss, the said amount same has to be added back to arrive at business income.		
Contribution towards employee's pension scheme in excess of 14% of salary disallowed	20,00,000	
Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction under section 36(1)(iva). In this case, 2%, which is in excess of 14% i.e., ₹ 1,60,00,000 x 2/16, would be disallowed.		
Depreciation debited to the Statement of Profit and Loss	36,00,000	
Donation to recognised political party		
Donation to political party not allowable as deduction u/s 37.	6,00,000	2,50,42,000
		4,30,42,000

Profits & Gains of Business or Profession

Less: Items credited to Statement of Profit and Loss which are to be considered separately/expenditure to be allowed		
LTCG on sale of vacant land	18,00,000	
Capital gains on transfer of capital assets are taxable under the head "Capital Gains". However, long term capital gain on sale of vacant land of ₹ 18 lakhs to wholly owned subsidiary is not liable to tax since it is not regarded as 'transfer'. Since the same is credited to Profit and Loss, it has to be deducted while computing business income.		
Dividend received from foreign company	36,00,000	
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.		
Depreciation as per Income-tax Act, 1961	62,00,000	
Additional Depreciation as per Income-tax Act, 1961, not allowable as deduction, since company is opting for section 115BAA	Nil	<u>1,16,00,000</u>
		3,14,42,000
Less: Brought forward unabsorbed depreciation		
Unabsorbed depreciation out of normal depreciation is allowable as deduction though company has opted for section 115BAA, since such depreciation is not attributable to additional depreciation in respect of which deduction is not permissible u/s 115BAA.		<u>14,00,000</u>
		3,00,42,000
Income from Other Sources		
Dividend received from foreign company		<u>36,00,000</u>
Gross Total Income		3,36,42,000
Less: Deductions under Chapter VI-A		
Deduction under section 80M in respect of dividend distributed, restricted to the amount of dividend received from domestic/foreign company is allowable though company has opted for section 115BAA.		36,00,000
Deduction under section 80GGB for donation to political party not available since company has opted for section 115BAA.		Nil
Total Income		<u>3,00,42,000</u>
Computation of tax liability		
Income-tax on ₹ 3,00,42,000 @ 22% (u/s 115BAA)		66,09,240
Add: Surcharge @ 10% (irrespective of the total income)		<u>6,60,924</u>
		72,70,164
Add: Health and Education Cess @ 4%		<u>2,90,807</u>
Tax liability		<u>75,60,971</u>
Tax liability (rounded off)		75,60,970

Question 46

Regal (P) Limited, incorporated on 15th December, 2022, is engaged in manufacture and sale of ceramic tiles. It commenced manufacturing in the month of January, 2023. The net profit of the company as per its statement of profit and loss for the year ended 31st March, 2025 is ₹ 220 lakh after debiting/crediting the following items:

- (i) One-time license fee of ₹ 22 lakh paid to ABC Ltd (an Indian company) for obtaining franchise on 1st June, 2024.
- (ii) ₹ 32,000 paid to B & Co., a goods transport operator, in cash on 31st January, 2025 for carrying company's products to the warehouse.
- (iii) 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.
- (iv) ₹ 2 lakh, being contribution to a scientific research association approved u/s 35(1)(ii).
- (v) ₹ 5 lakh paid to a contractor for repair work at the company's factory. No tax was deducted on such payment.
- (vi) Dividend income of ₹ 10,000 from Gamma Limited earned on 1,000 listed equity shares of ₹ 10 each purchased at ₹ 100 per share on 10.10.2017. These shares were sold on 1.3.2025 at ₹ 280 per share. Gain of ₹ 1,80,000 on transfer of these shares also credited to profit & loss account.
- (vii) Depreciation on tangible fixed assets as per books of account ₹ 2.20 lakh.

Additional Information:

- (i) Depreciation on **tangible** fixed assets as per Income-tax Rules ₹ 2.60 lakh.
- (ii) Company has acquired on 15.11.2024, machinery for ₹ 20 lakhs and put the same to use on the same date. Depreciation on such machinery is not included in point (i) above.
- (iii) Fair market value of shares of Gamma Limited as on 31.1.2018 was ₹ 110 per share.
- (iv) On account of expansion of its activities, 180 new employees joined during the P.Y.2024-25, the details of whom are as follows:

	No. of employees	Date of employment	Regular/ Contractual	Total monthly emoluments per employee (₹)
(i)	51	1.4.2024	Regular	23,000
(ii)	46	1.6.2024	Regular	26,000
(iii)	48	1.8.2024	Contractual	27,000
(iv)	35	1.9.2024	Regular	24,000

The emoluments are paid by use of ECS through a bank account and it may be assumed that the employees participate in recognised provident fund.

Compute the total income of the company and tax liability for the A.Y. 2025-26, assuming that the company opts for concessional tax regime under section 115BAB.

Answer

Computation of total income of Regal (P) Ltd. for the A.Y. 2025-26 u/s 115BAB

Particulars	₹	₹
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
Profits and gains of business or profession		
Net profit as per Statement of profit and loss	2,20,00,000	
Add: Income debited to statement of profit and loss, but considered separately or disallowed		
Licence fee for obtaining franchise (Franchise is an intangible asset eligible for depreciation @ 25%. Since one-time licence fee of ₹ 22 lakh paid for obtaining franchise has been debited to statement of profit and loss, the same has to be added back. Depreciation @ 25% has to be provided in respect of the intangible asset since it has been used for more than 180 days during the year)	22,00,000	
Payment in cash to a goods transport operator [₹ 32,000 paid to B & Co., a goods transport operator, in cash is deductible while computing business income, as the disallowance under section 40A(3) would be attracted in case of payment to a transport contractor only when such cash payment exceeds ₹ 35,000. Since it is already debited to statement of profit and loss, no further adjustment is required]		
Municipal taxes in respect of let-out part of office premises [Municipal taxes paid in respect of office premises, debited to Statement of Profit and Loss has to be added back to compute business income, since same is to be considered separately under the head "Income from house property"]	8,000	
Contribution to approved scientific research association [Not allowable as deduction since company is opting for section 115BAB]	2,00,000	
Amount paid to contractor without deduction of tax at source [₹ 5 lakhs x 30%] [Payment to contractor without deduction of tax at source would attract disallowance at 30% of expenditure under section 40(a)(ia)]	1,50,000	
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]	2,20,000	
	2,47,78,000	
Depreciation under section 32		
Tangible fixed assets	2,60,000	

Profits & Gains of Business or Profession

Intangible asset (Franchise) 25% of ₹ 22,00,000	5,50,000	
Plant & Machinery		
- Normal Depreciation (₹ 20,00,000 x 7.5%, since put to use for less than 180 days during P.Y. 2024-25)	1,50,000	
- Additional depreciation [not allowable since company is opting for section 115BAB]	<u> -</u>	<u>9,60,000</u>
		2,38,18,000
Less: Income credited to Statement of Profit and Loss, but taxable under other heads of income		
Rental income from letting out of office premises		7,20,000
(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)		
Dividend from Gamma Limited		10,000
Dividend credited to statement of profit and loss account to be deducted as it is taxable under the "Income from other sources"		
Capital gain on sale of shares		
Gain on transfer of shares to be taxed under the head "Capital Gains" [1000 x 180 (280 - 100)]		1,80,000
		2,29,08,000
Capital Gains		
Sales consideration (₹ 280 x 1000 shares)		2,80,000
Less: Cost of acquisition		<u>1,10,000</u>
		1,70,000
Higher of		
- Actual cost [₹ 1,00,000 (₹ 100 x 1000)]		
- ₹ 1,10,000, being lower of		
- FMV as on 31.1.2018 of ₹ 1,10,000 [₹ 110 x 1,000]		
- Sale consideration of ₹ 2,80,000 [₹ 280 x 1000]		
Income from Other Sources		
Dividend from Gamma Limited		10,000
Gross Total Income		2,38,08,000
Less: Deduction under section 80JJAA [allowable even though company opts for section 115BAB]		
30% of additional employee cost of ₹ 1,40,76,000 [₹ 23,000 x 51 employees employed on 1.4.2024 x 12 months] [See Note below]		<u>42,22,800</u>
Total Income		<u>1,95,85,200</u>
Tax liability		
Tax payable on LTCG @12.5% on ₹ 45,000 in excess of ₹ 1,25,000		5,625
Tax payable on dividend @22% on ₹ 10,000		2,200
Tax payable on rental income @22% on ₹ 7,20,000		1,58,400

BY CA ATUL AGARWAL (AIR-1)
AIR1CA Career Institute (ACI)

Profits & Gains of Business or Profession

Tax @ 15% on ₹ 1,86,85,200 [i.e., business income of ₹ 2,29,08,000 – ₹ 42,22,800]		28,02,780
		29,69,005
Add: Surcharge@10%		2,96,901
		32,65,906
Add: Health and education cess@4%		1,30,636
Tax liability		33,96,542
Tax liability (rounded off)		33,96,540

Note – For the purpose of deduction under section 80JJAA, employees employed on 1.6.2024 and 1.8.2024 do not qualify as additional employees, since their monthly emoluments exceed ₹ 25,000. Employees employed on 1.9.2024 also do not qualify as additional employees for A.Y.2025-26, since they have been employed for less than 240 days in P.Y.2024-25. Therefore, only employees employed on 1.4.2024 qualify as additional employees for the purpose of deduction u/s 80JJAA for A.Y.2025-26.

Question 47

ABC LTD., a manufacturing company, is engaged in the manufacturing of leather products since 01.11.2023 in the State of Tamil Nadu. As per Statement of Profit and Loss for the year ended 31st March, 2025, 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) ABC LTD. paid ₹ 10 Lakhs in foreign currency as sales commission 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 7.10.2024 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 acquired for ₹ 75 per share on 10.06.2017. 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 ₹ 7,20,000 on sale of plot of land to XYZ LTD, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by ABC LTD. on 30.09.2023.
- (vii) Credits to statement of Profit and Loss Account include dividend of ₹ 50,000 received on September 6, 2024 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 manager of 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.

Additional information:

- (1) During the year F.Y. 2024-25, the company has employed 56 additional employees. All these employees contribute to a recognized provident fund. 39 out of 56 employees joined on 1.6.2024 on a salary of ₹ 15,000 per month, 14 joined on 1.7.2024 on a salary of ₹ 45,700 per month, and 3 joined on 1.11.2024 on a salary of ₹ 22,000 per month. The salaries of 9 employees who joined on 1.6.2024 are being settled by bearer cheques every month. Audit under section 44AB has been done before the due date. Salary paid to these employees has been debited to statement of profit and loss.
- (2) The Company opted for concessional rate of tax and exemption from MAT under Section 115BAB for Assessment year 2025-26.

Compute the total income and tax payable for the Assessment Year 2025-26 clearly stating the reasons for treatment of each item.

Answer

Computation of Total Income of ABC Ltd. for the A.Y. 2025-26 under section 115BAB

Particulars	Amount (in ₹)	
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	Nil	
[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.]		
(2) Payment to Mr. Raj, an employee, on his retirement	Nil	
[Section 40A(3) provides for disallowance@100% of 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]		
(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 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 ABC 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	29,25,000
Less: Items credited but chargeable to tax under another head/expenses allowed but not debited		1,49,25,000
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]	3,50,000	

<p>2. Short term capital gain on sale of capital asset on which no depreciation is allowable [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]</p>	75,000	
<p>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]</p>	7,20,000	
<p>4. Dividend received from domestic company [Dividend income from domestic 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]</p>	50,000	11,95,000
		1,37,30,000
Capital Gains		
<p>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)] Less: Cost of acquisition - Higher of (i) and (ii) (i) Actual cost of acquisition (2,000 x ₹ 75) ₹ 1,50,000 (ii) ₹ 3,50,000, being lower of FMV as on 31.1.2018 (i.e., ₹ 3,50,000, being 2,000 x 175) and sale consideration (i.e., ₹ 5,00,000)</p>	5,00,000 3,50,000	1,50,000
<p>2. Short term capital gain on sale of capital asset on which no depreciation is allowable</p>		75,000
<p>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]</p>		Nil
		2,25,000
Income from Other Sources		
<p>Dividend income from domestic company [50,000/90 x 100]</p>		55,555
Gross Total Income		1,40,10,555
Less: Deduction u/s 80JJAA [See Working Note below]		14,49,000
Total Income		1,25,61,555
Total Income (Rounded Off)		1,25,61,560

Computation of tax payable by ABC Ltd. under section 115BAB

Profits & Gains of Business or Profession

Particulars	₹
Tax on long-term capital gains in excess of ₹ 1.25 lakhs @12.5% u/s 112A [₹ 25,000 x 12.5%]	3,125
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 dividend income of ₹ 55,555 @22%	12,222
Tax on business income@15% of ₹ 1,22,81,000 (i.e., ₹ 1,37,30,000 – ₹14,49,000)	<u>18,42,150</u>
	18,73,997
Add: Surcharge@10%	<u>1,87,400</u>
	20,61,397
Add: Health and education cess@4%	<u>82,456</u>
Total Tax liability	21,43,853
Less: TDS on dividend income	<u>5,555</u>
Net Tax payable	<u>21,38,298</u>
Net Tax payable (Rounded Off)	21,38,300

Working Note - Computation of deduction u/s 80JAA

No of eligible additional employees [56 (-) 14 = 42]	33
[14 employees who joined on 1.7.2024 do not qualify as "additional employees" since their monthly emoluments exceed ₹ 25,000. However, 3 employees who joined on 1.11.2024 qualify as additional employees, since they have been employed for more than 150 days during the P.Y.2024-25.]	
Additional employee cost means the total emoluments paid or payable to additional employees employed during the P.Y.2024-25. However, the additional employee cost in respect of 9 employees who joined on 1.6.2024, whose salary is paid by bearer cheque would be Nil.	
Additional employee cost	₹ 48,30,000
[₹ 15,000 x 30 employees (39 - 9) x 10 months] + [₹ 22,000 x 3 employees x 5 months] = ₹ 45,00,000 + ₹ 3,30,000	
Eligible deduction = 30% of ₹ 48,30,000	₹ 14,49,000

Note - Since salary 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.2024-25 has been added back while computing profits and gains of business or profession.

Company (Optimum Tax Liability/Tax Liability in Most Beneficial Manner)

Question 48

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

- (i) Payment of ₹ 50 lakhs in the month of November 2024 to a foreign company for obtaining know-how for a product launched in the month of December 2024.
- (ii) Electricity charges of ₹ 7 lakhs for the month of March 2025 were unpaid up to the due date of filing of return of income.
- (iii) Loss of ₹ 4 lakhs due to hedging contract against future price fluctuations in respect of import of raw material, used in the course of manufacturing.
- (iv) Depreciation charged to the Statement of Profit and Loss was ₹ 45 lakhs.
- (v) Loss of ₹ 2 lakh from hedging contracts entered into for mitigating the loss arising due to fluctuation in foreign currency payment towards an imported machinery purchased from Japan for ₹ 65 lakhs, which was installed in the month of December 2024.
- (vi) ₹ 20 lakhs received from Z Ltd, under an agreement in the form of non-compete fees for not carrying out any business in a particular product.
- (vii) Advance received amounting to ₹ 20 lakhs on proposed sale of land, forfeited due to non-receipt of balance amount of ₹ 70 lakhs on time, as per terms of agreement. The land was purchased during F.Y. 2020-21.
- (viii) Excess/Profit on sale of unlisted shares - ₹ 15 lakhs (Sold on 15th February 2025).

Additional Information;

- (1) Normal depreciation allowable as per the Income-tax Act, 1961 ₹ 35 lakhs [depreciation, if any required to be computed on the amount debited or credited to Statement of profit or loss and on imported machinery is not included].
- (2) The unlisted shares were acquired on 29.3.2021 for ₹ 80 lakhs.

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

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

Answer

Computation of total income and tax liability of Shubh Fragrance Ltd. for A.Y.2025-26 under the regular provisions of the Act

	Particulars	Amount (in ₹)	
I	Profits and gains of business and profession		
	Net profit as per Statement of profit and loss		9,00,00,000
	Add: Items debited but to be considered separately or to be disallowed		
	Payment towards know-how for a product	50,00,000	
	[Payment towards obtaining know-how is capital expenditure i.e., an intangible asset and eligible for depreciation. Since the same is debited in statement of profit and loss, it has to be added back]		
	Electricity charges unpaid upto due of filing return of income		

[Electricity charges are not included within the scope of section 43B, therefore no disallowance would be attracted. Since the same is already debited in statement of profit and loss, no further adjustment is required]

Loss due to hedging contract in respect of raw material

[Loss due to hedging contract against future price fluctuations in respect of import of raw material is not deemed to be speculative transaction. Hence, same is allowable as deduction while computing income from manufacturing. Since same is already debited in statement of profit and loss, no further adjustment is required]

Depreciation as per books of account

45,00,000

Loss from hedging contract in respect of imported machinery from Japan

2,00,000

[Loss from hedging contracts entered for mitigating loss arising due to fluctuation in foreign currency payment towards import of machinery has to added to the actual cost of the machinery as per section 43A. Since the same is wrongly debited to statement of profit and loss, same has to be added back].

97,00,000

9,97,00,000

Less: Items credited but chargeable to tax under other head

Non-compete fees for not carrying out any business in a particular product

[Non-compete fees for not carrying out any business in a particular product would be chargeable to tax as business income under section 28(va). Since the same is already credited in statement of profit and loss, no further adjustment is required]

Advance forfeited in respect of sale of land

20,00,000

[With effect from A.Y. 2015-16, advance forfeited in respect of sale of land due to non-receipt of balance amount of consideration taxable under the head "Income from other sources". Since the same has been credited to the statement of profit and loss, the same has to be deducted while computing business income]

Profit on sale of unlisted shares

15,00,000

[Profit on sale of unlisted shares is taxable under the head "Capital Gains". Since profits has been credited to statement of profit and loss, same has to be deducted while computing business income]

35,00,000

9,62,00,000

Less: Depreciation as per Income-tax Act, 1961 [other than on imported plant & machinery and know-how]

35,00,000

Deprecation on:

Profits & Gains of Business or Profession

Plant & Machinery imported	65,00,000	
Add: Loss on hedging contract	<u>2,00,000</u>	
	67,00,000	
- Normal depreciation @7.5% of ₹ 67,00,000 [only 50% of the 15% is allowable since machinery is put to use for less than 180 days]		5,02,500
- Additional depreciation @10% of ₹ 67,00,000 [only 50% of the 15% is allowable since machinery is put to use for less than 180 days]		6,70,000
Know-how @ 12.5% of ₹ 50,00,000 [50% of 25% since know how was obtained in the month of November 2024]		6,25,000
		52,97,500
II Capital Gains		9,09,02,500
Long term capital gain on sale of unlisted shares [Since shares were held for more than 24 months]		
Full value of consideration [₹ 15,00,000 + ₹ 80,00,000]	95,00,000	
Less: Cost of acquisition	<u>80,00,000</u>	15,00,000
III Income from Other Sources		
Advance forfeited on sale of land		20,00,000
Total income/Gross Total Income		9,44,02,500
Computation of tax liability under regular provisions of the Act		
Tax on ₹ 15,00,000 @12.5% under section 112		1,87,500
Tax on ₹ 9,29,02,500 @25% [Since the turnover of the company for the previous year 2022-23 does not exceed ₹ 400 crore]	<u>2,32,25,625</u>	2,34,13,125
Add: Surcharge @ 7%, since the total income of the company > ₹ 1 crore but ≤ ₹ 10 crores		16,38,919
		2,50,52,044
Add: Health and education cess @ 4%		10,02,082
Tax liability		2,60,54,126
Tax liability (rounded off)		2,60,54,130

Computation of tax liability of Shubh Fragrance Ltd. for the A.Y. 2025-26 under section 115JB

Particulars	₹
Minimum Alternate Tax @15% on book profit of ₹ 15,20,00,000	2,28,00,000
Add: Surcharge@12%, since the book profit of the company > ₹ 10 crores	<u>27,36,000</u>
	2,55,36,000
Add: Health and Education cess@4%	10,21,440
Tax liability under section 115JB	2,65,57,440

Since the regular income-tax payable is less than the minimum alternate tax payable, the book profit of ₹ 1520 lakhs shall be deemed to be the total income and tax is leviable @15% thereof plus surcharge@12% and cess@4%. Therefore, the tax liability is ₹ 2,65,57,440.

Profits & Gains of Business or Profession

MAT Credit to be carried forward	₹
Tax liability under section 115JE	2,65,57,440
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	<u>2,60,54,130</u>
Amount of Credit (115JAA)	5,03,310
MAT credit of ₹ 20,00,000 of A.Y. 2017-18 is allowed to be carried forward till A.Y. 2032-33 and MAT credit of ₹ 5,03,310 relating to A.Y. 2025-26 is allowed to be carried forward till A.Y. 2040-41.	

Shubh Fragrance Ltd. is eligible for concessional rate u/s **115BAA** @25.168% i.e., tax@22% plus surcharge@10% plus HEC@4% subject to tax at rates mentioned in said sections in Chapter XII. In case Shubh Fragrance Ltd. opted for concessional rate of tax u/s 115BAA, it would not be eligible for additional depreciation on plant & machinery. **In that case, total income u/s 115BAA would be:**

Particulars	₹
Total income/Gross Total Income under regular provisions of the Act	9,44,02,500
Add: Additional depreciation on plant & machinery	6,70,000
Gross Total Income/Total Income	<u>9,50,72,500</u>
Tax on ₹ 15,00,000 @12.5% under section 112	1,87,500
Tax on ₹ 9,35,72,500 @22% under section 115BAA	<u>2,05,85,950</u>
Add: Surcharge @ 10%	<u>20,77,345</u>
	2,28,50,795
Add: Health and education cess @ 4%	<u>9,14,032</u>
Tax liability	<u>2,37,64,827</u>
Tax liability (Rounded Off)	2,37,64,830

Suggestion to Shubh Fragrance Ltd

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

Question 49

M/s Cure Ltd., an Indian company, is engaged in the manufacturing of pharmaceutical products since 2010. Net profit as per statement of Profit and Loss for the year ended 31st March, 2025 was ₹ 95,45,000 after debiting or crediting the following items:

- (a) Paid ₹ 6,00,000 as expenses for public issue of shares. The public issue could not materialize on account of non-clearance by SEBI.
- (b) Goods purchased of ₹ 5 lakhs from M/s Sunny Traders (a micro enterprise as per MSME Act, 2006) was delivered on 25.02.2025. Payment terms were agreed for 25 days from the date of delivery as per the contract in writing with Sunny Traders. The payment was actually made on 29.03.2025. However, no Interest or late payment charges were agreed upon between the parties in case of delay in payment.

- (c) Expense of ₹ 7,25,000 incurred for providing freebies to medical practitioners.
- (d) Depreciation of ₹ 12,50,000 charged on the basis of useful life of assets.
- (e) One-time license fee of ₹ 10 lakhs paid to a foreign Company for obtaining a franchise on 17th September, 2024.
- (f) The profit from setting up a warehouse in rural area for storage of sugar (before claiming deduction under section 35AD) is ₹ 17 lakhs. The warehouse commenced its operations on 24th November, 2024.
- (g) Power subsidy of ₹ 5,30,500 was received on 12.09.2024 with a stipulation that the same is to be adjusted in the electricity bills for the financial year 2023-24. The subsidy received was not included in the income for the year 2023-24.
- (h) The company earned ₹ 4,80,000 of profit from the sale of 3,000 shares of M/s ABC Ltd., a listed company. The shares were sold on 08.10.2024 for ₹ 260 per share. The highest price of ABC Ltd. quoted on stock exchange as on 31.01.2018 was ₹ 181 per share. These shares were purchased for ₹ 100 per share on 16.08.2015. STT paid both at the time of purchase and sale.
- (i) PNB waived a loan of ₹ 8,00,000 in a one-time settlement which includes ₹ 6,00,000 principal amount and ₹ 2,00,000 of arrear of interest amount. The loan was taken on 12.9.2021 to meet working capital requirement.

The Company furnished the following additional information relating to it:

- (i) Company has employed 50 new additional workers during the F.Y. 2024-25 on regular basis w.e.f. 01.07.2024 at the wages of 23,000 per month per employee. The regular employees participate in recognized provident fund. Wages to Additional workers were paid through an account payee cheque.
- (ii) The company has invested ₹ 40 lakhs in the construction of a warehouse (including land of ₹ 25 lakhs) in a rural area for the storage of sugar as an additional line of business.
- (iii) Depreciation as per the Income-tax Rules, 1962 without considering any adjustments given above is ₹ 9,20,000.
- (iv) The company's turnover for the financial year 2022-23 was ₹ 395 crores.
- (v) Book Profit of the company for the A.Y. 2025-26 is ₹ 99.50 lakhs.

Compute the total income of the company and **optimum income-tax liability** for the assessment year 2025-26. Your answer must give reasons for treatment of each item given above and also for the tax liability.

Answer

Computation of Total Income of M/s Cure Ltd. for the Assessment Year 2025-26 under normal provisions of the Act

	Particulars	₹	₹
I	Profits and gains from business or profession		
	Net profit as per statement of profit & loss		95,45,000
	Add: Item debited but to be considered separately or disallowed		

<p>Expenditure for public issue of shares</p> <p>[Share issue expenses is a capital expenditure, even though it could not go in for public issue on account of non-clearance by SEBI. Such expenditure was incurred only for the purpose of expansion of capital base of company. Since the same has been debited to statement of profit and loss, it has to be added back]</p>	6,00,000	
<p>Payment to micro enterprise for purchases</p> <p>[As per section 43B(h), no deduction shall be allowed for any sum payable by an assessee to a micro or small enterprise unless such sum is actually paid, where a due date of payment is agreed upon in writing, within such due date, subject to a maximum of 45 days from the day of acceptance/deemed acceptance. Deduction is allowed in that previous year in which such sum is actually paid.</p> <p>In this case the actual date of payment is 29.03.2025 i.e. before 31.03.2025. Hence, purchase of ₹ 5 lakhs shall be allowed as deduction because the payment was made before 31.03.2025]</p>		
<p>Expenses on freebies to medical practitioners</p> <p>[Expenses incurred for providing freebies to medical practitioners are an expense which is prohibited by the law. Any expenditure incurred for any purpose which is prohibited by law is not deemed to have been incurred for the purpose of business or profession and hence, has to be disallowed from business income]</p>	7,25,000	
<p>Depreciation on the basis of useful life of assets</p>	12,50,000	
<p>One-time license fee</p> <p>[Franchise is in the nature of an intangible asset eligible for depreciation @25%. Since one-time license fees of ₹ 10 lakhs paid to a foreign company for obtaining franchise has been debited to statement of profit and loss, the same has to be added back]</p>	10,00,000	35,75,000
<p>Less: Items credited but to be considered separately/ permissible expenditures and allowances</p>		1,31,20,000
<p>Profit from setting of warehouse in rural area for storage of sugar</p> <p>[Since it is a specified business, its profits would be computed separately]</p>	17,00,000	
<p>Power subsidy received from the Central Government</p> <p>[As per ICDS VII, Government grant (subsidy) which is receivable as compensation for expenses or losses incurred in a previous financial year shall be recognized as income of the period in which it is received. It would be taxable in P.Y. 2024-25 as the subsidy is received in P.Y. 2024-25. Since such subsidy has been credited to statement of profit and loss, no further adjustment is required]</p>		
<p>Profit from sale of shares of M/s ABC Ltd.</p>	4,80,000	

[Capital gain on sale of shares of ABC Ltd. is liable to tax under the head "Capital Gains". Since the profit on sale of shares has been credited to the statement of profit & loss, the same has to be deducted while computing business income]		
Waiver of principal on bank loan		
[Waiver of principal amount of loan taken for working capital requirement is a benefit in respect of a trading liability by way of remission or cessation thereof and is, hence, taxable u/s 41(1). Since the principal amount has already been credited to statement of profit and loss, no adjustment is required]		
Waiver of interest on bank loan	2,00,000	
[As per section 43B, since the interest is allowable only on actual payment, deduction in respect of interest due loan would not have been allowed as deduction in any previous year. Therefore, waiver of such interest cannot be brought to tax by invoking section 41(1). Since such interest has been credited to statement of profit and loss, the same has to be deducted while computing business income].		
Depreciation as per Income-tax Rules, 1962		
- On Franchise Fee [₹ 10 lakhs x 25%]	2,50,000	1
- On other assets	9,20,000	11,70,000
		35,50,000
Profits & Gains from manufacture of pharmaceutical products		95,70,000
Profits & gains from setting of warehouse in rural area for storage of sugar		
Net profit before deduction u/s 35AD	17,00,000	
Less: Deduction u/s 35AD [100% deduction u/s 35AD in respect of cost of warehouse (₹ 40 lakhs - ₹ 25 lakhs, being cost of land, not allowable)]	15,00,000	2,00,000
		97,70,000
II Income from Capital Gains		
Long-term capital gains on sale of shares M/s ABC Ltd. [Since shares were held for more than 12 months]		
Full Value of consideration (3000 shares x ₹ 260)	7,80,000	
Less: Cost of acquisitions [higher of (i) and (ii)]	5,43,000	2,37,000
(i) Actual cost of acquisition (3000 x ₹ 100) ₹ 3,00,000		
(ii) Being lower of FMV as at 31.01.2018 (i.e. ₹ 5,43,000 being 3000 x ₹ 181) and sale consideration (i.e. ₹ 7,80,000)		
Gross Total Income		1,00,07,000
Less: Deduction under Chapter VI-A		
Under Section 80JAA (₹ 23,000 x 9 x 50) x 30%		31,05,000
Total Income		69,02,000

Computation of tax liability for the A.Y. 2025-26 under normal provisions of the Act

Particulars	₹
Tax on Long-term capital gains u/s 112A = 12.5% of (₹ 2,37,000 – ₹ 1,25,000)	14,000
Tax on remaining income of ₹ 66,65,000 @25% [Since turnover during F.Y. 2022-23 is less than ₹ 400 crores	16,66,250
	16,80,250
Add: Health & education cess @4%	67,210
Tax liability	17,47,460

Computation of tax liability of M/s Cure Ltd. for the A.Y. 2025-26 under section 115JB

Particulars	₹
Minimum Alternate Tax @ 15% on book profit of ₹ 99,50,000	14,92,500
Add: Health and Education cess@4%	59,700
Tax liability under section 115JB	15,52,200

Computation of Total Income of M/s Cure Ltd. for the A.Y. 2025-26 under section 115BAA

Particulars	₹
Total Income under regular provisions of the Act	69,02,000
Add: Deduction u/s 35AD	15,00,000
Less: Depreciation @10% on warehouse building	1,50,000
Total Income under section 115BAA	82,52,000
Tax liability	
Tax on Long-term capital gains u/s 112A = 12.5% of (₹ 2,37,000 – 1,25,000)	14,000
Tax on remaining income of ₹ 80,15,000 @22%	17,63,300
	17,77,300
Add: Surcharge @10%	1,77,730
	19,55,030
Add: Health & education cess @4%	78,201
Tax liability	20,33,231
Tax liability (Rounded off)	20,33,230

Suggestion to M/s Cure Ltd.

Since the tax liability under the regular provisions of the Act is ₹ 17,47,460, which is higher than MAT liability vis-à-vis tax liability of ₹ 20,33,230 computed under section 115BAA, it is **not beneficial for Cure Ltd. to opt for the special provisions under section 115BAA.**

Question 50

Fun Limited, a domestic company, set up and commenced business of manufacturing of mixer grinder on 01.4.2023 in the State of Madhya Pradesh. The net profit of the company as per Statement of Profit and Loss for the year ended 31st March, 2025, revealed profit of ₹ 1,47,50,000 after debiting or crediting the following items:

Profits & Gains of Business or Profession

- (i) Depreciation charged during the year amounted to ₹ 34,00,000.
- (ii) Lumpsum consideration of ₹ 36 lakhs paid to a foreign company for obtaining designs & models of mixer grinder on 12.12.2024.
- (iii) Purchased raw material valued at ₹ 96 lakhs from Gold Ltd. in which directors have substantial interest. The market value of the goods is ₹ 82 lakhs.
- (iv) Cash subsidy of ₹ 15 lakhs received from State Government on acquisition of new plant & machinery [mentioned at point (c) in additional information] acquired on 01.07.2024 which was credited to Statement of profit and loss.
- (v) Legal expenses incurred for issue of bonus shares at ₹ 6 lakhs and legal expenses for issue of right shares at ₹ 8 lakhs.
- (vi) Short term capital gains of ₹ 15 lakhs arising on transfer of a capital asset on 20.3.2025 being equity shares in a company on which security transaction tax is charged.

Additional information:

- (a) Depreciation eligible under section 32 on **tangible assets** is ₹ 36 lakhs.
- (b) The company transferred unlisted equity shares on 1.3.2025 for a consideration of ₹ 22,00,000 which were acquired on 1.5.2024. The cost of these shares acquired is ₹ 12,00,000.
- (c) New Plant & Machinery acquired on 01.07.2024 for ₹ 75 lakhs and payment of ₹ 10 lakhs made by bearer cheque and balance by way of transfer through RTGS. Depreciation on this machinery is **not included** in depreciation amount given at point (a).

Book profits for the previous year 2024-25 is ₹ 320 lakhs.

Compute the total income and tax liability of Fun Limited for the Assessment Year 2025-26 in a **most beneficial manner** clearly stating the reasons for treatment of each item.

Answer

Computation of total Income & tax liability of Fun Limited for A.Y. 2025-26 under the regular provisions of the Act

Particulars	₹	₹
Profits and gains of business or profession		
Net profit as per statement of profit and loss		1,47,50,000
Add: Items debited but to be disallowed		
- Depreciation as per books of account	34,00,000	
- Consideration for designs & models [Consideration for designs & models of Mixer grinder is in the nature capital expenditure and hence, is an intangible asset which is eligible for depreciation as per section 32. Since lumpsum consideration has been debited to statement of profit and loss, the same has to be added back while computing business income]	36,00,000	
- Purchased material at a price higher than fair market value [As per section 40A(2), the difference between the purchase price (₹ 96 lakhs) and the fair market value (₹ 82 lakhs) has to be added	14,00,000	

back since the purchase is from a related party, i.e., Gold Ltd., a company in which directors of Fun Limited have substantial interest and at a price higher than the fair market value]		
Legal expenses for issue of bonus shares		Nil
[There is no fresh inflow of funds or increase in capital employed on account of issue of bonus shares and there is only reallocation of the company's fund. Consequently, since there is no increase in the capital base of the company, legal expenses of ₹ 6 lakhs in connection with issue of bonus shares is a revenue expenditure and is hence, allowable as deduction]		
Legal expenses for issue of right shares	8,00,000	92,00,000
[Expenses incurred in relation to rights issue are of capital in nature. Hence, not allowed as deduction from business income. Since, it is already debited in statement of profit and loss, the same has to be added back while computing business income]		
		2,39,50,000
Less: Items credited but to be considered separately		
- Short term capital gains on equity shares [Not taxable under this head]	15,00,000	
- Cash Subsidy	15,00,000	30,00,000
[Subsidy from State Government on acquisition of asset is reduced from the actual cost of the asset. Hence, such subsidy is not the income of Fun Limited. Since, subsidy is already credited in the statement of profit and loss, the same has to be reduced while computing business income]		
		2,09,50,000
Less: Depreciation as per Income-tax Rules		
- Depreciation on tangible assets (given)	36,00,000	
- Depreciation on New Plant and machinery	7,50,000	
[₹ 50 lakhs x 15%, since it has been put to use for more than 180 days during the year]		
[Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person in a day, otherwise than by an a/c payee cheque/bank draft or use of ECS or through prescribed electronic mode, exceeds ₹ 10,000, such expenditure would not form part of actual cost of such asset.		
Further, where any part of the cost of asset acquired has been met directly or indirectly, inter alia, by State Government, then, so much of the cost as relates to subsidy would not be included in the actual cost. Hence, ₹ 10 lakhs paid by bearer cheque and ₹ 15 lakhs of cash subsidy received by State Government for acquisition of asset would not be included in the actual cost of plant and machinery.]		

Profits & Gains of Business or Profession

- Additional depreciation on New Plant and machinery [₹ 50 lakhs x 20%, since it has been put to use for more than 180 days during the year]	10,00,000	
- Depreciation on Intangible asset, being designs & models of mixer grinder [₹ 36 lakhs x 25% x 50%, since put to use for less than 180 days during P.Y. 2024-25]	4,50,000	58,00,000
		1,51,50,000
Capital Gains		
- Short term capital gains on transfer of listed equity shares		15,00,000
- Short term capital gains on transfer of unlisted equity shares [Since not held for more than 24 months]		
Full value of consideration	22,00,000	
Less: Cost of acquisition	(12,00,000)	10,00,000
		25,00,000
Total Income		1,76,50,000
Computation of tax liability		
Tax u/s 111A on Short-term capital gains on transfer of listed equity shares on which STT is paid [₹ 15 lakhs x 20%]		3,00,000
Tax on other income [₹ 1,61,50,000 x 25%]		40,37,500
		43,37,500
Add: Surcharge @7% since total income exceeds ₹ 1 crore but does not exceed ₹ 10 crores		3,03,625
		46,41,125
Add: HEC@4%		1,85,645
Tax liability		48,26,770

Computation of tax liability of Fun Limited for the A.Y. 2025-26 under section 115JB

Particulars	₹
Minimum Alternate Tax @15% on book profit of ₹ 3,20,00,000	48,00,000
Add: Surcharge@7%, since the book profit of the company > ₹ 1 crore but ≤ ₹ 10 crores	3,36,000
	51,36,000
Add: Health and Education cess@4%	2,05,440
Tax liability under section 115JB	53,41,440
Since the regular income tax payable is less than the minimum alternate tax, book profit of ₹ 3,20,00,000 would be deemed to be the total income of Fun Limited and it has to pay tax of ₹ 53,41,440. It would be eligible for MAT credit of:	
MAT liability	53,41,440
Tax liability under the regular provisions of the Income-tax Act, 1961	48,26,770
MAT credit	5,14,670

Profits & Gains of Business or Profession

Since Fun Limited set up & registered on or after 1.10.2019 and engaged in manufacturing business, it is eligible for concessional tax regime u/s 115BAB. In case Fun Limited opted for concessional tax regime u/s 115BAB, it would not be eligible to claim additional depreciation u/s 32 on plant and machinery. In that case, its total income and tax liability would be:

Particulars	₹	₹
Total Income under regular provisions of the Act		1,76,50,000
Add: Additional depreciation [No additional depreciation is allowable under section 32(1)(ia)]		<u>10,00,000</u>
Total Income		<u>1,86,50,000</u>
Computation of tax liability under section 115BAB		
Tax u/s 115BAB on business income [₹ 1,61,50,000 x 15%]	24,22,500	
Tax u/s 111A on Short-term capital gains on transfer of listed equity shares on which STT is paid [₹ 15 lakhs x 20%]	3,00,000	
Tax u/s 115BAB on short term capital gains on transfer of unlisted equity shares [₹ 10 lakhs x 22%]	<u>2,20,000</u>	29,42,500
Add: Surcharge @10%		<u>2,94,250</u>
		32,36,750
Add: HEC@4%		<u>1,29,470</u>
Tax liability		33,66,220

Suggestion to Fun Limited

Fun Limited should opt for section 115BAB, since the tax liability under section 115BAB is lower than the tax liability under the regular provisions of the Act and section 115B.

CHAPTER - 4

Income from Other Sources

Deemed Dividend

Question 1

MNO (P) Ltd. is a company in which the public are not substantially interested. K is a shareholder of the company holding 15% of the equity shares. The accumulated profits of the company amounted to ₹ 10,00,000. The company lent ₹ 1,00,000 to K by an account payee bank draft on 1.10.2024. The loan was not connected with the business of the company. K repaid the loan to the company by an account payee bank draft on 30.3.2025. Examine the effect of the borrowal and repayment of the loan by K on the computation of his total income.

Answer

As per section 2(22)(e), any payment by a company, in which the public are not substantially interested, by way of **advance or loan to a shareholder**, being a person who is the beneficial owner of shares holding **not less than 10% of the voting power**, shall be treated as **dividend** to the extent to which the company possesses accumulated profits.

In the instant case, MNO (P) Ltd. is a company in which the public are not substantially interested. The company has accumulated profits of ₹ 10,00,000. The loan given by the company to K was not in the course of its business. K holds more than 10% of the equity shares in the company. Therefore, assuming that K has voting power equivalent to his shareholding, section 2(22)(e) comes into play. **Deemed Dividend of ₹ 1,00,000 under section 2(22)(e) would be taxable in the hands of Mr. K at normal rate of tax.**

Under section 2(22)(e), the liability arises the moment the loan is borrowed by the shareholder and it is **immaterial whether the loan is repaid** before the end of the accounting year or not. Therefore, the **repayment of loan** by K to the company **will not affect the taxability** of the sum of ₹ 1,00,000 as deemed dividend.

Question 2

Parimal, Managing Director of Heavens Engg. Pvt. Ltd. holds 70% of its paid-up capital of ₹ 20 Lacs. The balance in General Reserve was ₹ 6 Lacs. The company gave an interest-free loan of ₹ 5 lacs to its supervisor having salary of ₹ 4,000 p.m., who in turn advanced the said amount of loan so taken from the company to Shri Parimal. The Assessing Officer had treated the amount of advance as deemed dividend. Is the action of Assessing Officer correct?

Answer

The company had advanced a loan to an employee who in turn had advanced the same to the Managing Director of the company holding 70% of its capital. By virtue of the provisions of section 2(22)(e), same shall be treated as the **payment by a company** in which public are not substantially interested, **on behalf of, or for individual benefit of any such share holder** (who holds not less than 10% of the voting power), to the extent to which the company possesses accumulated profits.

In this case, the company has reserves of ₹ 6 Lacs and the amount of loan advanced is ₹ 5 Lacs.

Therefore, the **payment is to be treated as deemed dividend**. The amount of interest-free loan of ₹ 5 Lacs given by the company to the supervisor who in turn had given the same to Mr. Parimal, shall be construed as the amount given for the benefit of Mr. Parimal and would be treated as deemed dividend. This has been held by the Supreme Court in the case of *L. Alagusundaram Chettiar v. CIT* (2001) 252 ITR 893.

Question 3

Dhaval is in business of manufacturing customized kitchen equipments. He is also the Managing Director and held nearly 65% of the paid-up share capital of Aarav (P) Ltd. A substantial part of the business of Dhaval is obtained through Aarav (P) Ltd. For this purpose, Aarav (P) Ltd. passed on the advance received from its customers to Dhaval to execute the job work entrusted to him.

The Assessing Officer held that the advance money received by Dhaval is in the nature of loan given by Aarav (P) Ltd. to him and accordingly is deemed dividend within the meaning of provisions of section 2(22)(e) of the Income-tax Act, 1961. The Assessing Officer, therefore made the addition by treating advance money as deemed dividend.

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

Answer

As per section 2(22)(e), in case a company, not being a company in which the public are substantially interested, makes **payment of any sum by way of advance or loan to a shareholder holding not less than 10% of voting power/share capital** of the company, then, the payment so made **shall be deemed to be dividend** in the hands of such shareholder to the extent to which the company possesses accumulated profits.

In present case, Dhaval is holding 65% of paid-up capital of Aarav (P) Ltd. Aarav (P) Ltd. has passed on advance received from its customers to Dhaval for execution of job work entrusted to Dhaval.

Since Aarav (P) Ltd. is not a company in which public are substantially interested, the applicability of the provisions of section 2(22)(e) in respect of such transaction has to be examined. In *CIT v. Rajkumar* (2009) 318 ITR 462 (Del.), it was held that **trade advance** given to the shareholder which is in the nature of money transacted to give effect to a commercial transaction, **would not amount to deemed dividend** under section 2(22)(e). The Delhi High Court ruling in *CIT v. Ambassador Travels (P) Ltd.* (2009) 318 ITR 376 also supports the above view.

In the present case, the **payment is made to Dhaval by Aarav (P) Ltd. for execution of work is in the course of commercial business transaction and therefore, it cannot be treated as deemed dividend under section 2(22)(e)**. Hence, the action of the Assessing Officer is not tenable in law.

Question 4

Mr. Santhanam holding 25% voting power in VKS Manufacturing Private Limited permitted his own land to be mortgaged to a bank for enabling the company to obtain a loan. Mr. Santhanam requested the company to release the property from the mortgage. The company failed to do so, but for retaining the benefit of bank loan it gave an advance of ₹ 10 lakhs to Mr. Santhanam, which was authorized by a resolution passed by the Board of Directors. The company's accumulated profit on

the date of payment of advance was ₹ 50 lakhs. The Assessing Officer proposes to treat the amount of ₹ 10 lakhs as deemed dividend by invoking the provision of section 2(22)(e).

Is the proposition of the Assessing Officer correct in law?

Answer

The issue under consideration is whether loan or advance given to a shareholder by the company, in return of an advantage or benefit conferred on the company by the shareholder, can be deemed as dividend under section 2(22)(e) of the Income-tax Act, 1961 in the hands of the shareholder.

The facts of the case are similar to the facts in *Pradip Kumar Malhotra v. CIT* (2011) 338 ITR 538, wherein the above issue came up before the Calcutta High Court.

The High Court observed that phrase "by way of advance or loan" appearing in section 2(22)(e) must be construed to mean those advances or loans which a shareholder enjoys simply on account of being a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) holding not less than 10% of voting power.

In case such loan or advance is given to such shareholder as a consequence of any further consideration received from such a shareholder which is beneficial to the company, such advance or loan cannot be a deemed dividend within the meaning of the Act.

Thus, gratuitous loan or advance given by a company to a shareholder, who is the beneficial owner of shares holding not less than 10% of the voting power, would come within the purview of section 2(22)(e) to the extent of accumulated profits of the company but not the cases where the loan or advance is given in return for an advantage conferred upon the company by such shareholder.

In this case, advance of ₹ 10 lakhs was given by VKS Manufacturing (P) Ltd. to Mr. Santhanam holding 25% of voting power in lieu of non-release of his personal property from mortgage thereby enabling the company to retain the benefit of loan obtained from bank. Therefore, applying the rationale of the Calcutta High Court ruling in *Pradip Kumar Malhotra's* case, such advance cannot be brought within the purview of section 2(22)(e), since it was not in the nature of gratuitous advance but **was given to protect the interest of the company.**

The **proposition of the Assessing Officer** to treat the amount of ₹ 10 lakhs as deemed dividend by invoking the provisions of section 2(22)(e) in this case is, therefore, **not correct.**

Question 5

Mr. Manjoo Menon, an assessee from Coimbatore has 20% shareholding in a Private Limited company Aurelia Exports (P) Ltd. The assessee has immovable property in Coimbatore. It was let out to the said company on monthly rent. The assessee permitted the company to provide the said property as collateral security to ABC Bank in order to enable the said company to obtain loan from the said bank.

Consequently, the property was mortgaged to the bank in 2014. That time Board of Directors passed a resolution authorizing the assessee to obtain from the company interest-free deposit/advance upto ₹ 20 lakhs as and when required for making available the said property as collateral security to the bank for the loan facility enjoyed by the company.

In June, Mr. Menon asked for advance rent and he received a sum of ₹ 15 lakhs from the company as

advance rent which was to be adjusted against the rent payable to the assessee by the said company. After such adjustment, the amount of advance rent stood reduced to ₹ 8,00,000. The accumulated profits of the company amounted to ₹ 10,00,000.

The assessing officer in the assessment order sought to treat the said sum of ₹ 8,00,000 as deemed dividend under section 2(22)(e) of the Income Tax Act.

Can the advance rent given to Mr. Manjoo Menon by the company be deemed as dividend under section 2(22)(e) as per Income Tax Act, 1961?

Answer

The words "by way of advance or loan" in **section 2(22)(e)** must be construed to mean those advances or loans which a shareholder enjoys simply on account of being a person who is the beneficial owner of shares **holding not less than 10% of the voting power**.

In case such loan or advance is given to such shareholder as a consequence of any further consideration received from such a shareholder which is beneficial to the company, such advance or loan cannot be a deemed dividend within the meaning of the Act.

Gratuitous loan or advance given by a company to a shareholder, who is the beneficial owner of shares holding not less than 10% of the voting power, would come within the purview of section 2(22)(e) to the extent of accumulated profits of the company but not the cases **where the loan or advance is given in return for an advantage conferred upon the company by such shareholder**.

In the present case, advance of ₹ 15 lakh was given by Aurelia Exports (P) Ltd. to Mr. Manjoo Menon holding 20% shareholding as advance rent for the property let out by him to the company and out of which ₹ 7 lakhs was adjusted against rent payable. **The advance was given by the company since Mr. Menon mortgaged his personal property thereby enabling the company to obtain the loan from bank in 2014.**

Therefore, **such advance of ₹ 8 lakhs cannot be brought within the purview of section 2(22)(e)**, since it was not in the nature of gratuitous advance but was given as advance rent and to protect the interest of the company.

Note - The facts of the case are similar to the facts in *Pradip Kumar Malhotra v. CIT* (2011) 338 ITR 538, wherein the above issue came up before the Calcutta High Court. The above answer is based on the rationale of the Calcutta High Court in the said case.

Interest on Compensation/Enhanced Compensation

Question 6

Interest on enhanced compensation received by Mr. G during the previous year 2024-25 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2020-21, ₹ 1,65,000 relates to previous year 2021-22 and ₹ 1,85,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2025-26.

Answer

The entire interest of ₹ 5,00,000 would be **taxable in the year of receipt**, namely, P.Y.2024-25.

Income from Other Sources

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000
Interest chargeable under the head "Income from other sources"	2,50,000

Income from Renting of Plant & Machinery, Furniture etc

Question 7

An enterprise engaged in manufacturing of steel balls discontinued its activities and decided to lease out its factory building, plant and machinery and furniture from 1.4.2024 on consolidated lease rent of ₹ 50,000 per month. Compute the income for A.Y. 2025-26 of assessee from following information:

	Particulars	₹
(i)	Interest income on deposits	1,00,000
(ii)	Brokerage paid on loan taken	2,000
(iii)	Interest paid on loans which were given as deposits on interest to others	75,000
(iv)	Expenses incurred on repairs of building, plant and machinery	15,000
(v)	Fire insurance premium of plant and machinery and furniture	12,000
(vi)	Depreciation for the year	1,47,500
(vii)	Legal fees paid to an advocate for drafting & registering the lease agreement	1,500
(viii)	Factory licence fees paid for the year	1,000
(ix)	There is unabsorbed depreciation of ₹ 2,75,000 of earlier Assessment Years.	
(x)	Interest paid in (iii) above includes an amount of ₹ 25,000 remitted to a non-resident outside India on which tax was not deducted at source.	

Answer

The income derived from leased assets shall be chargeable to tax as 'Income from other sources' under section 56(2)(iii) but computation shall be made after allowing deductions specified under sections 30, 31 and 32 subject to section 38. This is as per provisions of section 57(ii) and 57(iii).

Computation of income under the head "Income from other sources"

Particulars	₹	₹
(A) Lease Rent for 12 months @ ₹ 50,000 p.m.		6,00,000
Less: Expenses and deductions allowable under section 57:		
Repairs	15,000	
Fire Insurance Premium	12,000	
Legal expenses for drafting of lease agreement	1,500	
Factory Licence fee	1,000	
Depreciation for the year	1,47,500	
Unabsorbed depreciation eligible for deduction (Note 1)	2,75,000	4,52,000
		1,48,000

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Income from Other Sources

(B) Interest on Deposits	1,00,000	
Less: Expenses allowable under section 57		
Brokerage	₹ 2,000	
Interest on loans (Note 2)	<u>₹ 50,000</u>	48,000
Total Income		1,96,000

Notes:

1. Unabsorbed depreciation of ₹ 2,75,000 pertains to earlier assessment years. The unabsorbed depreciation shall form part of the current year depreciation and can be set off against any other head of income. Accordingly, the amount of ₹ 2,75,000 is adjustable/allowed to be set off against 'Income from other sources'.
2. Since deposits are made by investing amount received on loans, the interest on loans would be eligible for deduction from the income arising on such deposits.
However, interest paid to non-resident is not eligible for deduction as the tax has not been deducted at source.

Taxability of Gifts [Section 56(2)(x)]

Question 8

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) of the Income-tax Act, 1961 -

- (i) Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- (ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- (iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
- (iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

Answer

	Taxable/Non-taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF.

			However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000 , the whole of the aggregate value shall be taxable . In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for purpose of section 56(2)(x), therefore, the same shall not be taxable.

Question 9

Discuss the taxability or otherwise of the following transactions:

- Mr. A purchased 10 acres of rural agricultural land from Mr. B at the rate of ₹ 2 lakh per acre on 10.05.2024. The guideline value (SDV) of the land on the date of the transaction was ₹ 3 lakhs per acre. However, he had entered into an agreement for purchase of the land on 10.03.2024 when the guideline value (SDV) was ₹ 2.50 lakhs per acre. He had paid a token advance of ₹ 1 lakh by account payee cheque.
- Mr. A received cash gift of ₹ 4.75 lakhs from B on his 61st birthday which was celebrated like marriage as per tradition, and ₹ 25,000 from C. Both B and C are his distant relatives.
- Mr. Dileep contributed ₹ 2 lakhs to a Trust created for the purpose of marriage of his friend's daughter.

Answer

- Rural agricultural land is not a capital asset and hence, there would be no tax implications in the hands of the seller, Mr. B.**

In the hands of the buyer, Mr. A, the provisions of section 56(2)(x) would be attracted where any property is received without consideration or for inadequate consideration. "Property" means a capital asset, namely, immovable property being land or building or both. In this case, **since rural agricultural land is not a capital asset, it would not fall within the definition of property to attract the provisions of section 56(2)(x)**. Therefore, the provisions of section 56(2)(x) would not be attracted in the hands of Mr. A.

- Since the question mentions that B and C are Mr. A's **distant relatives**, it is assumed that they **do not fall within the definition of "relative"** under section 56(2).

Since cash gift exceeding ₹ 50,000 in aggregate from non-relatives, B & C, was received, not on the occasion of marriage but on the occasion of Mr. A's 61st birthday, the said sum of ₹ 5 lakhs [i.e., ₹ 4.75 lakhs from B and ₹ 25,000 from C] is **taxable under section 56(2)(x) as "Income from Other Sources" in the hands of Mr. A.**

- Section 56(2)(x) excludes from its scope, any sum of money received from an individual by a trust created or established solely for the benefit of relative of the individual.**

In this case, this exclusion would not apply, since ₹ 2 lakhs was received from Mr. Dileep by a trust created for the benefit of his friend's daughter and not his relative. Thus, ₹ 2 lakhs would be chargeable to tax in the hands of the trust.

Question 10

Mrs. Harini Rao received the following gifts during the previous year 2024-25:

- (i) Gift of ₹ 1,50,000 from her close friend.
- (ii) Gift of jewellery worth ₹ 3,00,000 from her fiancée.
- (iii) Gifts of ₹ 51,000 each received from her two friends on her marriage.
- (iv) Gift of ₹ 51,000 from her father's sister.
- (v) Gift of ₹ 21,000 from her husband's friend.
- (vi) Gift of ₹ 25,000 from her family friend.
- (vii) Gift of ₹ 11,000 from her brother's mother-in-law.
- (viii) Gift of ₹ 75,000 from her sister-in-law (husband's sister).

Compute her income chargeable under the head "Income from other sources".

Answer**Computation of "Income from other sources" of Mrs. Harini Rao**

Particulars	₹
(i) Cash Gift from close friend is taxable	1,50,000
(ii) Gift of jewellery is taxable ["Jewellery" is included in the definition of property as per Explanation to section 56(2)(x) and the fair market value exceeds ₹ 50,000]	3,00,000
(iii) Gifts received from her two friends are exempt as they have been received on the occasion of her marriage	-
(iv) Gift from her father's sister is exempt as donor is covered in definition of relative	-
(v) Gift from her husband's friend is taxable	21,000
(vi) Gift from her family friend is taxable	25,000
(vii) Gift from her brother's mother-in-law is taxable as the donor is not covered in the definition of relative	11,000
(viii) Gift from her sister-in-law (husband's sister) is exempt as the donor is covered in the definition of relative	-
Income from Other Sources	5,07,000

Question 11

Mr. X received the following gifts/amounts during the previous year 2024-25:

- (i) Gift of bullion worth ₹ 60,000 on his birthday from his friend.
- (ii) Received a car from cousin on payment of ₹ 1 lac, fair market value of which was ₹ 4 lacs.

- (iii) Received cash gift of ₹ 18,000 each from three of his friends A, B & C.
- (iv) Acquired an office building from his friend Q for a consideration of ₹ 10 lacs, stamp value of which is ₹ 20 lacs.
- (v) In respect of land of Mr. X acquired by Railways in the year 2022, he received the following amount on 25.12.2024 as interest on enhanced compensation on the order of the court –

Relating to previous year	₹
2022-23	1,45,000
2023-24	1,75,000
2024-25	1,10,000

You are required to compute income of Mr. X chargeable under head "Income from other sources".

Answer

Computation of "Income from other sources" of Mr. X

Particulars	₹
(i) Since bullion is included in the definition of "property", therefore, when bullion is received without consideration, the same is taxable under section 56(2)(x), as the aggregate fair market value of bullion exceeds ₹ 50,000	60,000
(ii) Since car is not included in the definition of property, therefore the difference ² of ₹ 3 lakh between fair market value and purchase price of car is not taxable under section 56(2)(x)	Nil
(iii) Cash gift received from friends is taxable under section 56(2)(x), since its aggregate value exceeds ₹ 50,000 (₹ 18,000 × 3)	54,000
(iv) Immovable property purchased for inadequate consideration is taxable under section 56(2)(x). Therefore, the difference of ₹ 10 lakh between stamp duty value and purchase price of building is taxable u/s 56(2)(x).	10,00,000
(v) As per section 145A, interest received during the year on enhanced compensation shall be deemed to be the income of the year in which such interest is received, irrespective of the method of accounting followed by the assessee. Hence, the interest received by Mr. X, is taxable u/s 56(2)(viii) in the current previous year.	
(₹ 1,45,000 + ₹ 1,75,000 + ₹ 1,10,000)	₹ 4,30,000
Less: Deduction under section 57 @50% of ₹ 4,30,000	₹ 2,15,000
Income from Other Sources	13,29,000

Question 12

Mr. A, a dealer in shares, received the following without consideration during the P.Y.2024-25 from his friend Mr. B, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2024.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2024.

- (3) A plot of land at Faridabad on 1st July, 2024, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2014.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2024, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2024.

Further, on 1st November, 2024, Mr. A took possession of property (building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2024 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2025, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y.2025-26.

Answer

Computation of "Income from other sources" of Mr. A

	Particulars	₹
1	Cash gift is taxable under section 56(2)(x), since it exceeds ₹ 50,000	75,000
2	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000	60,000
3	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
4	Difference of ₹ 2 lakh in value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in course of his business, such shares represent the stock-in-trade of Mr. A.	-
5	Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since difference exceeds ₹ 2 lakh being higher of ₹ 50,000 and 10% of consideration	3,00,000
	Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. A

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

Note - The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

Question 13

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2025, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2024 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Mr. Rajesh on the date of agreement. Discuss the tax implications in the hands of Mr. Hari and Mr. Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2023.

Would your answer be different if Hari was a share broker instead of a property dealer?

Answer**Case 1: Tax implications if Mr. Hari is a property dealer**

In the hands of Mr. Hari	In the hands of Mr. Rajesh
<p>In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value and the stamp duty value exceeds 110% of consideration.</p> <p>Under section 43CA, option to adopt the stamp duty value on date of agreement can be exercised only if whole or part of consideration has been received on or before date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through such other prescribed electronic mode on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs is received on the date of agreement by crossed cheque and not account payee cheque, option cannot be exercised.</p> <p>Therefore, ₹ 75 lakh, being difference between the stamp duty value on date of transfer (i.e., ₹ 150 lakh) and purchase price (₹ 75 lakh), would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration.</p>	<p>Since Mr. Rajesh is a dealer in automobile spare parts, building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration & difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration.</p> <p>Therefore, ₹ 60 lakh, being the difference between stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through such other prescribed electronic mode.</p>

Case 2: Tax implications if Mr. Hari is a stock broker

In the hands of Mr. Hari	In the hands of Mr. Rajesh
<p>In case Mr. Hari is a stock broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.</p> <p>Thus, ₹ 75 lakh, being the difference between the</p>	<p>There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker.</p> <p>Therefore, provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for</p>

stamp duty value on the date of registration (i.e., ₹ 150 lakh) and purchase price (i.e., ₹ 75 lakh) would be **chargeable as short-term capital gains**.

It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through such other prescribed electronic mode on or before the date of agreement. In this case, since the down payment of ₹15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

inadequate consideration and difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration.

Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be **taxable under section 56(2)(x)** in hands of Mr. Rajesh since the payment on date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through such other prescribed electronic mode.

Question 14

Mr. Pervez employed as Marketing Manager in a Pharma company, received a Maruti car as gift from a distributor of the company. The value of the gifted car is estimated at ₹ 2,60,000. Is the value of car taxable as income? If so, under what head it is taxable?

Answer

Mr. Pervez, an employee of a Pharma company, has received a car as a gift from a distributor of the company. Since there is **no employer-employee relationship** in this case between the distributor and Mr. Pervez, the value of gift is **not a perquisite chargeable to tax under the head "Salaries"**.

Section 56(2)(x), brings within its scope the value of any property received by any person. For this purpose, "property" means immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures, any work of art or bullion.

Therefore, for the purpose of attracting the provisions of section 56(2)(x) for chargeability under the head "Income from Other Sources", an individual should be in receipt of property as defined therein. Since, **car is not included in the definition of "property", the provisions of section 56(2)(x) would not be attracted in the hands of Mr. Pervez.**

Question 15

M Sudarshan, a resident individual, received 1,500 bonus shares from Sugam Pvt. Ltd. in which he held 3,000 equity shares. The Assessing Officer held that since the assessee has not paid any consideration for bonus shares, he was under an obligation in law to offer the market value as income from other sources under section 56(2)(x) of the Act. The Assessing Officer computed the fair value of these bonus shares and added the amount to the income of M Sudarshan as "Income from other sources". Whether the decision of the Assessing Officer is correct in law?

Answer

Issue Involved: The issue under consideration is whether bonus shares received by shareholders would be taxable under the head 'Income from other sources' as per the provisions of section 56(2)(x), as they are received without consideration.

Provision Applicable: Section 56(2)(x) brings to tax any sum of money or value of property received by any person without consideration or for inadequate consideration from any person.

Analysis: The issue of bonus shares by capitalization of reserves is merely a reallocation of the company's funds. There is no inflow of fresh funds or increase in the capital employed, which remains the same. Thus, there is no addition or alteration to the profit-making apparatus and the total funds available with the company remain the same.

On the other hand, when a shareholder gets bonus shares, the value of the original shares held by him goes down and the market value as well as intrinsic value of the two shares put together will be the same or nearly the same as the value of original share before the issue of bonus shares.

Thus, any profit derived by the assessee shareholder on account of receipt of bonus shares is adjusted by depreciation in the value of equity shares originally held by him.

Conclusion: Accordingly, the action of the Assessing Officer in including the fair value of bonus shares as Income from other sources of M Sudarshan is incorrect.

Note - The facts given in the question are similar to the facts in PCIT v. Dr. Ranjan Pai (2021) 431 ITR 250, wherein the issue came up before the Karnataka High Court.

Income from Transfer of VDA [Section 115BBH]

Question 16

Compute the net income-tax payable (after TDS) by Mr. Raj, aged 32 years, who has the following income for the A.Y.2025-26:

	Particulars	₹
(i)	Business loss	(3,18,000)
(ii)	Interest on fixed deposits with HDFC Bank	18,000
(iii)	Consideration on transfer of VDA	6,20,000
(iv)	Cost of acquisition of VDA transferred	20,000

Assume that the transfer of VDA took place on 1st October, 2024 and he has not exercised the option to shift out of section 115BAC.

Answer

As per section 71, business loss of the current year can be set off against income from other sources of that year. Therefore, **business loss of ₹ 3,18,000 can be set off against interest of ₹ 18,000 from fixed deposits.**

As per section 115BBH, business loss cannot be set off against income from transfer of VDA. Therefore, balance business loss of ₹ 3,00,000 cannot be set off against Income from VDA of ₹ 6,00,000 (₹ 6,20,000 - ₹ 20,000). The same has to be carried forward to A.Y.2026-27.

Tax on Income from VDA would be ₹ 1,87,200 (i.e., 31.2% of ₹ 6 lakh).

Section 194S provides for deduction of tax on payment on transfer of virtual digital asset to a resident at the rate of 1% of consideration. Hence, the transferor would have deducted tax of ₹ 6,200, being 1% of ₹ 6,20,000.

Net tax payable by Mr. Raj = ₹ 1,87,200 - ₹ 6,200 = ₹ 1,81,000.

Question 17

Compute the net income-tax payable (after TDS) by Mr. Siddhanth, aged 24 years, who has the following income for the A.Y.2025-26

(i)	Income from Salaries (computed)	₹ 8,40,000
(ii)	Interest on savings bank account with Axis Bank	₹ 12,000
(iii)	Consideration received on transfer of VDA to Mr. Harsh	₹ 50,000
(iv)	Cost of acquisition of VDA transferred	₹ 5,000

Mr. Harsh is employed with ABC Ltd. on a monthly salary of ₹ 50,000. In addition, he has interest on savings bank account with Bank of India.

Mr. Siddhanth has not exercised the option to shift out of section 115BAC. Ignore TDS on income other than VDA.

Answer

Tax payable by Mr. Siddhanth

Particulars	Amount in ₹
Total income (excluding income from transfer of VDA) [₹ 8,40,000 + ₹ 12,000]	8,52,000
Income from VDA (₹ 50,000 - ₹ 5,000)	45,000
Total Income	8,97,000
Tax on income other than VDA	
Upto ₹ 3,00,000	Nil
₹ 3,00,001 to ₹ 7,00,000 @5%	₹ 20,000
₹ 7,00,001 to ₹ 8,52,000 @10%	₹ 15,200
Tax on income from VDA @30%	13,500
	48,700
Add: Health and education cess @ 4%	1,948
	50,648
Less: TDS under section 194S [Mr. Harsh is a specified person since he does not have income under the head "Profits and gains of business and profession" and the consideration payable by him does not exceed ₹ 50,000. Accordingly, Mr. Harsh need not deduct tax u/s 194S on consideration payable to Siddhanth]	Nil
Net tax payable	50,648
Net tax payable (rounded off)	50,650

Question 18

Mr. A, aged 34 years, is a salaried employee with TKM Limited. He has furnished following details:

S.N.	Particulars	₹
1.	Gross Salary	23,00,000
2.	Business Loss from a new part time business of trading in Mobiles	(4,50,000)
3.	Short Term Capital Loss on sale of Property (computed)	(3,60,000)
4.	Mr. A purchased 1000 Bibcoins, a virtual digital currency on 01.04.2024 for ₹ 1,000 per coin, which he sold on 15.02.2025 for ₹ 1,300 per coin. Commission for transfer of Bibcoins is 2% of the sale value.	

You are required to compute the total income of Mr. A, assuming that he has exercised the option to shift out of the default tax regime under section 115BAC for A.Y. 2025-26.

Answer**Computation of total income of Mr. A (under regular provisions of the Income-tax Act, 1961)**

	Particulars	Amount (₹)	Amount (₹)
I	Salaries		
	Gross Salary	23,00,000	
	Less: Standard deduction under section 16(ia)	<u>50,000</u>	22,50,000
II	Profit and gains from business or profession		
	Business loss from part time business	(4,50,000)	
	Loss from business cannot be set off against salary income. No set off of business loss is allowed against income from transfer of virtual digital assets. Business loss of ₹ 4,50,000 has to be carried forward to A.Y. 2026-27.		
III	Capital Gains		
	Short term capital loss on sale of property	(3,60,000)	
	[Short term capital loss cannot be set off against any income other than Capital gains. Short term capital loss of ₹ 3,60,000 has to be carried forward to A.Y. 2026-27]. It is not eligible for set off against income arising from transfer of virtual digital asset.		
IV	IFOS		
	Income from transfer of virtual digital assets [(₹ 1,300 - ₹ 1,000) x 1,000 bib coins] [No deduction in respect of any expenditure other than cost of acquisition is allowed]		3,00,000
	Total Income		25,50,000

Undisclosed Income**Question 19**

M/s. Alpha & Co. is a partnership firm with five partners sharing profits and losses equally. Its return was selected for scrutiny u/s 143(3). The controversy was in relation to the loan of ₹ 50 lakhs from one partner, Mr. Raghav, credited in the books of the firm. The firm's explanation that Mr. Raghav has given a loan for ₹ 50 lakhs carrying interest@12%, as approved by the partnership deed, was not accepted since Mr. Raghav's explanation for the source of income in his hands was not found satisfactory by the Assessing Officer. Accordingly, the Assessing Officer treated the said amount as cash credits in the hands of the firm, M/s. Alpha & Co., and subjected the same to tax@78%. Discuss the correctness of the action of the Assessing Officer.

Answer

As per section 68, where any sum is **found credited in the books** of an assessee maintained for any previous year and the assessee offers **no explanation** about the nature and source or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the sum so credited may be **charged as income of the assessee** of that previous year.

The first proviso to section 68 provides that where the sum so credited consists of loan or borrowing or any such amount, by whatever name called, any explanation offered by the assessee in whose books such sum is credited would not be deemed to be satisfactory, unless -

- the person in whose name such credit is recorded in the books of such assessee also offers an explanation about the nature and source of such sum so credited and
- in the opinion of the Assessing Officer, such explanation has been found to be satisfactory.

Such cash credit is **taxable@78%** [tax@60% plus surcharge@25% plus cess@4%] u/s 115BBE.

Since Mr. Raghav was unable to explain the source of the sum of ₹ 50 lakhs in his hands to the satisfaction of the Assessing Officer, **such sum credited in the books of Alpha & Co. as loan from Mr. Raghav would be treated as cash credit in the hands of the firm** and subject to tax@78%. Accordingly, the **action of the Assessing Officer**, in this case, is **correct**.

Question 20

In the course of scrutiny assessment of Mr. X, the Assessing Officer, on the basis of information available with him, sought an explanation for the source of the expenditure of ₹ 20 lakhs incurred on the wedding of his daughter. The said expenditure was neither recorded in the books of account maintained nor was the explanation offered by Mr. X satisfactory. What are the consequences?

Answer

If any **expenditure is incurred by an assessee** in any financial year in respect of which he is **not able to offer explanation about source** of such expenditure **or the explanation offered by him is not satisfactory** in the opinion of Assessing Officer, then amount of **such unexplained expenditure may be deemed as income of the assessee for such financial year as per section 69C**.

Therefore, in this case the expenditure of ₹ 20 lakhs incurred by Mr. X on the wedding of his daughter may be deemed as income of Mr. X as per section 69C.

Further, such unexplained expenditure which is deemed as the income of Mr. X **shall not be allowed as deduction under any head of income.**

Where the total income of Mr. X includes such unexplained expenditure of ₹ 20 lakhs, which is deemed as his income under section 69C, such deemed income would be **taxable@78%** [tax@60% plus surcharge@25% plus cess@4%] under section 115BBE.

Further, no basic exemption or allowance or expenditure shall be allowed to Mr. X under any provision of the Income-tax Act, 1961 in computing such deemed income.

Question 21

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

Answer

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

Question 22

Mr. C borrowed on Hundi, a sum of ₹ 25,000 by way of bearer cheque on 11.09.2024 and repaid the same with interest amounting to ₹ 30,000 by account payee cheque on 12.10.2024. The Assessing Officer (AO) wants to treat amount borrowed as income during previous year. Is action of AO valid?

Answer

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

In this case, **Mr. C has borrowed ₹ 25,000 on Hundi by way of bearer cheque**. Therefore, it shall **be deemed to be income of Mr. C**. Since the repayment of the same along with interest was made by way of account payee cheque, the same would not be hit by the provisions of section 69D. Therefore, the **action of the Assessing Officer** treating the amount borrowed as income during the previous year is **valid in law**.

CHAPTER - 5

Clubbing of Income

Clubbing of Spouse/Son's Wife Income

Question 1

Mr. Arun holds shares carrying 55% voting power in MNO Ltd. Mrs. Anamika, wife of Mr. Arun is working as a computer software programmer in MNO Ltd. getting income from salary (computed) of ₹ 3,70,000. She is, however, not qualified for the job. The other income of Mr. Arun & Mrs. Anamika are ₹ 7,30,000 & ₹ 4,20,000, respectively. Compute gross total income of Mr. Arun and Mrs. Anamika. Will your answer be different if Mrs. Anamika was qualified for the job?

Answer

Mr. Arun holds shares carrying 55% voting power in MNO Ltd i.e. a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. Anamika from MNO Ltd. will be clubbed in the hands of Mr. Arun.

Computation of Gross total income of Mr. Arun

Particulars	₹
Income from Salary of Mrs. Anamika (Computed)	3,70,000
Other Income	7,30,000
Gross total income	11,00,000

The gross total income of Mrs. Anamika is ₹ 4,20,000.

If Mrs. Anamika possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. Arun = ₹ 7,30,000 (other income)

Gross total income of Mrs. Anamika = Salary [₹ 3,70,000] plus other income [₹ 4,20,000] = ₹ 7,90,000

Question 2

Mr. Binu holds shares carrying 33% voting power in Yamma Ltd. Mrs. Babita, wife of Mr. Binu is working as accountant in Yamma Ltd. getting income from salary (computed) of ₹ 3,60,000 without any qualification in accountancy. Mr. Binu also earns ₹ 32,000 as interest on securities. Mrs. Babita owns a house property which she has let out. Rent received from tenants is ₹ 6,500 p.m. Compute the gross total income of Mr. Binu and Mrs. Babita.

Answer

Since Mrs. Babita is not professionally qualified for the job, clubbing provisions shall be applicable.

Computation of Gross total income of Mr. Binu

Particulars	₹
Income from Salary of Mrs. Babita (Computed)	3,60,000

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Clubbing of Income

Income from other sources	
- Interest on securities	32,000
	3,92,000

Computation of gross total income of Mrs. Babita

Particulars	₹	₹
Income from Salary [clubbed in the hands of Mr. Binu]		Nil
Income from house property		
Gross Annual Value [₹ 6,500 × 12]	78,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	78,000	
Less: Deductions under section 24		
- 30% of NAV i.e., 30% of ₹ 78,000	23,400	
- Interest on loan	-	54,600
Gross total income		54,600

Question 3

Naresh is a fashion designer having lucrative business. His wife is a model. Naresh pays her monthly salary of ₹ 10,000. The Assessing Officer while admitting that the salary is an admissible deduction, in computing the total income of Naresh had applied the provisions of section 64(1), and had clubbed the income (salary) of his wife in Naresh hands.

Discuss the correctness of the action of the Assessing Officer.

Answer

This question is based on the principles laid down by Madras High Court in the case of CIT v. Smt. R. Bharati (1999) 240 ITR 697 where the interpretation of the terms "professional qualifications" and "knowledge" came up for consideration as per proviso to section 64(1).

These words do not necessarily connote a qualification conferred by a recognized university after examining candidate who has undergone a course of study in a technical subject or course of study preparing him for profession of law, accountancy etc. Accordingly, term "qualification" must be given a wide meaning as referring to qualities which are required to be possessed by a person performing the work that he does, so long as that work is capable of being regarded as technical or professional.

The word "professional" is a term capable of very broad meaning and would encompass a variety of occupations. A large number of occupations are being practiced which form a source of livelihood and are capable of being regarded, as professions as long as they require certain degree of skill. A person having skill, experience and competence in a line of work can be regarded as professionally qualified for the purpose of section 64(1)(ii).

Applying rationale of Madras High Court ruling, a model, having skill, competence and experience in her line can be considered as a professional. Hence, action of Assessing Officer is not correct.

Question 4

Mr. Korani transferred 2,000 debentures of ₹ 100 each of Wild Fox Ltd. to his wife Mrs. Rekha Korani without consideration. The company paid interest of ₹ 30,000 which was deposited by Mrs. Korani with Kartar Finance Co. Kartar Finance Co. paid interest of ₹ 3,000 upto March, 20XX. How would both the interest income be charged to tax?

Answer

As per section 64(1)(iv), income arising from assets transferred without adequate consideration by an individual to his spouse is liable to be clubbed in the hands of the individual. It may be noted that income on the asset transferred has to be clubbed but if there is accretion to the asset, any further income derived on such accretion should not be clubbed.

Therefore, applying the provisions of section 64(1)(iv), **₹ 30,000, being the interest on debentures received by Mrs. Rekha Korani will be clubbed** with the income of Mr. Korani, since he had transferred the debentures of company without consideration to her.

However, the **interest of ₹ 3,000 upto March, 20XX earned by Mrs. Rekha Korani on the interest on the debentures deposited by her with Kartar Finance Company** shall be taxable in her individual capacity and **will not be clubbed with the income of Mr. Korani.**

Question 5

Mr. Rose, out of his own funds, had taken an FDR for ₹ 10,00,000 bearing interest @10% p.a. payable half-yearly in the name of his wife Lilly. The interest earned during the year of ₹ 1,00,000 was invested by Mrs. Lilly in the business of packed spices which resulted in a net profit of ₹ 55,000. How shall the interest on FDR and income from business be taxed?

Answer

Section 64(1)(iv) specifies that the income derived by the spouse of an assessee from the assets transferred directly or indirectly without adequate consideration or intention to live apart shall be clubbed with the income of the transferor. Therefore, the **interest income of ₹ 1 lac on the FDR of ₹ 10 lacs shall be clubbed with the income of Mr. Rose.**

When Mrs. Lilly invested the interest income in a business and earned profits therefrom, such profits shall not be clubbed with the income of her husband but shall be taxable in her individual capacity. This is so because the income from the accretion of the transferred assets is not to be clubbed with the income of the transferor [CIT v. M. S. S. Rajan (2001) 252 ITR 126 (Mad)].

Question 6

Mr. Rahul started a proprietary business on 01.04.2023 with a capital of ₹ 6,00,000. He incurred a loss of ₹ 3,00,000 during the year 2023-24. To overcome the financial position, his wife Mrs. Radha, a software engineer, gave a gift of ₹ 7,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Rahul. He earned a profit of ₹ 5,00,000 during the year 2024-25. Compute the amount to be clubbed in the hands of Mrs. Radha for the Assessment Year 2025-26.

If Mrs. Radha gave the said amount as loan, what would be the amount to be clubbed?

Answer

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Rahul received a gift of ₹ 7,00,000 on 1.4.2024 from his wife Mrs. Radha, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Radha for the A.Y. 2025-26 is computed as under:

Particulars	Mr. Rahul's capital contribution (₹)	Capital contribution out of gift from Mrs. Radha (₹)	Total (₹)
Capital as on 1.4.2024	3,00,000 (6,00,000 - 3,00,000)	7,00,000	10,00,000
Profit for P.Y.2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2024 (3:7)	1,50,000 (5,00,000*3/10)	3,50,000 (5,00,000*7/10)	5,00,000

Therefore, the income to be clubbed in the hands of Mrs. Radha for the A.Y.2025-26 is ₹ 3,50,000.

In case Mrs. Radha gave the said amount of ₹ 7,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

Question 7

Mrs. E, wife of Mr. F, is a partner in a firm. Her capital contribution to the firm as on 01.04.2024 was ₹ 5 lacs, out of which ₹ 3 lacs was contributed out of her own sources and ₹ 2 lacs was contributed out of gift from her husband. As further capital was needed by the firm, she further invested ₹ 2 lacs on 01.05.2024 out of the funds gifted by her husband. The firm paid interest on capital of ₹ 80,000 and share of profit of ₹ 60,000 for the financial year 2024-25.

Advise Mr. F as to the applicability of the provisions of section 64(1)(iv) and the manner thereof in respect of the above referred transactions.

Answer

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises, directly or indirectly, subject to the provisions of section 27(i), to the spouse of such individual from assets transferred directly or indirectly to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

In this instant case, Mr. F has gifted money to his wife, Mrs. E. Mrs. E, in turn, invested such gifted money in the capital of a partnership firm, of which she is a partner. Mrs. E has also contributed a sum of ₹ 3 lacs out of her own resources to the capital of the firm.

As per Explanation 3 to section 64(1), for the purpose of clubbing under section 64(1)(iv), where the assets transferred, directly or indirectly, by an individual to his spouse are invested by the transferee in the nature of contribution of capital as a partner in a firm, proportionate interest on capital will be clubbed with the income of the transferor. Such proportion has to be computed by taking into account the value of the aforesaid investment as on the first day of the previous year to the total investment by way of capital contribution as a partner in the firm as on that day.

In view of the above provision, **interest received by Mrs. E from the firm shall be included in total income of Mr. F to the extent of ₹ 32,000 i.e., ₹ 80,000 x ₹ 2,00,000/₹ 5,00,000.**

Share of profit amounting to ₹ 60,000 is exempt from income-tax under the provisions of section 10(2A). The provisions of section 64 will not apply, if the income from the transferred asset itself is exempt from tax.

Question 8

Mrs. Komal transferred her immovable property to TPS Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 42,000 per annum shall be utilized for the benefit of her son's wife. Mrs. Komal claims that the amount of ₹ 42,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property. Examine with reasons whether the contention of Mrs. Komal is valid in law.

Answer

The clubbing provisions under section 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

Therefore, **income of ₹ 42,000** meant for the benefit of daughter-in-law is **chargeable to tax in the hands of transferor i.e., Mrs. Komal in this case.**

The contention of Mrs. Komal is, hence, not valid in law.

Question 9

Mr. A has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. A and Mrs. C.

Will your answer be different if the said property was gifted to his son, husband of Mrs. C?

Answer

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Therefore, in this case, **Mr. A would be the deemed owner** of the house property transferred to his wife Mrs. B without consideration.

As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 24 @30% of ₹ 3,00,000]

In this case, **income of ₹ 2,10,000 from let-out property** arising to Mrs. C, being Mr. A's son's wife, **would be included in the income of Mr. A**, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. C.

In case the property was gifted to Mr. A's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the **income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.**

It may be noted that section 56(2)(x) would not be attracted hands of recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, stamp duty value of house property would not be chargeable to tax in the hands of recipient of immovable property, even though the house property was received by her or him without consideration.

Clubbing of Minor Child Income

Question 10

Mr. Arvind has three minor children – two twin daughters and one son. Income of the twin daughters is ₹ 2,500 p.a. each and that of the son is ₹ 1,200 p.a. Compute the income, in respect of minor children, to be clubbed in the hands of Mr. Arvind.

Answer

Taxable income, in respect of minor children, in the hands of Mr. Arvind is

Particulars	₹	₹
Twin minor daughters [₹ 2,500 × 2]	5,000	
Less: Exempt under section 10(32) [₹ 1,500 × 2]	3,000	2,000
Minor son	1,200	
Less: Exempt under section 10(32)	1,200	Nil
Income to be clubbed in the hands of Mr. Arvind		2,000

Cross Transfer

Question 11

Mr. Madan gifted a sum of ₹ 6.5 lakhs to his brother's wife on 14.6.20XX. On 12.7.20XX, his brother gifted a sum of ₹ 5.2 lakhs to Mr. Madan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Madan and wife of Mr. Madan's brother on 1.8.20XX at 9% interest. Discuss the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Madan and his brother.

Answer

In the given case, Mr. Madan gifted a sum of ₹ 6.5 lakhs to his brother's wife on 14.06.20XX and simultaneously, his brother gifted a sum of ₹ 5.2 lakhs to Mr. Madan's wife on 12.07.20XX. The gifted amounts were invested as fixed deposits in banks by Mrs. Madan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.

Accordingly, the interest income arising to Mrs. Madan in the form of interest on fixed deposits would be included in the total income of Mr. Madan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Madan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹ 5.2 lakhs.

This is because both Mr. Madan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹ 5.2 lakhs alone would be included in the hands of Mr. Madan's brother and not the interest income on the entire fixed deposit of ₹ 6.5 lakhs, since the cross transfer is only to the extent of ₹ 5.2 lakhs.

Notice of Demand**Question 12**

Mr. Ravi has gifted his only house property to his wife, Mrs. Ravi, and his married daughter, Mrs. Divya. The Assessing Officer has served a notice of demand on Mr. Ravi for payment of tax for the income derived from the said house property. Examine the validity of the Assessing Officer's action.

Answer

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, or to a minor child not being a married daughter shall be deemed to be the owner of the house property so transferred.

Mr. Ravi, in this case, would be the deemed owner only in respect of the share of house property transferred to his wife Mrs. Ravi without consideration and not for the share of the house property transferred to his married daughter Mrs. Divya.

Since Mr. Ravi is the deemed owner of the share of house property transferred to his wife without consideration, the income derived from the house property, to the extent attributable to the share of property transferred to his wife without consideration, would be taxable in his hands under the head "Income from house property".

As per section 65, the notice of demand can, however, be served on Mrs. Ravi for payment of that portion of tax levied on Mr. Ravi attributable to the income derived [by virtue of section 27(i)], from the share of house property transferred to Mrs. Ravi, and standing in her name.

However, the income derived from house property, attributable to the share of property transferred to his married daughter without consideration, would be taxable in the hands of his daughter. Such income would not be taxable in the hands of Mr. Ravi. **Mr. Ravi will not be responsible for the payment of tax attributable to aforesaid share of income of daughter** from house property.

Thus, the **action of the Assessing Officer** in serving notice of demand on Mr. Ravi for payment of tax for the entire income derived from the said house property **is not valid.**

CHAPTER - 6

Set-off and Carry Forward of Losses

Basics of Set-off and Carry Forward of Losses

Question 1

Mr. Varun has furnished his details for the A.Y.2025-26 as under:

Particulars	₹
Income from salaries (computed)	1,70,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	90,000
Long term capital loss of A.Y.2024-25	(30,000)
Winning from lotteries	20,000

What is the taxable income of Mr. Varun assuming he has exercised the option to shift out of the default tax regime?

Answer

Computation of taxable income of Mr. Varun

Particulars	₹	₹
Income from salaries		1,70,000
Income from speculation business	60,000	
Less: Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		90,000
Winnings from lotteries		20,000
Taxable income		3,00,000

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year.

Question 2

Compute the gross total income of Mr. Fadnis for the A.Y.2025-26 from the information given below assuming he has exercised the option to shift out of the default tax regime -

Particulars	₹
Income from house property (computed)	1,25,000
Income from textile business (before providing for depreciation)	1,35,000
Short term capital gains on sale of shares	56,000
Long term capital loss from sale of property (brought forward from A.Y.2024-25)	(90,000)
Income from growing and manufacturing of tea	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	1,20,000

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Set-off and Carry Forward of Losses

Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

Answer

Gross Total Income of Mr. Fadnis

Particulars	₹	₹
Income from house property		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from growing and manufacturing of tea (40% business income)	48,000	1,12,000
Income from the capital gains		
Short term capital gains		56,000
Income from other sources		
Dividend from Indian companies		1,20,000
Gross Total Income		4,13,000

Notes:

- (1) 60% of the income from tea business is treated as agricultural income and exempt from tax;
- (2) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2024-25 cannot be set-off in the A.Y.2025-26. It has to be carried forward for set-off against long-term capital gains during A.Y.2026-27.

Question 3

Examine in brief about the treatment to be given in the following case under Income-tax Act, 1961 –
A loss of ₹ 85,000 was sustained by Simran in activity of owning and maintaining camels for races.

Answer

Section 74A(3) lays down provisions for set-off and carry forward of loss from the activity of owning and maintaining race horses. According to section 74A(3), the losses incurred by an assessee from activity of owning and maintaining race horses cannot be set-off against the income from any other source other than activity of owning and maintaining race horses. Since the scope of this section is confined to activity of owning and maintaining race horses only, therefore, set-off and carry forward of loss from activity of owning and maintaining camels is not covered under section 74A(3).

It is possible to take a view that the loss from the activity of owning and maintaining camels for races may be governed by section 72 provided such activity amounts to business. Accordingly, the loss from the activity of owning and maintaining of camels for races can be set-off against any income (other than income from salary) of current year and unadjusted amount shall be

carried forward for set off against any business income for a maximum period of 8 assessment years immediately succeeding the assessment year in which the loss was incurred.

Amalgamation and Demerger

Question 4

ABC Limited was amalgamated with XYZ Limited on 01.04.2024. All the conditions of section 2(1B) were satisfied. ABC Limited has the following carried forward losses as assessed till A.Y. 2024-25:

	Particulars	₹ (in lacs)
(i)	Speculative Loss	4
(ii)	Unabsorbed Depreciation	18
(iii)	Unabsorbed expenditure of capital nature on scientific research	2
(iv)	Business Loss	120

XYZ Limited has computed a profit of ₹ 140 lacs for the financial year 2024-25 before setting off the eligible losses of ABC Limited but after providing depreciation at 15% per annum on ₹ 150 lacs, being the consideration at which plant and machinery were transferred to XYZ Limited. The written down value as per Income-tax record of ABC Limited as on 1st April, 2024 was ₹ 100 lacs.

The above profit of XYZ Limited includes speculative profit of ₹ 10 lacs.

Compute the total income of XYZ Limited for Assessment Year 2025-26 and indicate the losses/other allowances to be carried forward by it.

Answer

Computation of total income of XYZ Limited

Particulars	₹ (in lacs)	
Business income before setting-off brought forward losses of ABC Ltd.		140.00
Add: Excess depreciation claimed in the scheme of amalgamation of ABC Limited with XYZ Limited.		
Value at which assets are transferred by ABC Ltd.	150	
WDV in the books of ABC Ltd.	100	
Excess accounted	50	
Excess depreciation claimed in computing taxable income of XYZ Ltd. [₹ 50 lacs × 15 %] [Explanation 2 to section 43(6)]		7.50
		147.50
Set-off of brought forward business loss of ABC Ltd. (See Notes 2 & 4)		(120.00)
Set-off of unabsorbed depreciation under section 32(2) read with section 72A (See Notes 2 & 4)		(18.00)
Set-off of unabsorbed capital expenditure under section 35(1)(iv) read with section 35(4) (See Note 5)		(2.00)
Business income		7.50

Notes:

1. It is presumed that amalgamation is within the meaning of section 72A of Income-tax Act, 1961.
2. In the case of amalgamation of companies, the unabsorbed losses and unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or unabsorbed depreciation of the amalgamated company for the previous year in which the amalgamation was effected and such business loss and unabsorbed depreciation shall be carried forward and set-off by the amalgamated company for a period of 8 years and indefinitely, respectively.
3. As per section 72A(7), the accumulated loss to be carried forward specifically excludes loss sustained in a speculative business. Therefore, speculative loss of ₹ 4 lacs of ABC Ltd. cannot be carried forward by XYZ Ltd.
4. Section 72(2) provides that where any allowance or part thereof unabsorbed under section 32(2) (i.e., unabsorbed depreciation) or section 35(4) (i.e., unabsorbed scientific research capital expenditure) is to be carried forward, effect has to be first given to brought forward business losses under section 72.
5. Section 35(4) provides that the provisions of section 32(2) relating to unabsorbed depreciation shall apply in relation to deduction allowable under section 35(1)(iv) in respect of capital expenditure on scientific research related to the business carried on by the assessee. Therefore, unabsorbed capital expenditure on scientific research can be set-off and carried forward in the same manner as unabsorbed depreciation.
6. The restriction contained in section 73 is only regarding set-off of loss computed in respect of speculative business. Such a loss can be set-off only against profits of another speculation business and not non-speculation business. However, there is no restriction under the Income-tax Act, 1961 regarding set-off of normal business losses against speculative income. Therefore, normal business losses can be set-off against profits of a speculative business.

Consequently, there is no loss or allowance to be carried forward by XYZ Ltd. to the F.Y. 2025-26.

Question 5

X Ltd., a pharmaceutical company having accumulated losses and unabsorbed depreciation to be set off in future for ₹ 130 lacs and ₹ 250 lacs as on 31.3.2024 was demerged on 16.5.2024 and 30% of its total assets were transferred to the resulting company, XY Ltd. How shall the accumulated losses and unabsorbed depreciation of the demerged company be dealt with in the return for Assessment Year 2025-26 of the resulting company:

- (i) When the same are not directly relatable to the undertakings transferred and
- (ii) When the same are directly relatable to the undertakings transferred.

Answer

The accumulated business loss and unabsorbed depreciation of the demerged company shall be carried forward and set off by the resulting company under section 72A(4) in the following manner:

- (i) Where such loss or unabsorbed depreciation is **not directly relatable** to the undertaking transferred to the resulting company, such loss shall be apportioned between the demerged company and the resulting company in the same proportion in which assets of the undertaking

have been retained by the demerged company and transferred to the resulting company and shall be allowed to be carried forward and set off in the hands of the demerged company or the resulting company, as the case may be. In this case, therefore, **30% of ₹ 130 lacs and ₹ 250 lacs, shall be allowed to be carried forward and set off by the resulting company and the balance by the demerged company.**

- (ii) Where such loss or unabsorbed depreciation is **directly relatable** to the undertaking transferred to the resulting company, the entire loss or unabsorbed depreciation shall be allowed to be carried forward and set off in the hands of the resulting company. Accordingly, in such a case, the **entire amount of ₹ 130 lacs and ₹ 250 lacs shall be allowed to be set off in the hands of the resulting company.**

Carry Forward & Set-off of Losses in case of Change in Constitution of Firm or Succession [Section 78]

Question 6

M/s. JKLM, a firm, consists of four partners namely, J, K, L and M. They shared profits and losses equally during the year ended 31.3.2024. The assessed business loss of the firm for the assessment year 2024-25 which it is entitled to carry forward amounts to ₹ 3,60,000. A new deed of partnership was executed among J, K, L and M on 1.4.2024 in terms of which they agreed to share profits and losses in the ratio of 15:15:20:50 respectively.

Compute the amount of business loss relating to the assessment year 2024-25, which the firm is entitled to set off against its business income for the assessment year 2025-26. The business income of the firm for assessment year 2025-26 is ₹ 3,30,000. Your answer should be supported by reasons.

Answer

The firm is entitled to set off its brought forward business loss amounting to ₹ 3,60,000 relating to the assessment year 2024-25 to the extent of ₹ 3,30,000 against its business income of ₹ 3,30,000 for the assessment year 2025-26, as per the provisions of section 72(1).

The balance unabsorbed business loss of ₹ 30,000 relating to the assessment year 2024-25 will be carried forward to assessment year 2026-27.

Section 78(1) which deals with carry forward and set-off of losses in the case of change in constitution of firm is applicable only where there is retirement or death of a partner. **It is not applicable to a case where there is a change in the ratio of sharing profits and losses amongst the existing partners.** Therefore, section 78(1) is not applicable to the case of M/s. JKLM.

Question 7

X carrying on a business as sole proprietor, died on 31st March, 2025. On his death, the same business was continued by his legal heirs, by forming a firm. As on 31st March 2025, a determined business loss of ₹ 5 lacs is to be carried forward under the Income-tax Act, 1961.

Does the firm consisting of all legal heirs of Mr. X, get a right to have this loss adjusted against its current income?

Answer

Section 78(2) provides that where a person carrying on any business or profession has been succeeded in such capacity by another person, otherwise than by inheritance, then, the successor is not entitled to carry forward and set-off the loss of the predecessor against his income. This implies that generally, set-off of business losses should be claimed by the same person who suffered the loss and the only exception to this provision is when business passes on to another person by inheritance.

The facts of case given in the question are similar to the case CIT v. Madhukant M. Mehta (2001) 247 ITR 805, where the Supreme Court has held that if the business is succeeded by inheritance, the legal heirs are entitled to the benefit of carry forward of the loss of the predecessor. **Even if the legal heirs constitute themselves as a partnership firm, the benefit of carry forward and set off of the loss of the predecessor would be available to the firm.**

In this case, the business of X was continued by his legal heirs after his death by constituting a firm. Hence, exception contained in section 78(2) along with decision of Apex Court, would apply in this case. Therefore, the **firm is entitled to carry forward the business loss of ₹ 5 lacs of X.**

Special Provision for Carry Forward & Set-off of Losses in case of Closely Held Companies [Section 79]

Question 8

A private limited company has share capital in the form of equity share capital. The shares were held up till 31st March, 2023 by four members A, B, C and D equally. The company made losses/profits for the past three assessment years as follows:

Assessment Year	Business Loss ₹	Unabsorbed Depreciation ₹	Total ₹
2021-22	Nil	15,00,000	15,00,000
2022-23	Nil	12,00,000	12,00,000
2023-24	9,00,000	9,00,000	18,00,000
Total	9,00,000	36,00,000	45,00,000

The above figures have been accepted by the tax department.

During the previous year ended 31.3.2024, A sold his shares to Y and during the previous year ended 31.3.2025, B sold his shares to Z.

The profits for the past two previous years are as follows:

31.3.2024 ₹ 18,00,000 (before charging depreciation of ₹ 9,00,000)

31.3.2025 ₹ 45,00,000 (before charging depreciation of ₹ 7,50,000)

Compute taxable income for A.Y.2025-26. Workings must form part of your answer.

Answer

A, B, C and D are the four shareholders of a private limited company. The shareholding pattern of the company in the last three financial years are given below:

Set-off and Carry Forward of Losses

As on 31 st day of March	A	B	C	D	Y	Z
	%	%	%	%	%	%
2023	25	25	25	25	-	-
2024	-	25	25	25	25	-
2025	-	-	25	25	25	25

Section 79 provides that, in case of a closely held company, no loss incurred in the previous year shall be carried forward and set off against the income of the subsequent previous year unless the shares carrying at least 51% of the voting power of the company are beneficially held on the last day of the previous year in which the loss is sought to be set off, by the same shareholders, who beneficially held the shares carrying at least 51% of the voting power on the last day of the previous year in which the loss was incurred.

Since shareholders holding at least 51% of the voting power are the same in the first and second year, the restriction imposed by section 79 is not applicable for the second year. **Thus, the taxable income for the assessment year 2024-25 would be:**

Particulars	₹
Business profit	18,00,000
Less: Current year's depreciation	9,00,000
	9,00,000
Less: Brought forward business loss [as per section 72(2)]	9,00,000
Taxable income	Nil

Unabsorbed depreciation relating to the earlier assessment years can be carried forward to the next assessment year i.e., A.Y. 2025-26. There is no brought forward business loss and section 79 is not applicable in case of carry forward of unabsorbed depreciation. Section 32 governs the carry forward and set off of depreciation for which the shareholding pattern is not relevant at all. **Consequently, the income for A.Y.2025-26 will be determined as under -**

Particulars	₹	₹
Business income		45,00,000
Less: Current year's depreciation		7,50,000
		37,50,000
Less: Unabsorbed depreciation:		
Assessment year 2021-22	15,00,000	
Assessment year 2022-23	12,00,000	
Assessment year 2023-24	9,00,000	36,00,000
Taxable Income for A.Y.2025-26		1,50,000

Undisclosed Income found in Search and Survey [Section 79A]

Question 9

Consequent to search under section 132 in the premises of Mr. Ajay Verma, the Assessing Officer has

in his possession, cash of ₹ 160 lakhs, which has not been recorded in the books of account and other documents maintained in the normal course of business. Mr. Ajay Verma is engaged in jewellery business and his brought forward business loss relating to A.Y. 2022-23 was ₹ 90 lakhs and unabsorbed depreciation relating to that year was ₹ 30 lakhs. He wants to set-off the brought forward business loss and unabsorbed depreciation against income of ₹ 160 lakhs, represented in the form of undisclosed money discovered during search. Can he do so? Examine.

Answer

No, he cannot do so. As per section 79A, **no loss** (whether brought forward or otherwise) or **unabsorbed depreciation** under section 32(2) can be set-off against undisclosed income included in the total income of any previous year of an assessee consequent to, inter alia, a search under section 132, while computing his total income for such previous year.

Accordingly, in this case, Mr. Ajay Verma cannot set-off the brought forward business loss of ₹ 90 lakhs and unabsorbed depreciation of ₹ 30 lakhs against the undisclosed income of ₹ 160 lakhs included in his total income consequent to search u/s 132.

CHAPTER - 7

Deductions under Chapter VI-A and Section 10AA

Payment/Investment based Deductions

Question 1

Mr. Srinivasan, aged 61 years, furnishes the following particulars for the year ending 31.03.2025:

- (a) Life Insurance Premium paid – ₹ 15,000, actual capital sum of the policy assured for ₹ 1,40,000. The insurance policy was taken on 31.03.2012;
- (b) Contribution to Public Provident Fund – ₹ 40,000 in the name of father;
- (c) Tuition fee payment – ₹ 8,000 each for 2 sons pursuing full time graduation course in Calcutta; Tuition fee for daughter pursuing PHD in Kellogg University, USA – ₹ 2.50 Lacs;
- (d) Housing loan principal repayment – ₹ 32,000 to Axis Bank. This property is under construction at Calcutta as on 31.03.2025;
- (e) Principal repayment of housing loan taken from a relative – ₹ 70,000. The property is self-occupied situated at Pune;
- (f) Deposit under Senior Citizens Savings Scheme – ₹ 15,000;
- (g) Five-year deposits in an account under Post Office Time Deposit Scheme – ₹ 50,000;
- (h) Investment in National Savings Certificate – ₹ 70,000;

Compute the deduction eligible under appropriate provisions of section 80C.

Answer

Computation of eligible deduction under-section 80C

Particulars	₹
Life Insurance Premium (See Note 1)	15,000
Contribution to Public Provident fund (See Note 2)	Nil
Tuition fee of 2 sons for graduation course (See Note 3)	16,000
Housing loan principal repayment (See Notes 4 & 5)	Nil
Senior Citizen Savings Scheme deposit (See Note 6)	15,000
Post Office Time Deposit Scheme (See Note 6)	50,000
Investment in National Savings Certificate	70,000
Total Investment	1,66,000
Eligible deduction under section 80C restricted to	1,50,000

Notes:

1. Any amount of life insurance premium paid in excess of the specified percentage of actual capital sum assured shall be ignored for the purpose of deduction under section 80C. In the given case, since the insurance policy has been issued before 1.04.2012, therefore, premium paid upto 20% of actual capital sum assured i.e., ₹ 28,000 shall be allowed as deduction. Hence, the premium of ₹ 15,000 paid during the year is allowable as deduction under section 80C.
2. In the case of an individual, contribution to PPF can be made in his name or in the name of his

spouse or children to qualify for deduction under section 80C. **As the contribution was made in the name of his father, deduction is not allowable.**

3. Tuition fee paid is eligible for deduction under section 80C for a maximum of two children. Therefore, ₹ 16,000 shall be allowed as deduction. **Tuition fee paid to an educational institution situated outside India is not eligible for deduction.**
4. In order to claim the principal repayment on loan borrowed for house property as deduction, the construction of such property should have been completed. In the given case, since the property is under construction, principal repayment does not qualify for deduction.
5. Repayment of principal on housing loan is not allowed as deduction in case the loan is borrowed from friends, relatives etc. In order to qualify for deduction, the loan should have been obtained from Central Government / State Government / bank / specified employer / institution.
6. The following investments are also eligible for deduction under section 80C:
 - (1) five year time deposit in an account under Post Office Time Deposit Rules, 1981; and
 - (2) deposit in an account under the Senior Citizens Savings Scheme Rules, 2004.

Question 2

The basic salary of Mr. Arjun is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. Arjun and his employer contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Examine tax treatment in respect of such contribution in hands of Mr. Arjun assuming that he opted out of the default tax regime under section 115BAC.

Answer

Tax treatment in the hands of Mr. Arjun in respect of employer's and own contribution to pension scheme referred to in section 80CCD

- (a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. Arjun's salary.
- (b) Mr. Arjun's contribution to pension scheme is allowable as deduction u/s 80CCD(1). However, deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay. Therefore, deduction u/s 80CCD for Mr. Arjun would be -

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction u/s 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction u/s 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

Deductions under Chapter VI-A and Section 10AA

₹ 1,44,000 is allowable as deduction u/s 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 u/s 80CCE. ₹ 36,000 allowable as deduction u/s 80CCD(1B) is outside the overall limit of ₹ 1,50,000 u/s 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction u/s 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction u/s 80CCD(1).

- (c) Employer's contribution to pension scheme would be allowable as deduction u/s 80CCD(2), subject to a maximum of 10% of salary. **Therefore, deduction u/s 80CCD(2), would also be restricted to ₹ 1,44,000**, even though entire employer's contribution of ₹ 1,80,000 is included in salary u/s 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be **outside the overall limit of ₹ 1,50,000 u/s 80CCE** i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

Question 3

Mr. Ravi, aged 45 years, paid medical insurance premium of ₹ 22,000 during the year to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 65 years, who is not dependant on him. He contributed ₹ 4,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,500 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D.

Answer

Deduction allowable under section 80D

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	22,000	22,000
(ii)	Contribution to CGHS	4,600	3,000
(iii)	Exp. on preventive health check-up of self & spouse	3,000	Nil
		29,600	25,000
B.	Premium paid and medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,500	3,000
		51,500	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- (1) The total deduction under A.(i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the contribution to CGSH would be restricted to ₹ 3,000 (₹ 25,000 - ₹ 22,000) and expenditure on

Deductions under Chapter VI-A and Section 10AA

- preventive health check-up for self and spouse would be Nil (₹ 25,000 – ₹ 22,000 – ₹ 3,000).
- (2) The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).
- (3) In this case, total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 3,000, which is less than the maximum permissible limit of ₹ 5,000.

Question 4

The following are the particulars relating to Mr. Arun, Mr. Barun, Mr. Chetan and Mr. Dinesh, salaried individuals, for A.Y.2025-26 –

Particulars	Mr. Arun	Mr. Barun	Mr. Chetan	Mr. Dinesh
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 12 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2025-26 in the hands of Mr. Arun, Mr. Barun, Mr. Chetan and Mr. Dinesh. Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2025.

Answer

Particulars	₹
Mr. Arun	
Interest deduction	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EEA ₹ 1,87,000 (₹ 3,87,000 – ₹ 2,00,000)	
Restricted to	1,50,000

<p>Mr. Barun Interest deduction (i) Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%] Restricted to</p>	2,00,000
<p>(ii) Deduction under Chapter VI-A Deduction u/s 80EEA is not permissible since: (i) loan is taken from NBFC (ii) stamp duty value exceeds ₹ 45 lakh. Deduction under section 80EEA would not be permissible due to either violation listed above.</p>	Nil
<p>Mr. Chetan Deduction under Chapter VI-A Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs × 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]</p>	1,50,000
<p>Mr. Dinesh Deduction under Chapter VI-A Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.</p>	Nil

Question 5

Mr. Arjun aged 45 years, has gross total income of ₹ 8,85,000 comprising of income from salary and house property. He has made the following payments and investments:

- (i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2019) (Assured value ₹ 1,80,000) – ₹ 28,000
- (ii) Medical Insurance premium for self – ₹ 14,000; Spouse – ₹ 15,000
- (iii) Donation to a public charitable institution registered under 80G ₹ 50,000 by way of cheque
- (iv) LIC Pension Fund – ₹ 60,000
- (v) Donation to National Children's Fund – ₹ 25,000 by way of cheque
- (vi) Donation to PM CARES Fund – ₹ 10,000 by way of cheque
- (vii) Donation to Prime Minister's Drought Relief Fund – ₹ 25,000 by way of cheque
- (viii) Donation to approved institution for promotion of family planning – ₹ 40,000 by way of cheque
- (ix) Deposit in PPF – ₹ 1,20,000

Compute the total income of Mr. Arjun if he exercises the option of shifting out of the default tax regime.

Answer

Deductions under Chapter VI-A and Section 10AA

Computation of Total Income of Mr. Arjun

Particulars	₹	₹
Gross Total Income		8,85,000
Less: Deduction under section 80C		
Deposit in PPF	1,20,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,38,000	
Deduction u/s 80CCC in respect of LIC pension fund	60,000	
	1,98,000	
As per section 80CCE , deduction u/s 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	29,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		1,03,000
Total income		6,07,000

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	PM Cares Fund	10,000	100%	10,000
(iii)	Prime Minister's Drought Relief Fund	25,000	50%	12,500
(iv)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(v)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	15,500
				1,03,000

Note - Adjusted total income = Gross Total Income - Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 7,10,000, in this case.

₹ 71,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to ₹ 31,000 (being ₹ 71,000 - ₹ 40,000), 50% of which would be deduction under section 80G. Therefore, deduction under section 80G in respect of donation to public charitable trust would be ₹ 15,500, which is 50% of ₹ 31,000.

Question 6

From the following details, compute the total income of Mr. A, Mr. B and Mr. C for A.Y.2025-26 if they exercise the option of shifting out of the default tax regime:

	Particulars	Mr. A	Mr. B	Mr. C
		₹	₹	₹
(i)	Salary (computed)	9,25,000	10,45,000	11,15,000
(ii)	Interest income (on fixed deposits)	75,000	85,000	95,000

The particulars of their other investments/payments made during year are given hereunder:

Particulars				₹
(1)	Deposit in Public Provident Fund (PPF) by Mr. A			1,50,000
(2)	Life insurance premium paid by Mr. C, the details of which are as follows -			
	Date of policy	Person insured	Actual capital sum assured (₹)	premium paid during 2024-25 (₹)
	31/3/2012	Self	1,48,000	15,000
	11/6/2017	Spouse	1,25,000	15,000
	31/7/2018	Handicapped son (80% disability)	2,00,000	32,000
(3)	Payment of medical insurance premium by the following persons to insure their health:			
	Payer	Amount in ₹	Mode of payment	
	Mr. A (aged 55 years)	30,000	Account payee cheque	
	Mr. B (aged 52 years)	15,000	Cash	
	Mr. C (aged 48 years)	20,000	Crossed cheque	
(4)	Mr. B paid interest on loan taken for the purchase of house in which he currently resides. He is claiming benefit of self-occupation under section 23(2) in respect of this house. He does not own any other house. (Assume Section 80EEA conditions are not fulfilled)			2,20,000
	Repayment of principal amount of loan taken for purchase of the said house			1,70,000
(5)	Contribution by Mr. A by cheque to National Children's Fund during the year.			30,000
(6)	Mr. B makes the following donations during the year:			
	Donation to BJP by crossed cheque			50,000
	Donation to Electoral trust by cash			50,000

Answer

Computation of total income

	Particulars	Mr. A	Mr. B	Mr. C
		₹	₹	₹
	Salary	9,25,000	10,45,000	11,15,000

Deductions under Chapter VI-A and Section 10AA

	Income from house property [See Note 4]		(2,00,000)	
	Income from other sources (Interest)	75,000	85,000	95,000
(A)	Gross total income	10,00,000	9,30,000	12,10,000
	Less: Deductions under Chapter VI-A			
	<u>Under section 80C</u>			
	Deposit in PPF [See Note 3]	1,50,000		
	LIC premium paid [See Note 1]			57,500
	Principal repayment of housing loan (restricted to ₹ 1,50,000) [See Note 4]		1,50,000	
	<u>Under section 80D</u>			
	Medical insurance premium [See Note 2]	25,000	Nil	20,000
	<u>Under section 80G</u>			
	Contribution to National Children's Fund [See Note 5]	30,000		
	<u>Under section 80GGC [See Note 6]</u>			
	Donation to BJP by crossed cheque		50,000	
	Cash donation to Electoral Trust		Nil	
(B)	Total deduction under Chapter VI-A	2,05,000	2,00,000	77,500
(C)	Total Income (A) - (B)	7,95,000	7,30,000	11,32,500

Notes:

(1)	Deduction u/s 80C in respect of life insurance premium paid by Mr. C																														
	<table border="1"> <thead> <tr> <th>Date of issue of policy</th> <th>Person insured</th> <th>Actual capital sum assured</th> <th>Premium Paid during the year</th> <th>Restricted to % of sum assured</th> <th>Deduction u/s 80C</th> </tr> </thead> <tbody> <tr> <td>31/3/2012</td> <td>Self</td> <td>1,48,000</td> <td>15,000</td> <td>20%</td> <td>15,000</td> </tr> <tr> <td>11/6/2017</td> <td>Spouse</td> <td>1,25,000</td> <td>15,000</td> <td>10%</td> <td>12,500</td> </tr> <tr> <td>31/7/2018</td> <td>Handicapped Son</td> <td>2,00,000</td> <td>32,000</td> <td>15%</td> <td>30,000</td> </tr> <tr> <td colspan="5">Total</td> <td>57,500</td> </tr> </tbody> </table>	Date of issue of policy	Person insured	Actual capital sum assured	Premium Paid during the year	Restricted to % of sum assured	Deduction u/s 80C	31/3/2012	Self	1,48,000	15,000	20%	15,000	11/6/2017	Spouse	1,25,000	15,000	10%	12,500	31/7/2018	Handicapped Son	2,00,000	32,000	15%	30,000	Total					57,500
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Total					57,500																										
(2)	<p>Medical Insurance Premium</p> <p>(i) Medical insurance premium of ₹ 30,000 paid by account payee cheque by Mr. A is allowed as a deduction under section 80D, subject to a maximum of ₹ 25,000.</p> <p>(ii) Medical insurance premium paid by cash is not allowable as deduction. Hence, Mr. B is not eligible for deduction under section 80D in respect of medical insurance premium of ₹ 15,000 paid in cash.</p> <p>(iii) Mr. C is eligible for deduction of ₹ 20,000 under section 80D in respect of medical insurance premium paid by crossed cheque.</p>																														
(3)	The maximum amount eligible for deduction under section 80C shall not exceed ₹ 1,50,000. Mr. A would be eligible for deduction of ₹ 1,50,000 in respect of PPF under section 80C.																														

(4)	<p>Deduction in respect of interest and principal repayment of housing loan</p> <p>Mr. B is eligible for a maximum deduction of ₹ 2,00,000 under section 24 in respect of interest on housing loan taken in respect of a self-occupied property, for which he is claiming benefit of "Nil" annual value. Therefore, ₹ 2,00,000 would represent his loss from house property.</p> <p>Further, the maximum amount eligible for deduction under section 80C should not exceed ₹ 1,50,000. Since, Mr. B has no other investment under section 80C, he would be eligible for deduction of ₹ 1,50,000 in respect of principal repayment of housing loan.</p>
(5)	<p>Contribution to National Children's Fund qualifies for 100% deduction under section 80G. Therefore, Mr. A is entitled to 100% deduction of the sum of ₹ 30,000 contributed by him by way of cheque to National Children's Fund.</p>
(6)	<p>Mr. B is eligible for deduction under section 80GGC in respect of donation to a political party made otherwise than by way of cash. However, cash donations to electoral trust do not qualify for deduction under section 80GGC.</p>

Income based Deductions

Question 7

X Ltd. has two units, unit 'N' and unit 'Y'. Unit 'N' engaged in the business of power generation installed a windmill in March, 2016 and had a profit of ₹ 100 lakhs in A.Y. 2025-26. X Ltd. claimed depreciation of ₹ 120 lakhs on windmill against the profit of ₹ 100 lakhs from power generation business which was eligible for deduction under section 80-IA. Unit 'Y', engaged in manufacturing of wires, non-eligible business, had a profit of ₹ 70 lakhs for A.Y. 2025-26.

The loss of ₹ 20 lakhs, i.e., balance depreciation not set off pertaining to unit 'N' was set-off against the profits of unit 'Y' carrying on non-eligible business, by assessee, X Ltd. The Assessing Officer was of the view that depreciation relating to a business eligible for deduction under section 80-IA cannot be set-off against non-eligible business income. Hence, unabsorbed depreciation should be carried forward to subsequent year to be set off against eligible business income of the assessee of that year.

Examine the correctness of the action of the Assessing Officer.

Answer

In CIT v. Swarnagiri Wire Insulations Pvt. Ltd. (2012) 349 ITR 245, the Karnataka High Court observed that it is a generally accepted principle that the deeming provision of a particular section cannot be breathed into another section. Therefore, the deeming provision contained in section 80-IA(5) cannot override the provisions of section 70(1).

In this case, X Ltd. had incurred loss in eligible business (power generation) on account of claiming depreciation of ₹ 120 lakhs. Hence, section 80-IA becomes insignificant, since there is no profit from which this deduction can be claimed.

It is, thereafter, that section 70(1) comes into play, whereby an assessee is entitled to set off losses from one source against income from another source under same head of income. Accordingly, X Ltd. is **entitled to benefit of set off of loss of ₹ 20 lakhs** (representing balance depreciation not set-off) pertaining to Unit N engaged in **eligible business** of power generation **against profit of ₹ 70 lakhs of Unit Y carrying on non-eligible business**. Therefore, net profit of ₹ 50 lakhs would be taxable.

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However, once set-off is allowed under section 70(1) against income from another source under the same head, a **deduction to such extent is not possible in any subsequent assessment year** i.e., the loss (arising on account of balance depreciation of eligible business) so set-off under section 70(1) has to be first deducted while computing profits eligible for deduction under section 80-IA in the subsequent year. Accordingly, in the A.Y.2025-26, the net profits of Unit N has to be reduced by ₹ 20 lacs for computing the profits eligible for deduction under section 80-IA in that year.

The **action of the Assessing Officer** in not permitting set-off of loss of eligible business against profits of non-eligible business in this case is, therefore, **not correct**.

Question 8

Alpha Ltd. is engaged in commercial production of mineral oil. It claimed deduction under section 80-IB in respect of profits and gains derived by it from such business, including transport subsidy, interest subsidy and power subsidy received from Government. The Assessing Officer disallowed the deduction in respect of these three subsidies contending that such subsidies were not "derived" from business of commercial production of mineral oil but belonged to category of ancillary profits and hence do not qualify for deduction u/s 80-IB. Discuss the correctness of action of Assessing Officer.

Answer

The issue under consideration in this case is whether transport subsidy, interest subsidy and power subsidy received from the Government can be treated as profits derived from business or undertaking to qualify for deduction under section 80-IB.

This issue came up before the Supreme Court in CIT v. Meghalaya Steels Ltd. (2016) 383 ITR 217, wherein it was observed that an important test to determine whether the profits and gains are derived from business or an undertaking is that there should be a direct nexus between such profits and gains and the undertaking or business. Such nexus should not be only incidental. The profits and gains referred to in section 80-IB has reference to net profit, which can be calculated by deducting from the sale price of an article, all elements of cost which go into manufacturing or selling it. Thus, the profits arrived at after deducting manufacturing costs and selling costs reimbursed to the assessee by the Government, is the profits and gains derived from the business of the assessee.

The Supreme Court observed that section 28(iii b) specifically states that income from cash assistance, by whatever name called, received or receivable by any person against exports under any scheme of the Government of India, will be income chargeable to income-tax under the head "Profits and gains of business or profession". The Apex Court further observed that if cash assistance received or receivable against exports schemes are being included as income under the head "Profits and gains of business or profession", subsidies which go to reimbursement of cost in the production of goods of a particular business would also have to be included under the head "Profits and gains of business or profession", and not under the head "Income from other sources".

Accordingly, Supreme Court held that transport subsidy, interest subsidy and power subsidy from Government were revenue receipts which were reimbursed to assessee for elements of cost relating to manufacture or sale of their products. Therefore, there is a direct nexus between profits and gains of business, and reimbursement of such subsidies. The subsidies were only in order to reimburse, wholly or partially, costs actually incurred by assessee in manufacturing and selling of its products.

Applying the rationale of the Supreme Court ruling in the above case, the action of the Assessing Officer in not allowing deduction under section 80-IB in respect of transport subsidy, interest subsidy and power subsidy received by Alpha Ltd. from the Government, is not correct.

Question 9

Hutch Ltd., engaged in development of housing projects, filed its return of income for A.Y.2025-26 claiming deduction of ₹ 40 lakhs under section 80-IBA. The return was selected for scrutiny. In the assessment, a sum of ₹ 18 lakhs, being 30% of ₹ 60 lakhs, towards sub-contract payment was disallowed for non-deduction of tax at source by invoking section 40(a)(ia). The Assessing Officer, however, limited the deduction under section 80-IBA to the original amount claimed by Hutch Ltd. Hutch Ltd. contended that it was eligible for a higher deduction of ₹ 58 lakhs under section 80-IBA consequent to disallowance under section 40(a)(ia). Examine correctness of contention of Hutch Ltd.

Answer

The issue under consideration in this case is whether the increase in gross total income on account of disallowance of expenditure under section 40(a)(ia) can be considered for the purpose of deduction under section 80-IBA.

The Bombay High Court, in CIT v. Sunil Vishwambharnath Tiwari (2016) 388 ITR 630, observed that if on account of non-deduction of tax at source by a company, expenses have been disallowed under section 40(a)(ia) which goes to increase the income chargeable under the head 'Profits and gains of business or profession', such enhanced income becomes eligible for deduction as profit-linked deduction under Chapter VI-A is with reference to an assessee's gross total income.

The High Court held that the company is entitled to claim profit-linked deduction under Chapter VI-A in respect of the enhanced gross total income as a consequence of disallowance of expenditure under section 40(a)(ia).

Further, the CBDT has, in its Circular No.37/2016 dated 2.11.2016, mentioned that the courts have generally held that if the expenditure disallowed is related to the business activity against which the Chapter VI-A deduction has been claimed, the deduction needs to be allowed on the enhanced profits. Thus, the settled position is that the disallowances made under, inter alia, section 40(a)(ia), relating to the business activity against which the Chapter VI-A deduction has been claimed, result in enhancement of the profits of the eligible business, and that deduction under Chapter VI-A is admissible on the profits so enhanced by the disallowance.

Accordingly, applying the rationale of the Bombay High Court ruling and CBDT Circular in this regard to the facts of this case, Hutch Ltd. would be **entitled to claim deduction** under section 80-IBA in respect of the enhanced profits of ₹ 58 lakhs, consequent to disallowance under section 40(a)(ia).

Question 10

ABC Ltd., a developer, is engaged in the business of developing of Special Economic Zones, notified on or after 1st April 2005 under the SEZ Act, 2005. It was established in the previous year 2016-17. It had exercised its option for claiming deduction under section 80-IAB from the Assessment Year 2021-22. It received the following incomes during the previous year 2024-25:

Deductions under Chapter VI-A and Section 10AA

Income from the maintenance of SEZ	₹ 50,40,000
Income from lease rent from letting out of buildings and other amenities in SEZ	₹ 14,25,000
Interest received from bank deposits (from the refundable security deposits received from lessees)	₹ 9,50,000

- (1) Calculate the amount of deduction available to ABC Ltd. for the A.Y.2025-26.
- (2) On 1st April, 2025, it transferred the operation and maintenance of the SEZ to another company, DEF Ltd. Now, DEF Ltd. wants to claim deduction under section 80-IAB in respect of the income derived from such maintenance of SEZ as was available for ABC Ltd. Comment whether the contention of DEF Ltd. is valid in law.

Answer

Since ABC Ltd., a developer, is engaged in the business of developing an SEZ, notified on or after 1.4.2005, it is eligible for a deduction of 100% of profits and gains derived by it from any business of developing a SEZ for 10 consecutive assessment years out of 15 assessment years beginning from the year in which the SEZ has been notified by the Central Government.

ABC Ltd. has exercised its option for claiming deduction u/s 80-IAB from A.Y. 2021-22. Therefore, it is eligible to claim 100% deduction in the A.Y. 2025-26, being the 5th consecutive assessment year.

1) Amount of deduction available to ABC Ltd.

Particulars	₹
Income from the maintenance of SEZ	50,40,000
Income from lease rent from letting out of buildings and other amenities in SEZ [As per CBDT Circular No. 16/2017 dated 25.04.2017, income from letting out of premises/developed space along with other facilities in an SEZ is taxable under "PGBP". Hence, considered for deduction u/s 80-IAB]	14,25,000
Interest received from bank deposits [not taxable under "PGBP". Hence, not considered for deduction u/s 80-IAB]	Nil
	64,65,000
Deduction u/s 80-IAB [100% of profits derived from business]	64,65,000

- 2) As per section 80-IAB, if an undertaking, being a Developer i.e., ABC Ltd., in the present case, who develops a SEZ on or after 1.4.2005, transfers the operation and maintenance of such SEZ to another Developer i.e., DEF Ltd., the deduction shall be allowed to DEF Ltd. for the remaining period as if the operation and maintenance were not so transferred to the DEF Ltd.

Hence, DEF Ltd. can claim deduction u/s 80-IAB for the remaining period.

Question 11

A (P) Ltd. was incorporated on 1.4.2021 and it holds a certificate of eligible business from the notified IMBC. It is engaged in innovation of new products.

Its total turnover and profits and gains from such business for the P.Y.2021-22 to P.Y.2030-31 are as follows:

Deductions under Chapter VI-A and Section 10AA

Particulars	P.Y. 2021- 22	P.Y. 2022- 23	P.Y. 2023- 24	P.Y. 2024- 25	P.Y. 2025- 26	P.Y. 2026- 27	P.Y. 2027- 28	P.Y. 2028- 29	P.Y. 2029- 30	P.Y. 2030- 31
	₹ in crores									
Total turnover	65.42	68.36	70.21	72.72	74.95	73.52	74.68	72.51	68.42	66.52
Profits/ Losses	(5.52)	(4.37)	(2.52)	18.13	19.87	17.59	19.42	18.56	16.52	15.53

Is A (P) Ltd. eligible for any tax benefit under the provisions of the Income-tax Act, 1961 for A.Y. 2025-26? If yes, what is the benefit available?

Answer

A (P) Ltd. is an **eligible start-up**, since -

- (1) it is a company engaged in eligible business of **innovation** of new products.
- (2) It is incorporated during the period 1.4.2016 to 31.3.2025.
- (3) Its **total turnover does not exceed ₹ 100 crores** in the relevant previous years for which deduction can be claimed.
- (4) it **holds a certificate** of eligible business from the notified IMBC

Therefore, A (P) Ltd., being an eligible start-up, is **eligible for deduction** under section 80-IAC of **100% of the profits and gains derived by it from an eligible business for any three consecutive assessment years out of ten years beginning from the year in which the eligible start up is incorporated i.e., P.Y.2021-22.**

In the first, second year and third year i.e., P.Y.2021-22, P.Y.2022-23 and P.Y. 2023-24, A (P) Ltd. has incurred a loss. In the current previous year i.e., P.Y.2024-25, A (P) Ltd. has earned profits from eligible business and can hence, claim 100% of its profits as deduction for any three consecutive assessment years under section 80-IAC from the P.Y.2024-25 to P.Y.2030-31. However, for P.Y.2024-25, the profits eligible for deduction would be the profits after set-off of brought forward losses of P.Y.2021-22, P.Y. 2022-23 and P.Y. 2023-24. On account of set-off of brought forward losses from current year profit, the profits eligible for deduction under section 80-IAC would be lower than the profits eligible for deduction in the said section in the succeeding assessment years. Thus, it would be beneficial for A (P) Ltd. to opt for deduction under section 80-IAC for three consecutive assessment years beginning from A.Y.2026-27 to A.Y.2028-29.

Question 12

Mr. Vikas has commenced the business of manufacture of computers on 1.4.2024. He employed 420 new employees during the P.Y.2024-25, the details of whom are as follows -

	No. of employees	Date of employment	Regular/Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2024	Regular	24,000

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Deductions under Chapter VI-A and Section 10AA

(ii)	125	1.5.2024	Regular	26,000
(iii)	120	1.7.2024	Casual	24,500
(iv)	100	1.9.2024	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. Vikas for A.Y.2025-26, if the profits and gains derived from manufacture of computers that year is ₹ 90 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. Vikas has commenced the business of manufacture of footwear on 1.4.2024?

Answer

Mr. Vikas is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB, and he has employed "additional employees" during the year.

I If Mr. Vikas is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below] = ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:

Number of additional employees

Particulars	No. of workmen	
Total number of employees employed during the year		420
Less: Casual employees employed on 1.7.2024 who do not participate in recognized provident fund	120	
Regular employees employed on 1.5.2024, since their total monthly emoluments exceed ₹ 25,000	125	
Regular employees employed on 1.9.2024 since they have been employed for less than 240 days in the P.Y.2024-25.	100	275
Number of "additional employees"		75

Notes –

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2024 do not qualify as additional employees for the year, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the year is deemed to be the additional employee cost.

- (ii) As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for previous year 2025-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. Vikas for the A.Y. 2026-27.

ii If Mr. Vikas is engaged in the business of manufacture of footwear

If Mr. Vikas is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2024, since they have been employed for more than 150 days in the previous year 2024-25.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000
 Deduction under section 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000

Section 10AA - SEZ

Question 13

ABC Ltd. furnishes you the following information for the year ended 31.3.2025:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	120
Profit of the business of Unit A	45
Export turnover of Unit A	60
Total turnover of Unit B located in Domestic Tariff Area (DTA)	225
Profit of the business of Unit B	25

Compute deduction under section 10AA for the A.Y. 2025-26, assuming that ABC Ltd. commenced operations in SEZ and DTA in the year 2019-20.

Answer

50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since F.Y.2024-25 is the sixth year commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 50\%$$

$$= ₹ 45 \text{ Lacs} \times \frac{₹ 60 \text{ Lacs}}{₹ 120 \text{ Lacs}} \times 50\% = ₹ 11.25 \text{ Lacs}$$

Note - No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.

Question 14

Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA).

Deductions under Chapter VI-A and Section 10AA

The company provides the following details for the previous year 2024-25.

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)
Total Sales	6,50,00,000	2,50,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	70,00,000	20,00,000

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2025-26, in the following situations:

- (i) If both the units were set up and start manufacturing from 22-05-2017.
- (ii) If both the units were set up and start manufacturing from 14-05-2020 (received approval upto 31-03-2020).

Answer

Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to assessment year commencing on or after 01.04.2006 but before 1.4.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with assessment year relevant to previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Computation of eligible deduction under section 10AA [See Working Note below]:

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2017:

Since A.Y. 2025-26 is the 8th assessment year from A.Y. 2018-19, relevant to the previous year 2017-18, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\
 &= ₹50 \text{ lakhs} \times \frac{₹400 \text{ lakhs}}{₹400 \text{ lakhs}} \times 50\% = ₹25 \text{ lakhs}
 \end{aligned}$$

(ii) If Unit in SEZ was set up and began manufacturing from 14-05-2020:

Since A.Y. 2025-26 is the 5th assessment year from A.Y. 2021-22, relevant to the previous year 2020-21, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\% \\
 &= ₹50 \text{ lakhs} \times \frac{₹400 \text{ lakhs}}{₹400 \text{ lakhs}} \times 100\% = ₹50 \text{ lakhs}
 \end{aligned}$$

Deductions under Chapter VI-A and Section 10AA

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,50,00,000	2,50,00,000	4,00,00,000
Export Sales	5,60,00,000	1,60,00,000	4,00,00,000
Net Profit	70,00,000	20,00,000	50,00,000

CHAPTER - 8

Assessment/Taxation of Various Entities

Taxation of Co-operative Society

Question 1

PQR Co-operative Bank, a co-operative society, having its area of operation confined to Gubbi Taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities, has received the following amounts during the year ending 31.3.2025:

- (i) Interest amounting to ₹ 1,00,000 from its members on loans advanced to them.
- (ii) Interest amounting to ₹ 1,50,000 on deposits with other co-operative societies.
- (iii) Rent amounting to ₹ 2,00,000 from letting out its godowns for storage of commodities.

PQR Co-operative Bank seeks your advice in the matter of taxability of the above amounts and the eligibility for deduction, if any, in respect thereof for the assessment year 2025-26. Assume that it does not opt for the special provisions under section 115BAD.

Answer

Sub-clause (viiia) to section 2(24) includes within the scope of definition of income, the profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members. Hence, the interest of ₹ 1,00,000 received by PQR Co-operative Bank on loans advanced to its members constitutes its income.

Further, interest received amounting to ₹ 1,50,000 on deposits with other co-operative societies and rent amounting to ₹ 2,00,000 received from letting out its godowns for storage of commodities also constitute the income of the co-operative bank.

section 80P(4) provides that section 80P shall not apply to any co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

Explanation to section 80P(4) defines a primary co-operative agricultural and rural development bank to mean a society having its area of operation confined to a taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities.

PQR Co-operative Bank is a primary co-operative agricultural and rural development bank as defined in the said Explanation since it is a co-operative society having its area of operation confined to Gubbi Taluk and its principal object is to provide long-term credit for agricultural and rural development activities. Therefore, it is eligible for deduction under section 80P.

Interest of ₹ 1,00,000 received by the bank on loans advanced to its members is eligible for deduction in full under section 80P(2)(a)(i).

Interest of ₹ 1,50,000 received by the bank from deposits with other co-operative societies qualifies for deduction in full under section 80P(2)(d).

Rent of ₹ 2,00,000 received by the bank from letting out its godowns for storage of commodities is eligible for deduction in full under section 80P(2)(e).

Question 2

Mysore Co-operative Society derives income during financial year 2024-25 from following sources:

(i)	Income from processing with the aid of power	₹ 40,000
(ii)	Income from collective disposal of labour of its members	₹ 20,000
(iii)	Interest from another co-operative society	₹ 12,000
(iv)	Income from house property (Computed)	₹ 75,000
(v)	Income from other business	₹ 72,000
(vi)	Income by way of dividend from another co-operative society	₹ 15,000

Determine the total income of Mysore Co-operative Society. Assume that it does not opt for the special provisions under section 115BAD.

Answer

Computation of total income of Mysore Co-operative Society

Particulars	₹	₹
I Income from house property		75,000
II Profits and Gains of Business or Profession		
From processing with the aid of power	40,000	
From collective disposal of labour	20,000	
From other business	<u>72,000</u>	1,32,000
III Income from Other Sources .		
Interest received from another co-operative society	12,000	
Dividend received from another co-operative society	<u>15,000</u>	<u>27,000</u>
Gross Total Income		2,34,000
Less: Deduction under section 80P		
Interest and dividend from another co-operative society [₹ 12,000 + ₹ 15,000] - fully deductible under section 80P(2)(d)	27,000	
Income from collective disposal of labour - fully deductible under section 80P(2)(a)(vi), assuming that the stipulated conditions are fulfilled.	20,000	
Income from other business, deduction restricted to ₹ 50,000 under section 80P(2)(c)(ii)	<u>50,000</u>	<u>97,000</u>
Total Income		<u>1,37,000</u>

Note: Since the gross total income exceeds ₹ 20,000, in case of a co-operative society engaged in manufacturing operations with the aid of power, income from house property is not eligible for deduction under section 80P(2)(f)

Question 3

Meenakshi Urban, is a cooperative society engaged in providing credit facilities to its members for the previous year 2024-25, it provides you the following information:

Particulars	₹
Interest received from deposit with other cooperative societies	5,47,000
Interest received from members (including ₹ 2,63,000 for personal purposes of a member)	11,85,000
Interest received from deposit of idle funds of members	2,04,000
Rent Received (per month)	36,000
Income from Agency business	2,87,500
Expenses incurred on agency business	1,24,000
Brought forward loss from earlier years	98,000

Compute the total income of the co-operative society after allowing eligible deduction under section 80-P, if any, and also the tax payable thereon. Assume that it does not opt for the special provisions under section 115BAD.

Answer

Computation of total income and tax payable by Meenakshi Urban, a Cooperative Society

Particulars	₹	₹
Income from house property		
Rental income (₹ 36,000 x 12)	4,32,000	
Less: Deduction under section 24(a) @30%	<u>1,29,600</u>	3,02,400
Profits and gains from business or profession		
Credit facility business		
Interest received from deposits with other cooperative society	5,47,000	
Interest received from members	11,85,000	
Interest received from deposit of idle funds of members [Since Meenakshi cooperative society is engaged in the business of providing credit facility to its members, the interest on un-utilised fund would be taxable under the head "Profits and gains from business or profession"]	<u>2,04,000</u>	19,36,000
Agency business		
Income from agency business	2,87,500	
Less: Expenses incurred	<u>1,24,000</u>	
	1,63,500	
Less: Brought forward loss	<u>98,000</u>	<u>65,500</u>
Gross Total Income		23,03,900
Less: Deduction under Chapter VI-A: Section 80P		
- Deduction in respect of profits and gains from credit facility business	19,36,000	
- Deduction in respect of agency business allowable to the extent of	<u>50,000</u>	<u>19,86,000</u>
Total Income		3,17,900

Computation of tax liability		
Tax@30% on ₹ 2,97,900 plus ₹ 3,000 on income upto ₹ 20,000		92,370
Add: Health and education cess@4%		<u>3,695</u>
Tax liability		96,065
Tax liability (rounded off)		96,070

Question 4

ABC Co-operative society is engaged in marketing of agricultural produce grown by its members. The profits and gains attributable to such business for A.Y.2025-26 is ₹ 60 lakhs (computed). It has employed ten new employees with salary of ₹ 20,000 p.m. on 1.5.2024. Salary is paid by account payee cheque. It gets its books of accounts audited under section 44AB. It also earns interest of ₹ 32 lakhs on fixed deposits with banks.

Compute its total income and tax liability for A.Y.2025-26 and advise whether it should opt for the special provisions under section 115BAD.

What would be your answer if ABC Co-operative society is a Co-operative bank engaged in the business of banking, all other facts remaining the same? Assume that it is not a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

Answer

Computation of total income & tax liability of ABC Co-operative Society for A.Y.2025-26 (under the regular provisions of the Act)

Particulars	₹	₹
Profits and gains of business or profession		60,00,000
Income from other sources - Interest on bank fixed deposits		<u>32,00,000</u>
Gross Total Income		92,00,000
Less: Deductions under Chapter VI-A		
Deduction u/s 80JAA [30% of ₹ 20,000 x 10 employees x 11-months]	6,60,000	
Deduction u/s 80P	<u>60,00,000</u>	<u>66,60,000</u>
[ABC Co-operative society is entitled for deduction under section 80P on whole of the amount of profits and gains of business attributable to activity of marketing of agricultural produce grown by its members]		
Total Income		25,40,000
Tax liability:		
Upto ₹ 10,000 - 10%	1,000	
₹ 10,000 - ₹ 20,000 - 20%	2,000	
₹ 20,000 - ₹ 25,40,000 - 30%	<u>7,56,000</u>	7,59,000
Add: Health and education cess@4%		<u>30,360</u>
Tax liability		7,89,360
Alternate Minimum Tax		

Total Income	25,40,000
Add: Deduction under section 80JJAA	6,60,000
Adjusted Total Income	32,00,000
Alternate Minimum Tax@15% of ₹ 32,00,000	4,80,000
Add: Health and education cess@4%	19,200
Alternate Minimum Tax	4,99,200
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 ₹ 7,89,360.	

Computation of total income & tax liability of ABC Co-operative Society under section 115BAD for A.Y.2025-26

Particulars	₹	₹
Profits and gains of business or profession		60,00,000
Income from other sources – Interest on bank fixed deposits		32,00,000
Gross Total Income		92,00,000
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 co-operative society opts for section 115BAD]	=	6,60,000
Total Income		85,40,000
Tax liability		
22% of ₹ 85,40,000		18,78,800
Add: Surcharge@10%		1,87,880
		20,66,680
Add: Health and education cess@4%		82,667
Tax liability		21,49,347
Tax liability (rounded off)		21,49,350

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.

If ABC Co-operative Society is engaged in the business of banking

Computation of total income & tax liability of ABC Co-operative Bank for A.Y.2025-26 (under the regular provisions of the Act)

Particulars	₹	₹
Profits and gains of business or profession		60,00,000
Income from other sources – Interest on bank fixed deposits		32,00,000
Gross Total Income		92,00,000
Less: Deductions under Chapter VI-A		

Assessment/Taxation of Various Entities

Deduction u/s 80JAA [30% of ₹ 20,000 x 10 employees x 11 months]	6,60,000	
Deduction u/s 80P [Not allowable in case of co-operative banks]	Nil	<u>6,60,000</u>
Total Income		<u>85,40,000</u>
Tax liability:		
Upto ₹ 10,000 - 10%	1,000	
₹ 10,000 - ₹ 20,000 - 20%	2,000	
₹ 20,000 - ₹ 85,40,000 - 30%	<u>25,56,000</u>	<u>25,59,000</u>
Add: Health and education cess@4%		<u>1,02,360</u>
Tax liability		<u>26,61,360</u>
Alternate Minimum Tax		
Total Income		85,40,000
Add: Deduction under section 80JAA		<u>6,60,000</u>
Adjusted Total Income		<u>92,00,000</u>
Alternate Minimum Tax@15% of ₹ 92,00,000		13,80,000
Add: Health and education cess@4%		<u>55,200</u>
Alternate Minimum Tax		<u>14,35,200</u>

Since AMT is lower than the tax payable under the regular provisions of the Act, the tax liability of the co-operative bank would be ₹ 26,61,360.

Computation of total income & tax liability of ABC Co-operative Bank under section 115BAD for A.Y.2025-26

Particulars	₹	₹
Profits and gains of business or profession		60,00,000
Income from other sources - Interest on bank fixed deposits		<u>32,00,000</u>
Gross Total Income		92,00,000
Less: Deductions under Chapter VI-A		
Deduction u/s 80JAA [30% of ₹ 20,000 x 10 employees x 11 months]	6,60,000	
Deduction u/s 80P [Not allowable]	-	<u>6,60,000</u>
Total Income		<u>85,40,000</u>
Tax liability		
22% of ₹ 85,40,000		18,78,800
Add: Surcharge@10%		<u>1,87,880</u>
		20,66,680
Add: Health and education cess@4%		<u>82,667</u>
Tax liability		<u>21,49,347</u>
Tax liability (rounded off)		21,49,350

Since the tax liability under section 115BAD is lower than the tax liability under the regular provisions of the Act, **ABC Co-operative Bank should opt for section 115BAD**. However, once it has exercised this option for P.Y.2024-25 relevant to A.Y.2025-26, it would apply for subsequent assessment years as well and cannot be withdrawn for the same or any other previous year.

Question 5

Transfer fees are received by a cooperative housing society from its incoming and outgoing members. Are such transfer fees liable to tax in the hands of the cooperative society?

Or

The assessee, Pandey Co-operative Housing Society, is a registered co-operative housing society, formed with the objective of maintaining the property owned by it, to effect repairs and maintenance of the common property of the members, and to confer to the members, the usual rights and privileges. The assessee has received ₹ 3 lacs as transfer fees from the transferor members and like amount from the transferees, who at the time of transfer, were not members of the society. Discuss the exigibility to tax the aforesaid receipts in the hands of the assessee.

Answer

The issue under consideration is whether the transfer fees received by a co-operative housing society from its incoming and outgoing members is taxable or exempt on the principle of mutuality.

On this issue, the High Court, in *Sind Co-operative Housing Society v. ITO* (2009) 317 ITR 47, observed that under the bye-laws of the society, charging of transfer fees had no element of trading or commerciality. Both the incoming and outgoing members have to contribute to the common fund of the assessee. The amount paid was to be exclusively used for the benefit of the members as a class.

The High Court, therefore, held that transfer fees received by a co-operative housing society, whether from outgoing or from incoming members, is not liable to tax on account of the principle of mutuality, since the predominant activity of such co-operative society is maintenance of property of the society and there is no taint of commerciality, trade or business.

Further, section 28(iii), which provides that income derived by a trade, professional or similar association from specific services performed for its members shall be treated as business income, can have no application since the co-operative housing society is not a trade or professional association.

Applying the rationale of above ruling, **transfer fees** received by a co-operative housing society from its incoming and outgoing members would **not be liable to tax in hands of co-operative society**.

Taxation of AOP

Question 6

JK Associates is an Association of Persons (AOPs) consisting of two members, J, aged 40 years and K, aged 37 years. Shares of the members are: 60%(J) and 40%(K). Income of the AOPs for the previous year 2024-25 is ₹ 7 lacs.

Compute tax liability of the AOP and the members in the following situations, assuming that they do not opt to pay tax as per Section 115BAC:

- (i) J and K have their income, other than income from AOPs, amounting to ₹ 1 lac and ₹ 5.7 lacs, respectively.
- (ii) J and K's income, other than income from AOPs, amount to ₹ 1.50 lac and ₹ 2.30 lacs, respectively.

Answer

Computation of tax of AOPs is governed by section 167B of the Income-tax Act, 1961. Tax on total income of AOP is computed as follows:

- (i) If individual share of a member is known, and the total income of any member, excluding his share from such AOPs, exceeds the basic exemption limit, then the AOPs will pay tax at the maximum marginal rate.
- (ii) If individual share of a member is known and no member has total income (excluding his share from AOPs) exceeding the basic exemption limit, then the AOP will pay tax at the rates applicable to an individual.

Section 86 provides for assessment of share in the hands of members of AOPs as follows:

A member's share in the total income of AOPs will be treated as follows:

- (i) If an AOPs has paid tax at the maximum marginal rate or a higher rate, the member's share in the total income of AOPs will not be included in his total income and will be exempt.
- (ii) If the AOPs has paid tax at regular rates applicable to an individual, the member's share in the income of AOPs will be included in his total income and he will be allowed rebate at the average rate of tax in respect of such share.

Tax Liability of J K Associates, AOPs

- (i) As K's income, other than that from the AOPs, exceeds the basic exemption limit, the AOPs shall pay tax at **maximum marginal rate of 42.744 %** (i.e. 30% plus 37% surcharge plus health and education cess @ 4%). Thus, the tax payable by AOP = ₹ 7,00,000 x 42.744% = ₹ 2,99,208.
- (ii) Since none of the members have income, other than income from the AOPs, exceeding the basic exemption limit, the AOPs would be taxed at the rates applicable to an individual. Therefore, the AOP's tax liability = ₹ 52,500 + ₹ 2,100 = ₹ 54,600.

Tax Liability of J and K

	Particulars	J ₹	K ₹
(i)	Share of profit from AOP	Exempt	Exempt
	Income from other sources	1,00,000	5,70,000
	Total Income	1,00,000	5,70,000
	Tax liability	NIL	26,500
	Add: Health and education cess @ 4%	-	1,060
	Total tax payable	NIL	27,560
(ii)	Share of profit from AOP	4,20,000	2,80,000
	Income from other sources	1,50,000	2,30,000

Assessment/Taxation of Various Entities

	(A)	5,70,000	5,10,000
Tax liability		26,500	14,500
Add: Health and Education cess @ 4%		1,060	580
Total tax payable	(B)	27,560	15,080
Average rate of tax [B/A x 100]		4.835%	2.957%
Total tax liability		27,560	15,080
Less: Rebate u/s 86 read with section 110 in respect of share of profit from AOP (share in AOP x Average rate of tax)		20,307	8,280
Tax liability of members		7,253	6,800
Tax Payable (Rounded off)		7,250	6,800

Question 7

T and Q are individuals, who constitute an Association of Persons, sharing profit and losses in ratio of 2:1. For accounting year ended 31st March, 2025, Profit and Loss account of business was as under:

		Figures are in ₹	
Cost of goods sold	42,50,000	Sales	49,00,000
Remuneration to:		Dividend from Indian companies	25,000
T	1,30,000	Capital gain-Long term (computed)	6,40,000
Q	1,70,000		
Employees	2,56,000		
Interest to:			
T	48,300		
Q	35,700		
Other expenses	1,11,700		
Sales-tax penalty due	39,000		
Net profit	5,24,300		
	55,65,000		55,65,000

Additional information furnished:

- (i) Other expenses included:
- wrist watches costing ₹ 2,500 each were given to 12 dealers, who had exceeded the sales quota prescribed under a sales promotion scheme;
 - employer's contribution of ₹ 6,000 to the Provident Fund was paid on 14th January, 2025.
 - ₹ 30,000 was paid in cash to an advertising agency for publicity.
- (ii) Outstanding sales tax penalty was paid on 15th October, 2025. The penalty was imposed by the Sales-tax Officer for non-filing of returns and statements by the due dates.

T and Q had, for this year, income from other sources of ₹ 3,60,000 and ₹ 2,32,000 respectively.

Required to:

- (i) Compute the total income of the AOPs for the assessment year 2025-26; and
 (ii) Discuss the tax implication for that year in the hands of the individual members.

Answer

(i) **Computation of total income of the AOP**

Particulars	₹
Profit & gains of business (See Working Note below)	3,12,300
Long term capital gain	6,40,000
Income from other sources (Dividend Income)	25,000
Total Income	9,77,300

Working Note - Computation of profits and gains of business

Particulars	₹	₹
Net profit as per profit & loss account		5,24,300
Add: Inadmissible payments		
Interest to members T & Q (₹ 48,300 + ₹ 35,700)	84,000	
Advertising [Disallowance under section 40A(3) (100% of ₹ 30,000 being a cash payment)]	30,000	
Remuneration to members T & Q (₹ 1,30,000 + ₹ 1,70,000)	3,00,000	
Sales tax penalty (See Note 3 below)	39,000	4,53,000
		9,77,300
Less: Income not taxable under this head		
Dividend from Indian companies	25,000	
Long term capital gain	6,40,000	6,65,000
Profits and gains of business		3,12,300

Notes:

- Since the employer's contribution to PF has been paid during the previous year itself, it is allowable as deduction.
- Penalty imposed for delay in filing sales tax return is not deductible since it is on account of infraction of the law requiring filing of the return within the specified period. - CIT v. Ratanchand Bholanath (S.S) (1986) 160 ITR 500 (M.P.)

(ii) **Tax implication in the hands of members T & Q**

Members of the AOPs have to pay tax on their total income taking into account savings/investments etc.

Since one of the members has individual income more than the basic exemption limit, **the AOPs will be assessed at the maximum marginal rate.**

Since the AOPs is taxed at maximum marginal rate, **the share income of members is not taxable in their hands individually** as per Section 86.

Alternate Minimum Tax (AMT)**Question 8**

Mr. Rajesh has income of ₹ 45 lakhs under the head "Profits and gains of business or profession". One of his businesses is eligible for deduction @ 100% of profits under section 80-IB for A.Y. 2025-26. The profit from such business included in the business income is ₹ 20 lakhs. Compute the tax payable by Mr. Rajesh, assuming that he has no other income during the P.Y. 2024-25. Assume that he does not opt to pay tax as per Section 115BAC.

Answer**Computation of regular income-tax payable under the provisions of the Act**

Particulars	₹
Profits and gains of business or profession	45,00,000
Less: Deduction under section 80-IB	20,00,000
Total Income	25,00,000
Tax payable	
Up to ₹ 2,50,000	Nil
5% on next ₹ 2,50,000	12,500
20% on next ₹ 5,00,000	1,00,000
30% on balance ₹ 15,00,000	4,50,000
	5,62,500
Add: Health and education cess@ 4%	22,500
Tax liability	5,85,000

Computation of Alternate Minimum Tax (AMT)

Particulars	₹
Total Income as per the Income-tax Act, 1961	25,00,000
Add: Deduction under section 80-IB	20,00,000
Adjusted Total Income	45,00,000
AMT = 18.5% × 45,00,000	8,32,500
Add: Health and Education Cess @ 4%	33,300
AMT liability	8,65,800

Since the regular income-tax payable as per the provisions of the Act is less than the AMT, the adjusted total income of ₹ 45 lakhs would be deemed to be the total income of Mr. Rajesh and he would be liable to pay tax @ 18.5% thereof. The **tax payable by Mr. Rajesh** for the A.Y.2025-26 would, therefore, be **₹ 8,65,800**.

Mr. Rajesh would be **eligible for credit to the extent of ₹ 2,80,800** [₹ 8,65,800 – ₹ 5,85,000] to be set-off in the year in which tax on total income computed under the regular provisions of the Act exceeds the AMT. Such credit can be carried forward for succeeding 15 assessment years.

Question 9

PQR LLP, a limited liability partnership set up a unit in Special Economic Zone (SEZ) in the financial year 2018-19 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2023-24, it has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills 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, 2024 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2024-25 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD).	1,05,00,000

Compute income tax (including AMT under Section 115JC) payable by PQR LLP for Assessment Year 2025-26.

Answer

Computation of total income and tax liability of PQR LLP (under the regular provisions of the Income-tax Act, 1961)

Particulars	₹	₹
Profits and gains of business or profession		
Unit in SEZ	40,00,000	
Less: Deduction under section 10AA [See Note (1) below]	16,00,000	
Business income of SEZ unit chargeable to tax		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction under section 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		64,00,000
Computation of tax liability (under the normal provisions)		
Tax @ 30% on ₹ 64,00,000		19,20,000
Add: Health and Education cess @ 4%		76,800
Total tax liability		19,96,800

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

Particulars	₹	₹
Total Income (as computed above)		64,00,000

Assessment/Taxation of Various Entities

Add: Deduction under section 10AA		16,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32 on building @10% of ₹ 65 lakhs	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax @ 18.5%		25,62,250
Add: Surcharge @ 12% (since adjusted total income > ₹ 1 crore)		3,07,470
		28,69,720
Add: Health and Education cess @ 4%		1,14,789
		29,84,509
Tax liability under section 115JC (rounded off)		29,84,510

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 cess @ 4%. **Therefore, the tax liability is ₹ 29,84,510.**

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	29,84,510
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,96,800
	9,87,710

Notes:

- (1) **Deduction u/s 10AA in respect of Unit in SEZ = 40 lacs x 80 lacs/1 cr. x 50% = 16 lacs** (since it is the 7th year of operation, it shall be eligible for deduction of 50%)
- (2) Deduction @ 100% of the capital expenditure is available under section 35AD 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 purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his 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 under section 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.2023-24 and capitalized in the books of account on 1.4.2024, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.

Question 10

M/s. Beta & Co., a partnership firm in India, is engaged in development of software and providing IT enabled services through two units, one of which is located in a notified Special Economic Zone (SEZ)

in Noida (commenced operations from 01.04.2013) and the other located in a domestic tariff area (DTA). The particulars relating to previous year 2024-25 furnished by the assessee are as follows:

Total Turnover: SEZ unit ₹ 210 lakhs; DTA unit ₹ 90 lakhs

Export Turnover: SEZ unit ₹ 150 lakhs; DTA unit ₹ 50 lakhs

Profit: SEZ unit ₹ 50 lakhs; DTA unit ₹ 40 lakhs.

Amount debited to Statement of Profit and Loss and credited to Special Economic Zone Re-Investment Reserve Account ₹ 20 lakhs.

Considering that the firm has no other income during the year, compute the tax payable by the firm for the A.Y.2025-26 by integrating, analysing and applying the relevant provisions of income-tax law.

Answer

Computation of total income and tax liability of M/s. Beta & Co., a partnership firm, as per the normal provisions of the Act

Particulars	₹ (in lakhs)
Business income (before deduction under section 10AA)	
SEZ Unit	50.00
Add: Amount debited to SEZ Re-investment Reserve	<u>20.00</u>
	70.00
DTA Unit	<u>40.00</u>
	110.00
Less: Deduction u/s 10AA	
= ₹ 70 lakhs × ₹ 150 lakhs/₹ 210 lakhs = 50 × 50% (being the 12 th year)	25.00
Amount credited to SEZ Re-investment Reserve Account	<u>20.00</u>
- whichever is less is deductible	<u>20.00</u>
Total Income	<u>90.00</u>
Tax on total income@30%	27.00
Add: Health and Education Cess@4%	<u>1.08</u>
Tax liability (as per normal provisions)	<u>28.08</u>

Computation of Adjusted total income and Alternate Minimum tax of M/s. Beta & Co., a partnership firm, as per the provisions of section 115JC

Particulars	₹ (in lakh)
Total income as per the normal provisions	90.00
Add: Deduction under section 10AA	<u>20.00</u>
Adjusted total income	<u>110.00</u>
Tax@18.5% of Adjusted Total Income	20.350
Add: Surcharge @12% as the adjusted total income is > ₹ 1 crore	<u>2.442</u>
	22.792
Add: Health and Education cess @4%	<u>0.912</u>
Alternate Minimum Tax as per section 115JC	<u>23.704</u>

Since the tax payable as per the normal provisions of the Act is more than the alternate minimum tax payable, the total income as per normal provisions shall be liable to tax and the tax payable for A.Y. 2025-26 shall be ₹ 28.08 lakhs.

Question 11

M/s Fit & Fair, a partnership firm, commenced operations of the business of a new three-star hotel in Pune, Maharashtra on 1.4.2024. The firm consisting of two working partners, with equal shares, reports a net profit of ₹ 26,00,000 after deduction of the following items:

- (i) Depreciation as per books of accounts ₹ 15,80,000.
- (ii) Interest on capital @ 15% per annum (as per the deed of partnership). The amount of interest is ₹ 50,00,000.
- (iii) Interest on loan includes an amount of ₹ 6,00,000 paid to Mr. Rajveer, a resident, on which tax was not deducted.

The firm purchased a new motor car for the above business for ₹ 7 lakh on 10th March, 2024 and capitalized the same in its books of account as on 1st April, 2024. Further, in April, 2024, it incurred capital expenditure of ₹ 2 crores (out of which ₹ 1.50 crores was for acquisition of land and ₹ 50 lakhs on building) exclusively for the above business. The firm also installed and put to use new centralised air conditioners on 15.5.2024 costing ₹ 3,20,000.

The capital expenditure incurred by the firm were paid by account payee cheque or use of ECS through bank account.

The firm also has another existing business of running a four-star hotel in Mumbai, which commenced operations fifteen years back, the profits from which are ₹ 41,38,000 computed as per Income-tax Act for the A.Y.2025-26.

Compute total income and tax payable by the firm for the A.Y.2025-26, assuming that the firm has fulfilled all the conditions specified for claim of deduction under section 35AD and opted for claiming deduction under section 35AD; and has not claimed any deduction under Chapter VI-A under the heading "C - Deductions in respect of certain incomes".

Answer

Computation of total income and tax payable of M/s Fit & Fair

Particulars	₹
Profits from the specified business of new hotel in Pune	26,00,000
Add: Items debited but to be considered separately or to be disallowed	
Depreciation	15,80,000
Interest on capital to partners@15% p.a. (Interest allowable to the extent of 12% p.a., since the same is authorized by the partnership deed. Thus, interest of ₹ 10,00,000, being in excess of 12% p.a. i.e., ₹ 50,00,000 x 3%/15% would be disallowed)	10,00,000
30% disallowance of interest on loan on which tax is not deducted [30% of ₹ 6,00,000]	1,80,000
	<u>27,60,000</u>

	53,60,000
Less: Permissible expenditures and allowances	
100% of capital expenditure allowable as deduction under section 35AD in respect of –	
- Building (expenditure on land not eligible for deduction)	50,00,000
- New Motor Car (capital expenditure for purchase of car prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024)	7,00,000
- New Air conditioner	<u>3,20,000</u>
Loss from the specified business of new hotel in Pune	<u>(6,60,000)</u>
Profit from the existing business of running a hotel in Mumbai	41,38,000
Less: Loss from the specified business of new hotel in Pune	<u>6,60,000</u>
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	<u>34,78,000</u>
Total Income	34,78,000
	₹
Income-tax @30% on total income of ₹ 34,78,000	10,43,400
Add: Health & education cess @4%	41,736
Tax liability	<u>10,85,136</u>
Tax liability (rounded off)	10,85,140

Computation of Alternate Minimum Tax liability of M/s Fit & Fair

Particulars	₹
Total income (computed above)	34,78,000
Add: Deduction under section 35AD	<u>60,20,000</u>
	94,98,000
Less: Depreciation in respect of –	₹
- Building @10% of ₹ 50,00,000	5,00,000
- New Motor Car (capital expenditure for purchase of car prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024 @15% of ₹ 7,00,000)	1,05,000
- New Air conditioner @15% of ₹ 3,20,000	<u>48,000</u>
Adjusted total income	<u>88,45,000</u>
Alternate Minimum Tax@18.5%	16,36,325
Add: Health & education cess@4%	65,453
Tax liability under section 115JC	<u>17,01,778</u>
Tax liability under section 115JC (Rounded off)	17,01,780
Since the regular income-tax payable is less than the alternate minimum tax payable, adjusted total income shall be deemed to be total income and tax is leviable @18.5% thereof plus health and education cess@4%. Therefore, tax liability is ₹ 17,01,780	

AMT Credit to be carried forward under section 115JD	₹
Tax liability under section 115JC	17,01,780
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	<u>10,85,140</u>
AMT Credit to be carried forward	6,16,640

Question 12

Victory Polyfibres, a partnership firm, has earned a gross total income of ₹ 300 lacs for the year ended 31.3.2025. The firm has not undertaken any international transaction or specified domestic transaction during the said year.

The above includes a profit of ₹ 220 lacs from an undertaking having a turnover of ₹ 80 crores. The deduction under section 80-IA of the Income-tax Act, 1961 is available to the extent of ₹ 200 lacs to the firm.

There are some grey areas in the taxation workings and hence, the assessee is contemplating to file the return of income on 7.12.2025, after seeking clarifications from tax experts.

Advise the assessee-firm by working out the total income and tax payable, where the return is filed on 31.10.2025 or when the same is filed on 7.12.2025.

What is the practical solution as regards obtaining clarifications, which might or might not have an impact on the total income? You may ignore interest under section 234A, 234B, 234C and 234F while making the computation in support of your advice.

Answer

As per section 80AC, while computing the total income of an assessee of a previous year (P.Y.2024-25, in this case) relevant to any assessment year (A.Y.2025-26, in this case), any deduction is admissible, inter alia, under section 80-IA, such deduction shall not be allowed unless it furnishes a return of income for such assessment year on or before the 'due date' specified in section 139(1).

Since the turnover of the partnership firm has exceeded ₹ 200 lacs in the previous year 2024-25, it would be subject to audit under section 44AB, in which case the 'due date' of filing its return of income for A.Y.2025-26 would be 31st October, 2025 as per section 139(1).

Computation of total income and tax liability of M/s. Victory Polyfibres

I. Where the firm files its return of income on 31st October 2025:

Particulars	₹ in lacs
Gross Total Income	300.00
Less: Deduction under section 80-IA	200.00
Total Income	100.00
Tax liability @ 30%	30.00
Add: Health and Education cess @ 4%	1.20
Regular income-tax payable	31.20

Computation of Alternate Minimum Tax payable [Section 115JC]

Particulars	₹ in lacs
Total Income	100.00
Add: Deduction under section 80-IA	200.00
Adjusted Total Income	300.00
Alternate Minimum Tax (AMT) @ 18.5% on ₹ 300 lacs	55.50
Add: Surcharge @ 12% (Since adjusted total income > ₹ 1 crore)	6.66
	62.16
Add: Health and Education cess @ 4%	2.49
Total tax payable (AMT)	64.65

Since the regular income-tax payable by the firm is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income of the firm for P.Y.2024-25 and it shall be liable to pay income-tax on such total income @ 18.5% [Section 115JC(1)]. Therefore, the tax payable for the A.Y.2025-26 would be ₹ 64.65 lacs.

Tax credit for Alternate Minimum Tax [Section 115JD]

	₹ in lacs
Total tax payable for A.Y.2025-26 (Alternate Minimum Tax)	64.65
Less: Regular income-tax payable	31.20
To be carried forward for set-off against regular income-tax payable (upto a maximum of fifteen assessment years).	33.45

ii. Where the firm files its return of income on 7th December 2025:

Where the firm files its return on 7.12.2025, it would be a belated return under section 139(4). Consequently, as per section 80AC, deduction under section 80-IA would not be available. In such circumstances, the gross total income of ₹ 300 lacs would be the total income of the firm.

Particulars	₹ in lacs
Income-tax @ 30% of ₹ 300 lacs	90.000
Add: Surcharge @ 12% (since total income exceeds ₹ 100 lacs)	10.800
Income-tax (plus surcharge)	100.800
Add: Health and Education cess @ 4%	4.032
Total tax liability	104.832

Practical solution regarding obtaining clarifications

The practical solution regarding obtaining clarifications would be to file the return of income under section 139(1) on or before the 'due date', i.e., 31.10.2025, and claim deduction under section 80-IA. In such a case, the firm can claim deduction of ₹ 200 lacs under section 80-IA. Thereafter, consequent to the clarifications obtained, if any change is required, it can file a revised return under section 139(5) within 31.12.2025 which would replace the original return filed under section 139(1). A revised return filed under section 139(5) would replace original return filed under section 139(1).

If the firm files the return of income under section 139(1) on or before 31.10.2025, its tax liability would stand reduced to ₹ 64.65 lacs, as against ₹ 104.832 lacs to be paid if return is furnished after

due date. Further, it would also be eligible for tax credit for alternate minimum tax under section 115JD to the extent of ₹ 33.45 lacs. **Therefore, the firm is advised to file its return of income on or before 31.10.2025.**

Question 13

Beta LLP, a limited liability partnership in India is engaged in export of computers through two units, namely, Unit I and Unit II. Unit I is setup in Special Economic Zone (SEZ) and Unit II is set up in a Domestic Tariff Area (DTA). The LLP furnishes the following information relating to its 7th year of operation ended on 31.3.2025:

Items	(Amount in ₹ lakhs)	
	Unit I	Unit II
Export Turnover	1800	1150
Domestic Turnover	300	650
Duty Draw Back	52	48
Profit on sale of Import Entitlement	33	Nil
Salaries paid	700	388
Other expenses	775	620
Net Profit of the year	710	840

Additional Information:

(i) **Unit I:**

- Expenses of ₹ 41 lakhs are disallowable under section 43B and export sales proceeds received in India amounted to ₹ 1600 lakhs.
- Export sales of ₹ 1800 lakhs include freight and insurance of ₹ 300 lakhs attributable to delivery outside India; and realization of ₹ 1600 lakhs includes amount of insurance and freight charges of ₹ 180 lakhs attributable to delivery outside India.

(ii) **Unit II:**

- Export sales received in India was ₹ 970 lakhs.
- Expenses charged which are to be disallowed as per section 40A(3) are of ₹ 55 lakhs.

Determine the total income and tax liability of Beta LLP for the A.Y.2025-26.

Answer

Computation of total income and tax liability of Beta LLP

Particulars	₹ (in lakh)
Profit from Unit I [₹ 710 lakhs + ₹ 41 lakhs, being disallowance u/s 43B]	751.00
Profit from Unit II [₹ 840 lakhs + ₹ 55 lakhs, being disallowance u/s 40A(3)]	<u>895.00</u>
	1646.00
Less: Deduction under section 10AA [See Working Note below]	<u>262.70</u>
Total Income	<u>1383.30</u>

Particulars	₹ (in lakh)
Tax on total income@30%	414.99
Add: Surcharge@12%, since total income > ₹1 crore	<u>49.80</u>
	464.79
Add: Health and Education cess@4%	<u>18.59</u>
Tax liability (as per normal provisions)	483.38

Computation of Adjusted total income and Alternate Minimum tax of Beta LLP as per the provisions of section 115JC

Particulars	₹ (in lakh)
Total income as per the normal provisions	1383.30
Add: Deduction under section 10AA	<u>262.70</u>
Adjusted Total Income	<u>1646.00</u>
Tax@18.5% of Adjusted Total Income	304.51
Add: Surcharge @12% as the adjusted total income is > ₹ 1 crore	<u>36.54</u>
	341.05
Add: Health and Education cess@4%	<u>13.64</u>
Alternate Minimum Tax as per section 115JC	<u>354.69</u>

Since the tax liability as per the normal provisions of the Act is more than the alternate minimum tax payable, the **total income as per normal provisions shall be liable to tax** and the tax liability for A.Y. 2025-26 shall be ₹ 483.38 lakhs.

Working Note:

Computation of deduction under section 10AA in respect of Unit I located in a SEZ

Particulars	₹ (in lakh)
Total turnover of Unit I	1800.00
(₹ 1800 lakhs + ₹ 300 lakhs) - ₹ 300 lakhs, being freight and insurance attributable to delivery outside India included therein. Since such freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also.	
Export Turnover of Unit I	
Export sale proceeds received in India	1600.00
Less: Insurance and freight attributable to delivery outside India not includible in export turnover	<u>180.00</u>
	<u>1420.00</u>
Profit "derived from" Unit I	
Net profit for the year	710.00
Add: Disallowance under section 43B	<u>41.00</u>
	751.00
Less: 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 under section 10AA	

Duty drawback	52	
Profit on sale of import entitlement	33	85.00
		<u>666.00</u>
Deduction under section 10AA		
= 50% of 666 x 1420/1800 (since it is the 7 th year of operation)		262.70

Question 14

M/s PRK LLP, a limited liability partnership, set up a unit in Special Economic Zone (SEZ) on 1st April, 2018 to develop and export computer software. The unit complied with all the conditions of section 10AA. The net profit of the unit as per Statement of Profit & Loss for the year ended 31st March, 2025 was ₹ 65 lakhs after debiting/crediting the following items:

- (i) Profit on sale of import entitlement ₹ 9 lakhs.
- (ii) Remuneration to its working partners ₹ 58 lakhs.
- (iii) Interest of ₹ 20 lakhs at the rate of 16% per annum on partners' capital.
- (iv) Donation to a political party by cheque ₹ 3 lakhs.
- (v) Depreciation ₹ 17 lakhs.

Additional Information:

- (i) Payment of remuneration to working partners and interest on capital are authorized by the partnership deed.
- (ii) Brought forward business loss from assessment year 2022-23 was ₹ 4 lakhs.
- (iii) Unabsorbed depreciation brought forward from assessment year 2021-22 was ₹ 35 lakhs.
- (iv) Total and export turnover was ₹ 45 crores and sale proceeds in convertible foreign exchange received in India by 30th September, 2025 was 38 crores. Total export turnover of ₹ 45 crores include telecommunication charges of ₹ 5 crores attributable to delivery of software. Sale proceeds realization of ₹ 38 crores also include such telecommunication charges of ₹ 2 crores.
- (v) Depreciation allowable as per Income-tax Rules is ₹ 26 lakhs.

You are required to compute:

- (i) Income-tax (including AMT under section 115JC) payable by M/s PRK LLP for the A.Y. 2025-26.
- (ii) Amount of tax credit allowed to be carried forward.

Necessary working notes should form part of your answer.

Answer

Computation of total income and tax liability of M/s PRK LLP for A.Y.2025-26 (under the regular provisions of the Income-tax Act, 1961)

Particulars	Amount (₹)	Amount (₹)
Net profit as per Statement of Profit & Loss		65,00,000
Add: Items debited but to be considered separately or to be disallowed		

- Remuneration to its working partners	58,00,000	
- Interest@16% p.a. on partners' capital (Interest on capital account would be fully allowed to the extent of 12%, since the same is authorized by the partnership deed. Thus, interest in excess of 12% i.e., ₹ 20 lakhs/16% x 4% would be disallowed)	5,00,000	
- Donation to a political party [not allowed as deduction as per section 37(1) while computing business income, since it is not incurred wholly and exclusively for the business]	3,00,000	
- Depreciation	<u>17,00,000</u>	<u>83,00,000</u>
		1,48,00,000
Less: Permissible expenditure and allowances		
- Depreciation allowable as per Income-tax Rules, 1962	26,00,000	
- Unabsorbed depreciation under section 32(2) [allowable as deduction while computing book profit as per Explanation 3 to section 40(b)]	<u>35,00,000</u>	61,00,000
Profit on sale of import entitlement [taxable as profits and gains from business as per section 28, since the same has already credited in Statement of profit and loss, no further adjustment is required]		Nil
Book Profit		87,00,000
On first ₹ 6 lakh of book profit [₹ 6,00,000 × 90%]	5,40,000	
On balance ₹ 81 lakh of book profit [₹ 81,00,000 × 60%]	<u>48,60,000</u>	
	54,00,000	
Remuneration actually paid of ₹ 58,00,000 is allowable to the extent of		<u>54,00,000</u>
Business Income		33,00,000
Less: Brought forward business loss		4,00,000
Gross Total Income		29,00,000
Less: Deduction under section 10AA		
Profit from SEZ unit x Export Turnover/Total Turnover x 100% [₹ 24,00,000 x 36 crores/40 crores x 50% (since it is the 7 th year of operation)]		10,80,000
Profit derived from SEZ unit	33,00,000	
Less: Profits from sale of import entitlement [business income which are in the nature of ancillary profits, do not constitute profit 'derived from' business for the purpose of exemption under section 10AA]	<u>9,00,000</u>	
	<u>24,00,000</u>	
Export Turnover [₹ 38 crores - ₹ 2 crores, being telecommunication charges included therein. Telecommunication charges not includible in export turnover]	36 crores	
Total Turnover [₹ 45 crores - ₹ 5 crores, being telecommunication charges included therein. Since telecommunication charges has been excluded from export turnover, the same has to be excluded from total turnover also]	40 crores	

Less: Deduction under section 80GGC	
[Donation to political party [allowable as deduction under section 80GGC, as the donation was made otherwise than by way of cash]	3,00,000
Total Income	15,20,000
Tax liability	
Tax@30%	4,56,000
Add: Health and education cess@ 4%	18,240
Tax Liability	4,74,240
Tax Liability (rounded off)	4,74,240

Computation of adjusted total income of M/s PRK LLP and Alternate Minimum Tax

Particulars	Amount (₹)
Total Income (as computed above)	15,20,000
Add: Deduction under section 10AA	10,80,000
Adjusted Total Income	26,00,000
Alternate Minimum Tax@18.5%	4,81,000
Add: Health and Education cess@4%	19,240
Tax liability under section 115JC	5,00,240
Since the regular income-tax payable is less than the alternate minimum tax payable, adjusted total income shall be deemed to be total income and tax is leviable @18.5% thereof plus cess@4%. Therefore, the tax liability is ₹ 5,00,240 (rounded off).	
AMT Credit to be carried forward under section 115JEE	
Tax liability under section 115JC (rounded off)	5,00,240
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	4,74,240
Amount of Credit	26,000

Note – In the above solution, while computing deduction under section 10AA, the brought forward business loss of ₹ 4,00,000 is not deducted from profits derived from SEZ, considering the view that such profits have to be computed as per Chapter IV-D and hence, effect of carry forward and set-off of losses is not given.

Minimum Alternate Tax (MAT)**Question 15**

The profit as per the statement of profit and loss of XYZ Ltd., a resident company, for the year ended 31.3.2025 is ₹ 190 lacs arrived at after making the following adjustments:

	Particulars	₹ (in lacs)
(i)	Depreciation on assets	100
(ii)	Reserve for currency exchange fluctuation	50
(iii)	Provision for income tax	40
(iv)	Proposed dividend	120

Following further information are also provided by company:

- Profit includes ₹ 10 lacs, being dividend received from an Indian subsidiary company.
- Provision for income tax includes ₹ 2 lacs of interest payable on income-tax.
- Depreciation includes ₹ 40 lacs towards revaluation of assets.
- Amount of ₹ 50 lacs credited to statement of P & L was drawn from revaluation reserve.
- Balance of statement of profit and loss shown in balance sheet at the asset side as at 31.3.2024 was ₹ 30 lacs which includes unabsorbed depreciation of ₹ 10 lakhs.

Compute the book profit for the year ended 31.3.2025.

Answer**Computation of book profit of XYZ Ltd.**

Particulars	₹	₹
Profit as per Statement of Profit & Loss		1,90,00,000
Add: Net profit to be increased by the following amounts as per Explanation 1 below section 115JB(2)		
Depreciation on assets debited to Statement of P&L	1,00,00,000	
Reserve for currency exchange fluctuation, since amount carried to any reserve, by whatever name called, is to be added back	50,00,000	
Provision for tax (See Note below)	40,00,000	
Proposed dividend	1,20,00,000	3,10,00,000
		5,00,00,000
Less: Net profit to be decreased by the following amounts as per Explanation 1 below section 115JB(2)		
Depreciation other than depreciation on revaluation of assets (₹ 100 lacs - ₹ 40 lacs)	60,00,000	
Withdrawal from revaluation reserve restricted to the extent of depreciation on account of revaluation of assets (₹ 50 lacs or ₹ 40 lacs, whichever is less)	40,00,000	

Unabsorbed depreciation or brought forward business loss, whichever is less, as per the books of account. Unabsorbed depreciation ₹ 10 lakhs and brought forward business loss ₹ 20 lakhs – whichever is less	10,00,000	
		1,10,00,000
Book profit		3,90,00,000

Note – For the purpose of section 115JB, book profit means the profit as per the statement of profit and loss prepared in accordance with Schedule III to the Companies Act, 2013, as adjusted by certain additions/deductions as specified. One of the adjustments is to add back income-tax paid or payable, and the provisions therefor. Explanation 2 after sub-section (2) of section 115JB clarifies that income-tax includes interest on income tax. Therefore, the entire provision of ₹ 40 lacs for income-tax is added back for computing book profit for levy.

Question 16

Mahadev & Sons Ltd. is a Public Company whose accounts have been prepared in accordance with provisions of Schedule III of Company's Act. Its P&L for the year ended 31st March, 2025 shows a Net Profit of ₹ 27 Lakhs. The Company informs the following debit/credits have been made in the P & L A/c before arriving at the above stated Net Profit.

Credits to the P&L A/c		Debits to the P&L A/c	
1	Net Agricultural income in India - 11 Lakhs	1	Expenses relating to section 10AA undertaking - 16 Lakhs
2	Profits of industrial undertaking covered & qualified for deduction u/s 10AA - 30 lakhs	2	Current year Depreciation - 12 lakhs
3	Amount withdrawn from reserve created in P.Y. 2023-24 (This reserve was not made through Profit and Loss A/c in P.Y. 2023-24) - 4 Lakhs	3	Interest to bank not paid upto filing of ROI - 5 Lakhs
4	LTCG on sale of equity shares on which STT paid - 3.50 lakhs	4	Provision for unascertained liability - 3 lakhs
5	Amount withdrawn from Revaluation Reserve - 10 lakhs	5	Income-tax - 6 lakhs
		6	Penalty for infraction of Law 2 lakhs

Further Information:

- Depreciation for current year includes ₹ 5 Lakhs towards revaluation of assets.
- Depreciation relating to P.Y. 2023-24 b/f as per books ₹ 13 Lakhs
- Business Loss relating to P.Y. 2023-24 b/f as per books ₹ 10 lakhs

Compute the book profits of the Company for the year ended 31.03.2025 liable to tax under MAT.

Answer

Computation of "Book Profit" for levy of MAT under section 115JB

BY CA ATUL AGARWAL (AIR-1)
AIRICA Career Institute (ACI)

Particulars	₹	₹
Net Profit as per Statement of Profit and Loss		27,00,000
Add: Net profit to be increased by the following amounts as per Explanation 1 to section 115JB:		
• Current year depreciation as per books of account	12,00,000	
• Provision for unascertained liability	3,00,000	
• Income-tax	<u>6,00,000</u>	
		<u>21,00,000</u>
		48,00,000
Less: Net profit to be decreased by the following amounts as per Explanation 1 to section 115JB:		
• Net agricultural income [since the same is exempt u/s 10(1)]	11,00,000	
• Depreciation other than depreciation on revaluation of assets (₹ 12,00,000 - ₹ 5,00,000)	7,00,000	
• Unabsorbed depreciation or brought forward business loss, whichever is less, as per the books of account. [Lower of unabsorbed depreciation ₹ 13,00,000 and brought forward business loss ₹ 10,00,000 as per books of accounts has to be reduced while computing the book profit]	10,00,000	
• Amount withdrawn from revaluation reserve [to the extent of depreciation on revaluation]	<u>5,00,000</u>	<u>33,00,000</u>
Book Profit for levy of MAT		<u>15,00,000</u>

Notes:

- The profits from unit established in special economic zone cannot be excluded while computing the book profit as per proviso to section 115JB(6), and hence, such income would be liable for MAT. Hence, no adjustment is required in respect of credits or debits to P & L in respect of income and expenditure relating to SEZ.
- Long-term capital gains exceeding ₹ 1 lakh on sale of equity shares on which STT is paid is taxable u/s 112A. The same is not deductible while computing book profit for levy of MAT.
- Amount withdrawn from reserve created in P.Y.2023-24 cannot be reduced to compute book profit, since the book profit was not increased by the amount transferred to the reserve in the year 2023-24 as reserve was not made through Profit and Loss A/c.
- It is only the specific items mentioned under Explanation 1 to section 115JB, which can be adjusted from the net profit as per the Statement of Profit and Loss prepared as per the Companies Act for computing book profit for levy of MAT. Since the following items are not specified thereunder, the same cannot be adjusted for computing book profit:
 - Interest to bank (unpaid before filing of return) and
 - Penalty for infraction of law

Question 17

Sona Ltd., a resident company, earned a profit of ₹ 15 lakhs after debit/credit of the following items to its Statement of Profit and Loss for the year ended on 31.03.2025.

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

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

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

No.	Particulars	₹
1.	Profit from unit established in special economic zone	5,00,000
2.	Share in income of an AOP as a member	1,00,000
3.	Income from units of UTI	75,000
4.	Long term capital gains on sale of building	3,00,000

Other Information:

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

Compute minimum alternate tax under section 115JB of the Income-tax Act, 1961, for A.Y. 2025-26, assuming that Sona Ltd. is not required to comply with the Indian Accounting Standards.

Answer

Computation of "Book Profit" for levy of MAT under section 115JB

Particulars	₹	₹
Net Profit as per Statement of Profit and Loss		15,00,000
Add: Net profit to be increased by the following amounts as per Explanation 1 to section 115JB:		
- Provision for the loss of subsidiary	70,000	
- Provision for doubtful debts, being the amount set aside as provision for diminution in the value of any asset	75,000	
- Provision for income-tax	1,05,000	
[As per Explanation 2 to section 115JB, income-tax shall include,		

BY CA ATUL AGARWAL (AIR-1)
AIRICA Career Institute (ACI)

inter alia, any interest charged under the Act. Therefore, whole of the amount of provision for income-tax including ₹ 45,000 towards interest payable has to be added]		
- Depreciation	3,60,000	6,10,000
		21,10,000
Less: Net profit to be decreased by the following amounts as per Explanation 1 to section 115]B:		
- Share in income of an AOP as a member [In a case, where AOP has paid tax on its total income at maximum marginal rate, no income-tax is payable by the company, being a member of AOP, in accordance with the provisions of section 86. Therefore, share in income of an AOP on which no income-tax is payable in accordance with the provisions of section 86, would be reduced while computing book profit, since the same has been credited to statement of profit and loss]	1,00,000	
- Depreciation other than depreciation on revaluation of assets (₹ 3,60,000 – ₹ 1,50,000)	2,10,000	
- Unabsorbed depreciation or brought forward business loss, whichever is less, as per the books of account. [Lower of unabsorbed depreciation ₹ 4,00,000 and brought forward business loss ₹ 6,00,000 as per books of accounts has to be reduced while computing the book profit]	4,00,000	7,10,000
Book Profit		14,00,000

Computation of MAT liability under section 115]B

Particulars	₹
15% of book profit	2,10,000
Add: Health and education cess @ 4%	8,400
Minimum Alternate Tax liability	2,18,400

Notes:

- (1) It is only the specific items mentioned under Explanation 1 to section 115]B, which can be adjusted from the net profit as per the Statement of Profit and Loss prepared as per the Companies Act for computing book profit for levy of MAT. Since the following items are not specified thereunder, the same cannot be adjusted for computing book profit:
 - Interest to financial institution (unpaid before filing of return) and
 - Penalty for infraction of law
- (2) Provision for gratuity based on actuarial valuation is an ascertained liability. Hence, the same should not be added back to compute book profit.
- (3) As per proviso to section 115]B(6), profits from unit in special economic zone cannot be excluded while computing the book profit, and hence, such income would be liable for MAT.

Question 18

Agro Food Corporation Ltd., a domestic company engaged in manufacturing of FMCG products. It has business of manufacturing, marketing and selling of a wide range of food products and edible oils in India. The company has prepared Statement of Profit & Loss in accordance with the Schedule III to the Companies Act, 2013 and such Statement of Profit & Loss for the previous year ended 31.03.2025 shows a net profit of ₹ 89 lakhs.

The above net profit was arrived at in respect of its business activities after debiting/crediting the following amounts under different heads:

Debits to the Statement of Profit and loss:		₹ (lakh)
(i)	Expenditure relating to industrial undertaking qualifying for deduction u/s 10AA.	15.00
(ii)	Depreciation for current year under Companies Act, 2013.	34.00
(iii)	Interest to Financial Institution (an NBFC) not paid up to the date of filing return.	8.50
(iv)	Penalty for infraction of law	1.50
(v)	Proposed dividend	3.50
(vi)	Provision for Income-tax	2.75
(vii)	Transfer to General Reserve	5.00
(viii)	Expenditure relating to 80-IA undertaking	6.00
Credits to the Statement of Profit and Loss:		
(i)	Amount withdrawn from Reserve created during 2021-22 (Book Profit was not increased by the amount transferred to such reserve in the year 2021-22, i.e. This reserve was not made through Profit and Loss A/c in P.Y. 2021-22)	4.00
(ii)	Profits from an Industrial Undertaking covered and qualified for deduction under section 10AA of Income-tax Act	31.70
(iii)	Profits from an Industrial Undertaking covered and qualified under section 80-IA of Income-tax Act, 1961	7.00
(iv)	Deferred tax Credit	3.57
Additional Information:		
(i)	Brought forward Business Loss as per books	8.75
(ii)	Depreciation allowable under Income tax rules	42.00
(iii)	Brought forward Business Loss as per Income-tax Law	9.50
(iv)	Unabsorbed depreciation as per Income-tax Law	10.53
(v)	Unabsorbed depreciation as per Books	Nil

You are requested to compute the Book profit of the company as per section 115JB of the Income-tax Act, 1961 for A.Y. 2025-26.

Also compute the Minimum Alternate tax applicable on Books profits calculated as per section 115JB as applicable to Book Profits. Ignore Tax liability as per normal provisions of law

Answer

Computation of Book Profit and MAT liability under section 115JB

Particulars	₹	₹
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Net Profit as per Statement of Profit and Loss		89,00,000
Add: Net profit to be increased by the following amounts:		
- Depreciation	34,00,000	
- Proposed dividend	3,50,000	
- Provision for income-tax	2,75,000	
- Transfer to General Reserves, [Amount carried to any reserves, by whatever name called has to be added back]	<u>5,00,000</u>	<u>45,25,000</u>
		1,34,25,000
Less: Net profit to be decreased by the following amounts:		
- Depreciation	34,00,000	
- Amount withdrawn from reserve created during 2021-22 [Since the book profit of 2021-22 was not increased by the amount transferred to such reserve]	Nil	
- Deferred tax credit	3,57,000	
- Unabsorbed depreciation or brought forward business loss, whichever is less, as per the books of account. Lower of unabsorbed depreciation i.e., Nil and brought forward business loss ₹ 8,75,000 as per books of account has to be reduced]	<u>Nil</u>	<u>37,57,000</u>
Book Profit		96,68,000
Computation of MAT Liability		
15% of book profit (₹ 96,68,000 x 15%)		14,50,200
Add: Health and Education cess @4%		<u>58,008</u>
Minimum Alternate Tax liability		<u>15,08,208</u>
MAT liability (rounded off)		15,08,210

Notes:

- (1) Only the specified items mentioned under Explanation 1 to section 115JB can be added back to or reduced from the net profit as per the Statement of Profit and Loss prepared as per the Companies Act for computing book profit for levy of MAT. Since the following items are not specified thereunder, the same cannot be added back/reduced for computing book profit:
 - Interest to financial institution not paid before due date of filing of return of income
 - Penalty for infraction of law
 - Profits and Expenditure relating to undertaking eligible for deduction u/s 80-IA
- (2) As per the proviso to section 115JB(6), the profits from unit established in special economic zone cannot be excluded while computing the book profit, and hence, such income would be liable for MAT. Accordingly, expenditure and profits from an industrial undertaking eligible for deduction u/s 10AA cannot be added back/reduced for computing book profit.
- (3) Depreciation and brought forward business loss as per Income-tax Act, 1961 is not relevant for computing book profit for levy of MAT.

Question 19

Hyper Ltd., engaged in diversified activities, earned a profit of ₹ 14,25,000 after debit/credit of the following items to its statement of profit and loss for the year ended on 31.3.2025:

(a)	Items debited to Statement of Profit and Loss	₹
	Provision for loss of subsidiary	85,000
	Provision for income-tax demand	1,05,000
	Depreciation	3,60,000
	Interest on deposit credited to resident buyers on 31.3.2025 for advance received from them, on which TDS was deducted in April 2025 and deposited on 31.7.2025	1,00,000
(b)	Items credited to Statement of Profit and Loss	
	Long term capital gain on sale of equity shares on 31.1.2025 on which securities transaction tax was paid at the time of acquisition and sale	3,60,000
	Income from units of UTI	75,000

The company provides the following additional information:

- (i) Depreciation includes ₹ 1,50,000 on account of revaluation of fixed assets.
- (ii) Depreciation allowable as per Income-tax Rules is ₹ 2,80,000.
- (iii) Brought forward Business Loss/Unabsorbed Depreciation:

F.Y.	Amount as per books		Amount as per Income-tax	
	Loss ₹	Depreciation ₹	Loss ₹	Depreciation ₹
2020-2021	2,50,000	3,00,000	2,00,000	2,50,000
2021-2022	Nil	2,70,000	1,00,000	1,80,000
2022-2023	3,50,000	3,15,000	1,20,000	2,10,000

You are required to:

- (i) compute the total income of the company for the assessment year 2025-26 giving the reasons for treatment of items and
- (ii) examine the applicability of section 115JB of the Income-tax Act, 1961, and compute book profit and the tax credit to be carried forward.

Assume the tax rate applicable to Hyper Ltd is 30%. Ignore the provisions of section 115BAA.

Answer

Computation of total income of M/s Hyper Ltd.

Particulars	₹	₹
Profit as per Statement of Profit & Loss		14,25,000
Add: Items disallowed/considered separately		
Provision for loss of subsidiary [since it is not wholly and exclusively for the purpose of business of the assessee]	85,000	

Assessment/Taxation of Various Entities

Provision for income-tax [disallowed under section 40(a)(ii)]	1,05,000	
Interest on deposit credited on 31.3.2025 and tax deducted in April 2025 which was deposited on 31.7.2025 [30% disallowed under section 40(a)(ia) since, tax is deducted only in next year].	30,000	
Depreciation debited to statement of profit and loss [only depreciation calculated as per the Income-tax Rules, 1962 is allowable as deduction]	3,60,000	5,80,000
		20,05,000
Less: Items credited but not includible under business income or are exempt under the provisions of the Act		
Long-term capital gain on sale of equity shares on which securities transaction tax paid, since it is not a business income.	3,60,000	
Income from units of UTI, since it is not a business income.	75,000	4,35,000
		15,70,000
Less: Depreciation (allowable as per the Income-tax Rules, 1962)		2,80,000
		12,90,000
Less: Set-off of brought forward business loss and unabsorbed depreciation		
Brought forward business loss under section 72	4,20,000	
Brought forward depreciation under section 32	6,40,000	10,60,000
Income from business		2,30,000
Capital Gains		
Long term capital gain on sale of equity shares on which securities transaction tax was paid at the time of acquisition and sale		3,60,000
Income from Other Sources		
Income from units of UTI		75,000
Total Income		6,65,000
Tax on LTCG exceeding ₹ 1.25 lakhs [@ 12.5% x 2,35,000]		29,375
Tax on other income of ₹ 3,05,000 @ 30%		91,500
		1,20,875
Add: Health and Education cess @ 4%		4,835
Tax Payable as per the Income-tax Act, 1961		1,25,710

Computation of Book Profit under section 115JB

Particulars	₹	₹
Profit as per Statement of Profit & Loss		14,25,000
Add: Net Profit to be increased by the following amounts as per Explanation 1 below section 115JB(2)		
Provision for loss of subsidiary	85,000	
Provision for income-tax	1,05,000	

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Assessment/Taxation of Various Entities

Depreciation debited to statement of profit and loss	3,60,000	5,50,000
Less: Net Profit to be reduced by the following amounts as per Explanation 1 below section 115JB(2)		19,75,000
Depreciation debited to statement of profit and loss (excluding depreciation on account of revaluation of fixed assets) (i.e., ₹ 3,60,000 - ₹ 1,50,000)	2,10,000	
Brought forward business loss or unabsorbed depreciation as per books of account, whichever is less, taken on cumulative basis	6,00,000	8,10,000
Book Profit		11,65,000
15% of book profit		1,74,750
Add: Health and Education cess @ 4%		6,990
		1,81,740

Section 115JAA provides that where tax is paid in any assessment year in relation to the deemed income under section 115JB(1), the excess of tax so paid, over and above the tax payable under the other provisions of the Income-tax Act, 1961, will be allowed as tax credit in the subsequent years.

The tax credit is, therefore, the difference between the tax paid under section 115JB(1) and the tax payable on the total income computed in accordance with the other provisions of the Act. This tax credit is allowed to be carried forward for 15 assessment years succeeding the assessment year in which the credit became allowable.

Such credit is allowed to be set off against the tax payable on the total income in an assessment year in which the tax is computed in accordance with the provisions of the Act, other than section 115JB, to the extent of excess of such tax payable over the tax payable on book profits in that year.

Particulars	₹
Tax on book profit under section 115JB	1,81,740
Less: Tax on total income computed as per the other provisions of the Act	1,25,710
Tax credit to be carried forward under section 115JAA	56,030

Question 20

A domestic company, ABC Ltd., furnishes the following particulars in respect of Assessment Year 2025-26 and seeks your opinion on the application of section 115JB. You are also required to compute the total income and tax payable.

(1) Profits as per Statement of profit and loss as per the Companies Act, 2013	₹ 215 Lacs
(2) Statement of Profit and Loss includes:	
(a) Credits: Dividend income from Indian companies	₹ 20 Lacs
Excess realized on sale of land held as investment	₹ 30 Lacs
(b) Debits: Depreciation on straight line method basis	₹ 100 Lacs
Provision for loss of subsidiary company	₹ 60 Lacs

(3) Depreciation allowable as per the Income-tax Rules, 1962	₹ 150 Lacs
(4) Short term Capital gains on sale of land mentioned above as computed under Income-tax Act, 1961	₹ 40 Lacs
(5) Losses brought forward as per books of account and as per Income-tax Act, 1961:	
Business loss	₹ 50 Lacs
Unabsorbed depreciation	₹ 60 Lacs

You will have to deal with this issue assuming that ABC Ltd. is not required to comply with the Indian Accounting Standards. Ignore the provisions of section 115BAA.

Note - The turnover of ABC Ltd. for the P.Y.2022-23 was ₹ 390 crore.

Answer

In the case of a company, it has been provided that where tax @15% on of book profit exceeds tax on total income computed as per normal provisions, the book profit shall be deemed to be the total income for tax purposes.

It is therefore necessary to compute total income as per Income-tax Act, 1961 as well as book profits.

I. Computation of Total income as per the Income-tax Act, 1961

Particulars	₹ (in Lacs)	
Net profit as per statement of profit and loss		215
Add: Depreciation debited to statement of profit and loss	100	
Provision for losses of subsidiary company	60	160
		375
Less: Dividend income (considered separately)	20	
Excess realized on sale of land (considered separately)	30	
Depreciation allowable as per Income-tax Rules, 1962	150	200
Business Income		175
Less: Set-off of brought forward business loss		50
		125
Capital gains (Short term capital gains on sale of land)		40
Other Source - Dividend Income		20
		185
Less: Set-off of unabsorbed depreciation		60
Gross Total Income		125
Total Income as per Income-tax Act, 1961		125

II. Computation of book profit under section 115JB

Particulars	(₹ in Lacs)	
Net profit as per statement of profit and loss		215
Add: Provision for loss of subsidiary		60
Depreciation		100

Less: Depreciation	100	375
Business loss which is less than unabsorbed depreciation	50	150
"Book Profit"		225

III. Computation of Tax liability under the normal provisions of the Income-tax Act, 1961

Total income as per the Income-tax Act, 1961 is ₹ 125 lakhs,

Particulars	₹
Tax payable ₹ 125 lakhs @25% since the turnover of the company for the previous year 2022-23 does not exceed ₹ 400 crore.	31,25,000
Add: Surcharge @ 7%	2,18,750
	33,43,750
Add: Health and education cess @4%	1,33,750
Total Tax payable	34,77,500

IV. Computation of Minimum Alternate Tax

Particulars	₹
Tax @ 15% of book profit of ₹ 225 lakhs	33,75,000
Add: Surcharge @ 7%	2,36,250
	36,11,250
Add: Health and education cess@4%	1,44,450
Minimum Alternate Tax payable	37,55,700

Since 15% of book profit exceeds the tax payable as per normal provisions of the Income-tax Act, 1961, the book profit of ₹ 225 lakhs would be deemed to be the total income and the tax payable on such total income shall be 15% thereof i.e. ₹ 33,75,000 plus surcharge @7% being ₹ 2,36,250 plus health and education cess @4% (of tax and surcharge) being ₹ 1,44,450. **Total tax liability would be ₹ 37,55,700.**

Question 21

Anustup Chandra Flour Mills Ltd., a domestic company engaged in manufacture of wheat flour, furnishes the following information pertaining to the year ended 31.3.2025:

- (i) Net profit as per the Statement of Profit and Loss is ₹ 77 lakhs after considering the items listed in (ii) to (vi) below.
- (ii) The company is a member of Vishnu Foods & Co., an AOP in which the members' shares are determinate and their shares in profit/loss are clearly known. The AOP has paid tax at maximum marginal rate. During the year, the company has derived share income of ₹ 9 lakhs from the AOP. The company has spent a sum of ₹ 90,000 towards earning such income.
- (iii) The company has made provision for income-tax (including interest under sections 234B and 234C of ₹ 62,000) for ₹ 3 lakhs and ₹ 5 lakhs towards share in loss of foreign subsidiary.
- (iv) Amount debited to the Statement of Profit and Loss towards interest to a public financial

institution is ₹ 12 lakhs. Of this, only ₹ 4 lakhs was paid on 15.03.2025. Balance ₹ 8 lakhs is not paid till due date of filing of return of income.

- (v) 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 compounding fee of ₹ 1 lakh. This amount forms part of general expenses, which has been debited to the Statement Profit and Loss.
- (vi) In the administrative expenses, the company has debited a sum of ₹ 70,000 towards fee for delayed filing of statement of TDS under section 234E of the Income-tax Act, 1961.
- (vii) The company has credited revaluation surplus of ₹ 10 lakhs on fair valuation of assets under Ind AS 16 and Ind AS 38 to other equity.
- (viii) The company has credited ₹ 5 lakhs to other comprehensive income on fair valuation of equity instruments in which the company has Investment.

During the current year, the depreciation charged as per books of account of the company is the same as allowable under the Income-tax Act, 1961.

You are required to compute the total income and tax payable by the company for the A.Y. 2025-26 by examining the applicability of section 115JB. The company is an Ind AS compliant company.

Note: The Turnover of company for the P.Y 2022-23 was ₹ 350 crore.

Answer

Computation of Total Income of Anustup Chandra Flour Mills Ltd. as per the normal provisions of the Act

Particulars	₹	₹
Net Profit as per statement of profit and loss		77,00,000
Add: Items debited but to be considered separately or to be disallowed/amount taxable but not credited		
Expenditure on earning share income in AOP [Share income in AOP, which pays tax at maximum marginal rate is exempt in the hands of member. Consequently, expenditure incurred on earning exempt income is not allowable as deduction. Since the same has been debited in the statement of profit and loss, it has to be added back]	90,000	
Provision of income-tax (including interest u/s 234B and 234C) [Provision of income-tax is not allowable as deduction. Also, any interest payable for default committed by the assessee for discharging his statutory obligations under Income-tax Act, 1961 which is calculated with reference to the tax on income is not allowable as deduction. Since the provision and interest have been debited to statement of profit and loss, they have to be added back]	3,00,000	
Provision for loss of foreign subsidiary	5,00,000	

<p>[Since the loss of foreign subsidiary is not a loss incurred for the purpose of business of the assessee, it is not allowed while computing business income. Since the same has been debited in the statement to profit and loss, it has to be added back]</p>		
<p>Interest to a public financial institution</p> <p>[Deduction of any sum, being interest payable on any loan or borrowing from a public financial institution shall be allowed, if such interest has been actually paid. Since ₹ 4 lakhs has been paid on 15.03.2025, balance ₹ 8 lakhs debited to statement of profit and loss has to be added back, since such sum is not paid on or before due date of filing of return of income]</p>	8,00,000	
<p>Compounding fee paid for violation of building norms</p> <p>[The amount paid for compounding an offence is inevitably a penalty and the mere fact that it has been described as compounding fee cannot, in any way, alter the character of the payment which is in the nature of penalty. Hence, the same is not allowable as revenue expenditure. Since the same has been debited to statement of profit and loss, it has to be added back]</p>	1,00,000	
<p>Fee for delayed filing of statement of TDS</p> <p>[Under section 37, any expenditure incurred wholly and exclusively for the purpose of business or profession is allowed as deduction. The fee for delayed submission of statement of TDS is not in the nature of interest for delayed remittance of TDS or in the nature of penalty, which are not allowable as deduction while computing business income. Hence, it is allowable as deduction. Since the same has been debited to statement of profit and loss, no further adjustment is required]</p>		
<p>Revaluation surplus on fair valuation of assets under Ind AS 16 and 38 credited to other equity</p> <p>[No treatment is required under the regular provisions of the Income-tax Act, 1961. Since the same has not been credited to statement of profit and loss, no adjustment is required]</p>		
<p>Fair valuation of equity instruments</p> <p>[No treatment is required under the regular provisions of the Income-tax Act, 1961. Since the same has not been credited to statement of profit and loss, no adjustment is required]</p>		17,90,000
		94,90,000
<p>Less: Items credited to statement of profit and loss, but not includible in business income/permissible expenditure and allowances</p>		
<p>Share income in AOP</p> <p>[Where a company is a member in an AOP, the AOP would have to pay tax at the maximum marginal rate owing to which,</p>		9,00,000

company's share in the total income of AOP will not be included in its total income and will be exempt. Since the same has been credited to the statement of profit and loss, same has to be reduced while computing business income]	
Total income	85,90,000

Computation of book profit under section 115JB

Particulars	₹	₹
Net profit as per the statement of profit and loss		77,00,000
Add: Net profit to be increased by the following amounts as per Explanation 1 to section 115JB(2):		
Expenditure on earning share income in AOP [Expenditure related to share income in AOP has to be added back while computing the book profit, since no income-tax is payable by the company on share income in AOP]	90,000	
Provision of income-tax (including interest under section 234B and 234C) [Income-tax shall include, inter alia, any interest charged under the Act, therefore, whole of the amount of provision for income-tax including ₹ 62,000 towards interest payable has to be added]	3,00,000	
Provision for loss of foreign subsidiary [Provision for loss of subsidiary companies has to be added back]	5,00,000	8,90,000
Less: Net profit to be decreased by the following amounts as per Explanation 1 to section 115JB(2):		85,90,000
Share income in AOP [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]		9,00,000
Book profit computed in accordance with Explanation 1 to section 115JB(2)		76,90,000
Add: Items credited to OCI that will not be reclassified to profit or loss:		
Revaluation surplus on fair valuation of assets ₹ 10 lakhs [Book profit not to be increased by revaluation surplus for assets]		-
Income on fair valuation of equity instruments of ₹ 5 lakhs [Book profit not to be increased by income in fair values of equity instruments]		-
Book Profit for levy of MAT		76,90,000

Computation of tax liability

Particulars	₹
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Minimum Alternate Tax on book profit under section 115JB = 15% of ₹ 76,90,000	11,53,500
Income-tax computed as per the normal provisions of the Act [₹ 85,90,000 x 25% since, turnover of the company for P.Y. 2022-23 does not exceed ₹ 400 crores]	21,47,500
Since the income-tax liability of ₹ 21,47,500 is higher than the MAT liability of ₹ 11,53,500, the income-tax liability would be computed as per the normal provisions of the Income-tax Act, 1961:	
Income-tax computed as per the normal provisions of the Act	21,47,500
Add: Education cess 4%	85,900
Tax Payable	22,33,400
Tax Payable (rounded off)	22,33,400

Question 22

Alpha and Beta Tyres Limited, an Indian Company engaged in the manufacture of Tyres, has adopted Ind AS from 1.4.2022. The following particulars are provided for the year ended 31.3.2025:

Net profit as per statement of profit and loss is ₹ 20 crores after debit and credit of 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.

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.

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
2021-22	₹ 3 crores	₹ 1 crore
2022-23	₹ 5 crores	₹ 2 crores

3. Items credited to other comprehensive income which will not be reclassified to profit or loss:
 - (i) Re-measurement of defined employee retirement benefits plan ₹ 50 lakhs.
 - (ii) Revaluation surplus of property, plant and equipment ₹ 1 crore.
4. The transition amount as on convergence date 1.4.2022 stood at ₹ 5 crores including capital reserve of ₹ 50 lakhs (credit balance).
5. Tax payable under the regular provisions of the Income-tax Act, 1961 is ₹ 0.73 crores.

Required:

- (i) Compute Minimum Alternate Tax payable by the company for the Assessment Year 2025-26.
- (ii) Compute the amount of MAT credit eligible for carried forward.

Answer

Computation of MAT payable by Alpha and Beta Tyres Limited under section 115JB

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, 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 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
Book profit computed in accordance with Explanation 1 to section 115JB(2)		8,70,00,000
Add: Items credited to OCI that will not be reclassified to profit or loss:		

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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
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		1,76,46,720

Computation of MAT credit to be carried forward

Particulars	₹
MAT liability	1,76,46,720
Income-tax computed as per the normal provisions of the Act	73,00,000
Since the income-tax liability computed as per the regular provisions of the Income-tax Act, 1961 is less than 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 is ₹ 1,76,46,720.	
Computation of tax credit to be carried forward:	
Tax payable 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 23

Godavari Ltd. an Indian Company engaged in manufacture and sale of electrical appliances in India and abroad, started adoption of Ind AS with effect from 1st April, 2023. The following particulars are furnished for the year ended 31st March, 2025:

- (a) The book profit after adjustment of all items specified in section 115JB(2) amounted to ₹ 87.34 lakhs (except the adjustment for brought forward losses/unabsorbed depreciation), for the year ended 31.3.2025.
- (b) Brought forward losses as per books are as under: (₹ in lakhs)

Financial Year	Business loss	Depreciation
2022-23	8.20	7.60
2023-24	7.30	9.50

(c) The particulars of "Other Comprehensive Income" for the year ended 31.03.2025: (₹ In lakhs)

Other Comprehensive Income (OCI) that will not be re-classified to profit and loss:		Debit	Credit
(i)	Deferred costs of hedging	3.80	
(ii)	Changes in fair values of equity instruments	8.00	
(iii)	Revaluation surplus for assets		8.20
(iv)	Deferred gains on cash flow hedges		6.70
(v)	Re-measurement of post-employment benefit obligations		5.20
(vi)	Share of other comprehensive income of other associates		2.80
Other Comprehensive Income (OCI) that may be re-classified to profit and loss:		Debit	Credit
(i)	Deferred gains on cash flow hedges		8.20
(ii)	Comprehensive income from discontinued operations		5.30
(iii)	Exchange Differences of foreign exchange operations	1.80	
(iv)	Deferred costs of hedging	0.80	

(d) The transition amount as on convergence date (01.04.2023) stood at ₹ 48 lakhs (credit balance) including capital reserve of ₹ 6 lakhs and adjustment of ₹ 5 lakhs relating to translation difference in a foreign operation.

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

You are required to compute the MAT liability for the assessment year 2025-26, applying the provisions relating to Ind AS compliant companies. Assuming that the income tax under normal provisions of Income-tax Act, 1961 for the assessment year 2025-26 works out to ₹ 10.20 lakhs, compute the tax credit, if any, to be carried forward by the company including the period up to which it will be available to be carried forward.

Answer

Computation of MAT liability of Godavari Ltd. under section 115JB

Particulars	₹	₹
Book profit after adjustment of items under section 115JB(2) [except brought forward business loss & unabsorbed depreciation]		87,34,000
Less: Brought forward business loss [₹ 8,20,000 + ₹ 7,30,000]	15,50,000	
Unabsorbed depreciation [₹ 7,60,000 + ₹ 9,50,000]	17,10,000	32,60,000
[Since Godavari Ltd. is a company against which an application for corporate insolvency resolution process has been admitted by NCLT under section 7 of the Insolvency and		

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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].		
Book profit computed in accordance with Explanation 1 to section 115JB(2)		54,74,000
Add: Items credited to OCI that will not be reclassified to profit or loss:		
Deferred gains on cash flow hedges	6,70,000	
Share of Other Comprehensive Income of Other Associates	2,80,000	
Re-measurement of post-employment benefit obligations	5,20,000	
Revaluation surplus for assets ₹ 8,20,000 [Book profit not to be increased by revaluation surplus for assets as per proviso to section 115JB(2A)]	Nil	14,70,000
		69,44,000
Less: Items debited to OCI that will not be reclassified to profit or loss:		
Deferred costs of hedging	3,80,000	
Changes in fair values of equity instruments ₹ 8,00,000 [Book profit not to be decreased by changes in fair values of equity instruments as per proviso to section 115JB(2A)]	Nil	3,80,000
		65,64,000
Add: One-fifth of Transition amount [Credit Balance]		
Transition amount	48,00,000	
Less: Amounts to be excluded from above		
Capital Reserve	6,00,000	
Translation difference in foreign operations	5,00,000	
	37,00,000	
One-fifth of ₹ 37,00,000		7,40,000
Book Profit for levy of MAT		73,04,000
MAT on book profit under section 115JB = 15% of ₹ 73,04,000		10,95,600
Add: Health and education cess@4%		43,824
MAT liability		11,39,424
MAT liability (rounded off)		11,39,420

Computation of tax credit to be carried forward

Particulars	₹
MAT liability (rounded off)	11,39,420
Income-tax computed as per the normal provisions of the Act	10,20,000
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 would be deemed to be	

the total income and tax is leviable @15%: The total tax liability (rounded off) is ₹ 11,39,420.	
Computation of tax credit to be carried forward	
Tax payable on deemed total income	11,39,420
Less: Income-tax payable as per the normal provisions of the Act	10,20,000
Tax credit in respect of tax paid on deemed income	1,19,420
[Can be carried forward for 15 Assessment Years i.e., upto A.Y.2040-41]	

Question 24

Maitri Jeans (P) Ltd. is in the business of manufacturing jeans. For the assessment year 2025-26, it paid tax @ 15% on its book profit computed under section 115JB. The Assessing Officer though satisfied that it is liable to pay book profit tax U/s. 115JB, wants to charge interest under sections 234B and 234C as no advance tax was paid during the financial year 2024-25. The company seeks your opinion on the proposed levy of interest. Advice.

Answer

The issue under consideration is whether interest under sections 234B and 234C can be levied where a company is assessed on the basis of its book profit under section 115JB.

The Supreme Court, in *Joint CIT v. Rolta India Ltd.* (2011) 330 ITR 470, observed that there is a specific provision in section 115JB(5) providing that all other provisions of the Income-tax Act, 1961 shall apply to every assessee, being a company, mentioned in that section. Section 115JB is a self-contained code pertaining to MAT, and by virtue of sub-section (5) thereof, the liability for payment of advance tax would be attracted.

According to section 207, tax shall be payable in advance during any financial year, in accordance with the provisions of sections 208 to 219 (both inclusive), in respect of the total income of the assessee which would be chargeable to tax for the assessment year immediately following that financial year.

Under section 115JB(1), where the tax payable on total income is less than 15% of "book profit" of a company, the "book profit" would be deemed to be the total income and tax would be payable at the rate of 15%.

Since in such cases, the book profit is deemed to be the total income, therefore, as per the provisions of section 207, tax shall be payable in advance in respect of such book profit (which is deemed to be the total income) also.

Therefore, if a company defaults in payment of advance tax in respect of tax payable under section 115JB, it would be liable to pay interest under sections 234B and 234C.

Therefore, even though Maitri Jeans (P) Ltd. is assessed on the basis of its book profit under section 115JB for A.Y.2025-26, **it is liable to pay advance tax.** Since Maitri Jeans (P) Ltd. has not paid any advance tax during financial year 2024-25, **levy of interest under section 234B and 234C is valid.**

Tonnage Taxation

Question 25

Calculate tonnage income with respect to each of the following qualifying ships:

Qualifying Ships	Q1	Q2	Q3	Q4
Net Tonnage	1,020	8,563	22,368	37,525
Days for which ship operated during the P.Y.2024-25	120	70	250	100

Answer

Qualifying Ships	Q1	Q2	Q3	Q4
Net Tonnage (rounded off)	1,000	8,600	22,400	37,500
Daily Tonnage (₹)	700	4,728	10,678	15,395
Days for which ship operated during the P.Y.2024-25	120	70	250	100
Tonnage Income (₹)	84,000	3,30,960	26,69,500	15,39,500

Question 26

Tarun Shipping Co. Ltd., having its registered office in Mumbai, plies two ocean-going vessels which it owns. The registered tonnage of the two vessels are 47,516 tonnes and 200 kgs and 25,759 tonnes and 400 kgs respectively. In the accounting year 2024-25, the first vessel was operated for 360 days and the second for 200 days.

The accounts of the company reveal the following results:

- | | |
|--|--------------|
| (i) Profit from core shipping activity | ₹ 90.50 Lacs |
| (ii) Profit from incidental activity | ₹ 15,000 |

Compute the tax payable by company for A.Y. 2025-26, taking note of provisions relating to taxation of income of shipping companies. Assume the tax rate applicable to Tarun Shipping Co. Ltd is 30%.

Answer

Computation of tax payable by Tarun Shipping Company Ltd.

Particulars	₹
Tonnage income (See Working Note below)	89,86,600
Tax @ 30%	26,95,980
Add: Education cess @ 4%	1,07,839
Total tax payable	28,03,819

Working Note

Computation of Tonnage Income [Section 115VG]

Particulars	Ship 1 (₹)	Ship 2 (₹)
First 1,000 tons (1000 x 70/100)	700	700

Assessment/Taxation of Various Entities

Next 9,000 tons (9,000 x 53/100)	4,770	4,770
Next 15,000 tons (15,000 x 42/100)	6,300	6,300
Balance [(22,500/800) x 29/100]	6,525	232
	18,295	12,002

Tonnage income	₹
Ship 1 (18,295 x 360)	65,86,200
Ship 2 (12,002 x 200)	24,00,400
	89,86,600

Note: Tonnage is to be rounded off to the nearest multiple of 100 tons. Hence, the first vessel will pay for 47,500 tons and the second for 25,800 tons.

As per section 115VF, the tonnage income computed under section 115VG would be deemed to be profits chargeable under the head "Profits and gains of business or profession". Then, the relevant shipping income referred to in section 115-VI(1), which includes profit from core shipping activity (i.e. ₹ 90.50 Lacs) and the profit from incidental activity (₹ 15,000), shall not be chargeable to tax.

Question 27

Dolphy Ltd., a tonnage tax company provides following information for the P.Y. 2024-25:

- (i) Relevant Shipping Income - ₹ 350 lakhs
- (ii) Tonnage Income - ₹ 180 lakhs
- (iii) Book profits derived from core and incidental activities - ₹ 400 lakhs

Provide answers to following questions, considering each of questions given below independently:

- (a) Calculate the minimum reserve requirement of the company as per section 115VT.
- (b) Calculate the taxable amount under the other provisions of the Act, if Dolphy Ltd. transferred only ₹ 66 lakhs to tonnage tax reserve account during the P.Y. 2024-25.
- (c) Calculate the taxable amount under other provisions of Act, if Dolphy Ltd. mis-utilised amount of ₹ 12 lakhs out of ₹ 92 lakhs transferred to tonnage tax reserve account during P.Y. 2024-25.

Answer

- (a) The minimum reserve requirement of the company as per section 115VT = 20% of the book profits derived from core and incidental activities = ₹ 400 lakhs × 20% = **₹ 80 lakhs**
- (b) Taxable amount under the other provisions of the Act = Relevant shipping income × Shortfall in the credit to the reserves/Minimum reserve requirement = ₹ 350 lakhs × [(₹ 80 lakhs - 66 lakhs)/₹ 80 lakhs] = ₹ 350 lakhs × ₹ 14 lakhs/₹ 80 lakhs = **₹ 61.25 lakhs**
- (c) Taxable amount under the other provisions of the Act = Relevant shipping income × Extent of reserves misutilised/Total reserve created during the year = ₹ 350 lakhs × ₹ 12 lakhs/₹ 92 lakhs = **₹ 45.65 lakhs**

Taxation of Business Trust, Investment Fund and their Unitholders

Question 28

A business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the P.Y. 2024-25:

- (1) Interest income from Beta Ltd. – ₹ 4 crore;
- (2) Dividend income from Beta Ltd. – ₹ 2 crore;
- (3) Short-term capital gains on sale of listed shares of Beta Ltd. – ₹ 1.5 crore;
- (4) Short-term capital gains on sale of developmental properties – ₹ 1 crore
- (5) Interest received from investments in unlisted debentures of real estate companies – ₹ 10 lakh;
- (6) Rental income from directly owned real estate assets – ₹ 2.50 crore

Beta Ltd. is an Indian company in which the business trust holds 70% of the shareholding.

Discuss the tax consequences of the above income earned by the business trust in the hands of the business trust and the unit holders, assuming that the business trust has distributed ₹ 10 crore to the unit holders in P.Y. 2024-25. (Assume that Beta Ltd. does not opt to pay tax under section 115BAA)

Answer

Tax consequences in the hands of the business trust and its unit holders

- (1) **Interest income of ₹ 4 crore from Beta Ltd.:** There would be no tax liability in the hands of **business trust** due to pass-through status enjoyed by it under section 10(23FC)(a) in respect of interest income from Beta Ltd., being the special purpose vehicle. Therefore, **Beta Ltd. is not required to deduct tax at source on interest payment to the business trust.**

The distributed income or any part thereof, received by a unit holder from the REIT, which is in the nature of interest income received or receivable from a SPV is deemed **income of the unit holder** as per section 115UA(3).

The **business trust has to deduct tax at source under section 194LBA –**

- @ 10%, on interest component of income distributed to resident unit holders; and
- @ 5%, on interest component of income distributed to non-corporate non-resident and foreign companies unit holders.

The interest component of income received from the business trust in the hands of each unit-holder would be determined in the proportion of 4/11.1, by virtue of section 115UA(1).

- (2) **Dividend income of ₹ 2 crore from Beta Ltd.:** The dividend distributed by the SPV to the business trust is **exempt** by virtue of section 10(23FC). Any distributed income referred to in section 115UA, which is in the nature of dividend income received or receivable from SPV, in a case where SPV has exercised option u/s 115BAA, is taxable in hands of unitholders by virtue of section 10(23FD). However, since Beta Ltd., being a SPV **does not opt for section 115BAA, dividend component is exempt in the hands of unitholders.** Consequently, business trust is **not required to deduct tax at source on dividend component distributed to unitholders.**
- (3) **Short-term capital gains of ₹ 1.50 crore on sale of listed shares of Beta Ltd.:** As per section 115UA(2), the **business trust is liable to pay tax @ 20% under section 111A** in respect of

short-term capital gains on sale of listed shares of special purpose vehicle. There would, however, be **no tax liability** on the capital gain component of income distributed to **unit holders**, by virtue of the exemption contained in section 10(23FD).

- (4) **Short-term capital gains of ₹ 1 crore on sale of developmental properties:** It is taxable at maximum marginal rate of 42.744% in hands of business trust as per section 115UA(2). There would be **no tax liability in the hands of unit holders** on the capital gain component of income distributed to them, by virtue of the exemption contained in section 10(23FD).
- (5) **Interest of ₹ 10 lakh received in respect of investment in unlisted debentures of real estate companies:** Such interest is taxable @ 42.744%, being the maximum marginal rate, in the hands of the business trust, as per section 115UA(2). However, there would be **no tax liability in the hands of the unit holders** on the interest component of income distributed to them, by virtue of section 10(23FD).
- (6) **Rental income of ₹ 2.50 crore from directly owned real estate assets:** Any income of a business trust, being a REIT, by way of renting or leasing or letting out any real estate asset owned directly by such business trust is **exempt in hands of trust** as per section 10(23FCA).

Where income by way of rent is credited or paid to a business trust, being a REIT, in respect of any real estate asset held directly by such REIT, no tax is deductible at source u/s 194-I.

The distributed income or any part thereof, received by a unit holder 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 unit holder** as per section 115UA(3). The business trust has to **deduct tax at source @ 10% under section 194LBA** in case of distribution to a resident unit holder and at **rates in force** in case of distribution to a **non-resident** unit holder.

The rental income component received from the business trust in the hands of each unit-holder would be determined in the proportion of 2.5/11.1, by virtue of section 115UA(1).

Question 29

Buildwell Ltd., a Real Estate Investment Trust, registered under SEBI Regulations, holds 51% shares in HATS Ltd. Buildwell Ltd. provides the following information about its income for the F.Y. 2024-25.

- (i) Interest income from HATS Ltd. - ₹ 1 crore
- (ii) Dividend income from HATS Ltd. - ₹ 30 lakhs
- (iii) Short-term capital gains on sale of developmental properties - ₹ 1 crore
- (iv) Interest earned from investments in unlisted debentures of companies - ₹ 10 lakhs
- (v) Rental income from directly owned real estate assets - ₹ 25 lakhs

Mr. Vijay, a resident Indian, holds 70% of the units of the REIT. He does not have any other income during the year.

Compute the total income and tax payable in the hands of M/s Buildwell Ltd. and Mr. Vijay.

Note: HATS Ltd. has opted to pay tax under section 115BAA and Mr. Vijay has opted for section 115BAC. Ignore TDS implications.

Answer

Computation of total income of M/s Buildwell Ltd. (REIT) and Mr. Vijay (unit-holder)

Particulars	Buildwell (REIT)	Mr. Vijay (Unit-holder)
<p>(i) Interest income of ₹ 1 crore from HATS Ltd. (SPV) Interest income from SPV would be exempt in the hands of REIT by virtue of section 10(23FC)(a). The component of such interest income distributed to unit holders would be deemed as income of the unit holders as per section 115UA(3). Accordingly, ₹ 70 lakhs being 70% of ₹ 1 crore is taxable in the hands of the unitholder Mr. Vijay.</p>	Nil	70,00,000
<p>(ii) Dividend income of ₹ 30 lakhs from HATS Ltd. (SPV) The dividend distributed by the SPV to the REIT is exempt in the hands of REIT by virtue of section 10(23FC)(b). The component of such dividend income distributed to unitholders is taxable in the hands of unitholders, since HATS Ltd. (SPV) has exercised the option u/s 115BAA. Accordingly, ₹ 21 lakhs, being 70% of ₹ 30 lakhs, would be taxable in the hands of the unitholder Mr. Vijay.</p>	Nil	21,00,000
<p>(iii) Short-term capital gains of ₹ 1 crore on sale of developmental properties STCG on sale of development properties is taxable at maximum marginal rate of 42.744% in the hands of REIT as per section 115UA(2). There would be no tax liability in the hands of unit holders on the capital gain component of income distributed to them by virtue of exemption contained in section 10(23FD).</p>	1,00,00,000	Nil
<p>(iv) Interest of ₹ 10 lakhs earned in respect of investment in unlisted debentures of companies Such interest is taxable@42.744%, being the maximum marginal rate, in the hands of REIT as per section 115UA(2). There would be no tax liability in the hands of the unit holders on the interest component of income distributed to them by virtue of section 10(23FD).</p>	10,00,000	Nil
<p>(v) Rental income of ₹ 25 lakhs from directly owned real estate assets Income by way of renting or leasing or letting out any real estate asset owned directly by REIT is exempt in the hands of the REIT as per section 10(23FCA). However, the component of such rental income distributed to unitholders is deemed as income of the unit holders as per section 115UA(3). Accordingly, ₹ 17,50,000, being 70% of ₹ 25 lakhs would be taxable in the hands of Mr. Vijay.</p>	Nil	17,50,000
Total income	1,10,00,000	1,08,50,000

Computation of tax payable

Particulars	₹	₹
In the hands of REIT (M/s Buildwell)		
Tax on total income of ₹ 1,10,00,000 @ 42.744% [Maximum marginal rate - 30% + surcharge@37% + cess@4%]	47,01,840	
In the hands of the unitholder, Mr. Vijay who has opted for section 115BAC		
Upto ₹ 3,00,000		Nil
₹ 3,00,001 - ₹ 7,00,000 @5%		20,000
₹ 7,00,001 - ₹ 10,00,000 @10%		30,000
₹ 10,00,001 - ₹ 12,00,000 @15%		30,000
₹ 12,00,001 - ₹ 15,00,000 @20%		60,000
₹ 15,00,001 - ₹ 1,08,50,000@30%		<u>28,05,000</u>
		29,45,000
Add: Surcharge@15% since total income exceeds ₹ 1 crore		<u>4,41,750</u>
		33,86,750
Add: Health and education cess@4%		<u>1,35,470</u>
Tax payable		<u>35,22,220</u>

Notes:

- (i) It has been assumed that 100% of income received by the REIT is distributed to its unitholders.
- (ii) Since question specifically contains a note at the end to ignore TDS implications, tax payable is computed without deducting the amount of tax deducted at source.

Question 30

Beta, a Real Estate Investment Trust (REIT), registered under relevant SEBI Regulations, holds 65% shares in H Ltd. Beta REIT provides the following information about its income for the F.Y. 2024-25.

- (i) Interest income from H Ltd. - ₹ 12 crores
- (ii) Dividend income from H Ltd. - ₹ 2 crores
- (iii) Short-term capital gains on sale of developmental properties - ₹ 1.2 crore
- (iv) Interest received from investments in unlisted debentures of companies - ₹ 12 lakhs
- (v) Rental income from directly owned real estate assets - ₹ 2 crores

Mr. Arpan, a resident Indian, holds 70% of the units of the REIT. He acquired units in the REIT at an issue price of ₹ 1.5 crores. He does not have any other income during the year. During P.Y. 2024-25, REIT distributed ₹ 20 crores to its unit holders.

Compute the total income in the hands of Beta Ltd. and Mr. Arpan.

Note: H Ltd. has opted to pay tax under section 115BAA. Ignore TDS implications.

Answer

Computation of total income in the hands of Beta, REIT and Mr. Arpan (unit-holder)

Particulars	Beta (REIT)	Mr. Arpan (Unit-holder)
<p>Interest income of ₹ 12 crores from H Ltd. (SPV) Interest income from SPV would be exempt in the hands of REIT by virtue of section 10(23FC)(a). The component of such interest income distributed to unit holders would be deemed as income of the unit holders as per section 115UA(3). Accordingly, ₹ 8.4 crores being 70% of ₹ 12 crores is taxable in the hands of the unitholder Mr. Arpan.</p>	Nil	8,40,00,000
<p>Dividend income of ₹ 2 crores from H Ltd. (SPV) The dividend distributed by the SPV to the REIT is exempt in the hands of REIT by virtue of section 10(23FC)(b). The component of such dividend income distributed to unitholders is taxable in the hands of unitholders by virtue of the exception contained in section 10(23FD), since H Ltd. (SPV) has exercised the option u/s 115BAA. Accordingly, ₹ 1.40 crore, being 70% of ₹ 2 crores, would be taxable in the hands of the unitholder Mr. Arpan.</p>	Nil	1,40,00,000
<p>Short-term capital gains of ₹ 1.2 crore on sale of developmental properties STCG on sale of development properties is taxable at maximum marginal rate in the hands of the REIT as per section 115UA(2). There would be no tax liability in the hands of the unit holders on the capital gain component of income distributed to them by virtue of exemption contained in section 10(23FD).</p>	1,20,00,000	Nil
<p>Interest of ₹ 12 lakh received in respect of investment in unlisted debentures of companies Such interest is taxable at maximum marginal rate in the hands of the REIT as per section 115UA(2). There would be no tax liability in the hands of the unit holders on the interest component of income distributed to them by virtue of section 10(23FD).</p>	12,00,000	Nil
<p>Rental income of ₹ 2 crores from directly owned real estate assets Income by way of renting or leasing or letting out any real estate asset owned directly by REIT is exempt in the hands of the REIT as per section 10(23FCA). However, the component of such rental income distributed to unitholders is deemed as income of the unit holders as per section 115UA(3). Accordingly, ₹ 1.4 crores, being 70% of ₹ 2 crores would be taxable in the hands of Mr. Arpan.</p>	Nil	1,40,00,000
<p>Other income distributed to unitholders</p>	-	37,60,000

As per section 115UA(3A), any sum other than interest and dividend received from SPV, rental income and income which are chargeable to tax in the hands of REIT, in the present case it is STCG on sale of developmental properties and interest on unlisted debentures, would be chargeable to tax under section 56(2)(xi) in the hands of unitholders as income from other sources. In the present case, ₹ 37,60,000 [₹ 1.876, being 70% of ₹ 2.68 [₹ 20 crores - ₹ 17.32 (₹ 12 crores + ₹ 2 crores + ₹ 1.2 crores + ₹ 12 lakhs + ₹ 2 crores)] Less ₹ 1.5 crores, being the issue price of units held by Mr. Arpan] would be taxable as Income from other sources.		
Total income	1,32,00,000	11,57,60,000

Question 31

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.

The particulars of income of the Investment fund for the previous year 2024-25 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. 2025-26.

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., 31.03.2025.**

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 32

The following are the particulars of income of four investment funds for P.Y.2024-25:

Particulars	A	B	C	D
	₹ in lakh			
Business Income		2	(2)	5
Capital Gains	16	14	(6)	20
Income from other sources	4	4	8	(2)

Compute the total income of the investment funds and unit-holders for A.Y.2025-26, assuming that:

- (1) each investment fund has 20 unit holders each having one unit held by them for a period exceeding 12 months; and
- (2) income from investment in the investment fund is the only income of the unit-holder.

If Investment Fund C has the following income components for A.Y. 2026-27, what would be the total income of the fund and the unit holder for that year?

Business Income ₹ 2 lakh

Capital Gains ₹ 9 lakh

Income from Other Sources ₹ 8 lakh

Answer

Computation of total income of the investment fund

Particulars	A	B	C	D
	₹			
Business Income	Nil	2,00,000	Nil	3,00,000
Total Income	Nil	2,00,000	Nil	3,00,000

Computation of total income of a unit holder of the following Investment funds

Particulars	A	B	C	D
	₹			
Capital Gains	80,000	70,000	-	1,00,000
Income from other sources	20,000	20,000	30,000	-
Total Income	1,00,000	90,000	30,000	1,00,000

Notes:

- (i) The total income of Investment Fund B would be chargeable to tax @30% if the fund is a firm and @ 30%/25%, as the case may, if the fund is a company and at the maximum marginal rate, in any other case.
- (ii) In case of Investment Fund D, the loss from other sources ₹ 2 lakh is set-off against business income of ₹ 5 lakh.
- (iii) In case of Investment Fund C, the business loss of ₹ 2 lakh is set-off against income from other sources of ₹ 8 lakh. Loss of ₹ 6 lakh under the head "Capital gains" cannot be set-off against income under any other head. The same can be carried forward by the Unit-holder for set-off in the subsequent years since, the units are held for a period of 12 months or more.
- (iv) For A.Y.2026-27, the brought forward capital loss of ₹ 30,000 [₹ 6 lakh/20] can be set-off against capital gains of ₹ 45,000 [₹ 9 lakh/20] by the unit-holder since, the period of holding of units is 12 months or more. Business income of ₹ 2 lakh would be taxable in the hands of the Investment Fund. Income from other sources of ₹ 40,000 (₹ 8 lakh/20) would be taxable in the hands of the unit-holders.

Question 33

Mr. Rajesh is a resident unitholder of PQR Ltd. and Shipra Ltd. PQR Ltd. is incorporated as an Investment Fund and Shipra Ltd. is a Real Estate Investment Trust. (REIT), which holds 100% shareholding in GPL Ltd., an Indian company. Mr. Rajesh holds 10% units in both Shipra Ltd. and PQR Ltd. since the year 2022.

BY CA ATUL AGARWAL (AIR-1)
AIR1CA Career Institute (ACI)

The particulars of income of Shipra Ltd. and PQR Ltd. for the previous year 2024-25 are given below:

Particulars	Shipra Ltd.	PQR Ltd.
Dividend Income from GPL Ltd.	₹ 2 crores	
Interest Income from GPL Ltd.	₹ 3 crores	
Short-term capital gains on sale of developmental properties	₹ 1 crore	
Business income		₹ 35 lakhs.
Long-term capital losses		₹ 27 lakhs
Interest income		₹ 52 lakhs

GPL Ltd. does not exercise option u/s 115BAA. Shipra Ltd. and PQR Ltd. distribute 90% of its income to unit-holders during the year after deducting applicable TDS. Compute total income and net tax payable (after TDS) by Mr. Rajesh for A.Y. 2025-26, assuming that he has opted for section 115BAC.

Answer

Computation of total income and tax payable in the hands of Mr. Rajesh

Particulars	₹
Dividend income from GPL Ltd. (SPV) As per section 10(23FD), the component of dividend income distributed to unitholders is not taxable in the hands of unitholders, since GPL Ltd. (SPV) has not exercised the option u/s 115BAA. Accordingly, ₹ 18 lakhs (10% of ₹ 1.80 crore, being 90% of ₹ 2 crore), being the dividend component of income received by Mr. Rajesh from Shipra Ltd. is not taxable in his hands.	
Interest income from GPL Ltd. (SPV) As per section 115UA(3), interest income distributed to unit holders would be deemed as income of the unit holders. Accordingly, ₹ 27 lakhs [i.e., 10% of ₹ 2.7 crores (90% of ₹ 3 crores)], being the interest component of income distributed to Mr. Rajesh, is taxable in the hands of the Mr. Rajesh.	27,00,000
Short-term capital gain on sale of development properties by Shipra Ltd. As per section 115UA(2), STCG on sale of development properties is taxable at maximum marginal rate of 42.744% in the hands of the REIT. No tax liability arises in hands of Mr. Rajesh on ₹ 9 lakh (10% of ₹ 90 lakh, being 90% of ₹ 1 crore), being capital gain component of income distributed to him, by virtue of section 10(23FD).	
Business Income of PQR Ltd. Business income of an investment fund is taxable in hands of investment fund. Consequently, as per section 10(23FBB), business income accruing or arising to or received by a unitholder of investment fund is not taxable in his hands.	
Long-term capital loss of PQR Ltd. Long-term capital loss of ₹ 2,70,000 (10% of ₹ 27 lakhs) can be carried forward and set-off by Mr. Rajesh, since he holds such units 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.	

Interest income of PQR Ltd.	5,20,000
As per section 10(23FBA), interest income would be exempt in the hands of investment fund. As per section 115UB, ₹ 5,20,000 lakhs (10% of ₹ 52 lakhs) would be taxable as income from other sources in the hands of Mr. Rajesh. Even if investment fund distributed only 90% of its income to the unit holders during the year, remaining 10% of income would be deemed to be credited to account of each unitholder on the last day of previous year i.e., 31.03.2025.	
Total income	32,20,000

Computation of tax payable by Mr. Rajesh

Particulars	₹	₹
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 @5%	20,000	
₹ 7,00,001 – ₹ 10,00,000 @10%	30,000	
₹ 10,00,001 – ₹ 12,00,000 @15%	30,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	60,000	
₹ 15,00,001 – ₹ 32,20,000@30%	<u>5,16,000</u>	6,56,000
Add: Health and education cess @4%		<u>26,240</u>
Tax liability		6,82,240
Less: Tax deducted at source		
- under section 194LBA @ 10% by Shipra Ltd. in respect of interest income from SPV	2,70,000	
- under section 194LBB @10% by PQR Ltd.	<u>52,000</u>	<u>3,22,000</u>
Net Tax payable		<u>3,60,240</u>

Miscellaneous

Question 34

Sakshi Pvt. Ltd was converted into limited liability partnership (LLP) as Sakshi LLP on 1.07.2024. You are provided with the following particulars of Sakshi Pvt. Ltd. as on 31.03.2024:

- Unabsorbed depreciation ₹ 25 Lakhs
- Business loss ₹ 23 Lakhs (relating to P.Y.2019-20)
- Unadjusted MAT credit u/s 115JAA ₹ 6 lakhs
- Written down value of the assets as per section 43(6) of the Income-tax Act:
Plant and Machinery (15%) ₹ 12 Lakhs (Market Value ₹ 18 Lakhs), Plant and Machinery ₹ 60 Lakhs (cost) – deduction claimed u/s 35AD, Building (10%) ₹ 30 Lakhs (Market Value ₹ 120 Lakhs)
- Cost of land (acquired in year 2005) ₹ 60 lakhs (Market value ₹ 105 Lakhs)
- Expenditure on voluntary retirement incurred by company during P.Y. 2022-23 is ₹ 25 Lakhs.

The company has been allowed deduction of ₹ 5 Lakhs for each year for the P.Y. 2022-23 and P.Y. 2023-24 u/s 35DDA.

Explain the tax treatment of each item stated above in the hands of LLP, assuming that the conversion satisfies all the conditions laid down in section 47(xiiib).

Answer

Tax treatment in the hands of Sakshi LLP on conversion of Sakshi Pvt. Ltd. into Sakshi LLP

(i)	<p>Unabsorbed depreciation of ₹ 25 lakhs</p> <p>As per section 72A(6A), Sakshi LLP would be able to carry forward and set-off the unabsorbed depreciation of ₹ 25 lakhs of Sakshi Pvt. Ltd. as on 31.3.2025.</p> <p>However, if subsequent to the conversion, Sakshi LLP fails to fulfill any of the conditions mentioned in section 47(xiiib), the set-off of depreciation so made in any previous year would be deemed to be the income chargeable to tax in the year in which such conditions are not complied with.</p>
(ii)	<p>Business loss of ₹ 23 lakhs (relating to P.Y. 2019-20)</p> <p>As per section 72A(6A), the business loss of ₹ 23 lakhs of Sakshi Pvt. Ltd. would be deemed to be the loss of Sakshi LLP for P.Y. 2024-25 and it would be able to set off and carry forward such loss.</p> <p>The carry forward is for 8 assessment years subsequent to the assessment year 2025-26.</p> <p>However, if subsequent to the conversion, Sakshi LLP fails to fulfill any of the conditions mentioned in section 47(xiiib), the set-off of business loss so made in any previous year would be deemed to be the income chargeable to tax in the year in which such conditions are not complied with.</p>
(iii)	<p>Unadjusted MAT credit u/s 115JAA of ₹ 6 lakhs</p> <p>As per section 115JAA(7), in case of conversion of Sakshi Pvt. Ltd. into Sakshi LLP, the credit for MAT paid by Sakshi Pvt. Ltd. cannot be availed by the successor LLP i.e., Sakshi LLP.</p>
(iv)	<p>Depreciation and written-down value of assets</p> <p>In case of conversion of Sakshi Pvt. Ltd. into Sakshi LLP, depreciation on assets shall be apportioned between the company and LLP in the ratio of the number of days for which the assets were used by them.</p> <p>Total Depreciation</p> <p>Plant and machinery (15%) = ₹ 12 lakhs x 15% = ₹ 1,80,000</p> <p>Building (10%) = ₹ 30 lakhs x 10% = ₹ 3,00,000</p> <p>In the hands of Sakshi LLP (for 274 days)</p> <p>Plant and machinery (15%) = ₹ 1,80,000 x 274/365 = ₹ 1,35,123</p> <p>Building (10%) = ₹ 3,00,000 x 274/365 = ₹ 2,25,205</p> <p>WDV in the hands of Sakshi LLP</p> <p>As per section 43(6), the actual cost of the block of assets in the hands of Sakshi LLP shall be the WDV of the block of assets as in the case of Sakshi Pvt. Ltd. on the date of conversion.</p> <p>WDV of P & M (15%) = ₹ 12 lakhs - ₹ 44,877 (1,80,000 x 91/365) = ₹ 11,55,123</p> <p>WDV of Building (10%) = ₹ 30 lakhs - ₹ 74,795 (3,00,000 x 91/365) = ₹ 29,25,205</p>

	Actual cost of Plant and machinery on which deduction has been allowed or is allowable to the assessee under section 35AD would be 'NIL' in the hands of Sakshi Pvt. Ltd. and Sakshi LLP.
(v)	<p>Cost of land acquired in 2005 at ₹ 60 lakhs (Market value ₹ 105 lakhs)</p> <p>The cost of acquisition of land in the hands of Sakshi LLP would be the cost for which Sakshi Pvt. Ltd. acquired it, i.e., ₹ 60 lakh.</p>
(vi)	<p>Expenditure on voluntary retirement benefit of ₹ 25 lakhs</p> <p>As per section 35DDA, in case of conversion of Sakshi Pvt. Ltd. into Sakshi LLP, deduction would be available to Sakshi LLP for the remaining periods from the previous year in which conversion took place. Since deduction of ₹ 5 lakh each has been claimed by Sakshi Pvt Ltd. in P.Y. 2022-23 and P.Y. 2023-24, Sakshi LLP would be eligible for deduction of ₹ 5 lakh each for the remaining three previous years, namely P.Y.2024-25, P.Y.2025-26 and P.Y.2026-27 under section 35DDA.</p>

CHAPTER - 9

Charitable Trusts, Political Parties and Electoral Trust

Charitable/Religious Trust Basics

Question 1

An institution having its main object as "advancement of general public utility" received ₹ 30 lakhs in aggregate during the year from an activity in the nature of trade. The total receipts of the institution, including donations, was ₹ 140 lakhs. It applied 85% of its total receipts from such activity during the same year for its main object i.e. advancement of general public utility.

- (i) What would be the tax consequence of such receipt and application thereof by the institution?
- (ii) Would your answer be different if the institution's total receipts had been ₹ 150 lakhs (instead of ₹ 140 lakhs) in aggregate?
- (iii) What would be your answer if the main object of the institution is "relief of the poor" and the institution receives ₹ 30 lakhs from a trading activity, when its total receipts are ₹ 140 lakhs and applies 85% of the said receipts for its main object?

Answer

- (i) As the main object of the institution is "advancement of object of general public utility", the institution will lose its "charitable" status, **since it has received ₹ 30 lakhs from an activity in the nature of trade, which exceeds ₹ 28 lakhs, being 20% of the total receipts** of the institution undertaking that activity for the previous year. The application of 85% of such receipt for its main object during the year would not help in retaining its "charitable" status for that year. The institution **will lose its** charitable status and consequently, the **benefit of exemption of income**, irrespective of the fact that its **approval is not withdrawn or its registration is not cancelled**.
- (ii) If the total receipts of the institution is ₹ 150 lakhs, and the institution receives ₹ 30 lakhs in aggregate from an activity in the nature of trade, then it will not lose its "charitable" status **since receipt of upto 20% of total receipts of the institution** in a year from such activity is permissible. The institution **can claim exemption** subject to fulfilment of other conditions under sections 11 to 13. Further, such activity should also be undertaken in course of actual carrying out of such advancement of any other object of general public utility.
- (iii) The **restriction** regarding carrying on of a trading activity for a cess, fee or other consideration **will not apply if the main object of the institution is "relief of the poor"**. Therefore, receipt of ₹ 30 lakhs from a trading activity by such an institution will not affect its "charitable" status, even if it exceeds 20% of the total receipts of the institution. The institution **can claim exemption** subject to fulfilment of other conditions under sections 11 to 13.

Question 2

"Save Wild Life" an institution having its main object as 'preservation of wildlife', used the entire income derived from an activity in the nature of trade for its main object. Would such utilization of its income be treated as utilisation for "charitable purpose"? Examine. Would your answer be different,

if the main object of the institution is "advancement of object of general public utility"?

Answer

Section 2(15) defines "charitable purpose" to include relief of the poor, education, yoga, medical relief, preservation of environment (including watersheds, forests and wildlife) and preservation of monuments or places or objects of artistic or historic interest and the advancement of any other object of general public utility. However, the "advancement of any other object of general public utility" shall not be a charitable purpose, if the institution is carrying on any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application, or retention, of the income derived from such activity.

Therefore, **preservation of wildlife is included in the definition of "charitable purpose"** under section 2(15). Further, an institution having the preservation of wildlife as its main object **would not be subject to the restrictions** which are applicable to the "advancement of any other object of general public utility". Such institution would continue to retain its "charitable" status, even if it derives income from an activity in the nature of trade.

However, if an institution having its main object as "advancement of any other object of general public utility", derives income from an activity in the nature of trade during a financial year, it would lose its "charitable" status for that year, even if it applies such income for its main objects.

It may be noted that if the **receipts from such activity does not exceed 20% of the total receipts in that year**, then, the institution would not lose its "charitable" status, even if its main object is "advancement of any other object of general public utility", if such activity is undertaken in the course of actual carrying out of such advancement of any other object of general public utility.

Question 3

A charitable trust derives its income from the business of providing mineral water to various companies situated in Software Technology Park in Hyderabad. A sum of ₹ 30 lacs has been derived as net income from such business activity, which has been applied for the object of general public utility. The total receipts of the trust were ₹ 140 lakhs. Examine the taxability of application of the income. Would your answer be different, if the trust runs a school in a backward district and applies the profits from the business for such school's activity?

Answer

In the first case, net income from the **business of supplying mineral water to various companies i.e., ₹ 30 lakhs is not eligible for exemption under section 11**, since the receipt from such activity exceeds 20% of total receipts (i.e., 20% of ₹ 140 lakhs) during the year. This is because "advancement of any object of general public utility" would not be a charitable purpose if it involves carrying on of any activity in the nature of trade, commerce or business, for example, supply of mineral water for a consideration, as in this case. It is immaterial that the net income from such business is applied for the object of general public utility.

On the other hand, **where the trust runs a school in a backward district, this restriction is not applicable.** The reason is that the restriction contained in section 2(15) is applicable only to the last

limb of definition of "charitable purpose" i.e. advancement of object of general public utility. It does not affect the other limbs of definition viz. "relief of the poor", "education", "and medical relief" etc.

Section 11(4) clarifies that "property held under trust" includes a business undertaking so held. As per section 11(4A), exemption can be availed in respect of profits and gains of business, if such business is incidental to the attainment of the objectives of the trust and separate books of account are maintained in respect of such business. Therefore, in the second case, the profit from the business shall be eligible for exemption under section 11, assuming that the said business is incidental to the attainment of the objects of the trust (i.e., education) and books of account for such business activity is maintained separately.

Question 4

An educational institution having annual receipts of ₹ 3.80 crore, has availed exemption under section 10(23C)(iiia). The Assessing Officer has denied exemption on the grounds that educational institution has not made any application to prescribed authority for approval under the said section 10(23C)(iiia). Examine the action of the Assessing Officer in denying the exemption.

Answer

As per section 10(23G)(iiia), income of any university or other educational institution existing solely for educational purposes and not for purposes of profit would be exempt if the aggregate annual receipts of such university or educational institution do not exceed ₹ 5 crore. Therefore, the exemption available under this section can be availed without making any application to the prescribed authority.

Therefore, action of Assessing Officer in denying exemption to educational institution is **not correct**.

Question 5

Leeladhar Memorial Trust runs an educational institution, which is engaged solely in education, received annual receipts amounting to ₹ 2.40 crores. The trust also runs a hospital for treatment of persons suffering from mental defectiveness solely for philanthropic purposes. The total receipts for the hospital amounted to ₹ 2.50 crores.

Leeladhar Memorial Trust is not registered under the Income-tax Act, 1961 for tax exemption u/s. 11, 12 or any other such clause. The consultant of the trust told them they are not required to pay any tax even not given Registration under the Act. Examine the consultants' view discussing the relevant provisions of Income-tax Act, 1961.

Answer

The condition of approval or registration is not required in the following cases -

- An educational institution existing solely for educational purposes whose aggregate annual receipts do not exceed ₹ 5 crore is eligible for exemption under section 10(23C)(iiia);
- A hospital for treatment of persons suffering from mental defectiveness existing solely for philanthropic purposes whose aggregate annual receipts do not exceed ₹ 5 crore is eligible for exemption under section 10(23C)(iiia);

A trust running an educational institution and a hospital or both would be eligible for exemption under section 10(23C), without the condition of approval or registration, **if the combined aggregate annual receipts from the educational institution and hospital does not exceed ₹ 5 crore.**

In this case, Leeladhar Memorial Trust's combined receipts of ₹ 4.90 crores from educational institution (₹ 2.40 crores) and hospital (₹ 2.50 crores), does not exceed ₹ 5 crores.

Therefore, the **consultant's view** that the trust is not required to pay tax even if it is not registered under section 11 or 12 or any other clause is **correct.**

Question 6

The Head of Accounts of Fit Me Foundation, a trust, established for the purpose of promotion of Yoga has approached you to guide him about the tax implications of the following:

- (i) During the financial year, it received a voluntary contribution of ₹ 125 lakhs with a specific direction that it should form part of the corpus of the trust. The trust invested such amount in the shares of M/s. Bend and Blend Private Ltd., a private sector company.
- (ii) Apart from above-mentioned ₹ 125 lakhs, it received ₹ 95 lakhs from other voluntary contributions and ₹ 60 lakhs of fees towards providing Yoga classes.

Answer

- (i) Voluntary contribution of ₹ 125 lakhs received with a specific direction that it will form part of corpus of the trust would be **exempt from tax only if it is invested in any of the modes specified under section 11(5)** specifically maintained for such corpus. If the same is not so invested, then, it would not be exempt under section 11(1)(d).

Investment in shares of private company is not a specified mode under section 11(5). Hence, ₹ 125 lakhs received by Fit Me Foundation **would not be exempt** under section 11. Also, the same will be taxable @ 30% under **section 115BBI.**

- (ii) Yoga is included in the definition of "**charitable purpose**" under section 2(15).

Accordingly, voluntary contributions of ₹ 95 lakhs and fees towards providing Yoga classes of ₹ 60 lakhs would be **income from property held for charitable purposes and eligible for unconditional exemption of 15%** under section 11. Exemption will be available under section 11 subject to the fulfilment of necessary conditions.

Question 7

MSO Foundation, a registered charitable institution is engaged in providing education in hotel management. The organisation acquires a building for using the same for holding classes and office activities. It has approached you for your opinion on its eligibility to claim cost of building and also depreciation thereon in current year and subsequent year. Advise the institution indicating reasons.

Would your advise change, if building has been acquired out of loan taken from bank, to be repaid in instalments?

Answer

- (i) 15% of income from property held for charitable purposes is exempt from tax under section 11. The remaining 85% of such "income" would be exempt if it is "applied" for charitable purposes in India.

Application of the amount can be for revenue or capital purposes. As long as the expenditure is incurred out of income earned by the trust and for the purposes of carrying on the objects of the trust, it would be treated as application of income even if such expenditure is for capital purposes. Therefore, since the building is acquired by the organization for holding classes and office activities, which is for the purposes of carrying on the objects of the charitable institution i.e., for providing education in hotel management, **the cost of the building would be treated as application of income.**

However, section 11(6) provides that **where the cost of building is claimed as application, no other deduction for depreciation** or otherwise would be allowed as an application of income in respect of such asset for the same or any other previous year.

- (ii) **If building has been acquired out of loan** taken from bank, then, cost of building cannot be claimed as application. **Repayment of loan would be treated as application in the year of repayment** to the extent of amount repaid.

Question 8

How do you deal with the following situation? Give reasons for your answer.

Ramji Charitable Trust has filed return of income within the stipulated time under section 139(1) and applied only 50% of its income for specified purposes. It intends to accumulate the balance 35% of income to be spent in future years. While completing the assessment, the Assessing Officer disallowed the accumulated income of 35% and taxed the same on the ground that the trust has not made any application under section 11(2) along with return of income. Discuss the validity of the action of the Assessing Officer in this case.

Answer

Section 11(2) provides that a charitable trust has to apply 85% of its income to charitable purposes and where 85% of its income is not applied for such purposes, the trust may accumulate or set apart either the whole or part of its income for future application for such purposes in India. The requirement of the Act is that **the trust has to make an application/intimation in the prescribed form, for accumulation of income, specifying purpose and the period (not exceeding 5 years).** The application should be filed or furnished before the assessing authority at least 2 months prior to the due date specified under section 139(1). Further, the money so set apart or accumulated should be invested/deposited in any one or more of these modes or forms specified under section 11(5).

Thus, this requirement of filing application is mandatory and without those particulars, the assessing authority cannot entertain claim of the assessee under section 11. **In case statement in Form 10 is not submitted at least 2 months prior to the due date of filing return of income** under section 139(1), then, **benefit of accumulation would not be available** and such income would be taxable at the applicable rate. Therefore, **the action of the Assessing Officer in this case is valid.**

Question 9

A charitable institution registered under section 12AB of the Income-tax Act, 1961, filled in Form No.10 for seeking permission to accumulate unapplied income for a period of five years under section 11(2) of the Act for the objects of the institution and submitted it to the Assessing Officer along with the resolution for accumulation. The charitable institution could not utilise the accumulated income within the period of five years. Examine the consequences of the same for the charitable institution with regards to the accumulated income.

Answer

Section 11(3) provides for consequences when an assessee registered under section 12AB fails to satisfy the conditions of 11(2) accumulation. In this regard, the charitable institution has **not utilised the accumulated income within a period of five years** as specified in Form 10. Hence, by virtue of section 11(3), the said income **will be deemed to be the income of the charitable institution** of the previous year, being the last previous year of the period for which the income accumulated is not utilised. Hence, the charitable institution will be **taxable in the 5th year as it is the last previous year of the period of accumulation**.

Question 10

NSN, a charitable educational trust approved under section 10(23C)(vi), is running a school. It operates a stationery shop outside the school campus. A sum of ₹ 75 lakhs has been derived as net income from such business activity, which has been applied towards the objectives of the trust in providing education. The trust maintains separate books of accounts for business activity. Examine the taxability of application of the income.

Answer

The trust objective of providing education is a charitable purpose as per section 2(15). The trust in the given case runs a stationery shop business, whose income is applied towards the objectives of the trust. In this case, the business income from the stationery shop will be **eligible to avail exemption** in respect of profits and gains of business, **if such business is incidental to the attainment of the objectives of the trust and separate books of account are maintained** in respect of such business.

Therefore, in the given case, the profit from the business shall be eligible for exemption under section 11, assuming that the said business is incidental to the attainment of the objects of the trust (i.e., education) and books of account for such business activity is maintained separately.

Question 11

The following trusts claim that anonymous donations received by them are not liable to tax under section 115BBC:

- (i) A charitable trust referred to in section 11 which applied the entire amount of anonymous donations for purposes of the trust during the relevant financial year.
- (ii) A trust established wholly for religious purposes which applied 85% of amount of anonymous donations for the purposes of the objects of the trust during the relevant financial year.

Examine the validity of the claim made by the trusts.

Answer

- (i) **Section 115BBC provides for levy of tax @ 30% on anonymous donation** received by, inter alia, charitable trusts or institutions referred to in section 11 in the following manner:
- (a) the amount of income-tax calculated @30% on the aggregate of anonymous donations received in excess of 5% of the total donations received by the assessee or one lakh rupees, whichever is higher; and
 - (b) the amount of income-tax with which the assessee would have been chargeable had his total income been reduced by the aggregate of the anonymous donations received in excess of 5% of the total donations received by assessee or ₹ 1 lakh, as the case may be.

Further, section 13(7) provides that the exemption provisions contained in sections 11 and 12 shall not be applicable in respect of any anonymous donation liable to tax u/s 115BBC. As such, application of anonymous donations received by the charitable trust for charitable purposes does not confer any exemption from tax. Therefore, **claim for non-taxability under section 115BBC of anonymous donations received by the charitable trust is not valid in law.**

However, a view may be taken that anonymous donation upto higher of 5% of total donations or ₹ 1 lakh, which is taxable at normal rates would be eligible for application of income and thereby, the benefit of exemption under section 11 would apply.

- (ii) Section 115BBC(2) provides that the provisions contained in section 115BBC(1) relating to the taxability of anonymous donations are not applicable to any trust or institution created or established wholly for religious purposes. As such, the trust established wholly for religious purposes is not liable to be taxed in respect of the anonymous donations received by it. Therefore, the **claim made by the trust is valid in law.** The application or non-application of such anonymous donation for the purposes of trust during the relevant financial year is not germane to the issue of taxability under section 115BBC.

Question 12

Examine the following based on the relevant provisions of the Income-tax Act, 1961:

- (i) Satvik public charitable trust sold one of its building which was held by it for charitable purposes, for ₹ 4.2 lakhs. The asset were acquired for ₹ 2.20 lakhs. It invested ₹ 3 lakhs in fixed deposits for the tenure of 2 years.
- (ii) HelpAge, a trust established for the purpose of religious and charitable purposes. It runs a temple and a school. During the year, it received anonymous donation amounting to ₹ 3 crores for temple and ₹ 8 crores for school.

Answer

- (i) As per section 11(1A), where a capital asset held under trust (building, in this case) is transferred and only a part of the net consideration is utilized for acquiring another capital asset, the amount of **capital gains deemed to have been utilised** for charitable or religious purposes **shall be the excess of the proceeds utilised over the cost of asset transferred.**

In the present case, **capital gain of ₹ 2,00,000** [₹ 4,20,000 less ₹ 2,20,000] **would arise on transfer of building held under trust.** Further, the trust has invested part of the net consideration i.e., ₹ 3,00,000 out of ₹ 4,20,000, in fixed deposits for the tenure of 2 years.

Where the net consideration on sale of a capital asset is invested in fixed deposits, it is regarded as utilised for acquiring another capital asset. Accordingly, **capital gains utilised for investing in fixed deposits is deemed to be applied for charitable purpose.**

Since only a part of the net consideration of ₹ 3,00,000 out of ₹ 4,20,000 is utilized for investing in fixed deposits, the **amount of capital gains to the extent of ₹ 80,000** (being the excess of proceeds utilized i.e., ₹ 3,00,000 over cost of transferred asset i.e., ₹ 2,20,000) would be **deemed to be utilised** for charitable purpose.

The **balance of ₹ 1,20,000 is taxable in the hands of the trust.** Applying such income to the objects of the trust would make the transaction, tax neutral.

(ii) **As per section 115BBC, anonymous donations** received inter alia by trust or institution referred u/s 11 would be **taxable @ 30% in excess of higher of:**

- **5% of the total donations** received by the assessee; or
- **₹ 1 lakh**

However, provisions of section 115BBC would **not apply to anonymous donation** received by trusts/institutions created or established wholly **for religious** and charitable purposes (i.e. partly charitable and partly religious institutions/trusts) other than anonymous donation made with a specific direction that such donation is for any university or other educational institution or any hospital or other medical institution run by such trust or institution.

In the present case, HelpAge trust is established for religious and charitable purposes and runs a temple and a school. During the year, it received anonymous donation of ₹ 3 crores for Temple and ₹ 8 crores for School. Since it received anonymous donation separately for temple and school, the **provisions of section 115BBC would not be attracted in respect of donations of ₹ 3 crores received for Temple.**

However, the **provisions of section 115BBC would be attracted in respect of anonymous donation received for school.**

Question 13

A public trust has commenced its activities of providing "relief to poor" in the year 2023-24. The trust intends to claim benefits of sections 11 and 12 from A.Y. 2025-26. It approaches you in October, 2024. Advise the trust as to the time limit for making an application for final registration, time limit for granting approval by the Principal Commissioner or Commissioner and the period for which the approval is valid.

Answer

In order to avail the exemption under section 11, the trust has to obtain registration under section 12AB read with section 12A(1)(ac). The trust which has **already commenced its activities can directly apply for final registration.** In the present case, the trust has to apply for registration after commencing its activities but on or before 31.3.2025 to avail the exemption for A.Y. 2025-26.

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Accordingly, the time limit for making application, time limit for granting registration and period of validity would be as follows:

S.N.	Particulars	Time Limit
1	Registration application to be filed online as prescribed under Rule 17A	Application for final registration to be made in Form 10AB at any time after the commencement of such activities.
2	Grant of registration by Principal Commissioner or Commissioner	Grant registration within 6 months from the end of the quarter in which application was received after satisfying himself about the genuineness of activities and compliance of other laws , as are material for the purpose of achieving its objects. For this purpose, the PC or C shall call for such documents or information and make inquiries as he thinks necessary. If not satisfied, pass an order in writing rejecting such application after giving opportunity of being heard.
3	Validity period of the approval	Registration is valid for five years effective from the A.Y. immediately following the F.Y. in which application is made.

Question 14

Help All, a trust created on 1st April 2024 for providing relief to the poor, applied for provisional registration under section 12AB on 28 February 2025. The Commissioner denied registration on the ground that the trust had not commenced any charitable activity, due to which he could not satisfy himself about the genuineness of the trust. Is the ground for denial of registration by the Commissioner justified in this case? Discuss.

Answer

Section 12AB read with section 12A(1)(ac)(vi) provides that in case of a trust seeking registration for first time, **provisional registration will be provided for a period of three years without detailed enquiry** by the prescribed income-tax authority **even in cases where activities of the entity are yet to begin**. This is one of the key feature of the new registration process that benefits the taxpayer, wherein provisional registration is accorded.

Hence, in the new registration regime, the **Commissioner cannot deny registration on the ground that activities are not commenced**. The Commissioner can make detailed enquires and call for information **when the trust applies to convert its provisional registration into a final registration** as stipulated under section 12A(1)(ac)(iii) read with section 12AB.

Question 15

Mookti Foundation, a Charitable institution registered under section 12AB is engaged in preservation of forests. The accountant of the institution provides the following details of the institution to you as a Chartered Accountant. Please discuss the treatment of Application of Income/Expense in the hands of the Charitable institution for the previous year 2024-25 in the following independent situations as per provisions of Income-tax Act, 1961. Your answer should be followed with reasons:

BY CA ATUL AGARWAL (AIR-1)
AIR1CA Career Institute (ACI)

- (i) The institution follows mercantile system of accounting and has incurred Electricity expenses amounting to ₹ 1,00,000 for period pertaining to the year 2024-25. The Electricity expenses was actually paid on 10th April 2025 through an account payee cheque. In which year the application of income will be treated by the Foundation?
- (ii) The Foundation was cultivating 20 acres of agriculture land. It is doing agriculture operations and earned an agriculture income of ₹ 12,00,000 during the year from this activity. Whether exemption under section 10(1) will be available to Mookti Foundation on such income?
- (iii) Mookti Foundation has earned Rental income for P.Y.2024-25 amounting to ₹ 3,00,000. It received ₹ 2,00,000 upto 31st December, 2024 of such income. However, balance of ₹ 1,00,000 was received on 31st July, 2025. Upto what period the institution can apply the same amount towards objects of the institution? The institution has exercised relevant option in this regard.
- (iv) Mookti Foundation borrowed ₹ 45 lakhs from a nationalised bank in April, 2024 for purchase of building in a forest area for the objects of the institution. It spent the whole amount of loan for the same purpose and claimed the same as application of income in March 2025. It repaid the first instalment of ₹ 6 lakhs to the Bank on 31st March 2025.

Answer

- (i) Any sum payable by any trust or institution shall be **treated as application** of income only in the previous year **when such sum is actually paid** by it. This is irrespective of the previous year in which the liability to pay such sum was incurred or method of accounting regularly employed by it. Thus, expenditure is allowed as application only when the payment is actually made and not when the liability is incurred.
- In the present case, though Mookti Foundation trust follows mercantile system of accounting, electricity expenses of ₹ 1,00,000 incurred during the P.Y. 2024-25 would be **allowable as application** of income only **in P.Y. 2025-26 as actual payment is made on 10th April, 2025.**
- (ii) Where a trust or an institution has been granted registration for purpose of availing exemption under section 12AB then, such trust or institution **cannot claim any exemption under any provision of section 10 [other than exemption of agricultural income under section 10(1)].** Accordingly, **agricultural income of ₹ 12,00,000 would be exempt** under section 10(1) in the hands of Mookti Foundation registered under section 12AB.
- (iii) In case a trust is unable to apply the minimum of 85% of its income during the previous year as whole or any part of income has not been received during that year, the period of application is extended to cover the **previous year in which the income is actually received or the previous year immediately following the previous year** in which the income was received. Accordingly, in the present case, **income of ₹ 1,00,000** which was received on 31st July, 2025 **can be applied** during the P.Y. 2025-26, **being the year in which such amount is received** or in the P.Y. 2026-27, **being the P.Y. immediately following** the P.Y. 2025-26.
- (iv) Application for charitable or religious purposes, from any loan or borrowing, shall not be treated as application of income for charitable or religious purposes.
- However, the amount not so treated as application or part thereof, shall be **treated as application in the previous year in which the loan or borrowing or part thereof is repaid** from the income of that year to the extent of such repayment.

Accordingly, amount of ₹ 45 lakhs spent for purchase of building is not allowable as application of income for the P.Y. 2024-25 but the repayment of first instalment of ₹ 6 lakhs on 31st March 2025 would be allowed as application.

Question 16

Examine the correctness of contention/action/treatment of the institution/charitable trust in each of the following separate cases:

- (a) An institution runs a university solely for educational purposes and a hospital solely for philanthropic purposes. Both the university and the hospital are not for profit. The annual gross receipts from the university and hospital are ₹ 3 crores each. The institution contended that the income from university is eligible for exemption u/s 10(23C)(iiid) and income from hospital is eligible for exemption u/s 10(23C)(iiiae), since the aggregate annual receipts in each case does not exceed the prescribed threshold; and there would be no requirement to get the approval of Principal Commissioner or Commissioner for availing the benefit of exemption under section 10(23C).
- (b) A registered charitable trust, with the main object of relief of poor, wants to set off its excess application of ₹ 27 lakhs in the P.Y.2023-24 while computing its income required to be applied during the P.Y.2024-25.
- (c) A charitable trust registered u/s 12AB borrowed ₹ 40 lakhs from SBI in April, 2024 for purchase of building for opening a school in a rural area for primary education of children in backward areas. It spent the entire amount for the said purpose and claimed the same as application of income. In March, 2025, it repaid the first instalment of ₹ 5 lakhs to SBI.

Answer

- (a) **The contention of the institution is not correct.** Since the institution has receipts from a university specified under section 10(23C)(iiid) and a hospital specified under section 10(23C)(iiiae), and the combined receipts of ₹ 6 crore exceed the threshold receipt of ₹ 5 crore, the institution would not be eligible for exemption under sections 10(23C)(iiid) and 10(23C)(iiiae) [Explanation below section 10(23C)(iiiae)]. The institution has to make an application to the Principal Commissioner or Commissioner within the prescribed time limit for grant of approval/registration for claiming exemption under section 10(23C)(vi) and (via).
- (b) **The proposed action of the trust is not correct.** As per Explanation 5 to section 11(1), no set off or deduction or allowance of any excess application of any of the year preceding the previous year shall be made in computation of income required to be applied or accumulated during previous year. Accordingly, excess application of ₹ 27 lakhs in P.Y.2023-24 cannot be set-off while computing income required to be applied or accumulated during the P.Y.2024-25.
- (c) **The proposed claim of trust is not correct.** As per clause (ii) of Explanation 4 to section 11(1), application for charitable purposes from a loan or borrowing shall not be treated as application of income for charitable purposes. However, amount not so treated as application, or part thereof, would be treated as application for charitable purposes in the previous year in which the loan is repaid from the income of that year and to the extent of such repayment. Accordingly, the trust cannot claim ₹ 40 lakhs as application of income of A.Y.2025-26,

since the amount is spent out of loan taken from SBI. However, it can treat the amount of ₹ 5 lakhs repaid to SBI during the P.Y.2024-25 as application of income in that year.

Question 17

Examine each of the following independent cases of charitable trust/institutions:

- (i) Raj Charitable trust registered under section 12AB, received corpus donation of ₹ 5 lakhs during the previous year 2024-25. The trust intends to utilize it during the previous year 2025-26 and claimed that since the donor gave the donation with a specific direction that it is towards the corpus of the trust, it is exempt from tax under section 11(1)(d). Further, during the year, the trust took a loan of ₹ 20 lakhs from a nationalized bank and out of it, applied ₹ 18 lakhs on the construction of its building. The trust claimed ₹ 18 lakhs as application for charitable purposes during the year.
- (ii) Smile Foundations is a 'not for profit' trust that runs a secondary school. The total receipts consisting of voluntary contributions and the government grants of the trust amounted to ₹ 30 lakhs (₹ 14 lakhs and 16 lakhs respectively). Is the trust required to get an approval to claim exemption under section 10(23C)?
- (iii) Little Angels is a charitable institution registered under section 12AA. To continue claiming the benefits of the exemption provisions contained in sections 11 & 12, it applied for re-registration under section 12AB. The trust wants to confirm whether the registration granted under section 12AB has the same perpetual validity as granted under section 12AA.

Answer

- (i) **Corpus donations of ₹ 5 lakhs would be exempt from tax only if they are received with a specific direction that they shall form part of the corpus and are invested in any of the modes specified under section 11(5).** If the same is not so invested, then, it would not be exempt under section 11(1)(d).

Application for charitable purposes from a loan or borrowing shall not be treated as application of income for charitable purposes. Accordingly, ₹ 18 lakhs applied by trust out of loan of ₹ 20 lakhs taken from nationalised bank cannot be claimed as application for charitable purposes. However, the same can be claimed as application at the time of repayment of loan to the extent of repayment in the relevant previous year.

Therefore, both the claims of Raj Charitable trust are not correct.

- (ii) Smile foundations is an education institution existing solely for educational purposes and not for the purposes of profit. It is **substantially financed by Government**, since **government grants of ₹ 16 lakhs constitute 53.33% of its total receipts of ₹ 30 lakhs** (₹14 lakhs voluntary contributions + ₹ 16 lakhs government grants), which is more than 50% of its total receipts. **The income of the institution is exempt u/s 10(23C)(iiab).**

Hence, it is **not required to get the approval** of prescribed authority for claiming exemption under section 10(23C).

- (iii) No, the registration granted under section 12AB would be valid only for 5 years and not perpetually, as in the case of registration granted under section 12AA.

Question 18

Mr. Shyam is the founder of UVX Trust, a public charitable trust registered u/s 12A of the Income-tax Act, 1961. The trust runs a hospital for the treatment of various diseases. Mr. Umesh, son of Mr. Shyam, was admitted in the hospital for treatment. He was charged a total fee of ₹ 2.20 lakhs as against the amount of ₹ 3.50 lakhs charged by the hospital for similar treatment to the general public. The Board of trustees were served with a notice by the income tax authorities for cancellation of registration u/s 12AB.

Discuss whether registration can be denied to the trust. What are the further tax implications?

Answer

As per section 13(6), UVX Trust shall not be denied the benefit of exemption under section 11 in respect of its entire income merely due to the reason that the benefit of medical facilities have been provided to Mr. Umesh, son of Mr. Shyam, being the specified person. Accordingly, the **registration of UVX Trust cannot be cancelled by the Income-tax authorities on this basis.**

As per section 12(2), the value of medical facilities provided to Mr. Umesh, being the specified person, at a concessional rate would be deemed to be the income of the trust and such income would not be eligible for exemption under section 11. Hence, **₹ 1,30,000, being the concessional value of medical services would be deemed to be the income of UVX Trust.**

The remaining income would be eligible for benefit of section 11.

Question 19

A public company has created a charitable trust exclusively for the benefit of the public. The trust has granted interest free loans, inter alia, to some of the company's employees in order to enable their children to pursue higher studies, as per the objects of the trust. The Assessing Officer considers this benefit as being covered under section 13(3) and proposes to withdraw the exemption from tax granted to the trust. Comment upon the correctness or otherwise of the view of the Assessing Officer.

Answer

- (1) The benefit of section 11 would not be available to a public charitable trust, if any part of its income enures directly or indirectly for the benefit of any person to in section 13(3).
- (2) The persons referred to in section 13(3) include an -
 - (i) **author or trustee** of the trust,
 - (ii) person who has made **contribution exceeding ₹ 50,000** to the trust upto the end of the relevant previous year,
 - (iii) where the author or trustee or person mentioned above is a HUF, a member of the HUF
 - (iv) **relative of such author, trustee or member**
 - (v) person or a concern in which any person mentioned above has **substantial interest**
- (3) The list of prohibited persons in section 13(3), however, **does not include employees of the company.**
- (4) Therefore, the **proposed action of the Assessing Officer** to withdraw the exemption from tax

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granted to the trust on account of interest-free loans granted to company's employees to pursue higher education as per the objects of the trust, is incorrect.

Question 20

SR Trust is a registered charitable trust under section 12AB. During the P.Y.2024-25, the trust had applied ₹ 5 lakh for the benefit of the trustee and ₹ 3 lakh for the benefit of Mr. Satish, who has donated ₹ 3 lakh to the trust upto 31.3.2025. Also, an amount of ₹ 2 lakh set apart in the P.Y.2022-23 by the trust for charitable purposes u/s 11(2) has been utilized in the P.Y.2024-25 for making donation to another registered charitable trust with similar object as SR Trust. What is the amount of "specified income" liable to tax@30% under section 115BBI?

Answer

Section 115BBI provides for levy of tax @ 30% on certain "specified income" of a trust. Section 115BBI defines "specified income" to include income which has been **applied for the benefit of prohibited persons** u/s 13(3), which includes, inter alia, trustee of the trust and a person who has made substantial contribution to the trust (i.e., whose total contribution is more than ₹ 50,000). Specified income also includes deemed income on account of violation of certain conditions stipulated in section 11(3) for accumulation of income. **Donation to another charitable trust out of accumulated income is one such violation.** Accordingly, "specified income" of SR Trust liable to tax@30% under section 115BBI would be ₹ 10 lakh [₹ 5 lakh (amount applied for the benefit of the trustee) + ₹ 3 lakh (amount applied for the benefit of Mr. Satish) + ₹ 2 lakh (donation made to another trust out of accumulated income of an earlier previous year)].

Question 21

Please answer the following independent questions with regard to provisions applicable to Charitable Trust as per the Income-tax Act, 1961.

(i) Devayani Trust is a registered charitable trust under section 12AB. During the previous year 2024-25, the trust had applied ₹ 4,50,000 for the benefit of the trustee and ₹ 2,50,000 for the benefit of Mr. Sujan Dave, who has donated ₹ 3,75,000 to the trust up to 31.3.2025. Also, an amount of ₹ 2,50,000 set apart in the P.Y. 2022-23 by the trust for charitable purposes under section 11(2) has been utilized in the P.Y. 2024-25 for making donation to another registered charitable trust with similar object as Devayani Trust.

What is the amount of 'specified income' liable to tax @30% under section 115BBI for assessment year 2025-26? Explain with reasons.

(ii) Parivartan, a public charitable trust has been incorporated on 01.06.2023 and immediately commenced its activities of providing "Relief of Poor". During the previous year 2023-24, it failed to file application for Provisional registration under section 12A(1)(ac). However, on 1.1.2025, it applied for the final registration as per section 12AB read with section 12A(1)(ac) in prescribed Form to avail exemption under section 11 for A.Y. 2025-26.

Is the action of the trust justified? Can a trust apply for Final registration before applying for Provisional registration? If yes, what is the time period upto which the Principal Commissioner

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or Commissioner will have to pass the order granting or rejecting the registration? The registration, if granted will be applicable from which assessment year? Explain your answer based on the latest Income tax provisions.

Answer

(i) "Specified income" under section 115BBI includes the following:

- income which has been applied for the benefit of prohibited persons u/s 13(3)
- deemed income under section 11(3) on account of violation of certain conditions stipulated for accumulation of income.

Specified income of Devyani Trust liable to tax @30% under section 115BBI

Particulars	Amount (₹)
Amount applied for the benefit of the trustee [Trustee of the trust is one of the persons specified u/s 13(3)]	4,50,000
Amount applied for the benefit of Mr. Sujan Dave [Since Mr. Sujan Dave's total contribution to the trust is more than ₹ 50,000, he is a person specified u/s 13(3)]	2,50,000
Donation made to another trust out of accumulated income [Donation to another charitable trust out of accumulated income is violation of condition specified for accumulation of income - section 11(3)]	2,50,000
Specified income liable to tax @30% under section 115BBI	9,50,000

(ii) Since Parivartan trust has **already commenced its activities** and has not availed exemption under section 11 for any P.Y. ending on or before 1.1.2025, (being the date of application) it **need not first apply for provisional registration.**

It can at any time after the commencement of such activities **directly apply for final registration** under section 12AB.

Thus, the **action of trust** for applying for the final registration as per section 12AB before applying for provisional registration for exemption under section 11 **is valid.**

The Principal Commissioner or **Commissioner has to pass the order** granting or rejecting the registration before expiry of **6 months** from the end of the quarter in which application is received.

Exemption u/s 11 and 12 would be **applicable** from assessment year immediately following financial year in which such application is made i.e., from A.Y. 2025-26 (PY 2024-25).

Total Income of Charitable/Religious Trust**Question 22**

An institution operating for promotion of education claiming exemption under section 11 since 1995 furnishes the following data:

S.N.	Particulars	₹ in crores
(i)	Fees collected from students	14
(ii)	Construction of a new computer science laboratory	0.50
(iii)	Land acquired to be used as a cricket field for the students	2
(iv)	Amount earmarked and set apart for construction of an arts block within the next 4 years.	4

Compute the total income of the institution for the A.Y.2025-26.

Answer**Computation of total income of the institution**

Particulars	₹ (in crores)
Fees received	14.00
Less: 15% (exempt even if not spent for the objects of the institution)	2.10
	11.90
Actual amount spent on construction of computer science lab (See Note 1)	0.50
Actual amount spent on purchase of land for cricket field (See Note 1)	2.00
	9.40
Less: Accumulated for specified purpose (See Note 2)	4.00
Total Income	5.40

Notes:

- (1) The institution must utilise 85% of its income within the previous year for the objects of the institution. The institution can apply its income either for revenue expenditure or for capital expenditure provided the expenditure is incurred for promoting the objects of the institution. Land acquired and meant for use as cricket field for students is a capital expenditure incurred for promoting the objects of the institution and hence, eligible for deduction. Likewise, the amount spent on construction of computer science laboratory is also eligible for deduction.
- (2) Section 11(2) provides that a trust/institution can accumulate or set apart its income for a specified purpose by furnishing statement in prescribed format to concerned Assessing Officer. However, the period for which the funds can be accumulated cannot exceed 5 years. The amount so accumulated should be invested in the specified forms and modes. In this case, institution has to furnish statement in Form 10 at least 2 months prior to the due date of filing return of income to Assessing Officer, stating the purpose for which the income is being accumulated or set apart and the period for which the income is being accumulated or set apart, which shall, in no case, exceed five years. Further, institution has to invest ₹ 4 crore in the specified forms and modes.

Question 23

A public charitable trust registered under section 12AB, for the previous year ending 31.3.2025, derived gross income of ₹ 21 lakhs, which consists of the following:

	(₹ in Lacs)
(a) Income from properties held by trust	10
(b) Income (net) from business (incidental to main objects)	4
(c) Voluntary contributions from public	7

The trust applied a sum of ₹ 11.60 lacs towards charitable purposes during the year which includes repayment of loan taken for construction of orphanage ₹ 3.60 lacs.

Determine the taxable income of the trust for the assessment year 2025-26.

Answer

Computation of taxable income of public charitable trust

Particulars	₹
(i) Income from property held under trust (net)	10,00,000
(ii) Income (net) from business (incidental to main objects)	4,00,000
(iii) Voluntary contributions from public	7,00,000
	21,00,000
Less: 15% of the income eligible for accumulation without any conditions	3,15,000
	17,85,000
Less: Amount applied for the objects of the trust	
(i) Amount spent for charitable purposes (₹ 11,60,000 - ₹ 3,60,000)	8,00,000
(ii) Repayment of loan for construction of orphan home	3,60,000
Taxable Income	6,25,000

Question 24

ABC Public Charitable trust registered under section 12AB for the previous year ending 31.3.2025 derived gross income of ₹ 50 lakhs, which consists of the following:

Particulars	(₹ in Lakhs)
Income from properties held by trust	10
Voluntary contributions from public	30
Voluntary contributions from public with a specific direction that it shall form part of the corpus	10

The trust applied a sum of ₹ 30 lakhs towards charitable purposes during the year. The corpus donation of ₹ 10 lakhs is not invested in any of the modes specified under section 11(5). Determine the taxable income of the trust for the assessment year 2025-26.

Answer

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Computation of taxable income of public charitable trust

Particulars	₹
(i) Income from property held under trust	10,00,000
(ii) Voluntary contributions from public	30,00,000
	40,00,000
Less: 15% of income eligible for retention/accumulation without any conditions	6,00,000
	34,00,000
Less: Amount applied for the objects of the trust	30,00,000
	4,00,000
Add: Corpus donation of ₹ 10 lakhs not invested in 11(5) modes taxable @30% under section 115BBI (See Note below)	10,00,000
Taxable Income	14,00,000

Note: As per section 11(1)(d), voluntary contributions made with a specific direction that they shall form part of the corpus of the trust is an exempted income. However, in order to avail the exemption, such corpus donations should be invested or deposited by the trust in one or more of the forms or modes specified in section 11(5). Since the trust has not invested the corpus donation in the specified mode, the same will be taxable @30% under section 115BBI.

Question 25

Medicare Trust running hospitals is registered under section 12AB. From the following particulars relevant for the previous year ended 31st March, 2025, you are required to compute taxable income and tax liability of the trust for A.Y.2025-26 assuming trust has not opted for Section 115BAC.

- (i) Gross receipts from hospital ₹ 508 lakhs.
- (ii) Donation received (including anonymous donation ₹ 3 lakhs) ₹ 8 lakhs.
- (iii) Amount applied for the purposes of hospital ₹ 433 lakhs.
- (iv) The trust had accumulated ₹ 20 lakhs under section 11(2) in the financial year 2019-20 for a period of five years for extension of one of its hospitals. The trust has spent ₹ 15 lakhs for the said purpose till 31st March, 2025.

Answer

Computation of taxable income of Medicare Trust

Particulars	₹	
Income from running of hospitals	5,08,00,000	
Donation other than anonymous donation of ₹ 2,00,000 taxable @30% (₹ 3,00,000, being reduced by 5% of ₹ 8,00,000 or ₹ 1,00,000, whichever is higher) [₹ 8,00,000 – ₹ 2,00,000]	6,00,000	5,14,00,000
Less: 15% of the income eligible for accumulation without any conditions		77,10,000

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Less: Amount applied for the purposes of hospital		4,36,90,000
		4,33,00,000
Add: Amount accumulated for extension of a hospital but not spent deemed to be income under section 11(3) (₹ 20 lakhs - ₹ 15 lakhs) taxable @30% under section 115BBI (See Note 1)		3,90,000
		5,00,000
Add: Anonymous donation taxable @30% under section 115BBC (See Note 2)		2,00,000
Total Income		10,90,000
Tax on total income		
Tax on deemed income u/s 11(3) of ₹ 5 lacs at 30% (See Note 1)		1,50,000
Tax on anonymous donation of ₹ 2 lacs at 30% (See Note 2)		60,000
Tax on other income of ₹ 3,90,000 at normal rates		
Upto ₹ 2,50,000	Nil	
Over ₹ 2,50,000 up to ₹ 3,90,000 @ 5%	7,000	7,000
		2,17,000
Education cess @4%		8,680
Tax payable	1	2,25,680
Tax payable (rounded off)		2,25,680

Notes:

- 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 unutilised amount is deemed to be the income of the charitable institution for the previous year of expiry of the period of accumulation. In the instant case, Medicare Trust accumulated ₹ 20,00,000 in the previous year 2019-20 for extension of one of its hospitals for a period of 5 years. Period of accumulation thus expired on 31.3.2025. Assessee has spent ₹ 15,00,000 out of accumulated sum of ₹ 20,00,000 up to 31.3.2025. Therefore, the unutilised amount of ₹ 5,00,000 is deemed to be income of the previous year 2024-25. Such deemed income would be subject to tax@30% under section 115BBI.
- As per section 115BBC(1)(i), the anonymous donations in excess of the higher of the following would be subject to tax@30%; - ₹ 1,00,000, being 5% of the total donations received i.e., 5% of ₹ 8 lakh; or ₹ 1 lakh
Therefore, anonymous donations of ₹ 2 lakh (₹ 3 lakh - ₹ 1 lakh) would be subject to tax@30% under section 115BBC(1)(i). 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.

Question 26

Mani foundations, a charitable trust registered under section 12AB of the Income-tax Act, 1961, run schools for primary and secondary education. The following particulars pertaining to the previous year 2024-25 are furnished to you by the trust:

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		₹ (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)	Government grants	8
(iv)	Donation given towards corpus to a trust registered under section 10(23C)	2
(v)	Amount applied for the purpose of schools	445
(vi)	The trust accumulated ₹ 55 lakhs for acquiring a building to expand its schools	
(vii)	Excess of expenditure over income in the previous year 2023-24	25

Compute the total income of the trust for the assessment year 2025-26.

Answer

Computation of total income of Mani Foundations

Particulars	₹	₹
Gross receipts from students towards tuition, 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]		<u>20,00,000</u>
		6,28,00,000
Add: Anonymous donations [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] [See Note below]		1,25,000
		6,29,25,000
Less: 15% of income eligible for being set apart without any condition		94,38,750
		5,34,86,250
Less: Amount applied for charitable purposes		
- Amount applied for the purpose of schools	4,45,00,000	
- Amount accumulated for acquiring a building to expand its schools	55,00,000	
- Corpus donations to a trust registered under section 10(23C) [Deduction is not permissible in respect of corpus donations to a trust registered u/s 10(23C)]	-	
- Excess of expenditure over income in the P.Y.2023-24 (No set off or deduction of any excess application of any earlier years shall be allowed)	-	5,00,00,000
		<u>34,86,250</u>
Anonymous donation taxable @30% u/s 115BBC [See Note below]		3,75,000
Total Income (including anonymous donation taxable@30%)		38,61,250

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Note - As per section 115BBC(1)(i), the anonymous donations in excess of the higher of the following would be subject to tax@30%; - ₹ 1.25 lakh, being 5% of the total donations received i.e., 5% of ₹ 25 lakh; or ₹ 1 lakh

Therefore, anonymous donations of ₹ 3.75 lakh (₹ 5 lakh - ₹ 1.25 lakh) would be subject to tax@30% under section 115BBC(1)(i). 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.

Question 27

GNK Trust, a charitable trust following accrual system of accounting registered under Section 12AB of the Income-tax Act, provides services in the field of yoga. It furnishes the following particulars to you with respect to previous year 2024-25:

Particulars	₹
Gross Receipts from yoga services	24,41,000
Voluntary Contribution (including anonymous donation ₹ 1,85,000)	5,20,000
Dividend from Indian Companies	5,40,000
Income from mutual funds registered under section 10(23D)	2,85,000
Agricultural income	4,79,000

The following amounts are spent for the purposes of the trust:

Particulars	₹
Amount set aside during the year to be applied in next 4 years for purposes of trust.	2,54,000
Payment to Mr. Lohia, one of the trustees, as rent for the building where the trust carry on its activities. The rent for similar property is ₹ 2,50,000.	1,47,000
During the year, the trust invited foreign teachers for services rendered and utilised in India but made the payment in the next Financial Year	1,96,000
Other expenses for the purposes of the trust	16,79,000

Compute the total income of the trust and also the tax liability assuming trust has not opted for Section 115BAC.

Answer

Computation of total income of GNK Trust

Particulars	₹	₹
Gross receipts from yoga services		24,41,000
Add: Voluntary contributions other than anonymous donation of ₹ 1,85,000		<u>3,35,000</u>
		27,76,000
Add: Dividend from Indian Companies		5,40,000
Income from mutual funds registered u/s 10(23D)		2,85,000
Agricultural income [Exemption u/s 10(1) would be available, even though the trust is registered u/s 12AB]		Nil

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		36,01,000
Add: Anonymous donations [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] [₹ 26,000, being 5% of total donations of ₹ 5,20,000 or ₹ 1,00,000, whichever is higher]		1,00,000
		37,01,000
Less: 15% of income eligible for being set apart without any condition		5,55,150
		31,45,850
Less: Amount applied for charitable purposes		
- Payment of rent for the building to Mr. Lohia	1,47,000	
- Amount payable to foreign teachers for services rendered and utilised in India [since payment made to the teachers next year, the same is not deductible during the current previous year, since expenses are allowed only on paid basis]	-	
- Other expenses	<u>16,79,000</u>	<u>18,26,000</u>
		13,19,850
Less: Amount set aside during the year to be applied in next 4 years		2,54,000
Total income [other than anonymous donation taxable@30% u/s 115BBC(1)(i)]		10,65,850
Add: Anonymous donation taxable @30% u/s 115BBC(1)(i)		85,000
Total income of trust (including anonymous donation taxable@30%)		11,50,850

Computation of tax liability of the trust

Particulars	₹
Tax on total income of ₹ 10,65,850 i.e., total income (excluding anonymous donations chargeable to tax@30% u/s 115BBC) [₹ 65,850 x 30% plus ₹ 1,12,500]	1,32,255
Tax on anonymous donations taxable@30% [₹ 85,000 x 30%]	<u>25,500</u>
	1,57,755
Add: Health and education cess@4%	6,310
Total tax liability	<u>1,64,065</u>
Total tax liability (rounded off)	1,64,070

Question 28

Tutsi Foundations, a public charitable and religious trust registered under section 12AB, runs a hospital and also owns a temple. It furnishes you the following information for the year ended 31st March, 2025:

- (i) Gross receipts from hospital ₹ 600 Lakhs.
- (ii) Voluntary contributions (not included in gross receipts) received from public amounted to ₹ 35 lakhs. It includes corpus donation of ₹ 5 lakhs and anonymous donation ₹ 10 lakhs. Out of the anonymous donations of ₹ 10 lakhs, ₹ 8 lakhs are made to the donation box of temple. The corpus donation is invested in modes specified under section 11(5).

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- (iii) Operational expenses incurred for the hospital amounted to ₹ 434 lakhs and for the temple amounted to ₹ 15 lakhs.
- (iv) ₹ 6 lakhs was paid to a contractor in cash for the overall maintenance of the hospital. This amount is included in the operational expenses of the hospital.
- (v) The trust purchased and installed new computer software for ₹ 25 lakhs for the hospital. The rate of depreciation is 40% as per the Income-tax Act, 1961.
- (vi) The trust gave donation of ₹ 12 lakhs to Balaji trust (having objects of charitable nature), registered under section 12AB, but not similar to the objects of the donor trust.

Compute the total income and income tax liability of the trust for the A.Y. 2025-26 assuming trust has not opted for Section 115BAC.

Answer

Computation of total income of Tulsi Foundations

Particulars	₹	₹
Gross receipts from hospitals		6,00,00,000
Add: Voluntary contributions other than corpus donation and anonymous donation		20,00,000
Corpus donation [does not form part of total income]		Nil
Anonymous donations for temple [not subject to tax u/s 115BBC]		<u>8,00,000</u>
		6,28,00,000
Add: Anonymous donations other than for temple [to the extent not chargeable to tax@30% u/s 115BBC(1)(i)] [₹ 1,75,000, being 5% of total donations of ₹ 35,00,000 or ₹ 1,00,000, whichever is higher]		1,75,000
		6,29,75,000
Less: 15% of income eligible for being set apart without any condition		94,46,250
		5,35,28,750
Less: Amount applied for charitable purposes		
- Operational expenses incurred for hospital and temple [₹ 434 lakhs + ₹ 15 lakhs - ₹ 6 lakhs not treated as application as payment to contractor made in cash]	4,43,00,000	
- Purchase of computer [it is beneficial for the trust to claim cost of computer itself as application of income in the year asset is acquired. If the cost of asset is claimed as application, then, depreciation will not be allowed as deduction]	25,00,000	
- Donation to charitable trust registered u/s 12AB allowable as application to the extent of 85%, since it is not given with a specific direction that it shall form part of corpus of the trust (12,00,000 x 85%)	10,20,000	4,78,20,000
Total income [other than anonymous donation taxable@30% under section 115BBC(1)(i)]		57,08,750

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Add: Anonymous donation taxable @30% u/s 115BBC(1)(i)	25,000
Total Income of the trust	57,33,750

Computation of tax liability of the trust

Particulars	₹
Tax on total income of ₹ 57,08,750 i.e., total income [excluding anonymous donations of ₹ 25,000 chargeable to tax @30% u/s 115BBC(1)(i)] [₹ 47,08,750 x 30% plus ₹ 1,12,500]	15,25,125
Tax on anonymous donations taxable@30% [₹ 25,000 x 30%]	<u>7,500</u>
	15,32,625
Add: Surcharge@10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore.	<u>1,53,263</u>
	16,85,888
Add: Health and Education cess @4%	67,436
Total tax liability	17,53,324
Total tax liability (rounded off)	17,53,320

Question 29

Mathi Charitable Trust registered under section 12AB, following cash system of accounting, furnishes you the following information:

- (i) Gross receipts from hospital by name "Full Cure" ₹ 400 lakhs.
- (ii) Gross receipts from college by name "India Arts College" ₹ 180 lakhs.
- (iii) Corpus donations by way of cheque ₹ 30 lakhs and by way of cash ₹ 5 lakhs. The corpus donation is invested in modes specified under section 11(5).
- (iv) Anonymous donations by cash ₹ 10 lakhs.
- (v) Administrative expenses for hospital ₹ 220 lakhs and for college ₹ 100 lakhs.
- (vi) Fees not realized from patients ₹ 20,60,000 and from students of the college ₹ 6,50,000 as on 31st March, 2025.
- (vii) Depreciation on assets of the trust ₹ 18,00,000. The entire cost of assets ₹ 300 lakhs claimed as application in the earlier years.
- (viii) Acquired a building for ₹ 120 lakhs for expansion of hospital (cost of land included therein ₹ 100 lakhs). Stamp duty value of the land and building on the date of registration of sale deed ₹ 140 lakhs.
- (ix) The trust gave donation of ₹ 25 lakhs to Gandhiji Trust having objects of charitable nature registered under section 12AB but not similar to the objects of the donor trust.

You are required to compute the total income of the trust and its income-tax liability in such a manner that it can avail the optimal benefit within the four corners of the Income-Tax Act, 1961 assuming trust has not opted for Section 115BAC.

Note: The trust does not want to seek accumulation of income by virtue of section 11(2) of the Act.

Answer

Computation of total income of Mathi Charitable Trust

Particulars	₹	₹
Gross receipts from Full Cure Hospital		4,00,00,000
Gross receipts from India Arts College		<u>1,80,00,000</u>
		5,80,00,000
Add: Anonymous donations [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] [₹ 2,25,000, being 5% of total donations of ₹ 45,00,000 or ₹ 1,00,000, whichever is higher]		2,25,000
		5,82,25,000
Less: 15% of income eligible for being set apart without any condition		87,33,750
		4,94,91,250
Less: Amount applied for charitable purposes		
- On revenue account - Administrative expenses:		
For Hospital	2,20,00,000	
For College	1,00,00,000	
- On capital account - Land & Building	1,20,00,000	
[Section 56(2)(x) is not attracted in respect of value of property received by a trust or institution registered u/s 12AB]		
- Donation to Gandhiji Trust registered u/s 12AB - allowable as application to the extent of 85%, even though the objects of trust are different. Only corpus donations are not permissible to other trusts registered u/s 12AB (25,00,000 x 85%)	21,25,000	4,61,25,000
Total income [other than anonymous donation taxable@30% under section 115BBC(1)(i)]		33,66,250
Add: Anonymous donation taxable @30% u/s 115BBC(1)(i)		7,75,000
Total Income (including anonymous donation taxable@30%)		41,41,250

Computation of tax liability of the trust

Particulars	₹	₹
Tax on total income of ₹ 33,66,250 [Excluding anonymous donations]		
Upto ₹ 2,50,000	Nil	
₹ 2,50,000 - ₹ 5,00,000 [₹2,50,000 x 5%]	12,500	
₹ 5,00,000 - ₹ 10,00,000 [₹5,00,000 x 20%]	1,00,000	
> ₹ 10,00,000 [₹23,66,250 x 30%]	<u>7,09,875</u>	
	8,22,375	
Tax on anonymous donations taxable@30% [₹ 7,75,000 x 30%]	2,32,500	10,54,875
Add: Education cess @4%		42,195
Total tax liability		10,97,070
Total tax liability (rounded off)		10,97,070

BY CA ATUL AGARWAL (AIR-1)
AIR1CA Career Institute (ACI)

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Note: Since the trust follows cash system of accounting, fees not realized from patients and from students would not form part of gross receipts. Therefore, there is no need of applying the provisions of Explanation 1 to section 11(1) to exclude such income.

Question 30

Asma Rani Public Charitable Trust runs a hospital cum Rehabilitation Centre to treat patients suffering from leprosy. The trust is registered u/s 12AB and following cash system of accounting, furnishes the following information:

- Gross Receipts from Hospital ₹ 560 Lakhs
- Gross Receipts from Rehabilitation ₹ 220 lakhs
- Fees not realized from patients as at 31.3.2025 ₹ 36 Lakhs
- Administration Expenses paid for hospital ₹ 335 Lakhs
- Administration Expenses paid for Rehab. Centre ₹ 138 Lakhs
- Acquired a building for ₹ 150 lakhs for expansion of Rehabilitation centre (Cost of land included therein ₹ 85 lakhs). Stamp duty value of Land & Building on the date of registration was ₹ 185 lakhs.
- Grant received from State Govt. ₹ 7.50 lakhs
- Administration expense includes payments of ₹ 12 lakhs to resident doctors & contractors on which TDS is required to be deducted u/s 192 & 194C but such TDS has not been deducted.
- Voluntary contributions (including Corpus Donations for ₹ 10 lakhs) is ₹ 20 Lakhs. These contributions are included in Gross Receipts of hospital. The corpus donation is invested in modes specified under section 11(5).
- Anonymous donations received ₹ 8 Lakhs.
- Amount donated to Jan Kalyan Trust registered u/s 12AB running similar hospital in Bihar (includes Corpus donation of ₹ 5 Lakhs from hospital receipts) - ₹ 11 Lakhs.
- Repayment of loan taken earlier for construction of Rehabilitation Centre - ₹ 6.65 Lakhs.
- The trust set apart ₹ 15 lakhs for acquiring another table & equipment for OT. Form 10 was filed and A.O. was duly informed as required u/s 11(2).

Compute the Total Income of the trust and its I.T. Liability for the A.Y. 2025-26 assuming trust has not opted for Section 115BAC.

Answer

Computation of total income of Asma Rani Public Charitable Trust

Particulars	₹	₹
Gross receipts from Hospital (other than voluntary contribution of ₹ 20 lakhs)		5,40,00,000
Gross receipts from Rehabilitation Centre		2,20,00,000
Grant received from State Govt.		7,50,000

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Fees not realized from patients as at 31.3.2025 (not includible, since trust follows cash system of accounting)		7,67,50,000
Add: Voluntary contributions other than corpus donations of ₹ 10 lacs		10,00,000
		7,77,50,000
Add: Anonymous donations [to the extent not chargeable to tax@30% u/s 115BBC(1)(i)] [₹ 1,40,000, being 5% of total donations of ₹ 28,00,000 or ₹ 1,00,000, whichever is higher]		1,40,000
		7,78,90,000
Less: 15% of Income eligible for being set apart without any condition		1,16,83,500
		6,62,06,500
Less: Amount applied for charitable purposes		
- On revenue account – Administrative expenses:		
For Hospital (Out of ₹ 335 lakhs, ₹ 3.6 lakhs, being 30% of 12 lakhs, would be disallowed, since tax is not deducted u/s 192 & 194C on such amount paid to resident doctors & contractors)	3,31,40,000	
For Rehabilitation Centre	1,38,00,000	
- On capital account – Land & Building	1,50,00,000	
[Section 56(2)(x) is not attracted in respect of value of property received by a trust or institution registered u/s 12AB]		
- Donation to Jan Kalyan Trust registered u/s 12AB (₹ 6 lakhs x 85%)	5,10,000	
[Allowable to the extent of 85%, even though the objects of the trust are different. Only corpus donations are not permissible to other trusts registered u/s 12AB. Thus, out of ₹ 11 lakhs, ₹ 5 lakhs towards corpus are not allowable as deduction.]		
- Repayment of loan taken for construction of Rehab. Centre	6,65,000	6,31,15,000
		30,91,500
Less: Amount set apart for acquiring another table & equipment for OT ₹ 15 lakhs would be treated as application for the previous year 2024-25		15,00,000
Total income [other than anonymous donation taxable@30% under section 115BBC(1)(i)]		15,91,500
Add: Anonymous donation taxable @30% u/s 115BBC(1)(i) [8,00,000 – 1,40,000]		6,60,000
Total Income of trust (including anonymous donation taxable@30%)		22,51,500

Computation of tax liability of the trust

Particulars	₹
Tax on total income [Excluding anonymous donations] [₹ 5,91,500 x 30% + ₹ 1,12,500]	2,89,950

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Tax on anonymous donations taxable@30% [₹ 6,60,000 × 30%]	1,98,000
	4,87,950
Add: Health and education cess @4%	19,518
Total tax liability	5,07,468
Total tax liability (rounded off)	5,07,470

Question 31

M/s Mahan Charitable Trust is running an orphan and hostel for the poor children. It is registered under section 12AB. The details of income and expenditure of the Trust are as given below:

(a) Voluntary contributions received during the year ₹ 150 lakhs.

This includes:

(i) Corpus donation ₹ 20 lakhs. The corpus donation is invested in modes specified under section 11(5).

(ii) Donation of ₹ 20 lakhs from Mr. Michael, a foreign donor, which was received on 31.3.2025.

(b) Salary paid to administrative staff ₹ 40 lakhs.

(c) Other general expenses ₹ 10 lakhs include payment to grocery stores of ₹ 30,000 by crossed cheque.

(d) A land belonging to the Trust in a nearby village which was purchased in the year 2021-22 for ₹ 5 lakhs was sold for ₹ 10.50 lakhs and another land adjacent to the Trust premises was purchased for ₹ 12 lakhs to be used as playground for the children.

(e) Five laptops costing ₹ 50,000 each were purchased during the year for teaching purposes.

(f) Two additional rooms measuring 1500 sq. ft each was constructed in the existing hostel for the children. Cost of construction is ₹ 1200 per sq. ft.

(g) It made a corpus donation of ₹ 20 lakhs to a charitable trust registered u/s 12AB having similar objects.

Compute taxable income of Mahan Charitable Trust for the assessment year 2025-26 assuming trust has not opted for Section 115BAC. Support your answer with necessary working notes.

Answer

Computation of total income of M/s. Mahan Charitable Trust

Particulars	₹	₹
Voluntary contributions received during the year		1,50,00,000
Less: Corpus Donation		<u>20,00,000</u>
		1,30,00,000
Income from property held under trust [Capital Gains from sale of land (₹ 10.50 lakhs – ₹ 5 lakhs)]		<u>5,50,000</u>
		1,35,50,000

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AIRICA Career Institute (ACI)

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Less: 15% of income eligible for being set apart without any condition		20,32,500
		1,15,17,500
Less: Amount applied for charitable purposes		
Salary paid to administrative staff	40,00,000	
General expenses [₹ 10,00,000 – ₹ 30,000, payment by crossed cheque disallowed due to application of section 40A(3)]	9,70,000	
Sale Consideration re-invested in purchase of land deemed to be applied for charitable purposes [₹ 12 lakhs – ₹ 5 lakhs]	7,00,000	
Cost of laptops purchased for teaching purposes [₹ 50,000 x 5]	2,50,000	
Cost of construction of hostel rooms [2 x ₹ 1200 x 1500 sq. ft]	36,00,000	
Corpus donations of ₹ 20 lakhs to a trust registered u/s 12AB not permissible as deduction	Nil	95,20,000
Total income [See Note below]		19,97,500

Note – If trust exercises the option to apply the donations received (to the extent of ₹ 17,47,500, being taxable portion of income of trust i.e., ₹ 19,97,500 – ₹ 2,50,000, basic exemption limit) from Mr. Michael on 31.3.2025 at least 2 months prior to the due date of filing of return u/s 139(1) in the prescribed form, income would be deemed to have been applied for charitable purposes in the A.Y. 2025-26. However, ₹ 17,47,500 should be applied before the end of the previous year 2025-26.

Exit Tax

Question 32

“Serving the poor”, a charitable trust, is registered under section 12AB of the Act. On 1.4.2024, it got merged with M/s. AP Ltd., which is a company engaged in manufacturing of steel utensils. All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. AP Ltd who is not entitled for registration under section 12AB of the Act.

The trust appointed a registered valuer for the valuation of its assets and liabilities. From the following particulars (including the valuation report), calculate the tax liability in the hands of the trust arising as a result of such merger:

- (i) Stamp duty value of land held ₹ 15 lakhs. However, if this land is sold in the open market, it would ordinarily fetch ₹ 17 lakhs. The book value of the land is ₹ 20 lakhs.
- (ii) 75,000 equity shares in Ink Ltd. traded in Delhi Stock Exchange. The lowest price per share was ₹ 75 and the highest price on that day was ₹ 85. The book value was ₹ 67 lakhs.
- (iii) 55,000 preference shares held in N Ltd. The shares will fetch ₹ 44 lakhs, if they are sold in the open market. Book value was ₹ 25 Lakhs.
- (iv) Corpus fund ₹ 15 Lakhs.
- (v) Outside liabilities ₹ 90 lakhs
- (vi) Provision for taxation ₹ 5 lakhs.
- (vii) Liabilities in respect of payment of various utility bills of ₹ 6 lakhs.

Note: Give reasons for treatment of each item.

Answer

As per section 115TD, the accreted income of "Serving the poor", a charitable trust, registered under section 12AA which is merged with M/s AP Ltd., an entity not entitled for registration under section 12AB, would be chargeable to tax at maximum marginal rate @ 34.944% [30% plus surcharge @12% plus cess @4%].

Computation of accreted income and tax liability in the hands of the trust arising as a result of merger with AP Ltd.

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.24, being the specified date (date of merger) [See Working Note 1]	1,21,00,000
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	96,00,000
Accreted Income	25,00,000
Tax Liability @ 34.944% of ₹ 25,00,000	8,73,600
Working Notes:	
Aggregate fair market value of total assets on the date of merger (WN 1)	
Land, being an immovable property	17,00,000
[The fair market value of land would be higher of ₹ 17 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 15 lakhs, being stamp duty value as on the specified date]	
Quoted equity shares in Ink Ltd. [75,000 x ₹ 80 per share]	60,00,000
[₹ 80 per share, being the average of the lowest (₹ 75) and highest price (₹ 85) of such shares on the date of merger]	
55,000 preference shares of N Ltd.	44,00,000
[The fair market value which it would fetch if sold in open market on date of merger]	
	1,21,00,000
Total liability (WN 2)	
Outside liabilities	90,00,000
Corpus Fund of ₹ 15 lakhs [not includible]	-
Provision for taxation ₹ 5 lakhs [not includible]	-
Liabilities in respect of payment of various utility bills [since this liability is an ascertained liability]	6,00,000
	96,00,000

Question 33

The registration granted under section 12AA of the Income-tax Act, 1961 on 1.4.2015 to M/s S Charitable Trust, was cancelled on 31.1.2025 on a finding that the Trust was merged, with another entity neither having similar objects nor registered under section 12AB. An appeal was preferred against the order of cancellation, which was dismissed by the Appellate authorities. The order confirming the cancellation was received on 31.3.2025.

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The Balance Sheet of M/s S Charitable Trust as on 31.1.2025, and its other information is given hereunder:

Particulars	₹ in Lakhs
Liabilities	
Capital fund	800.00
Sundry creditors	<u>335.00</u>
Total	<u>1135.00</u>
Assets	
Land (existing since 1.4.2016)	100.00
Land and buildings purchased in the year 2021	800.00
2000 equity shares of ₹ 1000 each in M/s X Ltd. shares are listed in Bombay Stock Exchange (at face value)	20.00
Balance in current account of a nationalized bank	10.00
Balanced in fixed deposits with scheduled banks	200.00
Cash in hand	3.50
Tax Deducted at Source	<u>1.50</u>
Total	<u>1135.00</u>

Additional Information:

- (1) Stamp duty value of land (existing since 2016) as on 31.1.2025 was ₹ 120.00 lakhs but if sold in open market, the property would fetch ₹ 250 lakhs as per a registered valuer's certificate.
- (2) Land and building (purchased in 2021), if sold in the open market will fetch ₹ 1000 lakhs as per a registered valuer's certificate. Stamp duty value as on 31.1.2025 was ₹ 1050 lakhs.
- (3) The highest and lowest value per share of M/s X Ltd. traded on 31.1.2025 was ₹ 1098 and ₹ 1051 respectively.
- (4) Included in Sundry Creditors is ₹ 30 lakhs provided on estimated basis to contractors for which no bills are received.

Based on the above information, calculate the exit tax payable by the Charitable Trust and state the latest day on which the said tax has to be paid. Give working notes wherever necessary.

Answer

As per section 115TD, the accreted income of "M/s S Charitable Trust", registered u/s 12AA would be chargeable to tax at maximum marginal rate @ 34.944% [30% plus surcharge @12% plus cess@4%] on 31.1.2025 for the reason of cancellation of registration granted on 31.01.2025.

Computation of exit tax payable by M/s S Charitable Trust	
Particulars	Amount (₹)
Aggregate FMV of total assets as on 31.1.2025, being the specified date (date of order of cancellation of the registration) [See Working Note 1]	15,34,99,000
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	<u>3,05,00,000</u>
Accreted Income	<u>12,29,99,000</u>

BY CA ATUL AGARWAL (AIR-1)
AIR1CA Career Institute (ACI)

Charitable Trusts, Political Parties and Electoral Trust

Tax Liability @ 34.944% of ₹ 12,29,99,000	4,29,80,771
Tax Liability (rounded off)	4,29,80,770
Working Note 1:	
Aggregate fair market value of total assets on the date of cancellation of the registration	
Valuation of Land, being an immovable property, existing since 2016 [The fair market value of land would be higher of ₹ 250 lakhs i.e., price that the land would ordinarily fetch if sold in the open market as per registered valuer's certificate and ₹ 120 lakhs, being stamp duty value as on the specified date]	2,50,00,000
Valuation of Land and building, being an immovable property, purchased in 2021 [The fair market value of land and building would be higher of ₹ 1,000 lakhs i.e., price that the land and building would ordinarily fetch if sold in the open market as per registered valuer's certificate and ₹ 1,050 lakhs, being stamp duty value as on the specified date]	10,50,00,000
Valuation of Quoted equity shares in M/s X Ltd. [2,000 x ₹ 1,074.50 per share] [The fair market value of quoted shares would be ₹ 1,074.50 per share, being the average of the lowest (₹ 1,051) and highest price (₹ 1,098) of such shares on the specified date]	21,49,000
Balance in current account of a nationalized bank	10,00,000
Balance in fixed deposits with scheduled banks	2,00,00,000
Cash in hand	3,50,000
	15,34,99,000
Working Note 2 - Total liability	
Book value of liabilities in the balance sheet on specified date	11,35,00,000
- Less: Capital fund	8,00,00,000
- Less: Contingent liability on estimated basis to contractor for which no bills are received	30,00,000
Total liability of M/s S Charitable Trust	3,05,00,000
The latest day on which such tax has to be paid is 14 th April, 2025, being 14 days from 31.3.2025, the date on which the order confirming the cancellation is received.	

Question 34

GVB Charitable Trust engaged in the activities of running a charitable hospital and medical college since 8 years, has been merged with a Corporate hospital on 31st March, 2025. The said Corporate Hospital is not eligible for registration under section 12AB of the Act. The position of assets and liabilities of the Charitable trust as on the date of merger are furnished as under:

Properties and Assets:	₹
(a) Assets held by Trust acquired out of agricultural income exempt u/s 10(1) of the Act:	25 lakhs

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(b) Book value of Quoted shares and securities: Market value (Average of lowest and highest price of such shares as on date of merger quoted on recognised stock exchange)	35 lakhs 40 lakhs
(c) Book value of Land and Buildings held by Trust: Value of Immovable Properties (Land & Buildings) as per valuation report from Registered Valuer: Stamp Duty value:	60 lakhs 40 lakhs 38 lakhs
(d) The Trust was created on 1 st January, 2018 and obtained registration under section 12AA on 31 st March, 2019.	
(e) The Trust 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) Fair Market value of Immovable Property Reserves and Surplus Provision for taxation Total amount of Paid-up Equity Share Capital	25 lakhs 45 lakhs 15 lakhs 5 lakhs 25 lakhs
Liabilities:	
(f) Liability in respect of shares and securities (unlisted)	8 lakhs
(g) Bank Liability in respect of quoted shares and securities	15 lakhs
(h) Provision for Tax	12 lakhs

Compute the tax liability, if any, of Charitable Trust, 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 trust has no tax liability in respect of other activities undertaken during the year.

Answer

Computation of exit tax payable by GVB Charitable Trust

Particulars	Amount (₹)
Aggregate FMV of total assets as on 31.3.2025, 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
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	
Assets held by the trust, 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]	

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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]	
Equity shares in an unlisted company:	
Book value of assets (other than immovable property)	25,00,000
Fair market value of immovable property	<u>45,00,000</u>
	70,00,000
Less: Book value of liabilities in 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]	<u>Nil</u>
	<u>70,00,000</u>
Value of unlisted shares held by GVB Charitable trust [70,00,000 x 40%]	<u>28,00,000</u>
	1,08,00,000

Working Note 2

Particulars	Amount (₹)
Total liability	
Liability in respect of unlisted shares and securities	8,00,000
Bank liability in respect of quoted shares and securities	<u>15,00,000</u>
Total liability of Charitable Trust	<u>23,00,000</u>

Question 35

Helpage is a charitable trust set up on 1.4.2012 with the object of providing relief of the poor. Later on, in April, 2014, it changed its object to medical relief. It applied for registration on the basis of its new object, i.e., medical relief, on 1.9.2014 and was granted registration on 1.2.2015.

On 1.4.2024, Helpage got merged with M/s. Medicare (P) Ltd, a pharmaceutical company not entitled for registration under section 12AB. All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. Medicare (P) Ltd. The trust appointed a registered valuer for the valuation of its assets and liabilities. From the following particulars (including the valuation report), calculate the tax liability in the hands of the trust arising as a result of such merger:

(i) Land

Location	Date of purchase	Stamp duty value on 1.4.2024	Value which the land would fetch, if sold in the open market on 1.4.2024	Book Value on 1.4.2024
		₹	₹	₹
Noida	1.9.2012	55 lakhs	58 lakhs	50 lakhs
Gurgaon	1.9.2015	100 lakhs	120 lakhs	110 lakhs

(ii) Shares

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Type of shares	Date of purchase	Face value of each share	Purchase price of each share	Price at which each share is quoted on BSE as on 1.4.2024		Open market value as on 1.4.2024#
				Highest price	Lowest price	
		₹	₹	₹	₹	₹
5000 Quoted equity shares of A Ltd.	15.2016	100	110	320	300	
2000 Preference shares of B Ltd.	19.2017	100	100	-	-	180

on the basis of report of Merchant Banker

(iii) Liabilities

Book value of liabilities on 1.4.2024 = ₹ 120 lakhs.

This includes -

- (a) Corpus fund ₹ 12 Lakhs.
- (b) Provision for taxation ₹ 8 lakhs; and
- (c) Reserves and Surplus ₹ 18 lakhs

Answer

As per section 115TD, the accreted income of "Helpage", a charitable trust, registered under section 12AA which is merged with M/s Medicare (P) Ltd., an entity not entitled for registration under section 12AB, would be chargeable to tax at the rate of 34.944% [30% plus surcharge @12% plus cess@4%].

Computation of accreted income and tax liability in the hands of the Helpage trust arising as a result of merger with M/s. Medicare (P) Ltd.

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.2024, being the specified date (date of merger) [See Working Note 1]	1,39,10,000
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	<u>82,00,000</u>
Accreted Income	<u>57,10,000</u>
Tax Liability @ 34.944% of ₹ 57,10,000 (rounded off)	19,95,300
Working Notes:	
(1) Aggregate fair market value of total assets on the date of merger	
- Land at Noida, being immovable property, purchased on 1.9.2012	
Since the trust was registered only on 1.2.2015 and benefit of section 11 and 12 was available to the trust only from P.Y.2014-15, the value of land purchased in P.Y.2012-13, in respect of which benefit under sections 11 and 12 was not availed, has to be ignored for computing accreted income.	

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- Land at Gurgaon, being an immovable property, purchased on 1.9.2015 [The fair market value of land would be higher of ₹ 120 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 100 lakhs, being stamp duty value as on the specified date]	1,20,00,000
- Quoted equity shares of A Ltd. [5,000 x ₹ 310 per share] [₹ 310 per share, being the average of the lowest (₹ 300) and highest price (₹ 320) of such shares on the specified date]	15,50,000
- Preference shares of B Ltd. [2,000 x ₹ 180 per share] [The fair market value which it would fetch if sold in the open market on the specified date]	<u>3,60,000</u>
	1,39,10,000
(2) Total liability	
- Reserves and Surplus ₹ 18 lakhs [not includible]	-
- Corpus Fund of ₹ 12 lakhs [not includible]	-
- Provision for taxation ₹ 8 lakhs [not includible]	-
- Other Liabilities [₹ 120 lakhs - ₹ 18 lakhs - ₹ 12 lakhs - ₹ 8 lakhs]	<u>82,00,000</u>
	82,00,000

Question 36

Ramnarayan Foundation Trust was formed on 01.04.2009. It applied for registration u/s. 12AA of the Act and got the registration approved from prescribed authority with effect from 01.04.2013. The trust got the exemption from payment of taxes satisfying the conditions laid down in Sections 11 to 13 from 01.04.2013. The trust got dissolved on 29.12.2024.

The Balance Sheet of the Trust on the date of dissolution was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Corpus of the trust	6,00,000	Land and Building	12,00,000
Reserves (created out of accumulated amount of 15% each year)	3,00,000	Investment in Equity Shares - Quoted	4,00,000
Loan taken for purchase of Land and Building	9,00,000	Investment in Equity Shares - Unquoted (in Z Ltd.)	1,50,000
Loan taken for the purchase of unquoted shares (taken in year 2010-11)	1,00,000	Cash	1,00,000
		Bank Balance	50,000
Total	19,00,000	Total	19,00,000

Additional information:

- FMV of Land and Building is ₹ 50,00,000.
- Land and Building of ₹ 3,00,000 is acquired out of agricultural income.
- Market Value of quoted shares on the date of dissolution is ₹ 18,00,000.

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- (iv) 50% of the Unquoted shares were acquired during the year 2010-11.
- (v) With respect to Z Ltd. in which the trust invested in unquoted shares, the following additional information was available as on 29.12.2024:
- 1,00,000 Equity Shares with face value of ₹ 10 each
 - Total Book Value of the assets (other than bullion, jewellery) is ₹ 60,00,000.
 - Market Value of bullion and jewellery is ₹ 30,00,000.
 - Liabilities amounting to ₹ 35,00,000.
- (vi) The trust distributed the assets on dissolution, valuing ₹ 8,00,000 to another trust registered u/s 12AB of the Act before 31.12.2025.

Compute the tax payable by Ramnarayan Foundation Trust u/s 115TD.

Answer

As per section 115TD, the accreted income of Ramnarayan Foundation trust, a charitable trust, registered under section 12AA would be chargeable to tax at the rate of 34.944% [30% plus surcharge @12% plus cess@4%] on non-distribution of assets on dissolution to another trust registered u/s 12AB within 12 months from the end of month in which the dissolution takes place.

Computation of accreted income and tax liability in the hands of Ramnarayan Foundation trust on dissolution

Particulars	Amount (₹)
Aggregate FMV of total assets as on 29.12.2024, being the specified date (date of dissolution) [See Working Note 1]	61,12,500
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	<u>9,00,000</u>
Accreted Income	52,12,500
Less: Value of assets distributed within a period of 12 months from the end of the month of dissolution	<u>8,00,000</u>
	<u>44,12,500</u>
Tax Liability @ 34.944% of ₹ 44,12,500	15,41,904
Tax Liability (rounded off)	15,41,900
Working Notes:	
(1) Aggregate FMV of total assets on the date of dissolution	
- Land and building, FMV as on specified date has to be considered and one-fourth of the value of land and building to be ignored, since acquired out of agricultural income exempt u/s 10(1) [₹ 50 lakhs x 3/4]	37,50,000
- Equity shares - quoted [market value on the date of dissolution]	18,00,000
- Equity shares - unquoted in Z Ltd. [Since the trust was registered only on 1.4.2013 and benefit of section 11 and 12 was available to the trust only from A.Y.2014-15, relevant to P.Y.2013-14, the value of 50% of the unquoted shares purchased in P.Y.2010-11, in respect of which benefit under sections 11 and 12 was not allowed, has to be ignored for computing accreted income]	4,12,500

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<p>Value of unquoted shares = ₹ 4,12,500 [50% of ₹ 8,25,000 (Book value of assets (other than bullion, jewellery) of Z Ltd. i.e., ₹ 60,00,000 + Market value of bullion and jewellery of Z Ltd. i.e., ₹ 30,00,000 – Liabilities of ₹ 35,00,000 x paid up value of shares i.e., ₹ 1,50,000/total amount of paid up equity share capital as shown in the Balance Sheet of ₹ 10,00,000)]</p>	
- Cash	1,00,000
- Bank Balance	<u>50,000</u>
	<u>61,12,500</u>
(2) Total liability	
- Corpus Fund of ₹ 6,00,000 [not includible]	Nil
- Reserves and Surplus ₹ 3,00,000 [not includible]	Nil
- Loan taken for purchase of land and building	9,00,000
- Loan taken for purchase of unquoted shares [Since the entire loan is in relation to unquoted shares acquired during the year 2010-11, when the trust was not eligible for exemption under section 11 and 12, the same is not deductible]	Nil
	<u>9,00,000</u>

1

Political Parties and Electoral Trust

Question 37

Explain in the context of provisions of the Act, whether the income derived during the year in following case shall be subject to tax in the A.Y. 2025-26:

A political party, duly registered under section 29A of the Representation of the People Act, 1951, received rent of ₹ 1,25,000 per month of one of its building let out to a bank from 01.06.2024.

Answer

Rent received by the political party from the bank is an income chargeable under the head "Income from house property". However, according to the provisions of section 13A, **income from, inter alia, house property shall not be included in total income of a political party registered under section 29A of the Representation of the People Act, 1951, provided the political party fulfils the conditions** as specified therein including furnishing a return of income for the previous year in accordance with the provisions of section 139(4B) on or before the due date under section 139. Therefore, if stipulated conditions are fulfilled by the political party, rent of ₹ 1,25,000 per month received by the registered political party from letting out of its building to a bank would not be included in its total income.

Question 38

The books of account maintained by a National Political Party registered with Election Commission for the year ended on 31.3.2025 discloses the following receipts:

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		₹
(a)	Rent of property let out to a departmental store at Chennai	6,00,000
(b)	Interest on deposits other than banks	5,00,000
(c)	Contribution from 100 persons (who have secreted their names) of ₹ 21,000 each	21,00,000
(d)	Contribution from 10 persons by way of electoral bonds of ₹ 25,000 each	2,50,000
(e)	Cash contribution @ ₹ 2,100 each from 1,000 members (recorded in books of account)	21,00,000
(f)	Net profit of cafeteria run in the premises at Delhi	3,00,000

Compute the total income of the political party for the assessment year 2025-26, with reasons for inclusion or otherwise.

Answer

The total income of a political party registered with the Election Commission is to be computed as per section 13A under which the income derived from house property, income from other sources and income by way of voluntary contributions received from any person, on fulfilling of the conditions as mentioned thereunder, are exempt from tax. However, in this case, since cash contribution in excess of ₹ 2,000 is received from 1000 persons, the political party has violated the condition of receipt of donation through account payee cheque/draft or prescribed electronic modes. Further, the political party has also violated the condition of maintenance of records in case of donations exceeding ₹ 20,000 received otherwise than by way of electoral bonds. Hence, its total income has to be computed as under without providing for exemption available under section 13A:

Computation of total income of National Political Party

	Particulars	₹
(a)	The rent of the property of ₹ 6 lacs located at Chennai [assuming the same to be the Gross Annual Value] less 30% of Rs.6,lacs, being deduction u/s 24	4,20,000
(b)	Interest received on deposits	5,00,000
(c)	Contribution from 100 persons (who have secreted their names) of ₹ 21,000 each	21,00,000
(d)	Contribution from 10 persons by way of electoral bonds of ₹ 25,000 each	2,50,000
(e)	Cash contribution @ ₹ 2,100 each from 1,000 members (recorded in books of account)	21,00,000
(f)	Net profit of cafeteria at Delhi	3,00,000
Total Income		56,70,000

Note - Alternatively, the political party can contend that only ₹ 45 lakh is taxable on account of non-maintenance of records and receipt of cash donations, in which the case the total income would be computed as under:

Computation of total income of National Political Party

	Particulars	₹
(a)	Rent of the property of ₹ 6 lacs located at Chennai	Exempt

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(b)	Interest received on deposits	Exempt
(c)	Contribution from 100 persons (who have secreted their names) of ₹ 21,000 each	21,00,000
(d)	Contribution from 10 persons by way of electoral bonds of ₹ 25,000 each	Exempt
(e)	Cash contribution @ ₹ 2,100 each from 1,000 members (recorded in books of account)	21,00,000
(f)	Net profit of cafeteria at Delhi	3,00,000
Total Income		45,00,000

Note: It is presumed that the conditions regarding maintenance of books of account, audit, submission of report under section 29C of the Representation of the People Act, 1951 and filing of return of income under section 139(4B) are fulfilled by the political party, and hence it is eligible for exemption of income under section 13A.

Question 39

An electoral trust approved by the CBDT is not liable to income-tax in respect of voluntary contribution received and other income - Examine the correctness of the statement.

Answer

Section 13B provides exemption in respect of voluntary contribution received by an electoral trust approved by the CBDT in accordance with the scheme to be made by the Central Government.

Voluntary contribution received by an electoral trust would be treated as its income under section 2(24), but shall be exempt under section 13B **if the trust distributes** to a registered political party during the year, **95% of the aggregate donations** received by it during the year along with surplus brought forward from any earlier years. Another condition for availing benefit under this section is that the electoral trust should function in accordance with rules framed by the Central Government.

It may be noted that the exemption under section 13B will be available only in respect of voluntary contribution received by an electoral trust. **The exemption cannot be claimed in respect of any other income of the electoral trust.**

Therefore, the **given statement is not correct.**

Question 40

M/s XYZ, an electoral trust incorporated in the year 2023, provides the following information to you in respect of its transactions for the year 2024-25

Total voluntary contributions received	₹ 420 lakhs
Surplus brought forward from earlier P.Y.s	₹ 18 lakhs
Expenses incurred for the purpose of managing its affairs	₹ 8 lakhs.

What is the amount of surplus that can be distributed by the electoral trust assuming all other conditions as provided under the Income-tax Act, 1961 are satisfied?

Answer

Any **voluntary contribution** received by an electoral trust would be **exempt**, if such electoral trust:

- (i) **distributes** to a registered political party during the previous year, **95% of the aggregate donations received** by it during the year along with the surplus if any, brought forward from any earlier previous year and
- (ii) functions in accordance with the rules made by the Central Government.

The **electoral trust may**, for the purposes of managing its affairs, **spend up to 5% of the total contributions received in a year subject to an aggregate limit of ₹ 5 lakh in the first year of incorporation and ₹ 3 lakh in subsequent years.**

The total contributions received in any financial year alongwith the surplus from any earlier financial year, if any, as reduced by the amount spent on managing its affairs, shall be the distributable contributions for the financial year.

In the present case, M/s XYZ, an electoral trust incorporated in the year 2023, received voluntary contributions of ₹ 420 lakhs and has brought forward surplus from earlier previous years is ₹ 18 lakhs. It spent ₹ 8 lakhs for the purpose of managing its affairs. However, it is eligible to spend ₹ 3 lakhs being **lower of:**

- ₹ 21 lakhs, being 5% of total contributions i.e., ₹ 420 lakhs or
- ₹ 3 lakhs, since P.Y. 2024-25, being the subsequent year for the purpose of managing its affairs.

Accordingly, M/s XYZ, an electoral trust can distribute its distributable contribution of ₹ 435 lakhs [i.e., ₹ 420 lakhs plus ₹ 18 lakhs less ₹ 3 lakhs] as the same exceeds ₹ 416.10 lakhs (i.e., 95% of ₹ 438 lakhs).